



湖州燃气股份有限公司 HUZHOU GAS CO., LTD.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 6661

** For identification purposes only*

GLOBAL OFFERING

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



湖州燃气股份有限公司 Huzhou Gas Co., Ltd.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

GLOBAL OFFERING

Number of Offer Shares	:	50,000,000 H Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	5,000,000 H Shares (subject to reallocation)
Number of International Placing Shares	:	45,000,000 H Shares (subject to reallocation and the Over-allotment Option)
Offer Price	:	HK\$6.08 per H Share (payable in full on application in Hong Kong dollars, plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%, and subject to refund)
Nominal value	:	RMB1.00 per H Share
Stock code	:	6661

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "A. Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price will be HK\$6.08 per Offer Share. Applicants for Hong Kong Offer Share are required to pay, on application, the Offer Price of HK\$6.08 for each Hong Kong Offer Share together with a brokerage fee of 1.0%, a SFC transaction levy of 0.0027%, a Stock Exchange trading fee of 0.005% and a Financial Reporting Council transaction levy of 0.00015%.

BOCOM International Securities, for itself and on behalf of the other Underwriters, and with our consent may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the Offer Price below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the Offer Price will be published as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer. Such notices will also be available on the website of our Company at www.hzrqgf.com and on the website of the Stock Exchange at www.hkexnews.hk. Further details are set forth in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in the section headed "Risk Factors" and Appendix IV and Appendix V to this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by BOCOM International Securities (for itself and on behalf of the other Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See the paragraph headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

* For identification purposes only

IMPORTANT

Your application through the **HK eIPO White Form** service or the **CCASS EIPO** service must be for a minimum of 500 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
500	3,070.63	6,000	36,847.65	40,000	245,651.09	400,000	2,456,510.91
1,000	6,141.27	7,000	42,988.94	45,000	276,357.48	500,000	3,070,638.64
1,500	9,211.92	8,000	49,130.21	50,000	307,063.87	600,000	3,684,766.37
2,000	12,282.56	9,000	55,271.50	60,000	368,476.64	700,000	4,298,894.09
2,500	15,353.19	10,000	61,412.77	70,000	429,889.41	800,000	4,913,021.83
3,000	18,423.83	15,000	92,119.16	80,000	491,302.18	900,000	5,527,149.55
3,500	21,494.46	20,000	122,825.54	90,000	552,714.95	1,000,000	6,141,277.28
4,000	24,565.12	25,000	153,531.93	100,000	614,127.73	2,000,000	12,282,554.56
4,500	27,635.75	30,000	184,238.31	200,000	1,228,255.45	2,500,000 ⁽¹⁾	15,353,193.20
5,000	30,706.39	35,000	214,944.71	300,000	1,842,383.19		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE

Date (Note 1)
2022

Hong Kong Public Offer commences 9:00 a.m. on
Wednesday, 29 June

Latest time to complete electronic applications under
the **HK eIPO White Form** service through one of the below
ways (Note 2):

- (1) the **IPO App**, which can be downloaded by
searching “**IPO App**” in App Store or Google Play or
downloaded at www.hkeipo.hk/IPOApp or
www.tricorglobal.com/IPOApp
- (2) the designated website www.hkeipo.hk 11:30 a.m. on
Tuesday, 5 July

Application lists open (Note 3) 11:45 a.m. on
Tuesday, 5 July

Latest time to give **electronic application instructions**
to HKSCC (Note 4) 12:00 noon on
Tuesday, 5 July

Latest time to complete payment of the **HK eIPO White Form**
applications by effecting internet banking transfer(s) or
PPS payment transfer(s) 12:00 noon on
Tuesday, 5 July

If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close 12:00 noon on
Tuesday, 5 July

Announcement of:

- the level of applications in the Hong Kong Public Offer;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Hong Kong Offer Shares

will be published on our website at www.hzrqgf.com (Note 5)
and the website of the Stock Exchange at www.hkexnews.hk
(Note 6) on or before (Note 10) Tuesday, 12 July

EXPECTED TIMETABLE

2022

Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in the paragraph headed "How to Apply for Hong Kong Offer Shares – 11. Publication of Results" in this prospectus from (Note 10) Tuesday, 12 July

Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) will be available at the "IPO Results" function in the **IPO App** or at **www.hkeipo.hk/IPOResult** or **www.tricor.com.hk/ipo/result** with a "search by ID" function (Note 10) Tuesday, 12 July

H Share certificates in respect of wholly or partially successful applications will be despatched or deposited into CCASS on or before (Notes 7 and 10) Tuesday, 12 July

Refund cheques (if applicable) will be despatched on or before (Notes 7, 9 and 10) Tuesday, 12 July

HK eIPO White Form e-Auto Refund Payment Instructions will be despatched on or before (Notes 7, 9 and 10) Tuesday, 12 July

Dealings in H Shares on the Stock Exchange expected to commence at 9:00 a.m. on (Note 10) Wednesday, 13 July

Notes:

1. All dates and times refer to Hong Kong dates and local time unless otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus. If there is any change in the above expected timetable, we will issue a separate announcement in Hong Kong to be published on our website at **www.hzrqgf.com** and the website of the Stock Exchange at **www.hkexnews.hk**.
2. You will not be permitted to submit your application through the **IPO App** or the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO App** or the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a "black" rainstorm warning, Extreme Conditions and/or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 5 July 2022, the application lists will not open and close on that day. Please refer to the paragraph headed "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this prospectus.
4. Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "How to Apply for Hong Kong Offer Shares – 6. Applying through the **CCASS EIPO Service**" in this prospectus.
5. None of the website or any of the information contained on the website forms part of this prospectus.
6. The announcement will be available for viewing on the Stock Exchange's website at **www.hkexnews.hk**.

EXPECTED TIMETABLE

7. Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect refund cheques (where applicable) and H Share certificates (where applicable) in person from our H Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 12 July 2022. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar. Applicants who have applied for Hong Kong Offer Shares through the **CCASS EIPO** service should refer to the paragraph headed "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of H Share Certificates and Refund Monies – Personal Collection – If you apply through the **CCASS EIPO** service" in this prospectus for details.
8. Applicants who apply through the **HK eIPO White Form** service by paying the application monies through a single bank account, may have e-Auto Refund payment instructions (if any) despatched to their application payment bank account. Applicants who apply through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts, may have refund cheques in favour of the applicant (or, in the case of joint applications, the first-named applicant) sent to the address specified in their application instructions to the designated **HK eIPO White Form** Service Provider by ordinary post and at their own risk.
9. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications.
10. If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong at any days between Wednesday, 29 June 2022 and Wednesday, 13 July 2022, then the day of (i) announcement of results of allocations in the Hong Kong Public Offer; (ii) despatch of H Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the H Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The H Share certificates will only become valid evidence of title provided that the Global Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about Wednesday, 13 July 2022. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid evidence of title do so entirely at their own risk.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained on our website, located at www.hzrqgf.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the H Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the H Shares.

OVERVIEW

We are (i) the largest piped natural gas (PNG) distributor in terms of sales volume in Huzhou (湖州), a major prefecture-level city in Zhejiang Province, the PRC, with a market share of 44.1% in Huzhou; and (ii) the fifth largest PNG distributor in terms of sales volume in Zhejiang Province, with a market share of 3.0% in Zhejiang Province in 2021, according to the F&S Report. According to the F&S Report, the natural gas consumption volume in Huzhou represented 6.9% and 0.3% of the natural gas consumption volume in Zhejiang Province and the PRC in 2021, respectively. Since 2004 and 2009, we have been the exclusive distributor of PNG in the Wuxing Operating Area and Nanxun Operating Area, respectively, under the Concession Agreements. Our Operating Area does not necessarily equate to the entire statutory administrative areas of Wuxing District and Nanxun District.

During the Track Record Period, our principal business comprised (i) sale of gas, mainly PNG under the Concessions; (ii) provision of construction and installation services to construct and install end-user pipeline network and gas facilities for customers such as property developers and owners or occupants of residential and non-residential properties; and (iii) others, including sale of household gas appliances.

OUR BUSINESS MODEL AND SEGMENTS

During the Track Record Period, our principal business is as follows:

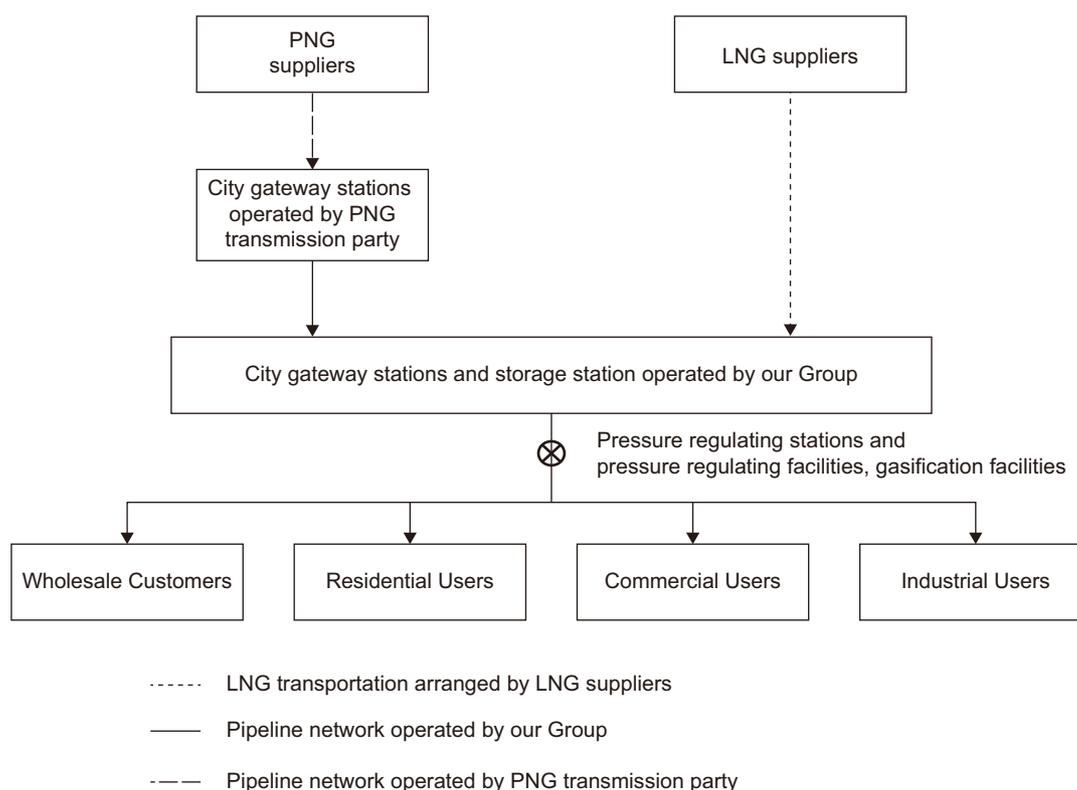
Business	Customers
Sale of gas, mainly PNG in Huzhou (under the Concession), LNG and LPG	Wholesale customers and retail customers comprising residential and non-residential users of gas
Provision of construction and installation services to construct and install end-user pipeline network and gas facilities	Property developers and owners or occupants of residential and non-residential properties
Other businesses, including sale of household gas appliances, insurance referral and leasing of properties	Customers who require such services or products. Please refer to the paragraph headed “Business – Other Businesses” in this prospectus for details.

During the Track Record Period, we generated a majority of our revenue from our PNG operations pursuant to the Concessions, which is the sales of PNG in our Operating Area. Pursuant to the Concessions, namely Wuxing Concession and Nanxun Concession, we obtained exclusive rights to sell and distribute PNG and to construct urban pipeline network in our Operating Area, for an initial term of 30 years from 16 June 2004 and 30 September 2009, respectively, with a preferential right of

SUMMARY

renewal upon negotiation and fulfilment of certain conditions. Our Operating Area is located within Wuxing District and Nanxun District, Huzhou. Wuxing District and Nanxun District in aggregate occupied 1,565 km², representing 26.9% of the total area of Huzhou. However, our Operating Area does not necessarily equate to the entire statutory administrative area of the Wuxing District and Nanxun District. According to the F&S Report, in 2021, the population density of the Wuxing District and Nanxun District was 1,200 per km² and 776 per km², respectively, which was higher than that of the entire Huzhou of 585 per km².

The following diagram illustrates the major flow of distribution of PNG:



As at 31 December 2021, we owned and operated several PNG operational facilities, including (i) two city gateway stations; (ii) seven pressure regulating stations; (iii) one LNG storage station which has a storage capacity of approximately 900 m³ of LNG (equivalent to approximately 0.5 million m³ of natural gas in gaseous state); (iv) an urban pipeline network comprising approximately 1,389.8 km of completed pipelines and approximately 115.5 km of pipelines under construction in our Operating Area; and (v) 11 PNG customer service centres in Huzhou.

Please see the paragraph headed “Business – Principal PNG Operational Facilities” in this prospectus for details.

SUMMARY

THE CHARACTERISTICS OF THE NATURAL GAS INDUSTRY

According to F&S, the natural gas industry is highly regulated in the PRC. For instance, we are granted with the exclusive rights to sell and distribute PNG and to construct urban pipeline network within our Operating Area under the Concessions; and pricing of our PNG purchases and sales are also subject to regulatory control. The highly regulated nature of the natural gas industry implies that any changes in the policies over the natural gas industry by the PRC government may bring along significant changes to our business operation, strategies and future development. Please see the paragraph headed “Risk Factors – We may not be able to procure natural gas at favourable price or stable volume. Any instability in, shortages of or disruption to the supply of natural gas to us could significantly and adversely affect our business. We are also affected by proposed or recently issued PRC government’s policies over our business operation. There is no assurance that we will be able to adapt to these government policies in a timely manner or at all” in this prospectus for further details. We may not be able to execute the acquisition plan given the highly regulated characteristic in natural gas industry. For details, see “Risk Factors – Our expansion plan to acquire targets may not be achievable given that natural gas companies are often territorial in nature and state-owned assets require government approval, which may materially and adversely affect our business, results of operations, financial condition and prospects” in this prospectus.

Further, according to F&S, in general, except for some private natural gas traders, most of the suppliers of natural gas operators are government-related enterprises, and most of their customers are local residents and enterprises in their respective operating area, it is also not uncommon for a natural gas operator to source natural gas principally from one major supplier. Ningbo Intercity, an indirect-wholly owned subsidiary of our Controlling Shareholder, has been our principal natural gas suppliers since September 2020 as Ningbo Intercity was the designated pilot natural gas supplier for us during the early stage of natural gas supply chain reform under the 2020 Summary. However, such reliance would not give rise to any material risk to our Group as we consider the relationship between our Group and Ningbo Intercity to be one of mutual reliance and beneficial to each other, and unlikely to be materially and adversely changed or terminated. In FY2021, in addition to Ningbo Intercity, we commenced sourcing PNG from Supplier G, which is one of the other upstream PNG suppliers and is a subsidiary of a company listed on the Stock Exchange, and two other city gas enterprises, Supplier H and Supplier J. Going forward, we intend to further diversify our source of natural gas supply and reduce our reliance on Ningbo Intercity. As such, we expect the purchase from other suppliers to gradually increase and the purchase from Ningbo Intercity to gradually decrease accordingly. In particular, by 2023, the relevant PNG and LNG charges in relation to our purchase from Ningbo Intercity are expected to drop and represent approximately 35.0% of our total cost of sales for FY2023. Please see the paragraph headed “Business – Our Source of PNG Supply – Our relationship with Ningbo Intercity” in this prospectus for details.

SUMMARY

PRICING

Pricing of our PNG purchases and sales are subject to regulatory control. With reference to the general pricing guidelines issued by the NDRC, the ZJDRC determines the benchmark gateway station price on which our purchase price for PNG is based and subject to the approval of the Huzhou Municipal People's Government, HZDRC determines the end-user prices on which our selling price of PNG is based, with reference to the benchmark gateway station price set by the ZJDRC. For residential usage, the end-user price is a fixed price, whereas for industrial and commercial usage, the end-user price could be agreed upon between us and the users up to the highest selling price. See the paragraph headed "Regulatory Overview – Pricing of Natural Gas" in this prospectus for information on the regulatory regime for pricing of natural gas.

The purchase and selling prices of LNG and LPG are both based on market pricing. For our provision of construction and installation services, we charge our customers construction and installation fees at a fixed price or on a project basis. The construction and installation fee for residential users in Huzhou is subject to the regulated price set by the relevant local pricing authority, and is calculated based on the nature of residential unit, including multi-storey building, high-rise building, townhouse and villa. The construction and installation fee for non-residential users is not regulated by governmental authorities, and is generally agreed on a project by project basis, taking into account factors such as the type of equipment purchased, construction and installation plan, the amount and complexity of the necessary pipeline construction, the relevant estimated costs and pricing in the nearby areas, the raw materials specified by the customers and the size of the project.

On 15 April 2021, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of Provincial Gateway Stations during Heating Season (《關於調整非採暖季天然氣省級門站價格的通知》), pursuant to which the natural gas price ceiling of Zhejiang Zheneng Natural Gas Pipeline Co., Ltd. selling to city gas enterprises is adjusted from RMB2.50/m³ to RMB2.26/m³ with the applicable period from 1 April 2021 to 31 October 2021. On 19 May 2021, the HZDRC issued the Notice on Adjusting Pipeline Natural Gas prices for Huzhou non-Residential Usage during Non-heating Season (《關於調整市區非採暖季非居民用管道天然氣銷售價格的通知》), pursuant to which the highest natural gas price for non-residential usage in urban area is adjusted to RMB2.96/m³ with the applicable period from 1 April 2021 to 31 October 2021. On 14 December 2021, the HZDRC issued the Notice on Adjusting Pipeline Natural Gas prices for Huzhou non-Residential Usage during Heating Season (《關於調整市區供暖季非居民用管道天然氣銷售價格的通知》), the highest natural gas price for non-residential usage in urban area is adjusted to RMB4.69/m³ with the applicable period from 1 November 2021 to 31 March 2022. Taking into account that our average PNG purchase price and selling price in FY2020 and FY2021 were below the stipulated highest price as a result of the above price adjustments, our Directors are of the view that the above price adjustments would not have a significant impact on our operations.

SUMMARY

OUR SUPPLIERS

During the Track Record Period, our major suppliers included suppliers of PNG for our PNG supply business, suppliers of raw materials and service providers for our construction and installation business.

Prior to September 2020, Supplier A and Supplier F were our principal natural gas suppliers, each of which, to the best knowledge of our Directors, was the only PNG wholesaler to sell PNG to PNG distributors in Huzhou during the relevant time, respectively. As a result of the 2020 Summary which aims to, among others, discontinue the monopoly status of the provincial natural gas pipeline companies and simplify the natural gas supply chain, we have ceased to procure natural gas from Supplier A and Supplier F, and commenced to procure natural gas from Ningbo Intercity and Supplier G.

For FY2019, FY2020 and FY2021, purchases from our five largest suppliers in aggregate were RMB1,264.6 million, RMB951.7 million and RMB1,416.9 million, respectively, which accounted for 95.3%, 87.2% and 89.8% of our total cost of purchase for the respective years. For FY2019, FY2020 and FY2021, purchases from our largest supplier amounted to RMB1,192.3 million, RMB368.9 million and RMB1,104.7 million, respectively, which accounted for 89.8%, 33.8% and 70.0% of our total cost of purchase for the corresponding years. Supplier A was our largest supplier for FY2019 while Ningbo Intercity became our largest supplier for FY2020 and FY2021. Our Directors confirmed that save as disclosed above, none of our Directors or Shareholders (who to the knowledge of our Directors owned more than 5.0% of the share capital of our Company as at the Latest Practicable Date) and their respective associates had any interest in any of our five largest suppliers during the Track Record Period.

Our relationship with Ningbo Intercity

In light of the 2020 Summary, on 7 April 2020, ZJDRC issued the Notice on the 2020-2021 Implementation Plan (Trial) for the Pilot Program of Direct Upstream-Downstream Transactions and Transmission of Piped Natural Gas in Zhejiang Province* (《關於印發2020-2021年浙江省管道天然氣上下游直接交易暨管網代輸試點實施方案(試行)的通知》), pursuant to which the ZJDRC announced a pilot program for direct PNG transactions (“**Pilot Program**”) to facilitate the natural gas supply chain reform in Zhejiang Province. We applied to the Pilot Program to become one of the pilot natural gas operators during the early stage of natural gas supply chain reform in 2020. To the best knowledge of our Directors, Ningbo Intercity also applied to the Pilot Program and became one of the pilot natural gas suppliers during the early stage of natural gas supply chain reform in 2020. As such, Ningbo Intercity has been our principal natural gas supplier since September 2020. As at the Latest Practicable Date, Ningbo Intercity was wholly owned by Xinao Gas Development Company Limited* (新奧燃氣發展有限公司), which was in turn wholly owned by ENN (China), our Controlling Shareholder. As such, Ningbo Intercity is an associate of ENN (China), and hence a connected person of our Company pursuant to Rule 14A.13(1) of the Listing Rules. Please refer to the paragraph headed “Continuing Connected Transactions – Non-exempted continuing connected transactions – Supply of PNG and LNG by Ningbo Intercity to our Group” in this prospectus for details.

SUMMARY

We consider the relationship between our Group and Ningbo Intercity to be one of mutual reliance and beneficial to each other, and unlikely to materially and adversely change or terminate for the reasons that, among others, (i) it is difficult for Ningbo Intercity to find alternative sizeable customers with operating scale comparable to us to purchase PNG in Huzhou; (ii) we have entered into a natural gas master supply agreement with Ningbo Intercity for a term up to 31 December 2024; and (iii) the interest alignment between our Group and ENN (China) provides incentive for ENN (China) to procure Ningbo Intercity to maintain its business relationship with us. Please see the paragraph headed “Business – Our relationship with Ningbo Intercity” in this prospectus.

OUR CUSTOMERS

For FY2019, FY2020 and FY2021, sales to our five largest customers in aggregate were RMB377.7 million, RMB347.3 million and RMB377.6 million, respectively, which accounted for 23.1%, 24.4% and 20.3%, respectively, of our total revenue for the corresponding years. All of our five largest customers during the Track Record Period are our PNG customers. For the same years, sales to our largest customer for the respective year amounted to RMB166.3 million, RMB181.6 million and RMB178.8 million, and accounted for 10.2%, 12.7% and 9.6%, respectively, of our total revenue. Our Directors confirmed that none of our Directors, their associates or Shareholders (who to the knowledge of our Directors owned more than 5.0% of the share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period.

OUR COMPETITIVE STRENGTHS

Our Directors believe that our growth is derived from our competitive strengths, including the following:

- (i) we are the largest PNG distributor in Huzhou under the Concessions with exclusive right in our Operating Area;
- (ii) we have established our presence in Huzhou, Zhejiang Province of the PRC which possesses regional advantages in terms of infrastructure support, favourable local government policies and a substantial industrial and commercial user base for our business development;
- (iii) we operate in the fast growing natural gas industry of China which benefits from favourable government policies and increasing demand;
- (iv) we have a stable operating cash inflow with receipt of payment in advance for most of our sale of PNG; and
- (v) we have an experienced, stable and professional management team supported by highly-skilled employees and the relevant expertise and experience of ENN Energy.

Please refer to the paragraph headed “Business – Our Competitive Strengths” in this prospectus for details.

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OUR BUSINESS STRATEGIES

We aim to achieve future growth and further strengthen our overall competitiveness and market position in the PRC natural gas industry. Our key strategies formulated to achieve our goals are as follows:

- (i) enhancing our sales of PNG by upgrading our pipeline network and operational facilities;
- (ii) expanding our business to other geographical areas through strategic acquisition;
- (iii) expanding into distributed photovoltaic power generation business; and
- (iv) promoting the use of heat energy from vapour generated by our natural gas through natural gas boilers.

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

The following table summarises the consolidated statements of profit or loss from the financial statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	1,630,421	100.0	1,422,038	100.0	1,858,737	100.0
Cost of sales	<u>(1,402,256)</u>	<u>(86.0)</u>	<u>(1,172,024)</u>	<u>(82.4)</u>	<u>(1,573,265)</u>	<u>(84.6)</u>
Gross profit	228,165	14.0	250,014	17.6	285,472	15.4
Other income and gains	8,826	0.5	61,074	4.2	19,520	1.1
Selling and distribution expenses	(22,504)	(1.4)	(24,049)	(1.7)	(35,056)	(1.9)
Administrative expenses	(22,215)	(1.4)	(28,469)	(2.0)	(40,210)	(2.2)
Impairment of financial assets, net	(419)	–	(551)	–	214	–
Other expenses	(582)	–	(539)	–	(4,965)	(0.3)
Finance costs	(248)	–	(281)	–	(1,235)	(0.1)
Share of profits and losses of:						
Joint ventures	<u>1,923</u>	<u>0.1</u>	<u>455</u>	<u>–</u>	<u>(2,052)</u>	<u>(0.1)</u>
Profit before tax	192,946	11.8	257,654	18.1	221,688	11.9
Income tax expense	<u>(49,046)</u>	<u>(3.0)</u>	<u>(65,387)</u>	<u>(4.6)</u>	<u>(54,996)</u>	<u>(2.9)</u>
Profit for the year	<u>143,900</u>	<u>8.8</u>	<u>192,267</u>	<u>13.5</u>	<u>166,692</u>	<u>9.0</u>
Profit attributable to:						
Owners of the parent	94,956	66.0	145,560	75.7	119,714	71.8
Non-controlling interests	<u>48,944</u>	<u>34.0</u>	<u>46,707</u>	<u>24.3</u>	<u>46,978</u>	<u>28.2</u>
	<u>143,900</u>	<u>100.0</u>	<u>192,267</u>	<u>100.0</u>	<u>166,692</u>	<u>100.0</u>

SUMMARY

The following table sets forth the breakdown of our revenue by business segment during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Sale of gas						
– PNG	1,439,471	88.1	1,230,405	86.3	1,609,853	86.4
– LNG	25,169	1.6	16,751	1.2	14,246	0.8
– LPG	11,561	0.7	4,628	0.3	–	–
Sub-total	1,476,201	90.4	1,251,784	87.8	1,624,099	87.2
Provision of construction and installation services	152,498	9.3	165,497	11.6	213,134	11.4
Sales of energy	–	–	–	–	12,466	0.7
Others (Note 1)	4,796	0.3	7,939	0.6	12,770	0.7
Total (before government surcharges)	1,633,495	100.0	1,425,220	100.0	1,862,469	100.0
Less: government surcharges (Note 2)	<u>(3,074)</u>		<u>(3,182)</u>		<u>(3,732)</u>	
Total	<u>1,630,421</u>		<u>1,422,038</u>		<u>1,858,737</u>	

Notes:

1. “Others” include sale of household gas appliances, insurance referral and leasing of properties.
2. “Government surcharges” comprise business taxes and other surcharges accrued during the Track Record Period.

Revenue

Our revenue decreased by RMB208.4 million or 12.8% from RMB1,630.4 million in FY2019 to RMB1,422.0 million in FY2020 mainly as a result of the decrease in sales of PNG to our industrial users, commercial users and to wholesales customers by RMB162.4 million, RMB12.3 million and RMB46.3 million, respectively, resulting from the temporary suspension of industrial activities and operations of our commercial users during the first half of FY2020 amidst the outbreak of COVID-19 in FY2020. The decrease in total revenue was partially offset by the increase in sales of PNG to residential users from RMB65.0 million in FY2019 to RMB77.0 million in FY2020, primarily attributable to (i) the increase in sales volume resulting from increase in total number of users and the increase in usage in residential places amidst the outbreak of COVID-19 in the first half of FY2020; and (ii) construction and installation services by RMB13.0 million primarily due to the increase in value of works completed in FY2020 resulting from the larger contract sum of the projects completed in FY2020.

Our revenue increased by RMB436.7 million or 30.7% from RMB1,422.0 million in FY2020 to RMB1,858.7 million in FY2021 mainly as a result of the increase in (i) sales of gas by RMB372.3 million primarily attributable to the increase in sales of PNG to our industrial users and commercial users by RMB307.4 million and RMB17.2 million, respectively, as a result of the relief of temporary suspension of industrial activities and operations of our commercial users which was posted during FY2020 amidst the

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outbreak of COVID-19 and additions of both industrial and commercial users during FY2021; and (ii) construction and installation services by RMB47.6 million primarily attributable to the increase in value of works completed in FY2021 attributable to certain projects of larger contract sum in FY2021, such as projects for industrial buildings and commercial buildings in Huzhou.

Summary of PNG purchase price and selling price

The following table sets forth the average unit purchase price and selling price (by customer type) of PNG during the Track Record Period:

	FY2019 RMB/m ³	FY2020 RMB/m ³	FY2021 RMB/m ³
PNG purchase price	2.43 ^(Note)	2.04 ^(Note)	2.24
PNG selling price			
– Industrial users	2.98	2.64	3.04
– Commercial users	3.16	2.80	3.02
– Residential users	2.73	2.77	2.74

Note: The pipeline transmission fees are included in the PNG purchase price prior to September 2020 as they are charged under the same PNG supply agreement, rather than under a separate PNG transmission agreement as a result of the separation of natural gas sales and transmission under the 2020 Summary since September 2020.

Please refer to the paragraph headed “Business – Pricing of PNG” in this prospectus for more details.

Profit for the year

Our profit for the year increased by RMB48.4 million or 33.6% from RMB143.9 million in FY2019 to RMB192.3 million in FY2020, primarily due to the increase in (i) other income and gains increased from RMB8.8 million in FY2019 to RMB61.1 million in FY2020, mainly resulting from the increase in gain on disposal of property, plant and equipment of RMB45.9 million resulting from disposal of a gas station located in Xi Sai Road to local government in FY2020 following the city planning of Huzhou local government and bank interest income of RMB5.1 million; (ii) gross profit of RMB21.8 million which was mainly due to the increase in gross profit margin from sales of natural gas; and increase in revenue contribution from our provision of construction and installation services which attained higher gross profit margin compared to that of sales of natural gas, despite the decrease in revenue mentioned previously. The increase in our profit for the year was partially offset by the increase in various expenses for our operations.

Our profit for the year decreased by RMB25.6 million or 13.3% from RMB192.3 million in FY2020 to RMB166.7 million in FY2021, primarily due to the (i) decrease in gains on disposal of property, plant and equipment as mentioned above; (ii) the increase in various expenses for our operations; and (iii) the increase in Listing expenses of RMB5.1 million. The decrease in profit for the year was partially offset by the increase in our revenue as mentioned above.

SUMMARY

Summary of certain items of the consolidated statements of financial position

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	732,826	757,408	835,650
Trade and bills receivables	61,900	61,532	66,357
Financial assets at fair value through profit or loss	–	–	150,000
Cash and cash equivalents	554,741	551,669	588,673
Trade payables	112,107	110,396	140,407
Other payables and accruals	264,693	146,717	255,650
Contract liabilities	195,829	260,419	291,477
Non-current assets	915,120	928,050	998,293
Current assets	673,427	671,250	894,606
Current liabilities	581,274	554,835	729,232
Net current assets	92,153	116,415	165,374
Non-current liabilities	121,880	122,908	145,918
Net assets	885,393	921,557	1,017,749
Equity attributable to owners of the parent	823,595	824,175	943,916
Non-controlling interests	61,798	97,382	73,833
Total equity	<u>885,393</u>	<u>921,557</u>	<u>1,017,749</u>

Net current assets

Our net current assets increased from RMB92.2 million as at 31 December 2019 to RMB116.4 million as at 31 December 2020. The increase was primarily due to the decrease in other payables and accruals of RMB118.0 million resulting from the decrease in dividend payables of RMB146.9 million resulting from the settlement, partially offset by the increase in security deposits of RMB53.4 million primarily in relation to construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城鄉建設局).

Our net current assets then increased to RMB165.4 million as at 31 December 2021. Such increase was primarily due to the (i) increase in financial assets at fair value through profit or loss of RMB150.0 million; and (ii) increase in prepayment for gas of RMB8.1 million 10 days in advance and prepayment for Listing expenses of RMB3.2 million; (iii) increase in cash and cash equivalents of RMB37.0 million from our operations. The increase in net current assets was partially offset by the (i) increase in other payables and accruals of RMB108.9 million primarily due to increase in dividend payables of RMB34.0 million, increase in security deposits of RMB31.8 million primarily due to the additions of construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城鄉建設局) which we require larger amount of deposits and increase payables for purchase of fixed assets of RMB21.6 million for our construction of pipelines; (ii) increase in contract liabilities of RMB31.1 million primarily resulting from the increase in advances received from customers for construction and installation services due to the increase in number of construction projects on hand; and (iii) increase in trade payables of RMB30.0 million, which was generally in line with the increase in purchase during the period.

SUMMARY

Summary consolidated cash flow statement

	FY2019 RMB'000	FY2020 RMB'000	FY2021 RMB'000
Net cash flows from operating activities	262,699	331,618	327,773
Net cash flows used in investing activities	(165,066)	(30,823)	(251,847)
Net cash flows from/(used in) financing activities	35,281	(303,867)	(38,922)
Net increase/(decrease) in cash and cash equivalents	132,914	(3,072)	37,004
Cash and cash equivalents at beginning of year	421,827	554,741	551,669
Cash and cash equivalents at end of year	554,741	551,669	588,673

Operating cash flows

For FY2019, we had net cash generated from operating activities of RMB262.7 million, mainly as a result of the cash generated from operations before change in working capital of RMB242.3 million, tax paid of RMB59.2 million and cash inflows from changes in working capital of RMB79.6 million. The change in working capital primarily reflected (i) increase in contract liabilities of RMB53.6 million (a) in respect of our construction and installation services of RMB40.9 million primarily attributable to the number of projects undertaken by Xinao Development, which was consolidated to our Group following the acquisition of Xinao Development in December 2018; and (b) advances received from sales of natural gas of RMB12.2 million resulting from the increase in number of users and the usage of gas from them; and (ii) increase in other payables and accruals of RMB17.9 million resulting from the increase in accrued payroll and welfare.

For FY2020, we had net cash generated from operating activities of RMB331.6 million, mainly as a result of the cash generated from operations before change in working capital of RMB267.4 million, tax paid of RMB23.4 million and cash inflows from changes in working capital of RMB87.6 million. The change in working capital primarily reflected (i) increase in contract liabilities of RMB62.8 million resulting from the increase in advances received from customers for construction and installation services of RMB65.6 million due to the increase in number of construction projects on hand; and (ii) increase in other payables and accruals of RMB46.0 million resulting from the increase in security deposits of RMB53.4 million primarily in relation to construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城鄉建設局). Such cash inflows from changes in working capital was partially offset by the changes in balances with related parties of RMB11.1 million.

For FY2021, we had net cash generated from operating activities of RMB327.8 million, mainly as a result of the cash generated from operations before change in working capital of RMB273.0 million, tax paid of RMB50.6 million and cash inflows from changes in working capital of RMB105.3 million. The change in working capital primarily reflected (i) increase in other payables and accruals of RMB64.8 million

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primarily due to the increase in (a) dividend payables of RMB34.0 million; and (b) security deposits of RMB31.8 million primarily due to the additions of construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城乡建设局) which we require larger amount of deposits; (ii) increase in contract liabilities of RMB43.6 million primarily resulting from the increase in advances received from customers for construction and installation services due to the increase in number of construction projects on hand; and (iii) increase in trade payables of RMB30.0 million, which was generally in line with the increase in purchase during the period. Such cash inflows from changes in working capital was partially offset by the increase in changes in balances with related parties of RMB11.4 million and increase in prepayments, other receivables and other assets of RMB10.0 million resulting from the increase in (i) prepayment for gas of RMB8.1 million 10 days in advance; and (ii) prepayment for Listing expenses of RMB3.2 million.

Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by sources of our revenue for the periods indicated:

	FY2019		FY2020		FY2021	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Sales of gas						
– PNG	161,425	11.2	181,528	14.8	191,292	11.9
– LNG	393	1.6	562	3.4	334	2.3
– LPG	(2,694)	(23.3)	(1,380)	(29.8)	–	–
Sub-total	<u>159,124</u>	10.8	<u>180,710</u>	14.4	<u>191,626</u>	11.8
Provision of construction and installation services	69,192	45.4	66,843	40.4	83,819	39.3
Sales of energy	–	–	–	–	5,482	44.0
Others	<u>2,923</u>	60.9	<u>5,643</u>	71.1	<u>8,277</u>	64.8
Total (before government surcharges)	<u>231,239</u>	14.2	<u>253,196</u>	17.8	<u>289,204</u>	15.5
Less: Government surcharges	<u>(3,074)</u>		<u>(3,182)</u>		<u>(3,732)</u>	
Total/overall	<u><u>228,165</u></u>	14.0	<u><u>250,014</u></u>	17.6	<u><u>285,472</u></u>	15.4

For FY2019, FY2020 and FY2021, our gross profit amounted to RMB228.2 million, RMB250.0 million and RMB285.5 million, respectively. The respective gross profit margin was 14.0%, 17.6% and 15.4%, respectively. The increase in our gross profit margin during the Track Record Period was mainly attributable to the increase in gross profit margin from our sales of PNG during the Track Record Period and the increase in revenue contribution from our provision of construction and installation services which attained higher gross profit margin compared to the sales of gas.

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Our gross profit attained from the provision of construction and installation services decreased from 45.4% in FY2019 to 40.4% in FY2020, primarily due to increase in construction and installation services for infrastructure for local government which attained a relatively lower gross profit margin. The gross profit margin remained relatively stable at 39.3% in FY2021.

Our gross profit increased by RMB21.8 million or 9.6% from RMB228.2 million in FY2019 to RMB250.0 million in FY2020 despite the increase in our total revenue primarily due to the increase in gross profit margin attained. Our gross profit margin increased from 14.0% in FY2019 to 17.6% in FY2020, which was mainly due to (i) increase in gross profit margin from sales of natural gas; and (ii) increase in revenue contribution from our provision of construction and installation services which attained higher gross profit margin compared to that of sales of natural gas.

Our gross profit increased by RMB35.5 million or 14.2% from RMB250.0 million in FY2020 to RMB285.5 million in FY2021. Our gross profit margin decreased from 17.6% in FY2020 to 15.4% in FY2021, primarily due to the decrease in gross profit margin attained from the sales of PNG to our (i) residential users resulting from the temporary suspension of the gas price of the third tier in FY2021 as discussed above; and (ii) non-residential users resulting from the increase in the pipeline transportation fee and gas storage service fees during FY2021 and the increase in average per unit purchase price.

Contract Liabilities

During the Track Record Period, the advances received from customers for the provision of construction and installation services, and sales of gas are recognised as contract liabilities in the consolidated statement of financial position and revenue are recognised when we render relevant services or sales of goods. As at 31 December 2019, 2020 and 2021, our contract liabilities amounted to RMB275.4 million, RMB338.2 million and RMB381.9 million, respectively.

Please refer to the section headed “Financial Information” in this prospectus for more details.

Financial ratios

The following table sets forth our key financial ratios as at each of the dates indicated:

	For the year ended/as at 31 December		
	2019	2020	2021
Gross Profit Margin (%)	14.0	17.6	15.4
Net Profit Margin (%)	5.8	10.2	6.4
Return on equity (%)	11.5	17.7	12.7
Return on total assets (%)	6.0	9.1	6.3
Current ratio (times)	1.2	1.2	1.2
Gearing ratio (%)	–	–	–
Net debt to equity ratio (%)	Net cash	Net cash	Net cash

Please refer to the paragraph headed “Financial Information – Key Financial Ratios” in this prospectus for further details.

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Selected operating data

The tables below set forth key data of our retail sales and wholesale of PNG during the Track Record Period.

	FY2019		FY2020		FY2021	
		<i>As a percentage to total %</i>		<i>As a percentage to total %</i>		<i>As a percentage to total %</i>
Residential users						
Revenue (RMB'000)	65,035	4.5	76,982	6.3	83,854	5.2
Sales volume ('000 m ³)	23,790	4.8	27,826	5.9	30,588	5.6
Average selling price (RMB/m ³)	2.73		2.77		2.74	
Non-residential users						
<i>Industrial users</i>						
Revenue (RMB'000)	1,134,660	78.8	972,237	79.0	1,279,597	79.5
Sales volume ('000 m ³)	380,870	77.0	368,662	77.8	420,741	76.9
Average selling price (RMB/m ³)	2.98		2.64		3.04	
<i>Commercial users</i>						
Revenue (RMB'000)	55,608	3.9	43,345	3.5	60,704	3.8
Sales volume ('000 m ³)	17,577	3.6	15,467	3.3	20,092	3.7
Average selling price (RMB/m ³)	3.16		2.80		3.02	
<i>Wholesale</i>						
Revenue (RMB'000)	184,168	12.8	137,841	11.2	185,698	11.5
Sales volume ('000 m ³)	72,336	14.6	61,651	13.0	75,454	13.8
Average selling price (RMB/m ³)	2.55		2.24		2.46	
<i>Total/overall</i>						
Revenue (RMB'000)	1,439,471	100.0	1,230,405	100.0	1,609,853	100.0
Sales volume ('000 m ³)	494,573	100.0	473,606	100.0	546,875	100.0
Average selling price (RMB/m ³)	2.91		2.60		2.94	

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, we will be owned as to approximately 44.73% by City Group and 30.27% by ENN (China) which is wholly-owned by ENN Energy. Pursuant to the Listing Rules, City Group, ENN (China) and ENN Energy are regarded as our Controlling Shareholders.

SUMMARY

RECENT DEVELOPMENT

Business operations and financial results

Based on our unaudited management accounts for the four months ended 30 April 2022, our revenue for the four months ended 30 April 2022 increased whereas our gross profit and gross profit margin decreased as compared with the corresponding period in FY2021, mainly due to the increase in purchase price of PNG as announced by the ZJDRC on 17 November 2021 and took effect from 1 November 2021 to 31 March 2022. According to F&S, the Russia-Ukraine conflict has driven up the price of international crude oil, which has led to the increase in the international natural gas price, as well as the corresponding cost of the gas sources of the natural gas importers in the PRC, posing negative impacts on the profitability of the operators in the PRC natural gas industry in general. Our Directors expect that there will be a decrease in our Company's gross profit as well as the net profit for FY2022 as a result of the increase in the government-regulated purchase price of PNG which is expected to remain at high level in FY2022 due to the recent Russia-Ukraine conflict which led to the surge of natural gas price in the global market and thus the increase in LNG purchase price of our upstream suppliers, which normally the LNG will be pressurized and gasified into PNG. Our Directors expect that there will be a decrease in the Company's gross profit for FY2022 as a result of the increase in purchase price of PNG.

Further, our Directors expect that our gross profit margin will decrease by more than half in FY2022 as compared with FY2021 driven by the expected decrease in gross profit margin from sales of natural gas due to the sharp increase in purchase price of PNG as well as the possible impact brought by the recent emergence of variants of COVID-19. According to the notice issued by HZDRC in January 2022, from April 2022, the unit cost of residential users is expected to decrease with the decline of purchase unit price, and the sales of residential gas will maintain a low profit state, higher than the gross profit margin in the first two months of 2022, but lower than the gross profit margin in 2021.

Special Dividends prior to the Listing

Some of our subsidiaries and our Company declared special dividends to their then shareholders on 19 May 2022 and 9 June 2022, respectively, pursuant to which an aggregate sum of RMB212.0 million (the "**Special Dividends**") shall be payable to the then existing shareholders of our Company and the relevant subsidiaries, excluding the dividends payable by our subsidiaries to our Company, on such payment date as shall be determined by our Directors, but in any event within 12 months after the Listing Date. Please refer to the section headed "Financial Information – Dividend" for further information about the Special Dividends. Investors should note that public Shareholders after the Listing will not be entitled to the Special Dividends.

SUMMARY

In accordance with the PRC Company Law, the Articles of Association and the respective articles of association of the subsidiaries established in the PRC, our Company and each PRC Subsidiary is required to allocate 10% of its profits after tax, as determined in accordance with the applicable PRC accounting standards and regulations, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. In accordance with the PRC Company Law, profits after tax of such PRC companies can be distributed as dividends after the appropriation to the statutory surplus reserve. For dividend purposes, the amounts which the PRC companies can legally distribute by way of a dividend are determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

Our Directors have considered several factors such as our distributable profits as reflected in our PRC statutory financial statements and our cash and cash equivalents, being approximately RMB212.0 million and RMB588.7 million, respectively as at 31 December 2021. Our Directors confirm that the Special Dividends were declared based on the Company's distributable profits accumulated on or before 31 December 2021 and that the Company has sufficient distributable reserve to meet the Special Dividends in accordance with laws and regulations of the PRC and the Articles. Our Directors are of the view that the declaration of the Special Dividends declared was fair and reasonable and in the best interest of our Company and the Shareholders as a whole. After taking into consideration the declaration and payment of the Special Dividends, the unaudited pro forma adjusted consolidated net tangible assets of our Group per Share would be HK\$5.09 based on the Office Price of HK\$6.08 per H Share.

The date of payment of the Special Dividends shall be determined by the Board but in any event it shall be within 12 months after the Listing Date. Up to the Latest Practicable Date, the Directors had not set a specific payment date for the distribution of the Special Dividends. Our Directors shall determine the payment date of the Special Dividends taking into account of various factors including our operation needs and financial resources and the ability for us to maintain sufficient flexibility for our operations and business expansion.

Our Directors confirm that, taking into consideration the cash and cash equivalents presently available to us, our positive operating cash flow for the next 12 months, other financial resources, and the estimated net proceeds from the Global Offering for our expansion plan and general working capital, we have, and will have, sufficient funds to make payment of the Special Dividends and the payment of the Special Dividends is not expected to adversely affect our overall financial position.

Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy, and that they will not be entitled to the Special Dividends via the Global Offering. We will disclose further details about the declaration and the payment of the Special Dividends by way of announcement on the Stock Exchange before such payment.

SUMMARY

IMPACT OF OUTBREAK OF COVID-19 ON OUR BUSINESS

Since the outbreak of COVID-19 in January 2020, the PRC local government has introduced a series of measures in order to prevent and control the pneumonia epidemic. Accordingly, in February 2020 we suspended part of our onsite services such as metres installation, replacement, survey and modification work and safety checks. Moreover, our service counters suspended operations for about one month in February 2020. During the same period, our gas supply, provision of customer services (through our telephone hotlines) and emergency services remained normal.

With the recent emergence of variants of COVID-19 in 2022, including Omicron, which is significantly more infectious than its predecessors, based on past experience gained from previous rounds of COVID-19 outbreak, the PRC government, including provincial government of Zhejiang Province, has improved infection control measures, vaccines and drugs to have the spread of the Omicron virus variant within control. Certain major cities in the PRC including Shanghai had been under lock-down to prevent further spread of COVID-19. As a result, demand from our industrial and commercial users had been slightly impacted due to the temporary suspension of business operations or reduced economic activities as a result of the lock-down and travel restriction across different cities within the PRC. As confirmed by our Directors, as at the Latest Practicable Date, the recent emergence of variants of COVID-19 did not have a material adverse impact on our business operation as the pandemic was within control in Zhejiang Province where our Operating Areas are located.

Impact on our business operation

As a result of the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in the first half of FY2020, our average selling price to non-residential users experienced a decrease in FY2020. Accordingly, our revenue from retail sales of PNG to industrial users decreased from RMB1,134.7 million in FY2019 to RMB972.2 million in FY2020 while our revenue from retail sales of PNG to commercial users decreased from RMB55.6 million in FY2019 to RMB43.3 million in FY2020. See the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for information on the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19.

The below table sets forth the breakdown of our sales volume of PNG for the period indicated during the Track Record Period:

	Sales volume (million m ³)			Change in sales volume (%)	
	2019	2020	2021	2020 as compared with 2019	2021 as compared with 2020
First quarter	114.4	90.5	121.4	(20.9)	34.0
Second quarter	125.3	123.1	143.0	(1.7)	16.2
Third quarter	121.5	118.3	136.4	(2.6)	13.3
Fourth quarter	133.4	141.7	146.1	6.3	3.1
Total	494.6	473.6	546.9	(4.2)	15.7

SUMMARY

The number of non-residential users experienced a slight decrease in March 2020, as certain enterprises suspended their business operations at the request of the PRC government in view of the outbreak of COVID-19. As a result, we experienced decrease in the overall volume of gas sold from January to March 2020 primarily due to the decreased in usage from these commercial and industrial users. As at the Latest Practicable Date, as confirmed by our Directors, certain of our industrial and commercial users experienced temporary suspension of business operations or reduced economic activities due to the lock-down of certain major cities in the PRC including Shanghai and travel restriction across different cities within the PRC. The below table set forth the breakdown of our sales volume of PNG for the four months ended 30 April 2022 as compared with the corresponding period in FY2021:

	Sales volume (million m ³)		Change in sales volume (%)
	2021	2022	
January	52,617	50,774	(3.5)
February	24,517	29,008	18.3
March	44,216	51,126	15.6
April	52,131	48,077	(7.8)
Total	173,481	178,985	3.2

We recorded slightly lower PNG sales volume in January 2022 as compared to that in 2021 primarily due to the early commencement of the Lunar New Year in 2022 resulting in early suspension of work of our industrial and commercial users prior to the Lunar New Year. As a result of the recent emergence of COVID-19 and lock-down in some major cities in the PRC, demand from our industrial and commercial users was also slightly impacted in April 2022 as compared to that in 2021. However, our Directors believe the outlook for the demand of our gas in the long run will remain positive as the pandemic was within control in Zhejiang Province as at the Latest Practicable Date.

In relation to our provision of construction and installation services, a total of 18 projects for our provision of construction and installation services had been delayed for generally one month due to the COVID-19 pandemic in FY2020. Despite the recent emergence of variants of COVID-19 in 2022, including Omicron, in the PRC, our Directors confirm that as at the Latest Practicable Date, we had maintained sufficient manpower from our subcontractors in providing our construction and installation services. On the other hand, due to the lock-down of certain major cities in the PRC including Shanghai and travel restriction across different cities within the PRC, there had been slight delay in delivery of raw materials for our construction and installation projects. However, our Directors confirm that as at the Latest Practicable Date, we were able to discharge the obligation under all construction and installation service agreements and none of the construction and installation service agreements were terminated as a result of the slight delay in work progress.

SUMMARY

Due to the abovementioned reasons, our Directors are of the view that our Group is able to maintain our sale of gas at a stable level, and therefore there is no material adverse impact on our business operation or on our long-term relationship with our customers.

Impact on our financial liquidity

Our Directors confirm that our Group has sufficient financial resources including cash and cash equivalents as at 30 April 2022, which amounted to approximately RMB403.6 million, and would be able to meet our essential working capital requirement including administrative expenses, marketing expenses and finance costs. Therefore, in the unlikely event that the operation of our Group is temporarily suspended, our Group has sufficient working capital to satisfy our requirement.

See the paragraph headed “Business – Impact of Outbreak of COVID-19 on our Business” in this prospectus for further details of the impact of COVID-19 on our business during the Track Record Period.

MATERIAL ADVERSE CHANGE

Our Directors expect that there will be a decrease in our Company’s gross profit as well as the net profit for FY2022 as a result of the increase in the government-regulated purchase price of PNG which is expected to remain at high level in FY2022 due to the recent Russia-Ukraine conflict which led to the surge of natural gas price in the global market and thus the increase in LNG purchase price of our upstream suppliers, which normally the LNG will be pressurized and gasified into PNG. Further, our Directors expect that our gross profit margin will decrease substantially by approximately 40% in FY2022 as compared with FY2021 driven by the expected decrease in gross profit margin from sales of natural gas due to the sharp increase in purchase price of PNG as well as the possible impact brought by the recent emergence of variants of COVID-19. For details, see the paragraph headed “Recent Development – Business operations and financial results” above in this section. Save for the above, our Directors confirm that there have not been any material adverse changes in our financial or trading position or our prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.

RISK FACTORS

Our business is subject to a number of risks and you should read the entire “Risk Factors” section in this prospectus carefully before you decide to invest in the Offer Shares. Some of the major risks we face include: (i) our business is subject to the development of PRC government policies and any future changes in laws or regulations or enforcement policies could materially and adversely affect our business, operating results and financial condition; (ii) Huzhou SASAC and our Controlling Shareholder, City Group, may exert substantial influence over our operation and may not act in the best interests of our Company or public Shareholders; (iii) our expansion plan to acquire targets may not be achievable given

SUMMARY

that natural gas companies are often territorial in nature and state-owned assets require government approval, which may materially and adversely affect our business, results of operations, financial condition and prospects; (iv) we are affected by risks arising from the PRC government's price control regime for PNG. For example, given there is generally a time gap between the increase in our purchase price before the increase in our selling price, any price adjustment may negatively affect our profit margin for the relevant period; (v) our Concessions for the operation of our PNG business will expire or may be terminated before expiration and we may not be able to renew our existing Concessions or secure new concessions; (vi) we may not be able to procure natural gas at favourable price or stable volume. Any instability in, shortages of or disruption to the supply of natural gas to us could significantly and adversely affect our business. We are also affected by proposed or recently issued PRC government's policies over our business operation. There is no assurance that we will be able to adapt to these government policies in a timely manner or at all; (vii) we require various licences and permits to commence, operate and expand our business operation. Any failure to obtain or renew any or all of these licences and permits or any enforcement action taken against us for non-compliance incident may materially and adversely affect our business and expansion plans; (viii) risks relating to natural disasters, epidemics, severe communicable diseases, acts of terrorism or war in the PRC and globally may materially and adversely affect our business. In particular, the recent outbreak of COVID-19 could materially and adversely affect our results of operations and financial condition; (ix) we require substantial funding for our current and future projects. In addition, the capital expenditures required could be higher than expected due to various reasons which are beyond our control. Any failure to obtain adequate funding, or at all, could adversely affect our financial condition and results of operations and could prevent us from fulfilling our financial obligations and business objectives; (x) our future growth strategies may not succeed and (xi) we recorded significant intangible assets, comprising goodwill, software copyrights and operating rights, in our consolidated statements of financial position during the Track Record Period and any recognition of impairment losses on such intangible assets would adversely affect our results of operations.

LISTING EXPENSES

Total estimated expenses (based on the Offer Price of HK\$6.08 per H Share) in relation to the Global Offering are expected to amount to approximately RMB37.8 million, or approximately 14.6% of the gross proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised), which include (i) underwriting-related expenses (including but not limited to commissions and fees) of approximately RMB9.1 million, (ii) professional fees and expenses of legal advisers and reporting accountant of approximately RMB16.8 million and (iii) other fees and expenses, including fee to Sole Sponsor, financial printer and other professional parties, of approximately RMB11.9 million. During the Track Record Period, we incurred Listing expenses of approximately RMB18.4 million, of which (i) RMB4.3 million and RMB9.5 million had been charged as administrative expenses in our consolidated statements of profit or loss for FY2020 and FY2021; and (ii) RMB4.6 million is expected to be accounted for as a deduction from equity directly upon Listing. We expect to incur additional listing expenses of approximately RMB19.4 million, which is expected to be recognised directly as a deduction in equity upon Listing.

SUMMARY

LEGAL COMPLIANCE

During the Track Record Period, we had certain non-compliance incidents including (i) the acquisition of our Concessions and the Concession Agreements did not fully comply with the requirements under the applicable laws and regulations in the PRC as (a) the Concessions were not acquired through competitive modes as required under the Concession Right Measures; and (b) the Concession Agreements we entered into did not contain certain provisions as required under the applicable laws and regulations in the PRC; (ii) failure to comply with the foreign investment policy; (iii) failure to obtain the real property title certificate for certain properties occupied by us; and (iv) failure to register the lease agreements for certain leased properties. Please refer to the paragraph headed “Business – Legal and Compliance Matters – Legal compliance” in this prospectus for details.

Save as disclosed above, we complied with the relevant laws and regulations in relation to our business in all material respects during the Track Record Period and up to the Latest Practicable Date, and there were no material breaches or violations of the laws or regulations applicable to us that would have a material adverse effect on our business or financial condition taken as a whole.

STATISTICS OF THE GLOBAL OFFERING

	Based on the Offer Price of HK\$6.08 per H Share
Market capitalisation of our H Shares (<i>Note 1</i>)	HK\$304.0 million
Market capitalisation of our Shares (<i>Note 2</i>)	HK\$1,216.0 million
Unaudited pro forma adjusted consolidated net tangible assets of our Group per Share (<i>Note 3</i>)	HK\$6.12

Notes:

1. The calculation of market capitalisation of our H Shares is based on 50,000,000 H Shares in issue immediately after completion of the Global Offering but does not take into account any H Shares which may be allotted and issued upon the exercise of the Over-allotment Option.
2. The calculation of market capitalisation of our Shares is based on 200,000,000 Shares in issue immediately after completion of the Global Offering but does not take into account any H Shares which may be allotted and issued upon exercise of the Over-allotment Option.
3. The unaudited pro forma adjusted consolidated net tangible assets of our Group per Share has been prepared with reference to certain estimation and adjustment. Please refer to Appendix II to this prospectus for further details. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2021 to reflect the Special Dividends of RMB212.0 million or any trading results or other transactions of our Group entered into subsequent to 31 December 2021.
4. No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2021. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2021 does not take into account of the Special Dividends of RMB212.0 million. Had the Special Dividends of RMB212.0 million been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share after completion of the Global Offering would have been HK\$5.09 per Share based on the Office Price of HK\$6.08 per H Share, assuming that the Global Offering has been completed on 31 December 2021 but takes no account of any Share which may be issued upon the exercise of the Over-allotment Option.

SUMMARY

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$259.8 million (equivalent to approximately RMB222.1 million) from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions, incentives and other estimated offering expenses payable by us and at the Offer Price of HK\$6.08 per H Share. We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

Use of proceeds	Amount of net proceeds (HK\$ million)	% of total net proceeds (%)
Enhance our sales of PNG by upgrading our pipeline network and operational facilities	52.0	20.0
Expand our business to other geographical areas through strategic acquisition	77.9	30.0
Expand into distributed photovoltaic power generation business	77.9	30.0
Promote the use of heat energy from vapour generated by our natural gas through natural gas boilers	26.0	10.0
Working capital and general corporate purposes	26.0	10.0
Total	259.8	100.0

Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for details.

DIVIDEND

The PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank facilities or other agreements that we or our subsidiaries may enter into in the future.

The amount of dividend actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividend.

We declared dividends of RMB86.0 million, RMB156.1 million and RMB70.5 million, respectively, in FY2019, FY2020 and FY2021. Except for the dividend declared in FY2021, all dividends have been fully paid. The dividend declared in FY2021 is expected to be paid before Listing with our internal resources. Currently we do not have a formal dividend policy and there is no assurance that dividends of any amount will be declared or be distributed in any year.

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COMPETITIVE LANDSCAPE

In 2020, the sales volume of natural gas in Zhejiang Province reached 14.3 billion m³. Within approximately 220 natural gas companies in Zhejiang Province, the top five companies in Zhejiang Province's natural gas industry had a total share of 30.4% in terms of sales volume of PNG. There are over 40 natural gas companies of different sizes in Huzhou and surrounding cities such as Jiaxing, Hangzhou, Ningbo and Shaoxing. Please refer to the paragraph headed "Industry Overview – Competitive landscape analysis" in this prospectus for further details.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“2020 Summary”	Notice on Issuing of the Summary of Structural Reforms in Energy Sector in 2020 (《關於印發2020年浙江省能源領域體制改革工作要點的通知》浙發改能源[2020]12號) issued by the ZJDRC and Zhejiang Energy Regulatory Office of National Energy Administration (浙江省能源局) on 20 January 2020
“Accountants’ Report”	the accountants’ report on our Group for the Track Record Period is set out in Appendix I to this prospectus
“Advice on Gas Storage and Market Mechanism”	Advice on Accelerating the Construction of Gas Storage Facilities and Improving the Market Mechanism of Gas Storage and Peak Adjustment Auxiliary Services (《關於加快儲氣設施建設和完善儲氣調峰輔助服務市場機制的意見》發改能源規[2018]637號) promulgated by the NDRC and the National Energy Administration on 26 April 2018
“Articles” or “Articles of Association”	the articles of association of our Company, as amended, which shall become effective upon Listing, and as amended from time to time, a summary of which is contained in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of directors of our Company
“BOCOM International (Asia)” or “Sole Sponsor”	BOCOM International (Asia) Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
“BOCOM International Securities”	BOCOM International Securities Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities

DEFINITIONS

“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“ CCASS EIPO ”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“City Group”	Huzhou City Investment & Development Group Co., Ltd.* (湖州市城市投資發展集團有限公司), formerly known as Huzhou Real Estate Development Corporation* (湖州市房地產開發總公司), Huzhou Fangzong Group Corporation* (湖州市房總集團公司), Huzhou Urban Construction and Development Group Corporation* (湖州市城市建設投資集團公司) and Huzhou City Investment and Development Company Limited* (湖州市城市投資發展有限公司), a state-owned enterprise established under the laws of the PRC on 27 February 1993 and is directly wholly-owned by Huzhou SASAC as at the Latest Practicable Date, and a Controlling Shareholder upon Listing
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company” or “our Company”	Huzhou Gas Co., Ltd.* (湖州燃氣股份有限公司), formerly known as Huzhou Xinao Gas Company Limited* (湖州新奧燃氣有限公司), a limited liability company established under the laws of the PRC on 16 June 2004 and converted into a joint stock company with limited liability on 2 April 2021
“Concession Grantors”	Huzhou Housing and Urban Rural Development Bureau* (湖州市住房和城鄉建設局), the grantor of the Wuxing Concession, as authorised by the Huzhou Municipal People’s Government; and Huzhou Nanxun District Urban-Rural Development Bureau* (湖州市南潯區城鄉建設局), subsequently renamed as Huzhou Nanxun District Housing and Urban-Rural Development Bureau* (湖州市南潯區住房和城鄉建設局), the grantor of the Nanxun Concession, as authorised by the Nanxun District People’s Government
“Concessions” or “Concession Agreements”	the Wuxing Concession and the Nanxun Concession

DEFINITIONS

“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, in the context of this prospectus, means the controlling shareholders of our Company, namely, City Group, ENN (China) and ENN Energy
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“COVID-19”	coronavirus disease 2019
“CSRC”	China Securities Regulatory Commission* (中華人民共和國證券監督管理委員會)
“Deed of Indemnity”	a deed of indemnity dated 28 June 2022 executed by City Group in favour of our Company (for itself and on behalf of our present subsidiaries), particulars of which are set out in the paragraph headed “Other Information – 13. Tax and other indemnities” in Appendix VI to this prospectus
“Deed of Non-competition”	the non-compete undertaking dated 16 June 2021 executed by each of our Controlling Shareholders in favour of our Company, details of which are set out in the section headed “Relationship with Our Controlling Shareholders – Deed of Non-Competition” in this prospectus
“Deqing Xinrui”	Deqing Xinrui New Energy Co., Ltd.* (德清新瑞新能源有限公司), a limited liability company established under the laws of the PRC on 26 September 2021 and an indirect non-wholly owned subsidiary of our Company
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Domestic Shares”	ordinary share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange

DEFINITIONS

“ENN (China)”	Xinao (China) Gas Investment Company Limited* (新奧(中國)燃氣投資有限公司), a limited liability company established under the laws of the PRC on 8 January 2004, directly wholly owned by ENN Energy as at the Latest Practicable Date, and our Controlling Shareholder upon Listing
“ENN Energy”	ENN Energy Holdings Limited, an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability which is listed on the Main Board of the Stock Exchange (Stock Code: 2688) and our Controlling Shareholder upon Listing
“ENN Energy Group”	collectively, ENN Energy and its subsidiaries
“ENN Group”	ENN Group Co., Ltd.* (新奧集團股份有限公司), a limited liability company established under the laws of the PRC on 5 August 1997, owned as to 89.48% by Langfang as at the Latest Practicable Date, and a controlling shareholder of each of Xinao Energy Development, Nanxun Xinao and Nanxun Xinao Development as at the Latest Practicable Date
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“Frost & Sullivan” or “F&S”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, and an Independent Third Party
“FY” or “financial year”	financial year of our Company ended or ending 31 December
“Global Offering”	the Hong Kong Public Offer and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group”, “we”, “our” or “us”	our Company and its subsidiaries (as defined under the Listing Rules) at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

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“H Share(s)”	overseas listed foreign share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and are to be listed on the Stock Exchange
“H Share Registrar”	Tricor Investor Services Limited
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be registered in the applicant’s own name by submitting applications online through the IPO App or the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by our Company as specified in the IPO App or on the designated website at www.hkeipo.hk
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Offer Shares”	5,000,000 new H Shares being initially offered by us for subscription pursuant to the Hong Kong Public Offer
“Hong Kong Public Offer”	the offer by us of the Hong Kong Offer Shares to the public in Hong Kong for subscription at the Offer Price, on and subject to the terms and conditions set out in this prospectus, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Underwriters”	the underwriters listed in the paragraph headed “Underwriting – Hong Kong Underwriters” in this prospectus, being the underwriters of the Hong Kong Public Offer

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“Hong Kong Underwriting Agreement”	the underwriting agreement dated 28 June 2022 relating to the Hong Kong Public Offer entered into by our Company, City Group, our executive Directors, the Sole Sponsor, BOCOM International Securities and the Hong Kong Underwriters, as further described in the section headed “Underwriting” in this prospectus
“Huran New Energy”	Huzhou Huran New Energy Development Co., Ltd.* (湖州湖燃新能源開發有限公司), a limited liability company established under the laws of the PRC on 24 April 2022 and owned as to 95% by our Company and 5% by Huzhou Zhongran Enterprise Management Partnership (Limited Partnership)* (湖州眾燃企業管理合夥企業(有限合夥)), which is a direct non-wholly owned subsidiary of our Company
“Huzhou Huaxing”	Huzhou Huaxing Urban Construction Development Company Limited* (湖州市華興城建發展有限公司), formerly known as Huzhou Urban Construction and Development Corporation* (湖州市城市建設發展總公司), a limited liability company established under the laws of the PRC on 24 March 1998, which was indirectly wholly-owned by City Group during the Track Record Period and up to the Latest Practicable Date
“Huzhou SASAC”	Huzhou People’s Government State-owned Assets Supervision and Administration Commission* (湖州市人民政府國有資產監督管理委員會), as a functional department of Huzhou Municipal People’s Government, reports to and is under the leadership of Huzhou Municipal People’s Government, and is therefore a PRC government body (as defined under the Listing Rules)
“HZDRC”	Development and Reform Commission of Huzhou Municipality (湖州市發展和改革委員會)
“IFRS”	International Financial Reporting Standards which include standards and interpretations promulgated by the International Accounting Standards Board
“Independent Third Party(ies)”	party(ies) which, as far as our Directors are aware after having made all reasonable enquiries, is not a connected person(s) (as defined in the Listing Rules) of the Company

DEFINITIONS

“Installation Charges Opinions”	the “Guiding Opinions on Regulating the Installation Charges for Urban Gas Projects” (關於規範城鎮燃氣工程安裝收費的指導意見(發改價格[2019]1131號)) jointly issued by the NDRC, the Ministry of Housing and Urban-Rural Development of the PRC and the State Administration for Market Regulation of the PRC on 27 June 2019. Please refer to the paragraph headed “Regulatory Overview – Pricing of Construction and Installation Services” in this prospectus for details
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters for and on behalf of the Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price, on and subject to the terms and conditions under the International Underwriting Agreement, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Placing Shares”	45,000,000 new H Shares being initially offered by us for subscription pursuant to the International Placing together with, where relevant, any additional H Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“International Underwriters”	the underwriters for the International Placing who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement relating to the International Placing to be entered into by our Company, City Group, our executive Directors, the Sole Sponsor, BOCOM International Securities and the International Underwriters on or about 6 July 2022, as further described in the section headed “Underwriting” in this prospectus
“IPO App”	the mobile application for the HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp

DEFINITIONS

“Joint Bookrunners”	BOCOM International Securities, Sigma Capital Management Limited, CEB International Capital Corporation Limited, China Everbright Securities (HK) Limited, China Industrial Securities International Capital Limited, China Tonghai Securities Limited, CMBC Securities Company Limited, Essence International Securities (Hong Kong) Limited, Guotai Junan Securities (Hong Kong) Limited and Zhongtai International Securities Limited
“Joint Global Coordinators”	BOCOM International Securities and Sigma Capital Management Limited
“Joint Lead Managers”	BOCOM International Securities, Sigma Capital Management Limited, CEB International Capital Corporation Limited, China Everbright Securities (HK) Limited, China Industrial Securities International Capital Limited, China Tonghai Securities Limited, CMBC Securities Company Limited, Eddid Securities and Futures Limited, Essence International Securities (Hong Kong) Limited, Guotai Junan Securities (Hong Kong) Limited, Livermore Holdings Limited, Maxa Capital Limited and Zhongtai International Securities Limited
“kg”	kilogramme(s)
“km”	kilometre(s)
“Langfang”	Langfang City Natural Gas Company Limited* (廊坊市天然氣有限公司), a limited liability company established under the laws of the PRC on 5 December 1992, which was owned as to 90% by Mr. Wang Yusuo (王玉鎖) and 10% by Ms. Zhao Baoju (趙寶菊) as at the Latest Practicable Date, and a controlling shareholder of ENN Energy and ENN Group
“Latest Practicable Date”	20 June 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the H Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange

DEFINITIONS

“Listing Date”	the date expected to be on or around Wednesday, 13 July 2022, on which the H Shares are first listed and from which dealings in the H Shares are permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“m ³ ”	cubic metre(s)
“MOFCOM”	Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部)
“MOLR”	Ministry of Land and Resources of the People’s Republic of China (中華人民共和國自然資源部), or its predecessor, Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)
“Nanxun Concession”	the concession agreement between Huzhou Nanxun District Urban-Rural Development Bureau* (湖州市南潯區城鄉建設局), subsequently renamed as Huzhou Nanxun District Housing and Urban-Rural Development Bureau* (湖州市南潯區住房和城鄉建設局), and us, pursuant to which, with effect from 30 September 2009, we were granted the concession right to act as the exclusive PNG distributor in the Nanxun District Operating Area for a period of 30 years, as amended and supplemented by the supplemental agreements dated 8 February 2021 and 28 October 2021
“Nanxun Operating Area”	the operating area where we are granted the exclusive right under the Nanxun Concession for (i) the investment, construction and operation of piped gas, including sales of natural gas, LPG and other gas fuel; and (ii) the provision of relevant construction designs and the maintenance, operation, repair and emergency services of related pipeline facilities, in the administrative areas of Nanxun District of Huzhou

DEFINITIONS

“Nanxun Xinao”	Huzhou Nanxun Xinao Gas Company Limited* (湖州南潯新奧燃氣有限公司), formerly known as Huzhou Xinao Wanfeng Gas Company Limited* (湖州新奧萬豐燃氣有限公司), a limited liability company established under the laws of the PRC on 28 September 2009 and owned as to 51% by our Company and 49% by ENN Group, which is a direct non-wholly owned subsidiary of our Company
“Nanxun Xinao Development”	Huzhou Nanxun Xinao Gas Development Company Limited* (湖州南潯新奧燃氣發展有限公司), formerly known as Huzhou Xinao Wanfeng Gas Development Company Limited* (湖州新奧萬豐燃氣發展有限公司), a limited liability company established under the laws of the PRC on 28 November 2017 and owned as to 51% by our Company and 49% by ENN Group, which is a direct non-wholly owned subsidiary of our Company
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Ningbo Intercity”	Ningbo Chengji Energy Trading Company Limited* (寧波城際能源貿易有限公司), a limited liability company established under the laws of the PRC on 15 May 2018 and an indirect wholly-owned subsidiary of ENN (China)
“NSSF”	National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
“Offer Price”	HK\$6.08 per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%)
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares
“Operating Area”	the Wuxing Operating Area and the Nanxun Operating Area

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by us to the International Underwriters under the International Underwriting Agreement, exercisable by BOCOM International Securities (for itself and on behalf of the International Underwriters), pursuant to which we may be required to allot and issue up to 7,500,000 additional H Shares (representing 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price, to, among other things, cover over-allocations in the International Placing, if any, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China
“PRC” or “China”	the People’s Republic of China, excluding for the purposes of this prospectus only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Company Law” or “Company Law”	Company Law of the PRC* (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People’s Congress on 27 October 2005 and effective on 1 January 2006, as amended or supplemented from time to time, which was further amended on 28 December 2013 to take effect on 1 March 2014
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Legal Advisers”	Grandall Law Firm (Hangzhou), the PRC legal advisers of our Company in connection with the Global Offering
“PRC Pricing Law”	the Pricing Law of the PRC promulgated by the Standing Committee of National People’s Congress on 29 December 1997, effective from 1 May 1998
“Regulation S”	Regulation S under the U.S. Securities Act
“Reporting Accountants”	Ernst & Young, the reporting accountants of our Company
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC* (中華人民共和國國家外匯管理局)

DEFINITIONS

“SAP system”	an acronym for systems, applications, products. It is an enterprise resource planning system and an accounting-oriented information system that provides users with a real-time business application
“SAT”	State Administration of Taxation of the PRC* (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, including both the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of Shares
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies* (國務院關於股份有限公司境外募集股份及上市的特別規定) promulgated by the State Council on 4 August 1994, as amended or supplemented from time to time
“sq.km.” or “km ² ”	square kilometre(s)
“sq.m.”	square metre(s)
“Stabilising Manager”	BOCOM International Securities
“State Council”	State Council of the PRC* (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Supervisor(s)”	the supervisor(s) of our Company

DEFINITIONS

“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended or supplemented from time to time
“Track Record Period”	FY2019, FY2020 and FY2021
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“U.S. Securities Act”	the United States Securities Act 1933, as amended or supplemented from time to time
“US\$” or “U.S. dollar”	United States dollars, the lawful currency of the United States
“Wuxing Concession”	the concession agreement between Huzhou Urban and Rural Construction Bureau* (湖州市住房和城鄉建設局), and us, pursuant to which, with effect from 16 June 2004, we were granted the concession right to act as the exclusive PNG distributor in the Wuxing Operating Area for a period of 30 years as amended and supplemented by the supplemental agreements dated 3 December 2020 and 26 October 2021
“Wuxing Operating Area”	the operating area where we are granted the exclusive right under the Wuxing Concession for (i) the investment, construction and operation of piped gas, including sales of natural gas, LPG, manufactured coal gas and other gas fuel; and (ii) the provision of relevant construction designs and the maintenance, operation, repair and emergency services of related pipeline facilities, in the administrative areas of Wuxing District of Huzhou (excluding Fenghuang Industry and Trade District, Fenghuang West District, Yangjiabu Heavy Chemical Industry District, Renhuangshan New District and Taihu Lake Tourist Resort District) and bounded by Xitiaoxi, Huanchenghe, Xintang Port, and Changdou Port

DEFINITIONS

“Xinao Development”	Huzhou Xinao Gas Development Company Limited* (湖州新奧燃氣發展有限公司), a limited liability company established under the laws of the PRC on 25 April 2005 and a direct wholly-owned subsidiary of our Company
“Xinao Energy Development”	Huzhou Xinao Energy Development Company Limited* (湖州新奧能源發展有限公司), a limited liability company established under the laws of the PRC on 26 April 2019 and owned as to 51% by our Company and 49% by ENN Group, which is regarded as a joint venture of our Company under the applicable accounting standards and a subsidiary of our Company pursuant to the Listing Rules
“Xinao Transportation”	Huzhou Xinao Transportation Company Limited* (湖州新奧運輸有限公司), a limited liability company established under the laws of the PRC on 22 September 2008 and a direct wholly-owned subsidiary of our Company
“Zhejiang Wanfeng”	Zhejiang Wanfeng Technology Development Co., Ltd.* (浙江萬豐科技開發股份有限公司), formerly known as Zhejiang Wanfeng Technology Development Company Limited* (浙江萬豐科技開發有限公司), a limited liability company established under the laws of the PRC on 27 July 1992, an Independent Third Party as at the Latest Practicable Date
“Zhongshihua Xinao”	Huzhou Zhongshihua Xinao Natural Gas Co., Ltd.* (湖州中石化新奧天然氣有限公司), a limited liability company established under the laws of the PRC on 15 August 2012 and a joint venture of our Company
“ZJDRC”	Zhejiang Provincial Development and Reform Commission (浙江省發展和改革委員會)
“%”	per cent.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the terms “associate”, “close associate”, “connected person”, “connected transaction” and “subsidiary” shall have the meanings given to such terms in the Listing Rules.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with “” and are provided for identification purposes only.*

Solely for your convenience, this prospectus contains translations of certain RMB amounts into Hong Kong dollars at a specified rate. Unless we indicate otherwise, the translations of RMB into Hong Kong dollars and vice versa have been made at the rate of RMB1.00 to HK\$1.17 in this prospectus.

No representation is made that any amount in RMB or Hong Kong dollars can be or could be, or have been, converted at the above rate or any other rate or at all.

See Appendix III to this prospectus for further details on exchange rates.

GLOSSARY AND TECHNICAL TERMS

This glossary and technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

“CAGR”	compound annual growth rate
“CNG”	compressed natural gas, refers to natural gas that has been compressed to a high density through high pressure
“construction and installation services”	our business of constructing and connecting end-user pipeline network to urban pipeline network and installing end-user gas facilities, for which we charge our customers construction and installation fees
“end-user pipeline network”	network of low-pressure natural gas pipelines located within the municipal engineering red lines* (市政規劃紅線) for connecting urban pipeline network to our customers’ properties
“end-user price”	the unit price at which natural gas distributors, such as our Group, sell PNG to their end-users
“gas”	comprising natural gas and LPG for the purpose of this prospectus
“gateway station price”	the benchmark price determined by the PRC government for wholesale of PNG sold by upstream supplier to local gas distributors such as our Group
“GFA”	gross floor area
“LPG”	Liquefied petroleum gas, a type of inflammable gas produced during natural gas processing and oil refining, which could be stored as liquid under pressure
“natural gas”	gas consisting primarily of methane found in coal beds with or without other fossil fuels
“non-residential usage”	usage of natural gas other than residential usage, i.e. industrial usage and commercial usage and the term “non-residential use” or “non-residential user(s)” shall be construed accordingly
“PNG”	natural gas distributed to end users through pipelines

GLOSSARY AND TECHNICAL TERMS

“total cost of purchase”	total purchase of goods, subcontracted construction and installation services and other services related to our Group’s provision of construction and installation services
“urban pipeline network”	network of mid-pressure natural gas pipelines located outside the municipal engineering red lines* (市政規劃紅線)

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “might”, “plan”, “project”, “propose”, “seek”, “should”, “target”, “will”, “would” and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs; and
- our ability to identify and successfully take advantage of new business development opportunities.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information, implied or expressed, in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set out in “Risk Factors” in this prospectus and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC, including the sustainability of the economic growth in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risk factors set out in “Risk Factors” in this prospectus.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

An investment in our H Shares involves various risks. You should carefully consider all the information in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our H Shares.

The occurrence of any of the following events could materially and adversely affect our business, financial condition, results of operations or prospects. If any of these events occur, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS

Our business is subject to the development of PRC government policies and any future changes in laws or regulations or enforcement policies could materially and adversely affect our business, operating results and financial condition.

The natural gas industry is subject to a broad range of laws and regulations in the PRC. For instance, in relation to procurement of natural gas, according to the 2020 Summary issued by the ZJDRG and Zhejiang Energy Regulatory Office of National Energy Administration (浙江省能源局) on 20 January 2020, natural gas distributors were required to contribute to ending the monopoly status of provincial natural gas companies, and separating the function of natural gas sales and transmission at provincial level. Moreover, pricing of our PNG purchases and sales are subject to regulatory control. The Huzhou Municipal People's Government determines the benchmark gateway station price on which our PNG purchase price is based and the end-user prices at which PNG is sold to retail customers in our Operating Area. Such control on pricing affects our gross profits and gross profit margins. See the paragraph headed "We are affected by risks arising from the PRC government's price control regime for PNG. For example, given there is generally a time gap between the increase in our purchase price before the increase in our selling price, any price adjustment may negatively affect our profit margin for the relevant period." below in this section for further details. We are also required to maintain our gas storage capacity at the required level under the PRC laws and regulations. See the paragraphs headed "We may not be able to procure natural gas at favourable price or stable volume. Any instability in, shortages of or disruption to the supply of natural gas to us could significantly and adversely affect our business. We are also affected by proposed or recently issued PRC government's policies over our business operation. There is no assurance that we will be able to adapt to these government policies in a timely manner or at all" below in this section for further details.

We are unable to predict future changes in laws or regulations or enforcement policies that may affect our business or operations or to estimate the ultimate cost of compliance with such laws and regulations. The PRC natural gas industry is highly regulated and regulatory environment is subject to frequent changes and are beyond the control of our Group. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. Any change in existing laws and regulations relating to the natural gas industry in the PRC or their interpretation that may affect our business or operations could require us to incur additional compliance costs or costly and time-consuming changes to our operations, either of which could materially and adversely affect our business, operating results and financial condition. See "Regulatory Overview" in this prospectus for details of such laws and regulations.

RISK FACTORS

Huzhou SASAC and our Controlling Shareholder, City Group, may exert substantial influence over our operation and may not act in the best interests of our Company or public Shareholders.

Immediately following completion of the Global Offering (and assuming that the Over-allotment Option is not exercised at all), City Group will control approximately 44.73% of the total share capital of our Company. Accordingly, City Group will remain as one of our Controlling Shareholders after completion of the Global Offering. City Group is a state-owned enterprise which was directly wholly-owned by Huzhou SASAC, a PRC government body which principally engaged in equity investment and management of state-owned financial assets as authorised by the relevant finance and regulatory bodies in the PRC. For details, please refer to the paragraph headed “Relationship with Our Controlling Shareholders – Our Controlling Shareholders” in this prospectus.

Huzhou SASAC is an important body for facilitating the energy infrastructure construction and accelerating the construction of major energy projects in Huzhou. Therefore, Huzhou SASAC, together with and through its control over our Controlling Shareholder, City Group, will have substantial influence over our business, including decisions regarding significant transactions and corporate actions such as mergers, consolidations and the sale of all or substantially all of our assets, election of directors and dividend policy. The interests of Huzhou SASAC and City Group may not always align with our Company’s interests or your best interests. If the interests of Huzhou SASAC and City Group conflict with the interests of our Company or public Shareholders, or if Huzhou SASAC or City Group chooses to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Our expansion plan to acquire targets may not be achievable given that natural gas companies are often territorial in nature and state-owned assets require government approval, which may materially and adversely affect our business, results of operations, financial condition and prospects.

One of our business strategies is to expand our business to other geographical areas through strategic acquisition. To expand our geographic coverage to other districts in Huzhou or neighbouring cities, we plan to selectively pursue strategic acquisition opportunities in respect of operators engaging in the natural gas and related industry, including integrated energy industry which uses natural gas as fuel, in neighbouring areas in Zhejiang, Jiangsu or Anhui Provinces. According to F&S, acquisition is common in the natural gas and related industry. As at the Latest Practicable Date, we did not have any specific acquisition target, plan or a definite timeline and had not entered into any definitive agreement or engaged in any active discussion with any potential target. We will particularly focus on natural gas companies with concession rights in neighboring areas in Zhejiang, Jiangsu or Anhui Provinces, recording annual gross profit of approximately RMB10 million to RMB25 million, leveraging our concession operation experience. According to F&S, there are over 400 natural gas companies in Zhejiang, Jiangsu and Anhui Provinces. See the paragraphs headed “Business – Our Business Strategies – Expand our business to other geographical areas through strategic acquisition” in this prospectus for further details of our expansion plan.

RISK FACTORS

According to F&S, the natural gas industry is highly regulated in the PRC. Exclusive rights to sell and distribute PNG and to construct urban pipeline network within the operating areas are granted by the relevant local authorities. The business operations of natural gas companies, including the PNG purchase price and selling price, are subject to government control. The regulatory control differs across regions within the PRC. As a result of the territorial nature of natural gas companies, our expansion plan to acquire targets may not be achievable if we failure to identify suitable targets or adapt to the local operating environment. Moreover, if we decide to acquire a state-owned acquisition target, we cannot assure you that we or the acquisition target can successfully obtain all necessary approval from the PRC government. If we fail to achieve our expansion plan, it may materially and adversely affect our business, results of operations, financial condition and prospects.

We are affected by risks arising from the PRC government's price control regime for PNG. For example, given there is generally a time gap between the increase in our purchase price before the increase in our selling price, any price adjustment may negatively affect our profit margin for the relevant period.

According to the PRC Pricing Law, the PRC government may direct, guide or determine the prices of public utilities. The Huzhou Municipal People's Government determines the benchmark gateway station price on which our PNG purchase price is based and the end-user prices at which PNG is sold to retail customers in our Operating Area. In general, in respect of PNG for residential usage, the end-user price is fixed by the Huzhou Municipal People's Government, whereas for non-residential usage (i.e. industrial and commercial usage), the end-user price is agreed between the end users and us, subject to the maximum end-user price determined by the Huzhou Municipal People's Government. Please refer to the paragraphs headed "Regulatory Overview – Pricing of natural gas" and "Business – Pricing of PNG" in this prospectus for details of the regulatory regime for pricing of PNG.

There is usually a time gap between (i) the date of notice for adjustment of PNG purchase price as published by the ZJDRC; and (ii) the date of notice for adjustment of PNG selling price as published by the HZDRC. The adjustments are usually made retrospectively such that there is also a time delay between the date of notice publication and the effective date of price adjustment. During the Track Record Period, for adjustment of PNG purchase price, the time gap between the effective date of the adjustment and the date of notice published by the authorities ranged from approximately 10 days to one month. On the other hand, for adjustment of PNG selling price, the time gap between the effective date of the adjustment and the notice published by the authorities ranged from approximately 20 days to two months. As confirmed by our Directors, there was no material price mismatch during the Track Record Period. For details of the price adjustment of PNG purchase price and selling price, see the paragraph headed "Regulatory Overview – Pricing of Natural Gas" in this prospectus. In light of the delay in price adjustment of PNG selling price as compared with PNG purchase price, any increase in our PNG purchase price may negatively affect our profit margin for the period before we can adjust our selling price accordingly.

RISK FACTORS

Our Concessions for the operation of our PNG business will expire or may be terminated before expiration and we may not be able to renew our existing Concessions or secure new concessions.

We principally engaged in the sales of PNG in our Operating Area under the Concessions. For FY2019, FY2020 and FY2021, 88.1%, 86.3% and 86.4% of our revenue (before government surcharges) was generated from the sales of PNG, respectively. The Wuxing Concession is valid for 30 years until 15 June 2034 and the Nanxun Concession is valid for 30 years until 29 September 2039, both with a preferential right of renewal upon negotiation and fulfilment of certain conditions. See the paragraph headed “Business – The Concessions” in this prospectus for details of the Concession Agreements.

According to the Concession Right Measures, government authorities should select investors or operators of municipal public utilities projects through competitive modes such as public bidding and competitive negotiation according to relevant regulations, and enter into concession agreements to grant concession rights with them. However, the Concessions which we acquired were not through any competitive modes, to the best knowledge of our Directors, we were not requested to acquire the Concessions through any competitive modes back then as we were selected by Huzhou URCB and Nanxun URCB as a capable gas operator and were invited to take part in the investment, construction and operation of piped gas facilities in Wuxing District and Nanxun District through the process of attracting investment (招商引資), and such decisions were approved and authorised by the Huzhou Municipal People’s Government and Nanxun District Municipal People’s Government of Huzhou, respectively. See the paragraph headed “Business – Legal and Compliance Matters – Legal compliance” in this prospectus for details of the non-compliance incident.

The Concession Agreements may be terminated before expiration under certain circumstances, the details of which are set out in the paragraph headed “Business – The Concessions” in this prospectus. We cannot assure you that the Concession Agreements will not be terminated before its expiration or we will be successful in renewing them with the Concession Grantors at acceptable terms. If any of our Concession Agreements is terminated before expiration or we are not able to renew it for whatever reasons, and we are not able to relocate to an alternative area to continue our operations which is comparable to our existing operations in the Operating Area, our business, financial condition and operating results would be materially and adversely affected.

We may not be able to procure natural gas at favourable price or stable volume. Any instability in, shortages of or disruption to the supply of natural gas to us could significantly and adversely affect our business. We are also affected by proposed or recently issued PRC government’s policies over our business operation. There is no assurance that we will be able to adapt to these government policies in a timely manner or at all.

Natural gas constitutes the major raw material for our PNG sale business. Prior to September 2020, Supplier A and Supplier F were our principal natural gas suppliers, each of which, to the best knowledge of our Directors, was the only PNG wholesaler to sell PNG to PNG distributors in Huzhou during the relevant time. According to the

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Opinions on the Implementation of the Operation Mechanism Reform of the Oil and Natural Gas Pipeline Network (《石油天然氣管網運營機制改革實施意見》) proposed by the Seventh Meeting of the Central Comprehensive Deepening Reform Committee on 19 March 2019, the PRC government intends to unify the intermediary pipeline networks, strengthen the control on transmission cost of the intermediary pipeline networks and promote multi-channel supply of upstream PNG sources. Further, according to the 2020 Summary issued by the ZJDRC and Zhejiang Energy Regulatory Office of National Energy Administration (浙江省能源局) on 20 January 2020, the Zhejiang government aims to (i) discontinue the monopoly status of the provincial natural gas pipeline companies; (ii) separate the function of natural gas sale and transmission at provincial level; (iii) promote the fair and equal access to the infrastructure of natural gas, such as provincial pipeline network and natural gas terminals, by all market entities; and (iv) reform and simplify the natural gas supply chain.

As a result, we have (i) ceased to procure PNG from provincial natural gas companies, including Supplier A and Supplier F, and commenced to procure PNG from Ningbo Intercity since September 2020 and Supplier G since August 2021, respectively; and (ii) separately entered into PNG supply agreements and transmission agreement with Ningbo Intercity, Supplier G and Supplier F, respectively, which according to our PRC Legal Advisers, satisfied the requirements under the 2020 Summary by contributing to ending the monopoly status of provincial natural gas companies, and separating the function of natural gas sales and transmission at provincial level. To the best knowledge of our Directors, Ningbo Intercity is an upstream supplier of natural gas, which has access to an LNG station with storage capacity of approximately 0.6 million m³ of LNG (equivalent to approximately 384 million m³ of natural gas in gaseous state) in Zhoushan, Zhejiang. Please refer to the paragraph headed “Business – Our source of PNG supply” and “Business – Our Suppliers” in this prospectus for details. As at the Latest Practicable Date, Ningbo Intercity was wholly owned by Xinao Gas Development Company Limited* (新奧燃氣發展有限公司) (“**Xinao Gas Development**”), which was in turn wholly owned by ENN (China), our Controlling Shareholder. As such, Ningbo Intercity is an associate of ENN (China), and hence a connected person of our Company pursuant to Rule 14A.13(1) of the Listing Rules. See the paragraph headed “Continuing Connected Transactions – Non-exempted continuing connected transactions – Supply of PNG and LNG by Ningbo Intercity to our Group” in this prospectus for further details.

We have a short history of business relationship with Ningbo Intercity. Moreover, pursuant to the 2020 Summary, we may source supply of natural gas from different suppliers without entering into a long-term natural gas supply agreement with them. We cannot guarantee that we will be able to procure sufficient natural gas from other upstream suppliers in the future on terms no less favourable than those in our supply agreements with Supplier A, Supplier F, Ningbo Intercity and Supplier G. Any dispute between us and our natural gas suppliers may cause disruption to our supply of PNG, which could result in the loss of business opportunities. We may incur additional operating costs from PNG transmission, quality test, quantification and verification, or submission of our planned purchase volume, among other procurement processes that require close collaboration with our upstream suppliers, which may have an adverse impact on our results of operations. Further, as we do not maintain a reserve of PNG, we may need to source alternative supply of natural gas or even to impose

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temporary limitations on our distribution of natural gas to our customers when we receive an insufficient supply of natural gas from our suppliers.

In addition, we may also face shortage of natural gas in the PRC as a whole, due to reasons beyond our control, such as disruption of natural gas supply of our upstream suppliers or the occurrence of any adverse political and economic conditions in natural gas exporting countries, resulting in the significant fluctuation of natural gas supply in the market. If we are unable to source sufficient amount of natural gas from alternative suppliers on commercially acceptable terms, or at all, our business, financial condition and operating result would be materially and adversely affected.

We are also affected by any proposed or recently issued PRC government's policies over our business operation. On 26 April 2018, the NDRC and the National Energy Administration promulgated the Advice on Gas Storage and Market Mechanism, pursuant to which every gas supply enterprise shall establish a storage system. By 2020, city gas enterprises are encouraged to establish natural gas reserves and have the capacity of storing natural gas of not less than 5% of their annual consumption volume. If any city gas enterprise fails to maintain a gas storage capacity of 5% of annual gas consumption by the end of 2020, and is still in the situation of shortage of gas supply for successive years and refuse to sign a sales contract to make up for the shortage, the competent administrative department for gas operation should order it to strengthen rectification, and may further revoke the gas business licence and the franchise right in accordance with laws and regulations such as the Regulation on the Administration of Urban Gas. Local governments and enterprises that breach contracts and fail to provide adequate assurance of gas supply shall be included in the list of dishonesty according to relevant regulations, and joint punishment shall be carried out for serious violations of laws and dishonesty. If we fail to maintain our gas storage capacity at the required level due to any reasons, we might be subject to administrative orders or penalties which could disrupt or business operations and results of operations.

Moreover, pricing of our PNG purchases and sales are subject to regulatory control. With reference to the general pricing guidelines issued by the NDRC, the ZJDRRC determines the benchmark gateway station price on which our purchase price for PNG is based and subject to the approval of the Huzhou Municipal People's Government, the HZDRRC determines the end-user prices on which our selling price of PNG is based, with reference to the benchmark gateway station price set by the ZJDRRC. For residential usage, the end-user price is a fixed price, whereas for industrial and commercial usage, the end-user price could be agreed upon between us and the users up to the highest selling price. For details of the information on the regulatory regime and the pricing of our PNG purchases and sales during the Track Record Period, see the paragraphs headed "Regulatory Overview – Pricing of Natural Gas" and "Business – Pricing of PNG" in this prospectus. As the pricing of our PNG purchases and sales are subject to regulatory control, we are obligated to supply natural gas to our customers even if the prices set by the government authorities may cause us to operate at a thin, or even negative profit margin. We are unable to assure that we will be able to maintain our gross profit margin at the level we achieved during the Track Record Period or at any level, and if our gross profit margin decreased, our profitability may be materially and adversely affected.

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On 27 June 2019, the NDRC, the Ministry of Housing and Urban-Rural Development of the PRC and the State Administration for Market Regulation of the PRC jointly issued the “Guiding Opinions on Regulating the Installation Charges for Urban Gas Projects” (關於規範城鎮燃氣工程安裝收費的指導意見(發改價格[2019]1131號)) (the “**Installation Guiding Opinions**”) which came into effect on the same date, which state that the profit-to-cost ratio for installation services for city natural gas projects shall not exceed 10%. As confirmed by our PRC Legal Advisers, (i) the Installation Guiding Opinions are guidance opinions to provide overall guidance on the pricing of construction and installation services and therefore companies are not mandatorily required to comply with the Installation Guiding Opinions; and (ii) the Installation Guiding Opinions stipulate that provincial and city level governments shall determine their own regulations based on the local circumstances. According to the Notice on Strengthening Natural Gas Price Regulation (《關於加強天然氣價格監管的通知》) (浙發改價格[2020]349號) jointly issued by ZJDRC, Zhejiang Urban and Rural Construction Bureau* (浙江省住房和城鄉建設局) and Zhejiang Administration for Market Regulation* (浙江省市場監督管理局) on 10 November 2020, installation charges for residential pipeline gas construction shall be determined by city and county level governments and installation charges for non-residential pipeline gas construction is negotiated between gas enterprises and customers based on costs. According to the Notice on Regulating and Adjusting the Installation Charges for Pipeline Gas Constructions in Huzhou (《關於規範和調整湖州市區管道燃氣工程安裝收費的通知》) issued by the HZDRC and the Huzhou Urban and Rural Construction Bureaux on 8 April 2020, installation charges for pipeline gas construction consist of pre-burial charges and renovation charges of pipeline gas facilities. Installation charges for non-residential pipeline gas construction is negotiated between gas enterprises and customers based on costs. Installation charges for residential pipeline gas construction are restricted by government-guided ceiling charges. Therefore, despite the Installation Guiding Opinions are only guidance opinions to provide overall guidance on the pricing of construction and installation services, we are still required to mandatorily follow to applicable regulations imposed by the provincial and city level governments in this regard. Please see the paragraph headed “Regulatory Overview – Pricing of natural gas – Pricing of construction and installation services” in this prospectus for further details. We cannot assure that we will be able to adjust our pricing and maintain similar level of profitability for our provision of construction and installation services should there be any further guidance or policy issued by the PRC government on pricing.

The abovementioned policies, together with any proposed policies over the natural gas industry by the PRC government in the future, may bring along significant changes to our business operation. There is no assurance that we will be able to adapt to these government policies in a timely manner or at all. In such event, our financial and operational performance may be adversely affected.

We require various licences and permits to commence, operate and expand our business operation. Any failure to obtain or renew any or all of these licences and permits or any enforcement action taken against us for non-compliance incident may materially and adversely affect our business and expansion plans.

In accordance with the applicable PRC laws and regulations, we are required to obtain and maintain various licences and permits in order to commence and continue

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our operation. Please refer to the paragraph headed “Business – Legal and Compliance Matters – Licences and Permits” in this prospectus for details. Our operation facilities are subject to inspections by the regulatory authorities for compliance with the applicable PRC laws and regulations. Failure to pass these inspections, or the revocation of or failure to obtain or renew our licences and permits could cause us to temporarily or permanently suspend some or all of our operation facilities, which could disrupt our operations and may materially and adversely affect our business, financial condition, operating results and reputation.

Risks relating to natural disasters, epidemics, severe communicable diseases, acts of terrorism or war in the PRC and globally may materially and adversely affect our business. In particular, the recent outbreak of COVID-19 could materially and adversely affect our results of operations and financial condition.

The outbreak of any severe communicable disease (or the escalation and/or intensification of any outbreak of any severe communicable disease) such as COVID-19, Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), H5N1 avian flu, Ebola virus, as well as influenza caused by H7N9 and H3N2 or the human swine flu (H1N1), also known as influenza A virus, and natural disasters such as earthquake, sandstorm, snowstorm, fire or drought, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC, which in turn may adversely impact domestic natural gas consumption and our business.

Beginning in late 2019, the PRC and various countries around the world encountered an outbreak of COVID-19, a highly contagious disease. In response to the severity of the COVID-19 outbreak, the PRC local government has introduced a series of measures in order to prevent and control the pneumonia epidemic. The World Health Organisation has declared that the outbreak of COVID-19 as a public health emergency of international concern in January 2020 and subsequently characterised COVID-19 as pandemic in March 2020. Accordingly, we suspended part of our business operations for about one month in February 2020.

The spread of COVID-19 in other countries and regions, such as the United States, Italy, Spain and France, has taken a different path, and subsequently, there has been an increased number of imported cases reported in the PRC following this wave of outbreak overseas. With the recent emergence of variants of COVID-19 in 2022, including Omicron, which is significantly more infectious than its predecessors, based on past experience gained from previous rounds of COVID-19 outbreak, the PRC government, including provincial government of Zhejiang Province, has improved infection control measures, vaccines and drugs to have the spread of the Omicron virus variant within control. Certain major cities in the PRC had been under lock-down to prevent further spread of COVID-19. The situation of the COVID-19 pandemic is constantly changing and it remains uncertain when it will end. The COVID-19 pandemic has, and may continue to have, an adverse impact on the PRC’s economy.

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Any future outbreak of COVID-19, SARS, MERS, H5N1 avian flu, Ebola virus or other similar adverse epidemics may, among others, significantly disrupt our business. The prolonged outbreak of COVID-19 may have serious implications for the global economy due to a slowdown at manufacturing and industrial sites in the PRC as well as reduced demand by PRC consumers or customers of other countries/territories being affected. During the Track Record Period, we generated the majority of our revenue from our PNG operations pursuant to the Concessions, which is the sales of PNG in our Operating Area. For FY2019, FY2020 and FY2021, we generated approximately 88.1%, 86.3% and 86.4% of our revenue (before government surcharges) respectively, from our sales of PNG. We supplied PNG to our retail customers, comprising non-residential users (namely industrial and commercial users) and residential users, with non-residential users being our major customers. Accordingly, the demand from end-users, especially our industrial and commercial users, may be significantly reduced due to the decreased economic activities. During the Track Record Period, our sales of PNG to industrial users amounted to RMB1,134.7 million, RMB972.2 million and RMB1,279.6 million, respectively, representing 78.8%, 79.0% and 79.5% of our total sales of PNG. If the demand for PNG from our industrial users decreases significantly due to the prolonged outbreak of COVID-19, our results of operation, financial position and prospect may be disrupted.

In addition, an outbreak of infectious disease may cause shortage of labour and/or raw materials, and/or temporary suspension of our sales of gas and/or provision of construction and installation services. Our operations could also be disrupted if any of our employees were suspected of contracting or contracted a communicable disease, since this could require us to quarantine some or all of our employees and disinfect the relevant area. The outbreak may also severely affect and restrict the level of economic activity as the government may impose regulatory or administrative measures quarantining affected areas or other measures to control or contain the outbreak of the communicable disease, which in turn may have a material and adverse effect on our business, financial position and results of operations.

On the other hand, any price adjustment measures imposed by the PRC government as a result of any outbreak of infectious disease may adversely reduce our revenue generated from our business. The sales price ceiling of non-residential usage and coal-to-gas as well as the prices of gateway stations were temporarily adjusted during FY2020. As a result of the above price adjustments, the average selling price of PNG to industrial users decreased from RMB2.98/m³ in FY2019 to RMB2.64/m³ in FY2020 while the average selling price of PNG to commercial users decreased from RMB3.16/m³ in FY2019 to RMB2.80/m³ in FY2020, which contributed to the decrease in revenue from our sales of gas from RMB1,439.5 million to RMB1,230.4 million in FY2020. The highest natural gas sales price for non-residential usage in urban area was also unfavourably adjusted during 1 April 2021 to 31 October 2021. See the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for details of historical price adjustments of PNG. If the PRC government imposes any further unfavourable price adjustment measures related to our business in the future as a result of any natural disasters, epidemics, severe communicable diseases (including COVID-19), acts of terrorism or war in the PRC and globally, our results of operation, financial position and prospects may be materially and adversely affected.

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We may not have adequate insurance to cover all hazards common to the natural gas industry to which our operations are subject.

We operate in a high risk industry due to the flammable and explosive nature of natural gas. Our operation processes such as PNG distribution and natural gas transportation, and operational facilities such as urban pipeline network are subject to risks and hazards, including gas leakage, equipment failures, natural disasters, environmental hazards and industrial accidents involved in the operation of our business.

Significant operational hazards and natural disasters may cause interruptions or suspension in our operations that could have a material adverse impact on our business and financial condition, as well as our reputation. These hazards may cause significant personal injury or death, severe damage to and destruction of our assets, and contamination of or damage to the environment. We may be subject to governmental investigations, which may give rise to administrative action imposed on our Group or our management personnel. We may also face criminal liabilities imposed by the government and/or civil liabilities or fines as a result of damage suffered by third parties, which may require us to make indemnification payments in accordance with applicable laws and regulations.

We cannot assure you that our insurance policies are adequate or that we will be insured fully against all risks and losses that may arise. Any safety accidents may have a material negative impact on our reputation. If we incur a material loss or a loss that significantly exceeded the limits or coverage of our insurance policies, our business, financial condition and operating results may be materially and adversely affected. In addition, our insurance policies may be subject to review by our insurers from time to time, and we cannot assure you that we will be able to renew these policies on similar or acceptable terms, or at all.

We require substantial funding for our current and future projects. In addition, the capital expenditures required could be higher than expected due to various reasons which are beyond our control. Any failure to obtain adequate funding, or at all, could adversely affect our financial condition and results of operations and could prevent us from fulfilling our financial obligations and business objectives.

We are required to make substantial initial capital investments to construct, acquire and maintain pipeline network and natural gas processing infrastructure. These capital investments may vary based on the cost of fixed assets and cost of construction. For FY2019, FY2020 and FY2021, we incurred cash outflows of RMB171.3 million, RMB91.1 million and RMB115.0 million, respectively, for purchase of property, plant and equipment and investment properties. We also expect to incur significant capital expenditure for our current and future projects that are currently at the planning stage. We estimate that our planned capital expenditures including purchase of property, plant and equipment and costs of constructions of projects for FY2022 to be RMB156.6 million. For more details regarding our planned capital expenditure, see the paragraph headed “Financial Information – Capital Expenditures” in this prospectus. Further, the prices of the construction materials and equipment may increase. Other factors affecting the amount of capital expenditures

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include, among others, labour costs and finance expenses. Our capital expenditure for upgrading our pipeline network and operational facilities may be higher than our planned amount, which may need additional funding to finance.

During the Track Record Period, we relied in part on external sources of funding, including bank borrowings, to fund the construction and maintenance of pipeline network and gas facilities, respectively. For more details, see the paragraph headed “Financial Information – Indebtedness” in this prospectus. Our ability to obtain external funding depends on many factors, including but not limited to general economic and capital market conditions, general conditions in the natural gas industry, economic conditions in the geographic areas of our proposed projects, government policies, the availability of credit from banks and other lenders and our future cash flows, financial condition and results of operations. We cannot assure you that we will generate sufficient cash flow from our operating activities for our intended expansion plans or such external funding will be available to us in a timely manner and on acceptable terms, or at all. Failure to obtain sufficient funding for our projects may delay the implementation of our growth strategies, expose us to potential penalties under the relevant agreements and delay the completion of construction or commencement of operation, any of which could adversely affect our business, financial condition, results of operations and prospects.

If we raise additional funding, our interest and debt repayment obligations will increase. The terms of any future debt facilities may impose restrictive covenants that may restrict our business and operations or result in dilution of shareholding of the Shareholders in the case of equity financing. Further, as our bank loans are principally denominated in RMB, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC. In China, the PBOC regulates the lending rates and reserve requirement ratios for commercial banks. In recent years, it revised the benchmark lending rates and adjusted the reserve requirement ratio for commercial banks several times. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in China to lend to businesses, including our Company. Changes in the interest rates and reserve requirement ratios for banks have affected and will continue to affect our finance cost and profitability. We cannot assure you that the PBOC will not raise the benchmark lending rates or reserve requirement ratios in the future and any such increase may lead to higher lending rates and limit the amount of funds the banks have for lending, which may increase our finance cost and thereby, materially and adversely affect our business, financial condition, results of operations and prospects.

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Our future growth strategies may not succeed.

We cannot assure you that we can secure the necessary resources to implement our future expansion plan, including (i) enhancing our sales of PNG by upgrading our pipeline network and operational facilities; (ii) expanding our business to other geographical areas through strategic acquisition; (iii) expanding into distributed photovoltaic power generation business; and (iv) promoting the use of heat energy from vapour generated by our natural gas through natural gas boilers. We may fail to obtain the necessary initial capital to fund our future plans, obtain the necessary licence/permit for such plans or employ suitable personnel to manage our expanded business. In that case, our future expansion plan may need to be adjusted or some of our future expansion plan may not be achieved or deliver the expected results. In addition, we have limited experience in photovoltaic power generation business and vapour-related business. We will encounter risks and difficulties frequently experienced by companies expanding new businesses as we continue to develop our photovoltaic power generation and vapour-related businesses. We may incur increasing research and development spending, sales and marketing expenditures, personnel expenses and compliance costs as more efforts on product development, brand and service promotion, general administration and legal compliance are required for our newly launched businesses, and no guarantee on the effectiveness of our efforts can be given. We may be more likely to encounter unforeseen expenses, difficulties, complications and delays due to limited experience. Our insufficient experience in these businesses may materially and adversely affect our business, financial position, business performance and prospects.

Even if we successfully implement our future expansion plan, we may still face challenges in, but not limited to, the following areas:

- difficulties in integrating any acquired companies, technologies, personnel or products into our existing business;
- difficulties in sourcing new customers or suppliers for the expanded business scope;
- difficulties in implementing management and internal control mechanisms that timely and adequately respond to our expanded scope of operations; and
- costs of integration that exceed our anticipation.

The occurrence of any of the above constraints may materially and adversely affect our business, financial condition, operating results and prospects.

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Our business depends substantially on our ability to attract and retain experienced professionals. We may not be able to maintain sufficient professionals and experts to ensure the success of our expansion and new business initiatives.

The sustainable growth of our business depends upon the continued service of our senior management. The industry experience, expertise and contributions of our executive Directors and other members of our senior management as set out in the section headed “Directors, Supervisors, Senior Management and Employees” in this prospectus remain essential to our continuing success. Each of them takes an important role in formulation and implementation of our business strategies. We will require an increasing number of experienced and competent executives to implement our growth plans. If we lose a number of our key management members and are unable to recruit and retain personnel with equivalent qualifications in a timely manner or at all, the growth of our business could be adversely affected.

Our business, financial performance and prospects also depend on our ability to employ, train and retain highly skilled personnel, including managerial, design, engineering and other technical professionals. We need to retain and, if necessary, recruit a large number of highly qualified engineers and other skilled workers for the construction of our gas facilities and operations. In addition, we need to hire qualified managerial, technical, marketing and other personnel to implement our business initiatives as we expand our operations.

We expect to continue to grow our user base and our business operations. We also plan to commence distributed photovoltaic power generation business and establish vapour generation stations, but we may not have sufficient experience in executing our new business initiatives during this process. These new business initiatives may not be well received by the market and we may determine to cease some new initiatives from time to time. We cannot assure you that they will achieve the success we expect, in which case we may not be able to recoup the resources we invest to develop, optimise and expand our new business initiatives.

To manage the further expansion of our business, we need to continuously expand and enhance our infrastructure and technology, and improve our operational and financial systems, procedures and internal controls. We need to adapt our business management to the local corporate cultures and customs, and train, manage and motivate our growing employee base, especially in case of our newly launched business for the provision of distributed photovoltaic power and heat energy by vapour. In addition, these new business initiatives require experienced professionals and expertise knowledge from experts within the relevant fields to succeed. We may not be able to hire and retain sufficient professionals and experts to ensure implementation of these new business initiatives. We cannot assure you that our current and planned personnel, infrastructure, systems, procedures and controls will be adequate to support our expanding operations, neither can we guarantee that we will be able to effectively adapt our business management to the local corporate cultures and customs and attract and motivate sufficient talents to support our new business initiatives.

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We may be required to further increase our research and development expenses in order to enhance our technology capabilities to support any such expansion and our efforts may not be effective. Our new business initiatives may also expose us to new regulatory risks, which are different from what we have experienced before and may increase our cost for compliance. Lack of experience in handling these new risks may result in failure to generate the expected results of operations and prospects. We need to quickly respond to the market reaction to our new business initiatives and adjust accordingly.

Our future expansion plan may be adversely affected if we fail to obtain, or experience material delays in obtaining requisite government approvals or licences in carrying out our operations.

Our future expansion plan includes expanding into new business areas to commence distributed photovoltaic power generation and establish vapour generation stations, which are required to obtain and maintain certain licences, permits, certificates and approvals such as prior approval from HZDRC for our establishment of vapour generation station in Wuxing District. We must meet various specific requirements in order for the relevant government authorities to issue or renew any such approval. We cannot guarantee that we will be able to adapt to new rules or regulations that may come into effect from time to time with respect to our services or that we will not encounter material delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary licences or permits for our operations in a timely manner, or at all, in the future. Therefore, in the event that we fail to obtain or renew, or encounter significant delays in obtaining or renewing, the necessary government approvals for any of our operations, we will not be able to continue with our relevant business development plans, and our business, financial condition and results of operations may be adversely affected.

We place reliance on pipelines in our operation and have limited control over the construction of pipelines and gas facilities by third parties.

Our operation requires urban pipeline network and end-user pipeline network connected to our customers for distribution of PNG. If there is unexpected breakdown or malfunction of these pipelines or gas leakage, we will need to carry out repairs and/or replacement work which takes time, and we may have to temporarily shut down PNG supply to our customers, which in turn, may adversely affect our business, operating results and reputation.

Further, during the Track Record Period, we engaged third party contractors for the construction of certain urban pipeline network and end-user pipeline network. We cannot assure you that we are able to exercise the same degree of control over the quality of work performed by such third party contractors as our internal operation or that their workmanship will not contain any defect which may adversely affect our sales of gas business and construction and installation business. Any inherent defect in the pipeline network and gas facilities may cause interruption to our supply of PNG to our customers, additional capital expenditure for repair and replacement works, or even severe safety risks to our staff and the general public. If we are not able to detect or fix any defect incurred in the construction of the pipeline network and gas facilities in a timely manner or at all, our business and operating results may be adversely

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affected. We also cannot assure you that the services rendered by such third party contractors will be continuously available on commercially acceptable terms, or at all. Any interruption in or loss of their services and our failure to engage an appropriate replacement on a commercially acceptable terms, or at all, in a timely manner, our business, financial condition and operating results may be materially and adversely affected.

There may be unauthorised alteration of our gas metres which affect our measuring and fee collection for our sales of PNG.

We sell our PNG to our customers and charge them according to the volume of natural gas used as measured by our gas metres installed at our customers' properties. We cannot assure you that our measures to prevent unauthorised alteration or tampering with our gas metres taken are effective and that such incident will not happen in the future. In the event that our gas metres are altered or tampered with, the measurement and reading of the volume of PNG used by the relevant customers may be significantly less than the actual volume supplied by us, which may adversely affect our business, financial condition and operating results.

OTHER RISKS RELATING TO OUR GROUP

We generated all our revenue from our business operations in Huzhou during the Track Record Period. Our business and operating results depend heavily on the economic and social conditions and prosperity of Huzhou and its neighbouring regions.

We operate our business in Huzhou of Zhejiang Province. During the Track Record Period, we sold natural gas to customers from which we derived a majority of our total revenue and provided construction and installation services of pipeline network and gas facilities for customers situated in Huzhou. We expect that Huzhou and its neighbouring regions will continue to be our principal market.

Our Directors believe that our business, financial condition, operating results and prospect will continue to be affected by (i) the economic and social development such as user base for natural gas, degree of industrialisation and urbanisation and the acceptance and perception of customers to natural gas in Huzhou and its neighbouring regions; and (ii) the continued support of the national and local governments in the promotion and increasing utilisation of natural gas as an economical, efficient and clean energy source. We cannot assure you that the economic development in Huzhou will continue to develop as anticipated, or that the macro or local economic environment or PRC government's policy on natural gas will not change. If Huzhou or its neighbouring regions experience any adverse economic, political or regulatory conditions due to events beyond our control, our business, financial condition, operating results and prospects may be materially and adversely affected.

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Our rights to use our properties could be challenged by third parties, or we may be forced to relocate due to title defects, or we may be liable for failure to register our lease agreements, which may result in a disruption of our operations and subject us to penalties.

As at the Latest Practicable Date, we had not obtained the real property title certificate (不動產權證) for three properties occupied by us, which are used as customer service centre. As advised by our PRC Legal Advisers, such use did not comply with the requirements of the Catalog of Allotted Land* (《劃撥用地目錄》). Moreover, we had not registered the lease agreements of 10 of our leased properties, which are used for offices, customer service centre, sub-leasing, accommodation for employees and warehouse. Any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving allegations of illegal or unauthorised use of these properties, could require us to relocate. If any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. Any relocation could disrupt our operations and adversely affect our business, financial position, results of operations and growth prospects. In addition, there can be no assurance that the PRC government will not amend or revise existing property laws, rules or regulations to require additional approvals, licences or permits, or impose stricter requirements on us to obtain or maintain relevant title certificates for the properties that we use. For more details, see the paragraph headed “Business – Legal and Compliance Matters – Legal compliance” in this prospectus.

Non-compliance with applicable laws and regulations governing our business could materially and adversely affect our business, financial position and results of operations.

During the Track Record Period, we had certain non-compliance incidents including (i) the acquisition of our Concessions and the Concession Agreements did not fully comply with the requirements under the applicable laws and regulations in the PRC as (a) the Concessions were not acquired through competitive modes as required under the Concession Right Measures; and (b) the Concession Agreements we entered into did not contain certain provisions as required under the applicable laws and regulations in the PRC; (ii) failure to comply with the foreign investment policy; (iii) failure to obtain the real property title certificate for certain properties occupied by us; and (iv) failure to register the lease agreements for certain leased properties. Please refer to the paragraph headed “Business – Legal and Compliance Matters – Legal compliance” in this prospectus for details. Our non-compliance with applicable laws and regulations governing our business may result in financial penalties or administrative or legal proceedings against us, which could materially and adversely affect our business, financial position and results of operations.

Moreover, the laws and regulations in the PRC may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. In the event that we are unable to comply with the new laws and regulations, we may be exposed to penalties, fines, suspensions or actions in other forms, which could affect our business, financial condition and results of operations.

RISK FACTORS

We may undertake acquisitions, investments, joint ventures or other strategic alliances, which may have a material adverse effect on our ability to manage our business, and such undertakings may be unsuccessful.

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances with companies in the PRC and overseas along the natural gas industry value chain. Joint ventures and strategic alliances may expose us to new operational, regulatory, market and geographic risks as well as risks associated with additional capital requirements. Acquisitions of companies or businesses and participation in joint ventures or other strategic alliances are subject to considerable risks, including:

- our inability to integrate new operations, personnel, products, services and technologies;
- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;
- the diversion of resources from our existing businesses;
- disagreement with joint venture or strategic alliance partners;
- contravention of regulations governing cross-border investment;
- failure to comply with laws and regulations as well as industry or technical standards of the overseas markets into which we expand;
- our inability to generate sufficient revenues to offset the costs and expenses of acquisitions, strategic investment, joint venture formations or other strategic alliances; and
- potential loss of, or harm to employees or customer relationships.

Any of the above events could disrupt our ability to manage our business, which in turn could have a material adverse effect on our financial condition and results of operations. Such risks could also result in our failure to derive the intended benefits of the acquisitions, joint ventures and strategic alliances and we may be unable to recover our investment in such initiatives.

RISK FACTORS

Any failure to protect our intellectual property rights could potentially harm our business and competitive position.

As at the Latest Practicable Date, we had registered three domain names in the PRC and applications had been made by our Group for the registration of certain trademarks in Hong Kong and the PRC, all of which are considered material to our business operations. Please refer to the paragraph headed “Further Information about the Business of Our Company – 8. Intellectual property rights of our Group” in Appendix VI to this prospectus for details. We cannot assure you that infringement of our intellectual property rights by other parties does not exist now or will not occur in the future. In addition, our intellectual property rights may not be adequately protected because:

- other parties may still misappropriate our intellectual property rights despite the existence of laws or contracts prohibiting it;
- policing unauthorised use of our intellectual property may be difficult, expensive and time consuming, and we may be unable to determine the extent of any unauthorised use;
- enforcement under intellectual property laws in the PRC may be slow and difficult in light of the application of such laws and the uncertainties associated with the PRC legal system; and
- our future registered trademarks may be invalidated, circumvented or challenged either in Hong Kong, the PRC or in foreign countries.

To protect our intellectual property rights and maintain our competitive advantage, we may engage in legal proceedings against parties who we believe are infringing upon our intellectual property rights. Legal proceedings are often costly and may divert management attention and our other resources away from our business. In certain situations, we may have to initiate legal proceedings in foreign jurisdictions, in which case we are subject to additional risks as to the result of the proceedings and the amount of damages that we can recover. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties.

We recorded significant goodwill and other intangible assets, comprising software copyrights and operating rights, in our consolidated statements of financial position during the Track Record Period and any recognition of impairment losses on such intangible assets would adversely affect our results of operations.

Our goodwill and other intangible assets, comprising software copyrights and operating rights, amounted to RMB134.7 million, RMB127.3 million and RMB120.2 million as at 31 December 2019, 2020 and 2021, respectively. These intangible assets were primarily operating rights arising from the completion of the acquisition of Xinao Development in December 2018 and software copyrights purchased for our operation. Our operating rights acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date

RISK FACTORS

(which is regarded as their cost). The operating rights for construction of gas pipelines to the urban natural gas pipeline network are amortised over the estimated useful life of 15.5 years on a straight-line basis. Our purchased software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of six years.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Intangible assets other than goodwill acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with definite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Goodwill and intangible assets, that have an indefinite useful life, or intangible assets, which are not ready to use, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The process of assessment requires judgements in relation to such events or changes in circumstances.

An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. If we fail to achieve our desired objectives or if any unforeseeable circumstances decrease the expected cash flows from acquired assets, the recoverable amount can be lower than the carrying amount on our consolidated financial statements with respect to such intangible assets. Under such circumstances, we may need to recognise the impairments losses to intangible assets in our consolidated financial statements, which may reduce our assets and adversely affect our financial position and results of operation.

RISK FACTORS

We face exposure to credit risk for trade and bill receivables and fair value change for bills receivables classified as financial assets at fair value through other comprehensive income.

We had trade and bill receivables of RMB61.9 million, RMB61.5 million and RMB66.4 million as at 31 December 2019, 2020 and 2021, respectively. Our trade and bills receivables primarily arise from our sales of gas and construction and installation services. Our sales of gas is mainly receipt in advance from our customers. Our trading terms with our construction customers are mainly on credit except for certain new customers where payment in advance is required. The average credit period range for trade receivables is within 30 to 90 days. The average maturity period of bills receivables is 6 to 12 months. As at 31 December 2019, 2020 and 2021, our trade and bills receivables were aged within 12 months which is consistent with our average credit period of trade receivables and maturity period of bills receivables.

We seek to maintain strict control over our outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk. An impairment analysis is performed at the end of each of the years using a provision matrix to measure expected credit losses (“ECL”). The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e. by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The overall expected credit loss rates for trade receivables were 9.9%, 8.2% and 4.8% for the balances as at 31 December 2019, 2020 and 2021, respectively. The ECL for bills receivable, which are all bank acceptance notes, approximates to zero. Those banks who issue bank acceptance notes are creditworthy banks with no recent history of default.

As we may receive payments from our customers after the services are rendered, the ageing of our receivables at any point of time may be significant. As at 31 December 2019, 2020 and 2021, our trade receivables aged six months to one year was RMB1.9 million, RMB18.8 million and RMB2.5 million, respectively. Even though we were able to recover our trade receivables through various means of fee collection, the process of such collection could be time-consuming and requires financial and other resources to carry out the actions. Furthermore, failure to secure adequate payments in time or to manage trade receivables effectively could have a material and adverse effect on our business, financial position, results of operations and prospects. If the actual recoverability is lower than expected, or that our past provision for impairment of trade receivables becomes insufficient in light of the new circumstances, we may need to make more provision for impairment of trade receivables, which may in turn adversely affect our business, financial position and results of operations. If we are unable to collect property management fees from customers or experience a prolonged delay in receiving such fee payments, our cash flow position and our ability to meet our working capital requirements may be adversely affected.

RISK FACTORS

On the other hand, we had bills receivables classified as financial assets at fair value through other comprehensive income of RMB51.4 million, RMB48.0 million and RMB47.3 million as at 31 December 2019, 2020 and 2021, respectively. Bills receivable held both to collect cash flows and to sell in financial assets at fair value through other comprehensive income are measured using the discounted cash flow method. During the Track Record Period, we invested in unlisted investments, which represent wealth management products issued by banks in the PRC. We estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks. For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss. Such treatment of gain or loss may cause significant volatility in or materially and adversely affect our period-to-period earnings, financial condition and results of operations.

We are exposed to risk of inventories obsolescence.

Our inventories consisted of construction materials and natural gas. We had inventories of approximately RMB17.3 million, RMB21.5 million, and RMB29.3 million as at 31 December 2019, 2020 and 2021, respectively. Our average inventory turnover days were recorded at approximately 4 days, 6 days and 6 days for FY2019, FY2020 and FY2021, respectively. Due to the nature of natural gas, we only maintain a very small amount of gas reserve. Majority of our inventories consists of construction materials for our construction and installation services. The demand for our construction and installation services depends on the economic condition of the markets as well as the degree of economic activities of our customers, especially the non-residential users, which are factors beyond our control. We shall have adequate stock of construction materials for our provision construction and installation services. Therefore, any unexpected change in the economic condition or degree of economic activities of our customers may render our inventory obsolete. Such unexpected change in the demand for our construction and installation services may result in over-stocked construction materials which may lead to decline in inventory values, and significant write-offs. Furthermore, obsolescent inventories may directly impact our sales and pricing as we may be required to lower the sale price of our products to reduce the inventory level, which may lead to lower profit margin. All of these factors may in turn affect our Group's results of operations and financial position.

Our results of operations, financial condition and prospects may be adversely affected by fair value changes in our financial assets at fair value through profit or loss.

Our financial assets at fair value through profit or loss, which amounted to RMB150.0 million as at 31 December 2021, represented our investment in two wealth management products issued by banks in the PRC. We receive minimum interest rate and the actual interest rate ranged from 1.5% to 3.2% per annum during the year. The investments with principal of RMB50.0 million has been matured in January 2022. The remaining investment will be matured in May 2022. The values of financial assets at

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fair value through profit or loss are marked to market, and net changes in their fair value are recorded as our operating income or loss, and therefore directly affects our results of operations. We had fair value gains on wealth management products during FY2021. We did not incur any fair value losses for financial assets at fair value through profit or loss during the Track Record Period. However, we cannot assure you that we will not incur any such fair value losses in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

If we are not able to fulfill our obligation in respect of contract liabilities, our results of operations and financial condition may be adversely affected.

The advances received from customers for the provision of construction and installation services, and sales of gas are recognised as contract liabilities in the consolidated statement of financial position and revenue are recognised when we render relevant services or sales of goods. We recorded contract liabilities of RMB275.4 million, RMB338.2 million and RMB381.9 million as at 31 December 2019, 2020 and 2021, respectively. We may be required to return the corresponding portion of the payment from our customers upon the situation where we might not be able to fulfill our obligations in respect of the contract liabilities, such as delay in completion of our construction and installation services, which may adversely affect our results of operations and financial condition, including our cash and liquidity position.

We recorded certain gains, including the significant gain on disposal of property, plant and equipment in FY2020, that are non-recurring in nature and we may not record such gains in the future.

During the Track Record Period, we recorded certain gains that are non-recurring in nature. For details of our other income and gains, please refer to Note 6 to Section I of the Accountants' Report in Appendix I to this prospectus. In particular, we recorded gain on disposal of property, plant and equipment of RMB11.0 million, RMB47.0 million and RMB20.2 million for FY2019, FY2020 and FY2021, respectively. Our gain on disposal of property, plant and equipment was relatively higher at RMB47.0 million in FY2020, primarily due to the disposal of gas station located in Xi Sai Road to local government in FY2020 following the city planning of Huzhou local government. The construction of the gas station was completed in late 2003 and such gas station was disposed to a company controlled by the local government at consideration of RMB58.0 million at their request for the city planning in FY2020. As at the date of disposal, the net carrying amount of the gas station was RMB12.5 million. Thus, we recorded gain on disposal of RMB45.5 million in FY2020. While such gain had a positive impact on our reported profit in FY2020, it was non-recurring in nature. Therefore, we may not record such gains in the future.

RISK FACTORS

We may be exposed to impairment losses on prepayments and other trade receivables due to customers' worsening financial condition.

We provide impairment losses to our trade receivables, prepayments, other receivables and other assets of RMB0.4 million and RMB0.6 million in FY2019 and FY2020, respectively. We then recorded reversal of impairment losses on financial assets of RMB0.2 million in FY2021. We assess whether there are any indicators of impairment for all non-financial assets at the end of each of the Track Record Period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. If customers with whom we have substantial trade receivables face difficulty in making payments in the future due to economic downturn or other reasons, and if we are forced to make impairment losses or write-off those receivables, our results of operations, financial condition and cash flows may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

There may be alternative energy sources other than natural gas.

The cost of natural gas in comparison with alternative fuel sources will affect the demand for our supply of PNG business. Coal gas, petroleum, LPG, LNG, electricity and hydrogen are the main substitutes for natural gas. We believe that end-users will consider factors such as cost, availability, reliability, convenience and safety when choosing the energy source to use. According to the F&S Report, the concern for the environment is a major reason for China's rising demands of natural gas. Severe air pollution has driven the country to shift coal to gas, and several government actions have promoted the reduction of coal consumption. With favourable government policies, natural gas was positioned as an important solution for environment protection, hence the increasing need for environmental protection will continue to prompt the natural gas industry in the future. As environmental protection is an important topic for sustainable development in China, in the mid-to-long term, in the event of improved cost competitiveness or major breakthroughs of other forms of renewable energy, such alternative forms of energy may become more attractive than natural gas. Since improved cost competitiveness or major breakthroughs of other forms of renewable energy may reduce the cost of generating and transmitting energy and increase their cost-efficiency and popularity among end-users, such improvements and breakthroughs may render other forms of renewable energy more viable and cost-efficient than natural gas in the PRC. Accordingly, the demand for wind power may reduce significantly and our business, business prospects, financial condition and results of operation as a market participant in the natural gas industry supply chain may be materially and adversely affected as a result.

RISK FACTORS

We are subject to increasing capital expenditure for the maintenance of our operational facilities as they become aged.

We are generally responsible for the repair and maintenance of (i) urban pipeline network and gas facilities in our Operating Area, and (ii) part of the end-user pipeline network as specified in the PNG usage agreements with our customers, for our PNG sale operations. For FY2019, FY2020 and FY2021, we incurred approximately RMB4.4 million, RMB2.9 million and RMB4.4 million, respectively, for the repair and maintenance of PNG pipelines and facilities. We may need to maintain, repair or replace certain equipment or facilities if we find any malfunction or safety risks in them, which requires significant capital expenditure. We expect that our capital expenditure for the maintenance of our operational facilities will increase as the PNG pipelines and facilities become aged, which may put pressure on our cash flows, and our future results of operations and financial condition may be adversely affected.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Uncertainties with respect to the PRC legal system could materially and adversely affect our business.

Our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects may be affected by the economic, political and social conditions as well as government policies in the PRC. While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy for more than three decades, a substantial part of the PRC economy is still being operated under various controls by the government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are subject to refinement and improvement over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may materially and adversely impact our business, financial condition, results of operations and prospects.

In particular, the PRC natural gas industry is highly regulated. Many aspects of our business, such as the amount and setting of tariffs, depend upon the receipt of the relevant government authority's approval. As the PRC legal system develops, any change in such laws and regulations, or in their interpretation or enforcement, could materially and adversely affect our business, financial condition and operating results.

RISK FACTORS

The PRC legal system is in the process of continuous development and has inherent uncertainties that could limit the legal protections available to us in respect of our operations and to our Shareholders.

The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Since the late 1970s, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade with a view to developing a comprehensive system of commercial law. As these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. The PRC may not accord equivalent rights (or protection for such rights) to those rights investors might expect in countries with more sophisticated laws and regulations.

The PRC is geographically large and divided into various provinces and municipalities and as such, different laws, rules, regulations and policies apply in different provinces and may have different and varying applications and interpretations in different parts of the PRC. Legislation or regulations, particularly for local applications, may be enacted without sufficient prior notice or announcement to the public. Accordingly, we may not be aware of the existence of new legislation or regulations. There is at present also no integrated system in the PRC from which information can be obtained in respect of legal actions, arbitrations or administrative actions. Even if an individual court-by-court search were performed, each court may refuse to make the documentation which it holds for on-going cases available for inspection. Accordingly, there is a risk that entities in the PRC acquired by us may be subject to proceedings which have not been disclosed.

The PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of a violation of these policies and rules until sometime after the violation. Failure to comply with applicable rules and regulations may result in fines, restrictions on our activities or, in extreme cases, suspension or revocation of our business licences. There may be uncertainties regarding the interpretation and application of new laws, rules and regulations.

The interpretation and enforcement of certain PRC laws which govern a portion of our operations involve uncertainties, which could limit the legal protections available to us. In particular, agreements which are governed under PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for us to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

RISK FACTORS

Payment of dividends is subject to restrictions under PRC laws.

Under PRC laws, dividends may be paid only out of distributable profits. Distributable profits are our net profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flow and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

The PRC government's control over the conversion of foreign exchange and fluctuations in the value of RMB may affect our results of operations, financial condition and ability to pay dividends.

Our operations are primarily conducted in the PRC and all of our revenue is denominated in RMB. The value of RMB against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in the political and economic conditions in the PRC as well as internationally and the fiscal and foreign exchange policies prescribed by the PRC government. There is no assurance that the value of RMB will remain at the current level against the U.S. dollar or any other foreign currency. Should RMB appreciate or depreciate against the U.S. dollar or any other foreign currency, it will have mixed effects on our business and there is no assurance that the overall effect will be positive.

RMB is not currently a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Pursuant to the existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange transactions (including dividend payment) without submitting the relevant documentary evidence of such transactions to the SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes may require the prior approval or registration with the SAFE. If we fail to obtain the SAFE's approval to convert RMB into foreign currencies for foreign exchange transactions or there are changes in the foreign exchange regulations or policies, our capital expenditure plans, business operations, results of operations, financial condition and our ability to pay dividends could be materially and adversely affected.

RISK FACTORS

Dividends payable by us to our foreign investors and gains on the sale of our H Shares may be subject to withholding taxes under the PRC tax laws.

Non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to dividends received from us or gains realised upon the sale or other disposition of our H Shares in accordance with applicable PRC tax laws, rules and regulations. Non-PRC domestic resident individuals are required to pay PRC individual income tax under the Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the overseas residents reside reduce or provide an exemption for the relevant tax obligations. Generally, a Hong Kong-listed domestic non-foreign-invested enterprise may withhold individual income tax at the rate of 10% when distributing dividends to overseas resident individual shareholders. If an applicable tax treaty provides that the applicable tax rate is lower than 10%, a non-PRC resident individual shareholder may be entitled to claim a refund from the PRC tax authorities. If an applicable tax treaty provides that the tax rate is between 10% and 20%, it is possible that we may be required to pay the withholding tax at a tax rate under an applicable treaty. In the absence of any applicable tax treaty, non-PRC resident individual shareholders may be required to pay the withholding tax at the tax rate of 20%. There remains uncertainty as to whether gains realised by non-PRC domestic resident individuals on disposition of H Shares are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, are subject to a 10% PRC enterprise income tax rate on dividend income received from a PRC company pursuant to the EIT Law and other applicable PRC tax rules and regulations. The 10% tax rate is subject to reduction under special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise resides. There is uncertainty as to whether gains realised upon the disposal of H shares by non-PRC domestic residents should be subject to PRC enterprise income tax.

There remains substantial uncertainty as to the interpretation and implementation of the EIT Law and other applicable PRC tax rules and regulations by the PRC tax authorities. China's tax laws, rules and regulations may also change. If there is any unfavourable change to applicable tax laws and the interpretation or application of such laws, the value of your investment in our H Shares may be materially affected.

It may be difficult to effect service of process, enforce foreign judgements and arbitral awards or bring original actions in the PRC against us or our Directors, Supervisors and senior management.

A substantial portion of our operations and assets and all of our Directors, Supervisors and senior management are located in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgement of a non-PRC court in relation to any matter not subject to a binding arbitration provision

RISK FACTORS

may be difficult or impossible. Final judgements for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may or may not be enforced in the PRC. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgements and arbitral awards in the PRC.

An original action may be brought in the PRC against us or our Directors, Supervisors and senior management only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR H SHARES

There is no existing public market for our H Shares and their liquidity and market price may fluctuate.

Prior to the Global Offering, there has not been a public market for our H Shares. We have applied for the listing of and dealing in our H Shares on the Stock Exchange. However, even if approved, we cannot assure you that an active and liquid public trading market for our H Shares will develop following the Global Offering, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our H Shares may be caused by factors beyond our control and may be unrelated or disproportionate to our operating results. Accordingly, we cannot assure you that the liquidity and market price of our H Shares will not fluctuate.

The Offer Price was the result of negotiations among us and BOCOM International Securities (for itself and on behalf of the other Underwriters) and may not be indicative of prices that will prevail in the trading market after the Global Offering. Therefore, our Shareholders may not be able to sell their H Shares at prices equal to or greater than the price paid for their H Shares purchased in the Global Offering.

Our Controlling Shareholders may exert substantial influence over our operation and may not act in the best interests of our public Shareholders.

Immediately following completion of the Global Offering (and assuming that the Over-allotment Option is not exercised at all), City Group and ENN (China), will control approximately 44.73% and 30.27% of the total share capital of our Company, respectively. Accordingly, City Group and ENN (China) will remain as our Controlling Shareholders after the completion of the Global Offering. For details, please refer to the paragraph headed "Relationship with Our Controlling Shareholders – Our Controlling Shareholders" in this prospectus. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting.

RISK FACTORS

Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of the Group that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not always align with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our Controlling Shareholders chooses to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Future sales or issuances or perceived sales or issuances of our Shares or conversion of our Domestic Shares into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital.

The market price of our H Shares could decline as a result of future sales or issuances of a substantial number of our H Shares or other securities in the public market, or the perception that such sales or issuances may occur. Moreover, such future sales or issuances or perceived sales or issuances may also adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a favourable time and price.

The Shares issued by our Company prior to the Listing Date shall not be transferred within a period of one year from the date on which trading in our H Shares commences on the Stock Exchange. We cannot assure you that the current Shareholders will not dispose of any Shares they own now or may own in the future.

Our Domestic Shares can be converted into H Shares, provided that such conversion and the trading of H Shares so converted have been duly completed pursuant to our requisite internal approval process and the approval from the relevant PRC regulatory authorities. In addition, such conversion and trading must, in all aspects, comply with the regulations promulgated by the securities regulatory authority under the State Council, as well as the regulations, requirements and procedures of the Stock Exchange. If a significant number of our Domestic Shares are converted into H Shares, the supply of H Shares may be substantially increased, which could materially and adversely affect the prevailing market price of our H Shares.

There can be no assurance if and when we will pay dividends in the future.

Distribution of dividends shall be formulated by our Board and will be subject to shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under IFRS, our Articles of Association, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, relevant laws and regulations and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. See the paragraph headed "Financial Information – Dividend" in this prospectus for further details.

RISK FACTORS

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in the press articles, other media and/or research analyst reports regarding us, our business, our industry and the Global Offering.

There has been, prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press, media, and/or research analyst coverage regarding us, our business, our industry and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our H Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the H Shares, the Global Offering, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

We cannot guarantee the accuracy of certain facts and statistics contained in this prospectus.

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us or any of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transaction(s), which would constitute continuing connected transactions subject to reporting, annual review, announcement, circular and independent Shareholders' approval requirements i.e. non-exempted continuing connected transactions under Chapter 14A of the Listing Rules after the Listing. Details about such transactions together with the application for a waiver from strict compliance with the relevant announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules are set out in the section headed "Continuing Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE

Rules 8.12 and 19A.15 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Our business operation is primarily located, managed and conducted in the PRC and substantially all of our Group's assets are based in the PRC. All of our executive Directors are ordinarily based in the PRC and our Group does not and, in the foreseeable future, will not have any management presence in Hong Kong.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from the strict compliance with Rules 8.12 and 19A.15 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorised representatives are Mr. Wang Hua, an executive Director and chairman of the Board, and Ms. Mak Sze Man, one of the joint company secretaries of our Company. In addition, Mr. Pan Haiming, an executive Director, is appointed as the alternate to Mr. Wang Hua and Mr. Tang Chunhui, one of the joint company secretaries of our Company, is appointed as the alternate to Ms. Mak Sze Man. Each of the authorised representatives (including the alternative authorised representatives) has confirmed that he or she will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail (if applicable). Each of the two authorised representatives (including their respective alternatives) is authorised to communicate on behalf of our Company with the Stock Exchange;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) each of the authorised representatives (including the alternative authorised representatives) has means to contact all members of the Board promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. In order to further enhance the communication between the Stock Exchange, our authorised representatives (including the alternative authorised representatives) and our Directors, and our Company has implemented the policies that:
 - (i) each Director has provided his/her office phone number, mobile phone number, fax number and e-mail address (if applicable) to the authorised representatives and his/her respective alternate; and
 - (ii) in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives and his/her respective alternate (including the alternative authorised representatives);
- (c) all our Directors have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and would be able to come to Hong Kong and meet the Stock Exchange within a reasonable period of time when required;
- (d) we have appointed BOCOM International (Asia) as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will act as the alternate channel of communication with the Stock Exchange when our authorised representatives are not available. The compliance adviser will have access at all times to the authorised representatives (including the alternative authorised representative), the Directors and senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or request from the Stock Exchange in respect of our Company; and
- (e) in addition, all Directors have provided their mobile phone numbers, office numbers, fax numbers and e-mail addresses (if applicable) to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules and the Guidance on experience and qualification requirements of a company secretary (HKEX-GL108-20), our company secretary must be an individual who by virtue of his or her academic or professional qualifications or relevant experience is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable.

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing “relevant experience”, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Tang Chunhui (“**Mr. Tang**”) and Ms. Mak Sze Man (“**Ms. Mak**”) of Tricor Services Limited as our joint company secretaries. For the background of Mr. Tang, please refer to the paragraph headed “Directors, Supervisors, Senior Management and Employees – Senior Management” in this prospectus. Mr. Tang has knowledge about our business operations and corporate culture. However, Mr. Tang does not possess the specified qualifications strictly required by Rules 3.28 and 8.17 of the Listing Rules. As such, we have also appointed Ms. Mak as our joint company secretary. Ms. Mak has over 20 years of experience in corporate secretarial field and meets the requirements under Rule 3.28 of the Listing Rules. Ms. Mak will work closely with Mr. Tang to jointly discharge the duties and responsibilities as joint company secretaries for a three-year period from the Listing Date so as to enable him to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to duly discharge his duties.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules on the condition that Ms. Mak is appointed as our joint company secretary. Pursuant to HKEX-GL108-20, the waiver will be for a fixed period of time (the “**Waiver Period**”) and conditional upon (i) the proposed company secretary must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by the issuer. The waiver is valid for an initial period of three years from the Listing Date and will be revoked immediately when Ms. Mak ceases to be our joint company secretary. We will also implement procedures to provide Mr. Tang with appropriate training in order to enable him to acquire such necessary experience.

Before the expiry of such three-year period, we will assess the then experience of Mr. Tang in order to determine whether Mr. Tang has acquired the skills necessary to carry out the duties of a company secretary and the relevant experience within the meaning of note 2 of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary. Further information on the qualifications and experience of Mr. Tang and Ms. Mak is disclosed in the section headed “Directors, Supervisors, Senior Management and Employees” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors (including any proposed director who is named as such in this prospectus) collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this prospectus or any statement herein misleading.

APPROVAL OF THE CSRC

The CSRC has given its approval for the Global Offering and the making of the application to list our H Shares on the Stock Exchange on 17 August 2021. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company, nor for the accuracy of any of the statements made or opinions expressed in this prospectus.

THIS HONG KONG PUBLIC OFFER AND THE PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus contains the terms and conditions of the Hong Kong Public Offer. See the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus for details of the procedures for applying for the Hong Kong Offer Shares.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our H Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING AND UNDERWRITING

See the section headed “Structure and Conditions of the Global Offering” in this prospectus for details of the structure of the Global Offering, including its conditions and the arrangements relating to the Over-allotment Option and stabilisation. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Placing is expected to be entered into on or around 6 July 2022. The Global Offering is managed by the Joint Global Coordinators. If, for any reason, the International Underwriting Agreement is not entered into, the Global Offering will not proceed and will lapse. See the section headed “Underwriting” in this prospectus for details of the Underwriters and the underwriting arrangements.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offer will be required to confirm, and is deemed by his acquisition of Hong Kong Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of the listing of and permission to deal in the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option). Dealings in the H Shares on the Stock Exchange are expected to commence on Wednesday, 13 July 2022.

Save as disclosed in the section headed “Share Capital” in this prospectus, no part of our share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, our H Shares on the Stock Exchange and we complying with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All necessary arrangements have been made for the H Shares to be admitted into CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

H SHARE REGISTER AND STAMP DUTY

All H Shares issued by us pursuant to applications made in the Hong Kong Public Offer will be registered on our H Share register to be maintained by our H Share Registrar, Tricor Investor Services Limited, in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on our H Share register in Hong Kong will be subject to Hong Kong stamp duty. See Appendix IV to this prospectus for further details.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the H Shares. None of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the H Shares.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Tricor Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us, for ourselves and for the benefit of each Shareholder, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- (ii) agrees with us, for ourselves and for the benefit of each Shareholder and each of our Directors, Supervisors, managers and other senior officers, and we, acting for ourselves and on behalf of each Shareholder and each of our Directors, Supervisors, managers and senior officers, agree with each Shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and that the arbitration tribunal may conduct hearings in open sessions and to publish its award, which shall be final and conclusive. See Appendix V to this prospectus for further details;
- (iii) agrees with us, for ourselves and for the benefit of each Shareholder that the H Shares are freely transferable by their holders; and
- (iv) authorises us to enter into a contract on his behalf with each of our Directors and officers whereby each such Director and officer undertakes to observe and comply with his obligations to our Shareholders as stipulated in the Articles of Association.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of Chinese laws and regulations, government authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages, and in the event of any inconsistency, the Chinese versions shall prevail.

CONVERSION AND EXCHANGE RATE

For illustration purpose only, this prospectus contains translations of certain RMB amounts into Hong Kong dollars at a specified rate. Unless we indicate otherwise, the translations of RMB into Hong Kong dollars and vice versa have been made at the rate of RMB1.00 to HK\$1.17 in this prospectus.

No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS***Executive Directors***

Name	Residential Address	Nationality
Mr. Wang Hua (汪驊)	Room 201, Building 31 Sunshine City Wuxing District Huzhou Zhejiang Province The PRC	Chinese
Ms. Su Li (蘇莉)	Room 604, Unit 4, Building 2 Xianghu Dingxiang Mingzuo Chengfu Jiedao Xiaoshan District Hangzhou Zhejiang Province The PRC	Chinese
Mr. Pan Haiming (潘海明)	Room 403, Unit 2, Building 6 Binheyuan Community Wuxing District Huzhou Zhejiang Province The PRC	Chinese

Non-executive Directors

Name	Residential Address	Nationality
Mr. Zhang Yuying (張宇迎)	Room 1701, Unit 1 14/F, Building 2, Courtyard 1 Huangchang South Lane Chaoyang District Beijing The PRC	Chinese
Ms. Wu Zhanghuan (吳張歡)	Room 502, Unit 1, Building 85 Chengshizhixin Wuxing District Huzhou Zhejiang Province The PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Independent non-executive Directors

Name	Residential Address	Nationality
Mr. Chang Li Hsien Leslie (張立憲)	Flat A, 8/F, Block 2 Tregunter 14 Tregunter Path, The Peak Hong Kong	Chinese
Dr. Lau Suet Chiu Frederic (劉雪樵)	Flat 5, 5/F Block 29 Heng Fa Chuen Hong Kong	American
Mr. Zhou Xinfu (周鑫發)	Room 202, Unit 1, Building 38 Chaohui Sixth District Damuqiao Community Xiacheng District Hangzhou Zhejiang Province The PRC	Chinese

SUPERVISORS

Name	Residential Address	Nationality
Ms. Liu Fei (柳斐)	Room 603, Building 10 Tianjihua Yuan Wuxing District Huzhou Zhejiang Province The PRC	Chinese
Mr. Xu Guoxin (徐國新)	Room 302, Unit A, Building C Haiming Commercial & Residential Buildings Wuxing District Huzhou Zhejiang Province The PRC	Chinese
Mr. Cai Rui (蔡銳)	Room 302, Unit 2, Building 4 Yuexiuyuan 36 Xiangyun Road Guangyang District Langfang Hebei Province The PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

For further details of the Directors, Supervisors and other senior management members, see the section headed “Directors, Supervisors, Senior Management and Employees” in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

**Joint Global Coordinators,
Joint Bookrunners,
Joint Lead Managers**

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Sigma Capital Management Limited
Unit A, 4/F, E168
Nos. 166-168 Des Voeux Road Central
Hong Kong

**Joint Bookrunners and Joint
Lead Managers**

CEB International Capital Corporation Limited
22/F, AIA Central
No. 1 Connaught Road Central
Hong Kong

China Everbright Securities (HK) Limited
12/F, Everbright Centre
108 Gloucester Road
Wanchai, Hong Kong

**China Industrial Securities International
Capital Limited**
32/F, Infinitus Plaza
199 Des Voeux Road Central
Sheung Wan, Hong Kong

China Tonghai Securities Limited
18/F & 19/F, China Building
29 Queen’s Road Central
Hong Kong

CMBC Securities Company Limited
45/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Essence International Securities (Hong Kong) Limited

39/F, One Exchange Square
Central, Hong Kong

Guotai Junan Securities (Hong Kong) Limited

26/F-28/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Zhongtai International Securities Limited

19th Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Lead Managers**Eddid Securities and Futures Limited**

21/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Livermore Holdings Limited

Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Kowloon, Hong Kong

Maxa Capital Limited

Unit 1908, Harbour Centre
25 Harbour Road
Wanchai, Hong Kong

Legal Advisers to our Company

As to Hong Kong law

Chiu & Partners

40th Floor, Jardine House
1 Connaught Place
Central, Hong Kong

As to PRC law

Grandall Law Firm (Hangzhou)

Grandall Building
No. 2 & No.15, Block B
Baita Park
Old Fuxing Road
Hangzhou
Zhejiang 310008
China

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal Advisers to
the Sole Sponsor
and the Underwriters**

As to Hong Kong law
Deacons
5th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

As to PRC law
Jingtian & Gongcheng
45/F
K. Wah Centre
1010 Huaihai Road (M)
XuHui District
Shanghai
The PRC

**Auditors and Reporting
Accountants**

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

Industry Consultant

**Frost & Sullivan (Beijing) Inc.,
Shanghai Branch Co.**
2504, Wheelock Square
1717 Nanjing West Road
Shanghai 200040
The PRC

Receiving Bank

CMB Wing Lung Bank Limited
45 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office and headquarters	227 Sizhong Road Huzhou Zhejiang Province The PRC
Principal place of business in Hong Kong under Part 16 of the Companies Ordinance	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Company's website	<u>www.hzrqgf.com</u> <i>(information contained in this website does not form part of this prospectus)</i>
Joint company secretaries	Mr. Tang Chunhui (湯春輝) Room 3105, Building 1 Changdaofu Wutong Road Wuxing District Huzhou Zhejiang Province The PRC Ms. Mak Sze Man (麥詩敏) <i>(ACG, HKACG)</i> Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Authorised representatives	Mr. Wang Hua (汪驊) Room 201, Building 31 Sunshine City Wuxing District Huzhou Zhejiang Province The PRC Ms. Mak Sze Man (麥詩敏) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Compliance adviser	BOCOM International (Asia) Limited 9th Floor, Man Yee Building 68 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Audit committee	Mr. Chang Li Hsien Leslie (張立憲) (<i>Chairman</i>) Dr. Lau Suet Chiu Frederic (劉雪樵) Mr. Zhou Xinfu (周鑫發)
Remuneration committee	Dr. Lau Suet Chiu Frederic (劉雪樵) (<i>Chairman</i>) Mr. Chang Li Hsien Leslie (張立憲) Mr. Zhou Xinfu (周鑫發)
Nomination committee	Mr. Zhou Xinfu (周鑫發) (<i>Chairman</i>) Mr. Chang Li Hsien Leslie (張立憲) Dr. Lau Suet Chiu Frederic (劉雪樵)
H Share Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Bank of Huzhou Co., Ltd. (Riyuecheng Sub-Branch) 701-711 Waihuan North Road Wuxing District Huzhou Zhejiang Province The PRC
	Bank of China Limited (Huzhou Branch) 208 Renmin Road Wuxing District Huzhou Zhejiang Province The PRC
	China Construction Bank Corporation (Chengzhong Sub-Branch) Podium Floor, Ganghui Mansion 132 Taihu Road Wuxing District Huzhou Zhejiang Province The PRC

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this prospectus were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost and Sullivan. We engaged Frost and Sullivan to prepare the F&S Report, an independent industry report, in connection with the Global Offering. The information from official government sources has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the natural gas industry in China, Zhejiang Province and Huzhou. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the F&S Report. A total fee of RMB430,000 was paid to F&S for the preparation of the Frost & Sullivan Report, which we believe reflects market rates for reports of this type. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Our Directors confirmed that, after making reasonable investigation, there has been no material adverse change in the market information since the date of the F&S Report and up to the Latest Practicable Date, which may qualify, contradict or have an impact in any material respect on the information in this section.

RESEARCH METHODOLOGY

The F&S Report was prepared through both primary and secondary research obtained from various sources using intelligence collection methodologies. Primary research involved discussing the status of the industry with certain leading industry participants across the industry value chain and conducting interviews with relevant parties to obtain objective and factual data and prospective predictions. Secondary research involved information integration of data and publication from publicly available sources, including official data and announcements from government agencies, company reports, independent research reports and data based on Frost & Sullivan's own data base.

Basis and Assumptions

In compiling and preparing the F&S Report, Frost & Sullivan has adopted the following assumptions: (i) the social, economic and political environment in the PRC, Zhejiang Province and Huzhou are likely to remain stable in the forecast period; (ii) industry key drivers are likely to drive the growth of the China, Zhejiang Province and Huzhou natural gas industry in the forecast period. All statistics are based on information available as of the date of the F&S Report and have taken into account the potential impact of the COVID-19 outbreak on the growth of macro economies and on China, Zhejiang Province and Huzhou natural gas industry.

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OVERVIEW OF MACRO ECONOMIC ENVIRONMENT IN ZHEJIANG PROVINCE AND HUZHOU

Zhejiang Province's nominal GDP has increased to approximately RMB7,351.6 billion in 2021, representing a CAGR of approximately 8.8% from 2017 to 2021. Looking forward, Zhejiang Province will further promote the economy digital transformation and vigorously develop emerging industries such as high-end manufacturing, renewable energy, biomedicine and new materials. The nominal GDP of Zhejiang Province is expected to maintain a steady growth and reach RMB10,882.1 billion by 2026, illustrating a CAGR of approximately 8.1% from 2022. The nominal GDP of Huzhou has increased from RMB260.8 billion in 2017 to RMB364.9 billion in 2021 at a CAGR of 8.8%. The recent years found the huge lift in Huzhou's industry with the flourish of emerging sectors such as new material, renewable energy and automotive electronics. With the economic integrations in the Yangtze River Delta becoming the strategic policy and the establishment of South Tai Lake New District (南太湖新區) in 2019, more opportunities and benefits are on the way to embrace Huzhou. The nominal GDP of Huzhou is forecasted to increase from RMB394.5 billion in 2022 to RMB532.7 billion by 2026 at a CAGR of approximately 7.8%.

Since the "13th Five-Year Plan", Zhejiang Province has unswervingly followed the strategy of energy "double control" (雙控) forcing economic sustainable transformation and upgrading. Great performance has been witnessed: from 2017 to 2021, Zhejiang Province's energy consumption per unit of GDP dropped by approximately 12.6%. In 2021, Zhejiang Province contributed to 6.4% of China's GDP by using 4.9% of the country's total energy consumption. The total energy consumption volume in Zhejiang Province increased from 210.3 million tonnes of SCE (Standard Coal Equivalent) in 2017 to 257.9 million tonnes of SCE in 2021. The total energy consumption in Zhejiang Province is expected to reach 311.1 million tonnes of SCE by 2026 at a CAGR of approximately 3.8% from 2022, with increasing proportion of clean energy and growing energy efficiency. Driven by Huzhou's government support and economy development, the total energy consumption volume of industrial enterprises above designated size increased steadily from 7.6 million tonnes of SCE in 2017 to approximately 9.8 million tonnes of SCE in 2021 at a CAGR of 6.7%. In the future, the total energy consumption volume of industrial enterprises above designated size of Huzhou is expected to increase from 10.4 million tonnes of SCE in 2022 to 12.8 million tonnes of SCE in 2026, illustrating a CAGR of 5.3%.

OVERVIEW OF NATURAL GAS INDUSTRY IN ZHEJIANG PROVINCE AND HUZHOU

Definition and Classification

Natural gas is a type of flammable gas that occurs deep beneath the earth's surface, consisting mainly of methane with minor amounts of ethane, propane, butane, nitrogen, etc. Natural gas is also a clean fossil fuel that has less carbon dioxide emission than coal and oil. Natural gas can be efficiently burned to generate heat and electricity, emitting less waste and toxins at the point of use relative to other fossil and biomass fuels. Downstream application areas for the natural gas industry include industrial, commercial and residential.

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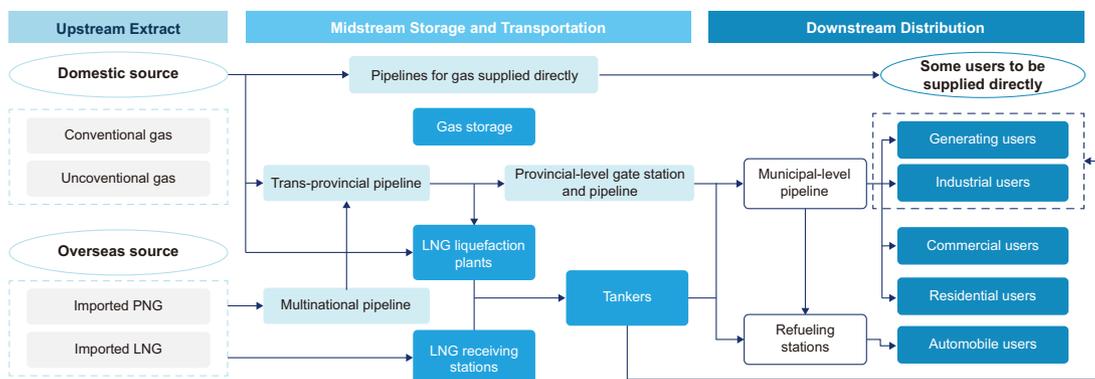
Natural gas can be divided into three main categories: 1) liquefied natural gas (LNG); 2) pipeline natural gas (PNG); and 3) compressed natural gas (CNG). LNG is a type of natural gas that has been converted into liquid form through cooling. The liquefaction process involves removal of certain components, such as dust, acid gases, helium, water, and heavy hydrocarbons. The natural gas is then condensed into a liquid at close to atmospheric pressure by cooling it to approximately -162°C . LNG must be kept cold to remain a liquid, independent of pressure. PNG means that natural gas is transmitted and traded through pipeline in gaseous status. PNG is not stored at one place but is continuously supplied through the pipeline from the source. PNG is applicable to China, continental Europe, Northern Americas and other countries where pipelines can be laid to directly import natural gas from neighbouring countries (or regions). CNG refers to gaseous natural gas that is compressed to a pressure greater than or equal to 10 MPa and no greater than 25 MPa, and then undergoes high-pressure deep dehydration and is stored in a gaseous state in a container. It has the same composition as PNG and can be used as vehicle fuel, making it an ideal alternative energy source for vehicles. It has the characteristics of low cost, high efficiency, no pollution, safe and convenient use, etc., which is increasingly showing strong potential of market development.

Value Chain Analysis

The value chain of the natural gas industry mainly consists of four segments namely source, transportation, distribution and consumption. Natural gas sources come from major domestic gas-producing regions and international importation. Natural gas is then transported via large-diameter, high-pressure steel transmission pipelines, which carry natural gas to large industrial customers and local distribution networks. For distribution purposes, the natural gas is transported to provincial natural gas enterprises, then to local natural gas enterprises through city gates. Local natural gas enterprises reduce the pressure of the gas, add odorant to aid in leak detection, and then deliver the natural gas via smaller, low-pressure lines to end users such as industrial, commercial, residential and others.

The chart below illustrates the value chain of natural gas industry:

Value Chain of Natural Gas Industry



Source: F&S Report

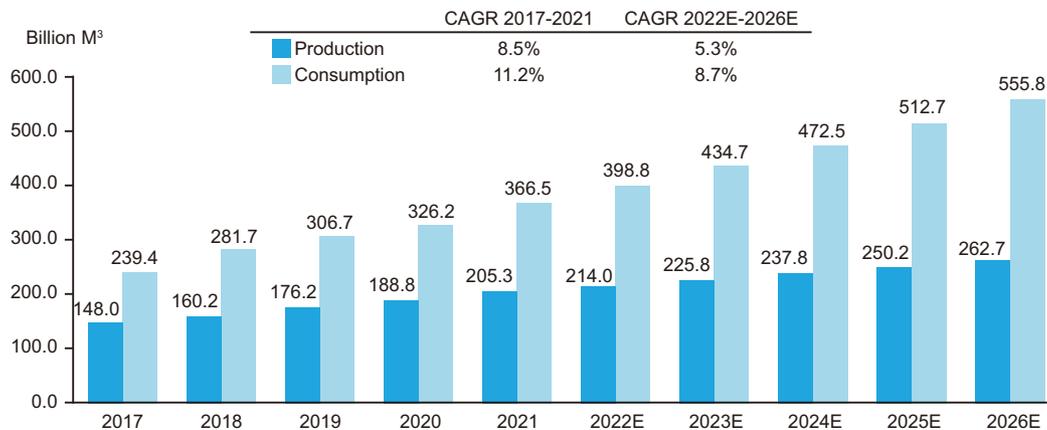
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Production and Consumption Volume of Natural Gas in China

In response to the energy structure reform, China's production and consumption volume of natural gas kept growing in the past few years. The increasing investment on exploration and development of gas source contributed to the continuous growth of natural gas supply. The production and consumption volumes of natural gas have increased from 148.0 billion m³ and 239.4 billion m³, respectively, in 2017 to 205.3 billion m³ and 366.5 billion m³, respectively, in 2021, representing CAGRs of approximately 8.5% and 11.2%, respectively.

According to the "Guiding Opinions on Energy Work in 2022" (2022年能源工作指導意見), the natural gas production will reach about 214.0 billion m³ by 2022. It is estimated that the production volume of natural gas would reach approximately 262.7 billion m³ in 2026 due to the increasing investment in natural gas exploration, representing a CAGR of approximately 5.3% from 2022. The consumption volume of natural gas is forecasted to reach 555.8 billion m³ in 2026, at a CAGR of approximately 8.7% since 2022.

Production and Consumption Volume of Natural Gas (China), 2017-2026E



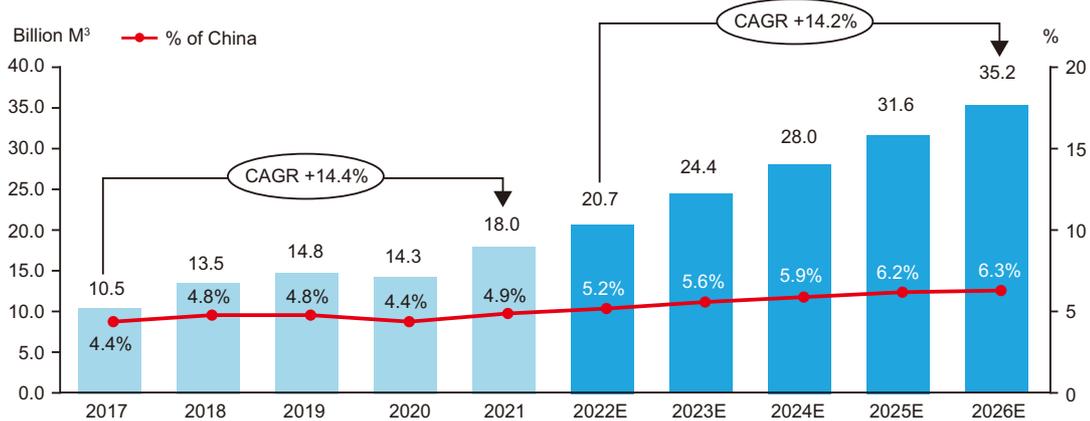
Source: Bureau of Statistics of China; F&S Report

Consumption Volume of Natural Gas in Zhejiang Province

Influenced by the continuous promotion of coal-to-gas and the extensive utilisation of natural gas, the consumption volume of natural gas in Zhejiang Province witnessed a steady increase at a CAGR of approximately 14.4% from 10.5 billion m³ in 2017 to 18.0 billion m³ in 2021. Benefiting from the factors such as the improving natural gas infrastructure, additional natural gas power generation, and continuous recovery of industrial production, natural gas consumption in Zhejiang Province achieved a rapid growth in 2021. In July 2021, the Zhejiang Province 14th Five-Year Plan for Coal, Petroleum and Natural Gas Development (《浙江省煤炭石油天然氣發展“十四五”規劃》) stated that natural gas consumption is aimed to reach 31.5 billion m³ by 2025 in Zhejiang. The consumption volume of natural gas is expected to increase from 20.7 billion m³ in 2022 to 35.2 billion m³ in 2026, demonstrating a CAGR of approximately 14.2%. The proportion of Zhejiang Province natural gas consumption in China is expected to grow from 5.2% in 2022 to approximately 6.3% in 2026.

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Consumption Volume of Natural Gas (Zhejiang Province), 2017-2026E



Source: Bureau of Statistics of China; F&S Report

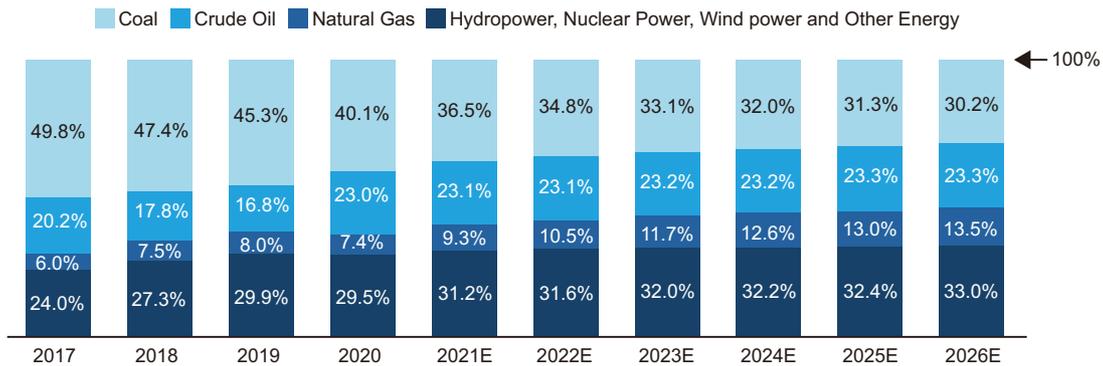
Structure of Total Energy Consumption in Zhejiang Province

Zhejiang Province's energy consumption structure continues to optimise, with coal accounting for approximately 36.5% in 2021, decreasing from 49.8% in 2017. Natural gas accounted for approximately 9.3% of total energy consumption in 2021, increased from 6.0% in 2017. The proportion of oil witnessed an increase mainly due to the completion and production of large-scale petrochemical projects in Zhejiang (浙石化項目).

In February 2021, the Zhejiang Province 14th Five-Year Plan for Energy Development (draft for comment) (《浙江省能源發展“十四五”規劃》(徵求意見稿)) issued by Zhejiang Development and Reform Commission and Zhejiang Energy Administration set the target that natural gas will account for 10.6% of total primary energy consumption by 2025 in Zhejiang. In July 2021, the Zhejiang Province 14th Five-Year Plan for Coal, Petroleum and Natural Gas Development (《浙江省煤炭石油天然氣發展“十四五”規劃》) released by Zhejiang Development and Reform Commission and Zhejiang Energy Administration enhanced the goal of natural gas. By 2025, the proportion of natural gas in primary energy consumption will reach 12.98% in Zhejiang. With more policies to be implemented during the 14th Five-Year period, the energy consumption structure in Zhejiang Province will be further optimised and more favourable to clean energy such as natural gas.

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Structure of Total Energy Consumption (Zhejiang Province), 2017-2026E



Note: The data for 2021 has not been released.

Source: Zhejiang Provincial Bureau of Statistics, F&S Report

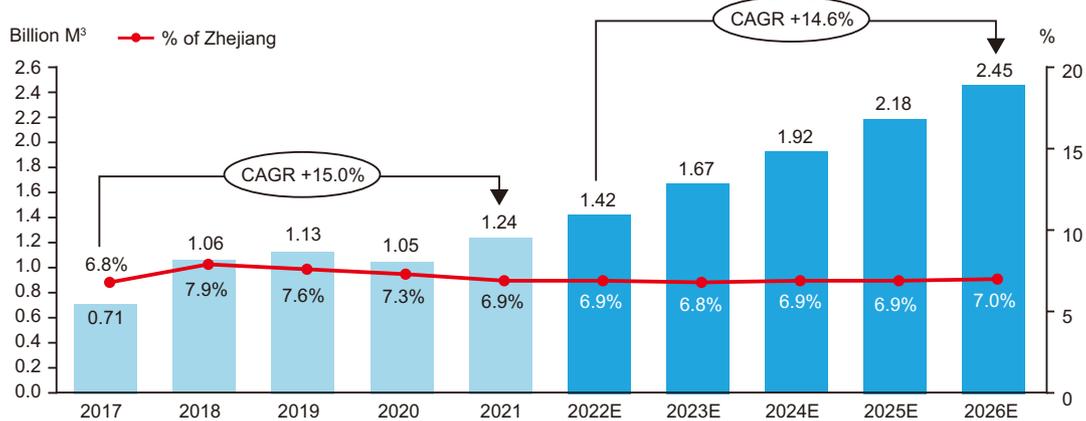
Consumption Volume of Natural Gas in Huzhou

Influenced by the expanding utilisation of natural gas, the consumption volume of natural gas in Huzhou experienced a rapid increase at a CAGR of approximately 15.0% from 0.71 billion m³ in 2017 to 1.24 billion m³ in 2021. In 2019, the HZDRC issued “Special Action Plan for Development and Reform of the Three-year Plan on Defending the Blue Sky in Huzhou (2018-2020)” (《湖州市打贏藍天保衛戰三年行動計劃發展改革專項行動方案(2018-2020年)》), which aimed to accelerate the development of natural gas infrastructure and promote the consumption of natural gas. Also, “Opinions on Further Strengthening the Administration of Energy Security (Draft for Comment)” (《關於進一步加強能源保障管理的意見》(徵求意見稿)) issued by the HZDRC in 2019 set the goal that the proportion of natural gas consumption in the total energy consumption would reach over 10% by 2020.

Going forward, the consumption volume of natural gas is expected to increase from 1.42 billion m³ in 2022 to 2.45 billion m³ in 2026, demonstrating a CAGR of approximately 14.6%, which is higher than the growth rate of Zhejiang Province. The proportion of Huzhou natural gas consumption in Zhejiang Province is expected to reach approximately 7.0% in 2026.

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Consumption Volume of Natural Gas (Huzhou), 2017-2026E



Source: F&S Report

PRICE ANALYSIS

Pricing Methodology of Natural Gas

The purchase price of natural gas is controlled by the government, according to the “Notice of the National Development and Reform Commission on Adjusting Natural Gas Prices” 《國家發展改革委關於調整天然氣價格的通知》 issued by NDRC. Zhejiang Province relies on the “Administrative Measures for the Price of Transmission of Natural Gas Pipelines at the Provincial Level in Zhejiang Province” 《浙江省省級天然氣管道運輸價格管理辦法》 to set the gate station price for selling natural gas to various cities. When determining the purchase price of natural gas, the government will mainly take factors such as ex-plant price of natural gas and pipeline transmission costs into account. Meanwhile, the overall macro economy condition will also be considered in the pricing process. For example, the government reduced the purchase price of natural gas for non-resident users to support enterprises to resume production in February 2020, after the outbreak of COVID-19.

After transited through the gate station, the natural gas is purchased by the urban natural gas company and then be distributed to end-users through distribution pipeline networks. The urban natural gas company’s purchase price is usually less than or equal to the gate station price. The retail selling price for end-users including residential users and non-residential users that usually consists of the gate station price plus pipeline transmission cost, which will be further subject to price control such as price ceiling or fixed price as determined by the local government (the Huzhou Development and Reform Commission). Gate station price, pipeline transportation costs, downstream gas demand are the major factors that the local government will consider when determining the guided selling price of natural gas. In 2018, the “Notice on Printing and Distributing the Measures for the Administration of Urban Gas Prices in Zhejiang Province” and the “Measures for the Supervision and Examination of the Pricing Costs of Urban Gas Distribution in Zhejiang Province” 《關於印發〈浙江省城鎮燃氣價格管理辦法〉和〈浙江省城鎮燃氣配氣定價成本監審辦法〉的通知》 issued by the Zhejiang Provincial Price Bureau required that the price of residential users applies the tiered price system while the price of the non-resident (except the big clients) applies the government guided highest selling price for non-residents. The

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government-guided price for non-residents includes the gate station price and the pipeline transmission cost (mainly affected by the distance from the gate to the user). The “Notice on Setting the Price of Pipeline Natural Gas Distribution for Non-residential Use in Huzhou City and the Establishment of an Upstream and Downstream Price Linkage Mechanism” 《關於制定湖州市區非居民管道天然氣配氣價格及建立上下游價格聯動機制的通知》 released in 2019 by Huzhou Development and Reform Commission required that the urban natural gas companies need to consider the factors such as purchase price, highest selling price, user’s gas consumption and user type when they negotiate the selling price with non-resident users. The purchase price and selling price of natural gas of urban natural gas companies are linked to each other, showing a similar trend of changes.

Price Structure and Influencing Factors

Gate station price is normally comprised of the ex-plant price of natural gas and pipeline transmission cost. Due to the price transmission mechanism, the retail price of natural gas is affected to a certain extent by the fluctuation of international crude oil prices. The price of gas pipeline transmission is mainly composed of depreciation and amortization fees for pipelines as well as operation and maintenance costs. The operation and maintenance costs include direct gas distribution costs, management costs and sales costs. The direct gas distribution costs are further divided into material costs, fuel and power costs, repair costs, employee compensation, gas distribution losses and other related costs.

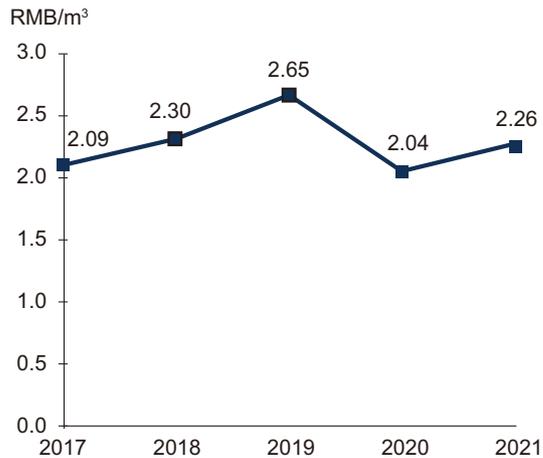
In September 2020, the Development and Reform Commission of Zhejiang Province issued “Pilot Rules for Direct Trading of Natural Gas Upstream and Downstream and Pipeline Network Transmission in Zhejiang Province (for trial implementation)” 《浙江省天然氣上下游直接交易暨管網代輸試點規則(試行)》 encourage upstream natural gas supply companies and downstream natural gas purchasers carry out direct natural gas transactions through market-oriented methods such as negotiation and bidding. In the future, the relationship between market supply and demand will have a greater impact on the selling price of natural gas for non-resident use.

PNG Price Analysis in Huzhou

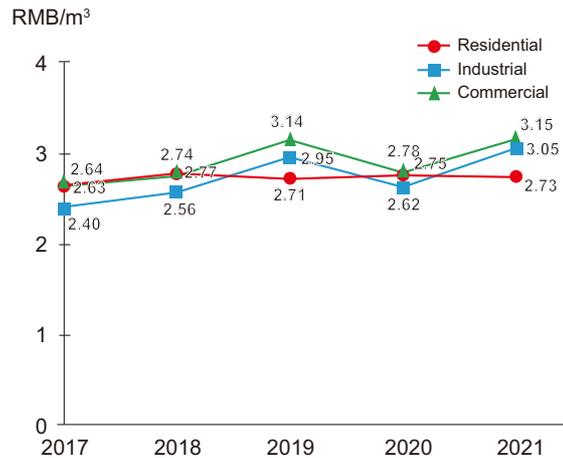
The purchase price of PNG experienced an upward trend from RMB2.09/m³ in 2017 to RMB2.65/m³ in 2019 and then decreased to RMB2.04/m³ in 2020 mainly due to the impact of COVID-19 and oil price fluctuation. With the recovery of economy activities, the purchase price of PNG increased to approximately RMB2.26/m³ in 2021. The selling prices of PNG are depending on the types of users. The PNG average unit selling price for industrial users fluctuated which changed from RMB2.40/m³ in 2017 to RMB2.62/m³ in 2020 and increased to around RMB3.05/m³ in 2021. For commercial users, the PNG selling price changed from RMB2.63/m³ in 2017 to RMB2.78/m³ in 2020. The selling price for residential users was RMB2.64/m³ in 2017, and it had a relatively stable price tendency and increased to approximately RMB2.73/m³ in 2021. The decrease of PNG selling prices for commercial users was also attributed to supportive policies with the aim to reduce costs of non-residential gas during the pandemic. With the implementation of natural gas marketisation reform, PNG price is going to better reflect the market supply and demand in the future, which may promote natural gas companies to strengthen their resilience to the risk of price fluctuations by expanding their competitive advantages.

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Trend of PNG Purchase Price (Huzhou),
2017-2021



Trend of PNG Selling Price (Huzhou),
2017-2021



Source: F&S Report

Entry Barriers

(i) Capital barrier

Since large capital investments are necessary to establish operations such as pipeline infrastructure layout and formation, and gas fuel plants maintenance and processing, the natural gas industry is relatively capital intensive. Hence, new market entrants of natural gas industry need to devote a large upfront investment which requires strong financial strength. Moreover, it takes a relatively long period of time for market participants to recover their investment, so new entrants need more time to establish their networks covering procurement, storage and transportation.

(ii) Qualification barrier

The natural gas industry sets a high qualification requirement for new entrants. According to the “Regulations on the Administration of Town Gas” (城鎮燃氣管理條例), companies operating in gas fuel business activities should possess gas fuel source and gas fuel facilities that conform with national standards and establish comprehensive safety management systems. The natural gas industry is highly regulated and new entrants are expected to encounter interactions with multiple public authorities for project approval, pipeline network layout, location selection for gas fuel stations, etc. It can be difficult for new entrants to acquire construction or operation permits due to the lack of proven track record, management experience and technical expertise. Concession agreements need to be granted to natural gas distributors in order for them to operate in certain areas. Therefore, government regulations, qualification requirements and concession agreements pose a high entry barrier for potential market players.

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(iii) Source supply barrier

To ensure a stable and sufficient supply of natural gas, companies have to establish procurement channels and maintain good business relationship with upstream natural gas suppliers. For new entrants, it takes a relatively long period of time for them to establish and maintain a solid and long-term relationship with upstream suppliers to ensure stable and reliable natural gas supply for the operation and future development plan. Due to the lack of business reputation and industry experience, it can be difficult for new entrants to build up solid business relationship. With the lack of natural gas supply, new entrants are not able to gain competitiveness which can be a potential entry barrier for them.

Major Drivers

(i) Increasing downstream market demand

According to the “13th Five-Year Plan for Natural Gas Development” (天然氣發展“十三五”規劃), China has been committed to increasing its natural gas consumption to over 10% of the total primary energy consumption in 2020. Multiple government policies have aimed to reduce coal consumption, hence the current replacement of coal consumption will create huge market potential for natural gas companies. In addition, the utilisation of natural gas in different downstream sectors is expected to increase as well. With the increasing total industrial added value in China from RMB27.5 trillion in 2017 to RMB37.3 trillion in 2021, the industrial sector is expected to witness an upward demand for natural gas. Other sectors such as commercial and residential are also expected to increase in the future years due to energy consumption structural shifts and growing downstream market demand. Natural gas consumption in Zhejiang Province and Huzhou increased at CAGRs of 14.4% and 15.0% from 2017 to 2021, respectively, and is expected to increase at CAGRs of 14.2% and 14.6%, respectively, from 2022 to 2026.

(ii) Rising accessibility of natural gas

The development of natural gas infrastructure allows more enterprises and residents to gain access to natural gas. According to the “Medium and Long-term Oil and Gas Pipeline Network Planning” (中長期油氣管網規劃) released by the NDRC and National Energy Board of the PRC in 2017, the total length of natural gas trunk pipeline network in China is aimed to reach 104,000 km by 2020 and 163,000 km by 2025. Moreover, the “Zhejiang Province Natural Gas Pipeline Network Special Plan” (浙江省天然氣管網專項規劃) proposed that every county would have access to natural gas through integrated natural gas pipeline network in the whole province by 2020. Besides, the Zhejiang Province 14th Five-Year Plan for Coal, Petroleum and Natural Gas Development (draft for comment) (《浙江省煤炭石油天然氣發展“十四五”規劃》(徵求意見稿)) sets the aim that the overall natural gas trunk pipeline network would reach 4,500 km by 2025. Promoted by the rapid natural gas pipeline construction, the length of urban natural gas pipelines in Zhejiang Province is expected to increase to 85,300 km in 2026 at a CAGR of 8.7% from 2022. Infrastructure construction can accelerate the deployment of natural gas supply networks in areas where natural gas utilisation is relatively weak, thus promoting downstream applications and expanding the usage of natural gas.

(iii) Favourable government policy

Policies that promote the development of natural gas infrastructure and adjustment plan of energy structure is a major driver that attracts enterprises and residents to gain access to natural gas and stimulate the development of natural gas industry. In 2021, the Zhejiang Province 14th Five-Year Plan for Energy Development (draft for comment) (《浙江省能源發展“十四五”規劃》(徵求意見稿)) and the Zhejiang Province 14th Five-Year Plan for Coal, Petroleum and Natural Gas Development (draft for comment) (《浙江省煤炭石油天然氣發展“十四五”規劃》(徵求意見稿)) were issued and stated targets and guidelines to promote the development of natural gas industry in Zhejiang Province such as: 1) increase the natural gas consumption; 2) increase the penetration rate of natural gas for residents; 3) increase natural gas storage capacity; and 4) set up LNG terminals and distribution system that covered the Yangtze River Delta region. The Huzhou Municipal Government also promulgated “Special Action Plan for Development and Reform of the Three-year Plan on Defending the Blue Sky in Huzhou (2018-2020)” (湖州市打贏藍天保衛戰三年行動計劃發展改革專項行動方案(2018-2020年)) to accelerate the elimination and renovation of coal-fired boilers for the purpose of environmental protection. Moreover, the government is encouraging natural gas suppliers to build their local storage stations to support the gas peak adjustment and emergency system in order to ensure the long-time stable gas supply. According to the Advice on Gas Storage and Market Mechanism announced in 2018, town gas enterprises shall establish natural gas reserves and have the capacity of storing natural gas of not less than 5% of their annual consumption volume by 2020. These favourable government policies continue to drive the development of natural gas industry.

Market Trends

(i) Increasing awareness of environmental protection

The concern for the environment is a major reason for China’s rising demands of natural gas. Severe air pollution has driven the country to shift coal to gas, and several government actions have promoted the reduction of coal consumption. In 2014, the “Strategic Action Plan for Energy Development” (能源發展戰略行動計劃(2014-2020)) established targets for energy supply and demand, and its principal objective was to reduce coal consumption and encourage users to switch to other fuels such as natural gas. The plan aimed to reduce total primary energy consumption to 4.8 billion tonnes of SCE in 2020 by increasing energy efficiency. Natural gas was positioned as an important solution for environment protection, hence the increasing need for environmental protection will continue to prompt the natural gas industry in the future.

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(ii) More extensive collaboration with overseas suppliers

By cooperating with diversified gas fuel suppliers both domestically and internationally, natural gas enterprises can promote market stability by filling supply and demand gap. In the past few years, the total import volume of natural gas in China increased rapidly from 95.5 billion m³ in 2017 to 167.5 billion m³ in 2021. China has established natural gas cooperation with nations in northwest (Central Asia gas pipeline), southwest (China-Myanmar oil and gas pipeline) and northeast (China-Russia natural gas pipeline). International cooperation could not only compensate the insufficient natural gas fuel supply but also lower the price by directly trading with upstream suppliers which would reduce the intermediate process in the transaction. In addition, the total LNG import volume of China increased significantly from 38.1 million tonnes in 2017 to 78.9 million tonnes in 2021. For Zhejiang Province, it enjoys the favourable location and convenient transportation which will enhance its collaboration with overseas suppliers. The convenient location of coastal region allows Zhejiang Province and its cities such as Huzhou to establish solid business relationships with LNG suppliers and further facilitate more LNG import activities. With the integration of the Yangtze River Delta, Zhejiang Province and its cities such as Huzhou will experience a rapid growth in the natural gas industry.

(iii) Comprehensive process control and monitoring

Since natural gas enterprises need to ensure that end customers receive timely delivery and be able to have quick reactions to leaks, equipment malfunctions or any other unusual activities along the pipeline, sophisticated control systems are required to monitor the gas as it travels through lengthy pipeline network. Hence, a centralised gas control system is required to collect, analyse and manage data received from city gate stations and compressor stations all along the pipeline. Centralised systems such as SCADA (supervisory control and data acquisition) systems have become not only an economical method for controlling the operation of pipelines, but also of capturing data for further analysis. The data constitutes a large amount of information used for analysing all aspects of the pipeline operation. Natural gas enterprises can remotely operate and monitor indicators such as flow rate, pressure and temperature, thus better improving the overall operational efficiency.

(iv) Accelerated natural gas market-oriented reform process

Currently, natural gas market in China implements a market model based on point-to-point transactions and the gate station price of natural gas is accompanied by complicated and changeable pipeline transmission fees, which hinders the formation of a unified competitive natural gas market. In recent years, the Chinese government has adopted a series of policies to accelerate the market-oriented reform of natural gas and has put forward the goal of “controlling the midstream and releasing the upstream and downstream” (管住中間，放開兩頭), that is, to liberalise the gas source and let the sales price to be formed by the market, and the government only controls the prices of pipeline transmission. Zhejiang Province has also aggressively promoted the market-orient reform of natural gas. In the past few years, the supply of PNG to natural gas distributors in Zhejiang Province was monopolised by the provincial natural gas pipeline companies. In April 2020, the ZJDRC issued “Pilot Rules for Direct Trading of Natural Gas Upstream and Downstream and Pipeline Network

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Transmission in Zhejiang Province (for Trial Implementation)” (浙江省天然氣上下游直接交易暨管網代輸試點規則(試行)), encouraging the upstream and downstream companies to carry out direct natural gas transactions, and continuing to expand pilot transmissions to effectively reduce gas consumption costs. Looking forward, driven by supportive policies, the market-oriented reform of natural gas is going to be further implemented, becoming one of the major developing trends of the industry.

COMPETITIVE LANDSCAPE ANALYSIS

According to the latest data released by the Bureau of Statistics of China, among the gas production and supply enterprises in China, there are 739 state-controlled industrial enterprises, 765 private industrial enterprises, and 564 foreign and Hong Kong, Macao and Taiwan-invested industrial enterprises.

Competitive Landscape of Natural Gas Industry in Zhejiang Province and Huzhou

In 2021, the sales volume of natural gas in Zhejiang Province reached 18.0 billion m³. Within approximately 220 natural gas companies in Zhejiang Province, the top five companies in Zhejiang Province's natural gas industry had a total share of 28.1%. Hangzhou Natural Gas Co., Ltd. ranked as the No.1 in 2020 with a market share of 8.3%. Our Company ranked fifth with a market share of 3.0%. There are over 40 natural gas companies of different sizes in Huzhou and surrounding cities such as Jiaxing, Hangzhou, Ningbo and Shaoxing.

Top Five Companies by Sales Volume in Natural Gas Industry (Zhejiang Province), 2021

Ranking	Company	Sales Volume of Natural Gas (Million M ³)	Market Share
1	Hangzhou Natural Gas Co., Ltd.	1,500	8.3%
2	Shaoxing Gas Industry Group Co., Ltd.	1,450	8.1%
3	Ningbo China Resources Xingguang Gas Co., Ltd.	980	5.4%
4	Jiaxing Gas Group Co., Ltd.	574	3.2%
5	Our Company	547	3.0%

Source: F&S Report

Note: The sales volumes for the above companies refer to the sales volume of pipeline natural gas.

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Company Profiles of Major Natural Gas Companies in Zhejiang Province

Hangzhou Natural Gas Co., Ltd.: Founded in 2005, the company has major operating areas in Hangzhou (Xihu District, Jianggan District, Xiacheng District, Binjiang District, etc.). Its business primarily covers the investment, construction, operation, maintenance and management of natural gas pipeline system, procurement, transportation, storage, marketing and sale of natural gas and other gas.

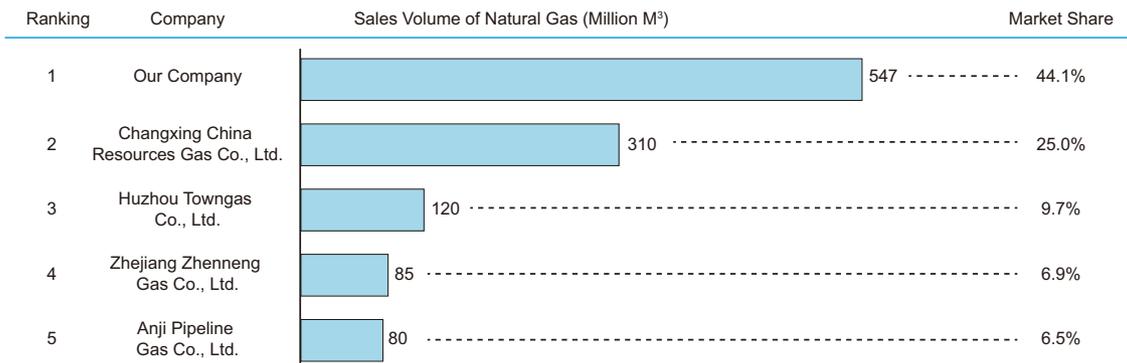
Shaoxing Gas Industry Group Co., Ltd.: Founded in 2005, the company owns operating areas in Shaoxing (Yuecheng District, Keqiao District, Jinghu New District, etc.). The company mainly engages in the sale and transportation of gas and the planning, construction, operation and management of gas supply facilities.

Ningbo China Resources Xingguang Gas Co., Ltd.: Established in 2020, the company has operating areas in Ningbo (Zhenhai District, Beilun District, Haishu District, etc.). Its business mainly covers the sale and transportation of natural gas and LPG; and the design, construction and installation of gas engineering projects, etc.

Jiaxing Gas Group Co., Ltd.: Founded in 1998, the company has operating areas in Jiaxing (Nanhu District, Xiuzhou District, Jiaxing Port District). This company primarily engages in the storage, transportation and sale of PNG, LNG and LPG.

There are six major natural gas suppliers and seven major natural gas operators in Huzhou. In 2021, the sales volume of natural gas in Huzhou reached 1.24 billion m³. The top five companies in Huzhou natural gas industry had a total share of 92.1%. Our Company ranked as the No.1 in 2021 with a market share of approximately 44.1%, followed by Changxing China Resources Gas Co., Ltd. at approximately 310 million m³ (25.0%). The two largest natural gas companies in Huzhou accounted for approximately 70% of urban natural gas sales volume in Huzhou in 2021.

Top Five Companies by Sales Volume in Natural Gas Industry (Huzhou), 2021



Source: F&S Report

Note: The sales volumes for the above companies refer to the sales volume of pipeline natural gas.

INDUSTRY OVERVIEW

Company Profiles of Major Natural Gas Companies in Huzhou

Changxing China Resources Gas Co., Ltd.: Founded in 1999, the company has operating area in Changxing County. The company engages in the production and sales of PNG; design, construction of gas projects; repair, maintenance and sales of gas facilities.

Huzhou Towngas Co., Ltd.: Established in 2004, the company has operating area in South Tai Lake New District. The company engages in the construction and management of gas pipelines; the transmission, distribution and sales of PNG, and the sales of gas equipment and other related supporting facilities.

Zhejiang Zhenneng Gas Co., Ltd.: Founded in 2004, the company has operating area in Deqing County. The company has developed into a comprehensive gas enterprise integrating the production and sales of compressed natural gas (CNG), transportation and urban pipeline gas supply.

Anji Pipeline Gas Co., Ltd.: Founded in 1996, the company has operating area in Anji County. The business scope of the company mainly includes urban gas supply, gas equipment installation and maintenance services, as well as sales of relevant gas accessories.

OVERVIEW OF PHOTOVOLTAIC POWER GENERATION INDUSTRY

During the “13th Five-Year Plan”, Zhejiang Province has actively promoted photovoltaic power to solve the problems of high power-supply pressure and insufficient energy infrastructure, as well as to accelerate the energy structure transformation. The installed capacity of photovoltaic power in Zhejiang Province increased from 1.6 million kilowatts in 2015 to 15.2 million kilowatts in 2020, representing a CAGR of 56.0%. According to the “Zhejiang Province 14th Five-Year Plan for Energy Development (draft for comment)” (《浙江省能源發展“十四五”規劃(徵求意見稿)》), the photovoltaic power installed capacity in Zhejiang Province is aimed to increase to 28.0 million kilowatts by 2025. The photovoltaic power installed capacity in Huzhou reached 1.8 million kilowatts in 2020, an increase of 1.6 million kilowatts compared to 2015, representing a fast CAGR of 54.3% from 2015 to 2020.

Considering adapting to local conditions, Zhejiang Province divides photovoltaic power generation stations into the following four categories: 1. rooftop photovoltaic projects; 2. agricultural and photovoltaic power projects; 3. ground photovoltaic projects and 4. fishery and photovoltaic power projects. Among them, rooftop photovoltaic is the most widely used approach as a representative way of the distributed photovoltaic power generation. Establishing distributed photovoltaic power generation stations is a major solution to promote photovoltaic power penetration. Distributed photovoltaic power has the characteristics of small power output, low pollution, easy installation and high economic efficiency, which is an effective supplement to the power grid and helps alleviate local power shortages. By using idle roof resources, companies can achieve not only the goal of saving energy and reducing emissions, but also saving electricity expenses and receiving stable cash flow. In addition, photovoltaic panels have a good thermal insulation function, which can effectively reduce the temperature in the building. Household rooftops, industrial

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park factory buildings, technology park roofs, schools, hospitals, hotels, etc. are the ideal places to install industry and commercial distributed photovoltaic power generation projects.

Huzhou has a fragmented photovoltaic market with around 100 market participants, most of which has low cumulative installed capacity (less than 30,000 kilowatts) and only a few have reached about 100,000 kilowatts cumulative installed capacity. Most companies with large cumulative installed capacity are subsidiaries established by state-owned companies investing in Huzhou. During the “13th Five-Year Plan”, some leading companies accumulated a certain amount of photovoltaic installation by participating in major Huzhou photovoltaic projects.

OVERVIEW OF VAPOUR GENERATION INDUSTRY

The boiler is the major heat energy supply equipment, which can be applied in industrial heating as well as civil heating to provide a large amount of heat energy. The total steam heating capacity in China increased from 415.0 million gigajoule (“GJ”) in 2016 to 650.4 million GJ in 2020. Driven by economic development and the continuous increase in downstream demand, the output of industrial boilers in Zhejiang Province increased at a CAGR of 26.6% from 15,864.9 steamed tons (蒸噸) in 2016 to 40,769.4 steamed tons (蒸噸) in 2020, accounting for 9.3% of the total volume in China, ranking third among all the provinces. Heat consumption in Huzhou increased from 13.2 million GJ in 2016 to 22.4 million GJ in 2019, according to Huzhou statistical yearbook.

Meanwhile, with the strong support of government policies, the market for energy-saving and environmentally friendly boilers has developed rapidly, and the elimination of high-polluting boilers has accelerated. For example, the “Opinions on Comprehensively Strengthening Ecological Environment Protection and Resolutely Fighting Pollution Prevention and Control” (《全面加強生態環境保護堅決打好污染防治攻堅戰的意見》) requires that coal-fired boilers with less than 35 steamed tons per hour should be eliminated across the country before 2025. At present, energy-saving and environmental protection boilers mainly consist of natural gas boilers, oil-fired boilers and electric boilers. With the advantages of high safety, low operating costs, high thermal efficiency, convenient maintenance and small footprint, natural gas boilers have become the most used boilers after coal-fired boilers.

From the perspective of application fields, industrial and civil clean heating is currently the main application scenario of natural gas boilers. Clean heating refers to the use of clean energy according to local conditions to provide heat users with safe, green and economic heat directly or through efficient transmission and distribution pipe networks. In 2020, there were around 8,200 companies involved in the clean heating industry in China and realised a total income of RMB890 billion.

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Zhejiang Province, located in the middle and lower reaches of the Yangtze River, is a region with hot summers and cold winters. The economic and social development, coupled with the frequent occurrence of extreme cold weather in winter in recent years, making the residents in Zhejiang Province increasingly call for heating in winter, which drives the demand for clean heating. The “13th Five-Year Plan for Energy Development in Huzhou City” (《湖州市能源發展十三五規劃》) pointed out the necessity to develop natural gas cogeneration and distributed energy stations as well as expand the application fields and utilisation areas of natural gas. In areas where heat users are relatively concentrated such as hotels, hospitals and shopping malls, natural gas distributed energy stations can be built to achieve high-quality and efficient use of natural gas. In the future, with further promotion of policies and the market, the application of natural gas boilers in heating will continue to increase.

Huzhou has a relatively concentrated steam market with around 15-20 major market participants, mainly of which are thermo-power companies, with an average annual steam capacity of 1.5 to 2.0 million tons. The annual steam capacity of the leading companies can exceed 2.0 million tons.

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Our business operations are subject to extensive supervision and regulation by the PRC Government. This section sets out a summary of the main laws, regulations and policies to which we are subject to.

FOREIGN INVESTMENT POLICY

According to the Catalogue of Industry Guidance for Foreign Investment (revised in 2015) (《外商投資產業指導目錄(2015年修訂)》), the Catalogue of Industry Guidance for Foreign Investment (revised in 2017) (《外商投資產業指導目錄(2017年修訂)》), and the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》), jointly promulgated by the NDRC and the MOFCOM on 10 March 2015, 18 June 2017, and 28 June 2018 respectively, enterprises engaged in the construction and operation of urban gas, heat and water supply and drainage pipelines and networks for cities with an urban population of 500,000 or more shall be controlled by Chinese shareholders (the “**Restrictions on Chinese Holding**”).

According to the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2019) (《外商投資准入特別管理措施(負面清單)(2019年版)》), and the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) jointly promulgated by the NDRC and the MOFCOM on 30 June 2019, and 23 June 2020 respectively, the construction and operation of urban gas and heat supply and drainage pipelines and networks for cities is not subject to any foreign investment restriction.

The Law of the PRC on Chinese-Foreign Equity Joint Ventures (Amendment 2016) (《中華人民共和國中外合資經營企業法(2016年修正)》), Regulation on the Implementation of the Law of the PRC on Chinese-Foreign Equity Joint Ventures (Revision 2014 & 2019) (《中華人民共和國中外合資經營企業法實施條例(2014、2019年修訂)》), the Catalog of Industry Guidance for Foreign Investment (Revision 2017) (《外商投資產業指導目錄(2017年修訂)》) and the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》) did not specify fines or penalties for non-compliance with the requirement of Restrictions on Chinese Holding of foreign investment policy.

The PRC Foreign Investment Law (《中華人民共和國外商投資法》) and Regulation for Implementing the PRC Foreign Investment Law (《中華人民共和國外商投資法實施條例》) now in effect stipulate that the commerce departments of a local people’s government at or above the county level shall be responsible for the promotion, protection, and administration of foreign investment and implementation of the “negative list of foreign investment” within its statutory regime.

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LAWS AND REGULATIONS ON ADMINISTRATIVE PENALTY

According to the Law of the PRC on Administrative Penalty (Amendment 2017) (《中華人民共和國行政處罰法(2017年修正)》) then effective and the Law of the PRC on Administrative Penalty (Revision 2021) (《中華人民共和國行政處罰法(2021年修訂)》) now in effect, except as otherwise provided by the law, no administrative penalty shall be imposed where a continuous illegal act has not been discovered within two years since the date of termination of such an illegal act.

NATURAL GAS INDUSTRY

Industry Policies

On 14 October 2012, the NDRC promulgated the Policies on the Utilisation of Natural Gas (《天然氣利用政策》2012年第15號令). Under the policy, the usage of natural gas is categorised into city gas, industrial fuel, power generation by natural gas, and chemical engineering using natural gas. Balancing factors such as its social, environmental and economic benefits, and the different profiles of its users, natural gas utilisation is divided into the following categories: prioritised, permitted, restricted and prohibited.

On 7 June 2014, the General Office of the State Council promulgated the Energy Development Strategy Action Plan (《能源發展戰略行動計劃(2014-2020年)》國辦發[2014]31號). According to the Plan, by 2020, natural gas is expected to account for 10% for the proportion of primary energy consumption.

On 24 December 2016, the NDRC promulgated the Notice on Petroleum and Natural Gas Development 13th Five-Year Plan (《石油天然氣發展“十三五”規劃》發改能源[2016]2743號). According to the Plan, Natural gas will become one of the main energy sources. The main tasks of natural gas development are follows: strengthening exploration and development to increase domestic resource supply; accelerating construction of natural gas pipeline networks; accelerating construction of gas storage facilities and increasing peak-shaving reserves and capacity; fostering natural gas market and promote efficient utilisation.

In May 2017, the CPC Central Committee and the State Council promulgated the Advice on Deepening the Reform of Petroleum and Gas system (《關於深化石油天然氣體制改革的若干意見》). According to the Advice, Natural gas peaking policy (天然氣調峰政策) and grading reserve peaking mechanism (分級儲備調峰制度) shall be established. Petroleum and natural gas safety reserve systems shall be improved.

On 23 June 2017, the NDRC promulgated the Advice on accelerating the use of natural gas (《加快推進天然氣利用的意見》(發改能源[2017]1217號)). According to the Advice, by 2030, natural gas is expected to account for 15% for the proportion of primary energy consumption. The natural gas pricing market-oriented reform for non-domestic use shall be accelerated, while natural gas pricing system for domestic use shall be further improved.

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On 26 April 2018, the NDRC and the National Energy Administration promulgated the Advice on Gas Storage and Market Mechanism, pursuant to which every gas supply enterprise shall establish a storage system. By 2020, city gas enterprises are encouraged to establish natural gas reserves and have the capacity of storing natural gas of not less than 5% of their annual consumption volume. If any city gas enterprise fails to maintain a gas storage capacity of 5% of annual gas consumption by the end of 2020, and is still in the situation of shortage of gas supply for successive years and refuse to sign a sales contract to make up for the shortage, the competent administrative department for gas operation should order it to strengthen rectification, and may further revoke the gas business licence and the franchise right in accordance with laws and regulations such as the Regulation on the Administration of Urban Gas. Local governments and enterprises that breach contracts and fail to provide adequate assurance of gas supply shall be included in the list of dishonesty according to relevant regulations, and joint punishment shall be carried out for serious violations of laws and dishonesty. Please refer to the paragraph headed “Business – Principal PNG Operational Facilities – Natural gas stations – LNG storage station” for details of the Group’s compliance in this regard.

On 30 August 2018, the State Council promulgated the Advice on Promoting Coordinated and Stable Development of Natural Gas (《關於促進天然氣協調穩定發展的若干意見》國發[2018]31號). According to the Advice, urban gas enterprises are responsible for establishing a multi-level gas storage system, establishing and improving the natural gas supply-side management and peak regulation mechanism, straightening out the price mechanism for natural gas.

Pursuant to the Advice, it is crucial to strengthen system construction of gas production, supply, storage and sale, and promote dynamic balance of natural gas supply and demand. Urban gas enterprises are required to maintain a gas storage capacity of 5% of annual gas consumption by the end of 2020. Relevant departments shall be responsible for studying and promulgating measures to manage peak adjustment users, establishing and improving user system of graded peak adjustment, launching and implementing graded peak adjustment in accordance with the principles of safety assurance, advance notification, thorough communication and steady promotion. Actions shall be taken to rationalise the natural gas price mechanism through the implementation of residential gas price program and the rationalisation of the selling price of residential gas. The Advice also calls for the establishment of upstream and downstream natural gas price linkage mechanism, the improvement of regulatory rules, the perfection of the price adjustment disclosure system of public announcing and informing, and the establishment of the gas procurement cost constraint and incentive mechanism. The Advice suggests implementing differential price policies such as seasonal price difference and interruptible gas price, promoting price peak shaving and valley filling, and guiding gas enterprises to increase gas storage and adjustment capacity in low and high seasons, strengthening the price supervision of natural gas transmission and distribution, and effectively reducing the excessively high transmission and distribution prices in provincial areas. The Advice highlights the critical need of a safety operation mechanism of the entire natural gas industry chain, under which all types of urban gas enterprises should effectively implement the main responsibility for production safety, establish and improve production safety mechanisms and management systems, strictly control the quality of works, strengthen the

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maintenance and inspection of facilities, manage and avoid all types of risks, and promptly investigate and eliminate potential safety hazards.

On 20 January 2020, the ZJDRC and Zhejiang Energy Regulatory Office of National Energy Administration issued the Notice on Issuing of the Summary of Structural Reforms in Energy Sector in 2020 (《關於印發2020年浙江省能源領域體制改革工作要點的通知》浙發改能源[2020]12號), pursuant to which the Zhejiang government aims to (i) discontinue the monopoly status of the provincial natural gas pipeline companies; (ii) separate the function of natural gas sale, distribution and transmission at provincial level; (iii) promote the fair and equal access to the infrastructure of natural gas, such as provincial pipeline network and LNG terminals, by all market entities; and (iv) reform and simplify the natural gas supply chain.

The 2020 Summary calls for speeding up the reform of the system in the natural gas energy sector, which requires: (i) promoting steadily the reform of pipeline network independence, the separation of transmission and sales, to establish a mixed-ownership provincial pipeline network companies with the participation of central enterprises, local state-owned assets and various social capitals, and to promote the fair and equal access to the infrastructure of the natural gas, which includes provincial pipeline networks and LNG terminals for all market entities; (ii) deepening the reform of natural gas prices. During the reform transition period, a government-led price linkage mechanism will be implemented, under the guidance of which the price at city gateway stations will be determined according to the low and peak seasons and the highest price of the terminal will be determined considering the cost of gas distribution, to establish a notification system of terminal natural gas prices to the main leaders of cities and counties, to establish a third-party monitoring and evaluation mechanism for natural gas prices in 2020; (iii) promoting the flattening and large-scale reform of urban gas, to release the Measures on Pipeline Gas Concession Evaluation Management of Zhejiang Province (《浙江省管道燃氣特許經營評估管理辦法》). People's governments of cities in Zhejiang with subordinated districts shall take the lead in formulating reform plans to comprehensively promote the flattening and large-scale reform of urban gas; (iv) innovating the construction of landing centre and operation system, to promote the formation of an LNG terminal project construction system featuring central enterprises, provincial state-owned enterprises, private capital, and foreign investment, with complementary advantages of all parties, and to promote the fair opening of LNG receiving stations to third parties.

On 10 April 2020, the NDRC, Ministry of Housing and Urban-Rural Development of the PRC, Ministry of Finance of the PRC, Ministry of Natural Resources of the PRC and the National Energy Administration jointly promulgated the Implementing Opinions on Accelerating the Building of the Natural Gas Reserve Capacity (《關於加快推進天然氣儲備能力建設的實施意見》發改價格[2020]567號). According to the Opinions, natural gas reserve capacity should be specified in concession agreements.

Urban gas planning and safety

According to the Regulation on the Administration of Urban Gas (《城鎮燃氣管理條例》) promulgated by the State Council on 19 November 2010 and amended on 6 February 2016, the department of housing and urban-rural development under the State Council shall, jointly with the relevant departments under the State Council,

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organise to formulate the national plan for gas development in accordance with the plan for national economic and social development, the overall plan of land utilisation, urban and rural planning and the energy programme and in light of the balance situation of the total amount of national gas resources and organise the implementation thereof. The gas administrative department of the local people's government at or above the county level shall, jointly with the relevant departments, organise to formulate the plan for gas development of its respective administrative region in accordance with the plan for national economic and social development, the overall plan for land utilisation, the urban and rural planning, the energy programme and the plan for gas development of the next higher level, organise the implementation thereof upon the approval of the people's government at the same level and file it with the gas administrative department of the people's government at the next higher level for archival purpose.

According to the Regulation on the Administration of Urban Gas (《城鎮燃氣管理條例》), gas enterprises shall set up protective devices and safety warning signs, conduct regular inspections, testing, repair and maintenance to ensure the safe operations of fuel gas facilities. In addition, gas enterprises shall draw up the pre-emergency plan on fuel gas accidents, assign emergency response personnel and the necessary emergency response equipment, devices as well as conduct regular drills.

CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

According to the Measures for the Administration on the Franchise of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 19 March 2004 and amended on 4 May 2015 and the Measures for the Administration of Concession for Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》) mainly promulgated by the NDRC on 25 April 2015 and came into effect on 1 June 2015. (hereinafter collectively referred to as the “**Concession Right Measures**”), the Concession Right Measures governing the grant of concession right for municipal public utilities projects are applicable to municipal public utilities projects including supply of natural gas projects. The Concession Right Measures are applicable to the grant and period of concession right, the qualification of enterprises for applying concession right, major clause of a concession contract, responsibility for enterprises with concession right and changes and termination of concession right and others.

Grant of concession right

According to the Concession Right Measures, government authorities at or above the county level shall select investors or operators of municipal public utilities projects through competitive modes such as public bidding and competitive negotiation with concession agreements. The conditions and selection process for the selection of investors or operators have also been stipulated therein. However, the Concession Right Measures provide no penalty for acquisition of concession right without adopting competitive methods. Notwithstanding the above, the Concession Right Measures penalises the acquisition of concession rights through fraud, bribery and other improper means, exposes serious violations of law and dishonesty, and implements joint punishments with relevant departments. The Concession Right

REGULATORY OVERVIEW

Measures require written concession agreements to be entered into for all municipal public utilities projects. The parties of the concession agreement shall enter into (a) supplement agreement(s) or amendment(s) to revise or alter the terms or conditions of the concession agreement if necessary during the period of the concession agreement. The Concession Right Measures stipulate that people's governments at or above the county level and relevant departments shall supervise and manage concession operations.

The Terms of Concession Agreements

According to the Concession Right Measures, concession agreements shall contain main provisions regarding the following:

- The content, region and duration of the concession;
- Product quantity, measurement standards and service specifications;
- Methods and principles for determining and adjusting gas prices and other charging standards;
- Safety of city gas supply and safeguard measures;
- The ownership and disposal authority of the facility;
- Quality standards for maintenance, renovation and handover of facilities;
- The change, transfer and termination of the concession right;
- Performance guarantee;
- Default liabilities and resolution of disputes;
- Risk allocation during the concession period;
- The business scope, registered capital, capital contribution and equity transfer of the project company;
- Investment and financing term and method;
- The emergency plan and the temporary take-over plan;
- The mode, procedure, and requirements of project and asset transfer after the expiration of the term of concession;
- Other matters that should be agreed upon.

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The Period of concession right

According to the Concession Right Measures, the period of concession right of municipal public utilities projects shall not exceed thirty years. After the expiration of the terms, the government authorities shall adopt competitive modes such as public biddings to re-select the concessionaire. Under the same condition, preferential access to concession right shall be given to the former concessionaire.

BUSINESS QUALIFICATIONS AND LICENCES

Gas Operation Licence

According to the Measures for the Gas Operation Licence Management (《燃氣經營許可管理辦法》) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 19 November 2014 and amended on 11 March 2019 and the the Regulations on the Administration of Gas in Zhejiang Province (《浙江省燃氣管理條例》), gas enterprises shall obtain gas operation licences from the competent administrative department.

Registration for Use of Special Equipment

According to the Law of the PRC on the Safety of Special Equipment (《中華人民共和國特種設備安全法》) promulgated by the Standing Committee of National People's Congress on 29 June 2013 and the Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) promulgated by the State Council on 11 March 2003 and amended on 24 January 2009, an special equipment catalogue shall be formulated by the department of the State Council that is in charge of the safety supervision and administration of special equipment. Entities using special equipment listed in the catalogue shall use special equipment that has been issued the production licence and that has passed inspection. An entity using special equipment shall, before or within thirty days after using special equipment, go through use registration with the safety supervision and administration of special equipment.

CONSTRUCTION OUTSOURCING

According to the Construction Law of the PRC (《中華人民共和國建築法》) promulgated by the Standing Committee of National People's Congress on 1 November 1997 and latest amended on 23 April 2019, for a construction project following contract issuance through tender, the contract issuing unit shall award the contract of the construction project to the contracting unit winning the bid in accordance with law. For a construction project following direct contract issuance, the contract issuing unit shall award the contract of the construction project to the contracting unit with corresponding human quality qualifications. It shall not dismember a construction project which should be completed by one single contracting unit into several parts for awarding contracts to several contracting units.

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PRICING OF NATURAL GAS

For specification of our Group's compliance with the various pricing laws in relation to pricing of natural gas during the Track Record Period, please refer to the paragraph headed "Business – Pricing of PNG" in this prospectus.

Pursuant to the PRC Pricing Law (《中華人民共和國價格法》) promulgated by the Standing Committee of National People's Congress on 29 December 1997, the government may enforce government-guided prices or government-set prices when necessary for the prices of the following commodities and services: (1) the prices of an extremely small number of commodities vital for the development of the national economy and people's life; (2) the prices of a small number of commodities the resources of which are rare or short; (3) the prices of commodities under natural monopoly management; (4) the price of essential utilities; and (5) the prices of essential non-profit services. The pricing authority and the scope of application of the government-guided prices and government-set prices are regulated in the central and local priced catalogues.

According to the Pricing Catalogues of Zhejiang Province (《浙江省定價目錄》) promulgated by the Zhejiang Commodity Price Bureaux on 5 January 2018, prices of national gas from provincial pipeline networks sold to city gas enterprises are determined by the pricing bureaux of provincial government.

On 31 August 2018, the Zhejiang Commodity Price Bureaux promulgated the Measures of Urban Gas Price Management in Zhejiang Province (《浙江省城鎮燃氣價格管理辦法》). According to the Measures, gas distribution prices are divided into residential usage and non-residential usage, which are reasonably determined on the basis of the approved average gas distribution prices based on user characteristics and cost differences. The difference of the prices between residential usage and non-residential usage is controlled within a reasonable cost difference. The gas distribution prices should be checked regularly, and the check cycle should not exceed 3 years in principle.

According to the Measures for Supervising the Pricing of Urban Gas Distribution in Zhejiang Province (《浙江省城鎮燃氣配氣定價成本監審辦法》) (Zhe Jia Zi [2018] No. 127) issued by the Zhejiang Provincial Price Bureau under the Zhejiang Provincial Development and Reform Commission on 31 August 2018, pricing costs of urban gas distribution are made up of depreciation, amortisation, operation and maintenance fees. Depreciation and amortisation fees refer to the fees calculated based on the depreciation and amortisation periods for the original values of fixed assets and intangible assets relating to the urban gas distribution service, including depreciation and amortisation fees in management fees and sales fees. Operation and maintenance fees refer to the fees incurred to maintain the normal operation of the urban gas distribution, including direct gas distribution costs, management fees and sales fees. The measures further define the direct gas distribution costs, management fees and sales fees.

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According to the Notice on Setting the Price of Pipeline Natural Gas Distribution for Non-residential Use in Huzhou City and the Establishment of an Upstream and Downstream Price Linkage Mechanism (《關於制定湖州市區非居民管道天然氣配氣價格及建立上下游價格聯動機制的通知》) issued by the HZDRC on 4 December 2019 and implemented from 1 November 2019, the highest price of pipeline natural gas for Huzhou non-residential use was RMB0.70/m³; the terminal sales price of pipeline natural gas for urban non-residential use is composed of purchase prices (prices at city gateway station) and gas distribution prices, and determined by the gas enterprises in consultation with the user according to the actual situation. A pipeline natural gas upstream and downstream price linkage mechanism for urban non-residential is required to be established.

The guidance prices for PNG sales implemented in Huzhou during the Track Record Period and up to the Latest Practicable Date are as follows:

On 30 September 2015, the HZDRC issued the Notice on Implementation of Laddered Pricing on Natural Gas for Huzhou Residential Usage (《關於湖州市區居民生活用天然氣實行階梯價格制度的通知》), from 1 November 2015, natural gas prices implement progressive pricing rate on excess usage. The price for usage under 300 m³ annually is RMB2.92/m³; the price for portion between 300 and 500 m³ annually is RMB3.50/m³; the price for portion beyond 500 m³ annually is RMB4.38/m³. The natural gas price for places for public services including schools, religious places and social welfare places is RMB3.21/m³.

On 29 September 2017, the HZDRC issued the Notice on Reducing Natural Gas prices for Huzhou non-Residential Usage (《關於降低湖州市區非居民用天然氣銷售價格的通知》), from 1 September 2017, the highest natural gas price for Huzhou non-residential usage was adjusted from RMB3.22/m³ to RMB3.10/m³.

On 4 December 2018, the HZDRC issued the Notice on Adjusting Natural Gas prices for Huzhou non-Residential Usage (《關於調整湖州市區非居民用天然氣銷售價格的通知》), the highest natural gas price for Huzhou non-residential usage was adjusted from RMB3.10/m³ to RMB3.70/m³; the applicable period was from 1 November 2018 to 31 March 2019.

On 26 April 2019, the HZDRC issued the Notice on Adjusting Natural Gas prices for Huzhou non-Residential Usage (《關於調整湖州市區非居民用天然氣銷售價格的通知》), the highest natural gas price for Huzhou non-residential usage was adjusted from RMB3.70/m³ to RMB3.42/m³; the applicable period was from 1 April 2019 to 31 October 2019.

On 13 December 2019, the HZDRC issued the Notice on Adjusting Natural Gas prices for non-Residential Usage in Urban Area (《關於調整市區非居民用天然氣銷售價格的通知》), the highest natural gas price for non-residential usage in urban area was adjusted from RMB3.42/m³ to RMB3.46/m³; the applicable period was from 1 November 2019 to 31 March 2020.

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On 20 April 2020, the HZDRC issued the Notice on Temporarily Adjusting Pipeline Natural Gas prices for non-Residential Usage in Urban Area (《關於階段性調整市區非居民用管道天然氣銷售價格的通知》), the highest natural gas price for non-residential usage in urban area was adjusted to RMB3/m³; the applicable period was from 22 February 2020 to 30 June 2020.

On 23 July 2020, the HZDRC issued the Notice on Temporarily Adjusting Pipeline Natural Gas prices for non-Residential Usage in Urban Area (《關於階段性調整市區非居民用管道天然氣銷售價格的通知》), the highest natural gas price for non-residential usage in urban area was adjusted to RMB2.75/m³; the applicable period was from 1 July 2020 to 31 October 2020.

On 9 December 2020, the HZDRC issued the Notice on Adjusting Pipeline Natural Gas prices during Heating Season in Urban Area (《關於調整市區供暖季管道天然氣銷售價格的通知》), the highest natural gas price for non-residential usage in urban area was adjusted to RMB3.10/m³, the applicable period was from 1 November 2020 to 31 March 2021; from 1 January 2021, the natural gas price of residential usage for portion beyond 500 m³ annually is RMB3.50/m³.

On 19 May 2021, the HZDRC issued the Notice on Adjusting Pipeline Natural Gas prices for Huzhou non-Residential Usage during Non-heating Season (《關於調整市區非採暖季非居民用管道天然氣銷售價格的通知》), the highest natural gas price for non-residential usage in urban area is adjusted to RMB2.96/m³; the applicable period is from 1 April 2021 to 31 October 2021.

On 14 December 2021, the HZDRC issued the Notice on Adjusting Pipeline Natural Gas prices for Huzhou non-Residential Usage during Heating Season (《關於調整市區供暖季非居民用管道天然氣銷售價格的通知》), the highest natural gas price for non-residential usage in urban area is adjusted to RMB4.69/m³; the applicable period is from 1 November 2021 to 31 March 2022.

The guidance prices for gateway stations implemented in Huzhou during the Track Record Period and up to the Latest Practicable Date are as follows:

On 8 September 2017, the Zhejiang Commodity Price Bureaux issued the Notice on strengthening Supervision on Natural Gas Prices and Reducing Natural Gas Prices for non-Residential Usage (《關於加強天然氣價格監管降低非居民用天然氣價格的通知》), from 1 September 2017, the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises for non-residential usage was adjusted from RMB2.19/m³ to RMB2.09/m³.

On 3 May 2018, the Zhejiang Commodity Price Bureaux issued the Notice on Increasing Natural Gas Prices of Gateway Stations for non-Residential Usage (《關於提高非居民用天然氣門站價格的通知》), from 1 May 2018, the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises for non-residential usage was adjusted from RMB2.09/m³ to RMB2.19/m³.

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On 30 October 2018, the ZJDRC issued the Notice on Increasing Natural Gas Prices of Gateway Stations for non-Residential Usage (《關於提高非居民用天然氣門站價格的通知》), the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises for non-residential usage was adjusted from RMB2.19/m³ to RMB2.85/m³; the applicable period was from 1 November 2018 to 31 March 2019.

On 12 April 2019, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of gateway stations (《關於調整天然氣門站價格的通知》), the natural gas price ceiling of Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises for non-residential usage was adjusted from RMB2.85/m³ to RMB2.58/m³; the natural gas price ceiling of Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises for residential usage was adjusted from RMB2.42/m³ to RMB2.58/m³; the applicable period was from 1 April 2019 to 31 October 2019.

On 29 November 2019, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of gateway stations (《關於調整天然氣門站價格的通知》), the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises was adjusted from RMB2.58/m³ to RMB2.76/m³; the applicable period was from 1 November 2019 to 31 March 2020.

On 11 February 2020, the ZJDRC issued the Notice on Temporarily Reducing Prices of Gas, Water and Electricity for Enterprises During the Epidemic Prevention of COVID-19 (《關於新冠肺炎防疫期間臨時降低企業用氣用水用電價格的通知》), the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises was reduced by RMB0.14/m³; the applicable period was from 1 February 2020 to 30 April 2020.

On 26 March 2020, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of Gateway Stations (《關於調整天然氣門站價格的通知》), the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises was adjusted from 2.62/m³ to RMB2.38/m³; the applicable period was from 22 February 2020 to 30 June 2020.

On 10 July 2020, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of Provincial Gateway Stations (《關於調整天然氣省級門站價格的通知》), the natural gas price ceiling Zhejiang Zheneng Natural Gas Pipeline Co., Ltd. selling to city gas enterprises was adjusted from RMB2.38/m³ to RMB2.13/m³; the applicable period was from 1 July 2020 to 31 October 2020.

On 20 November 2020, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of Provincial Gateway Stations during Heating Season (《關於調整供暖季天然氣省級門站價格的通知》), the natural gas price ceiling Zhejiang Zheneng Natural Gas Pipeline Co., Ltd. selling to city gas enterprises was adjusted from RMB2.13/m³ to RMB2.50/m³; the applicable period was from 1 November 2020 to 31 March 2021.

On 15 April 2021, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of Provincial Gateway Stations during Heating Season (《關於調整非採暖季天然氣省級門站價格的通知》), the natural gas price ceiling Zhejiang Zheneng Natural Gas Pipeline Co., Ltd. selling to city gas enterprises is adjusted from RMB2.50/m³ to RMB2.26/m³; the applicable period is from 1 April 2021 to 31 October 2021.

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On 17 November 2021, the ZJDRC issued the Notice on Adjusting Natural Gas Prices of Provincial Gateway Stations during Heating Season (《關於調整供暖季天然氣省級門站價格的通知》) the natural gas price ceiling Zhejiang Zheneng Natural Gas Pipeline Co., Ltd. selling to city gas enterprises is adjusted from RMB2.26/m³ to RMB3.99/m³; the applicable period is from 1 November 2021 to 31 March 2022.

PRICING OF CONSTRUCTION AND INSTALLATION SERVICES

According to the Notice on Further Regulating the Charges for the Pre-burial and Renovation of Pipeline Gas Facilities (《關於進一步規範管道燃氣設施預埋和改造收費的通知》) issued by the Zhejiang Commodity Price Bureaux on 9 May 2012, people's governments of cities with divisions set the standard on charges for the pre-burial and renovation of pipeline gas facilities.

According to the Notice on Regulating the Charges for the Pre-burial and Renovation of Pipeline Gas Facilities in Huzhou (《關於規範湖州市區管道燃氣設施預埋和改造收費的通知》) issued by the HZDRC on 9 August 2012, the pre-burial charge of pipeline gas facilities for multistory residential buildings was RMB2,800/unit; the pre-burial charge of pipeline gas facilities for high-rise multistory residential buildings and villas (including townhouses) was RMB3,000/unit; the renovation charge was RMB1,500/unit.

According to the Notice on Adjusting the Charges for the Pre-burial of Pipeline Gas Facilities in Huzhou (《關於調整湖州市區住宅小區管道燃氣設施預埋費的通知》) issued by the HZDRC on 8 December 2014, the pre-burial charge of pipeline gas facilities for townhouses was adjusted to RMB4,000/unit; the pre-burial charge of pipeline gas facilities for villas was adjusted to RMB5,000/unit.

According to the Notice on Regulating the Charges for the Pre-burial and Renovation of Pipeline Gas Facilities for Non-Residential Users (《關於規範非居民用戶管道燃氣設施預埋和改造收費行為的通知》), issued by Zhejiang Commodity and Price Bureaux on 12 October 2016, gas enterprises shall not charge any fee other than charges for pre-burial or renovation of pipeline gas facilities, to non-residential users who apply for activation or renovation of pipeline gas.

The Opinions on Installation Charges for Pipeline Gas Constructions (《關於規範城鎮燃氣工程安裝收費的指導意見》發改價格[2019]1131號) jointly issued by the NDRC, the Ministry of Housing and Urban-rural Development and the State Administration for Market Regulation on 27 June 2019 explicitly states that the charging scope for installation of gas projects should be limited to the users' assets within the red line of building zoning and should not extend beyond the red line for the places where a competitive market system for installation of gas projects has not been established, and the charging standards are included in the government pricing catalogue for management, local competent price authorities must establish and perfect a supervision mechanism, strengthen the cost investigation and supervision, and reasonably determine the charging standards in line with the advanced level of the industry and the level of the surrounding areas. The cost-profit rate in principle shall not exceed 10%; for the places where the charging standards for installation of urban gas projects are formed in the market, project installation enterprises shall reasonably determine the charging standards according to principles of fairness, lawfulness,

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honesty and good faith, and shall not commit unfair price acts such as price fraud, price collusion and profiteering.

According to the Notice on Strengthening Supervision on Natural Gas Price (《關於加強天然氣價格監管的通知》) (Zhe Fagai Jiage [2020] 349) issued by the ZJDRRC, the Huzhou Urban and Rural Construction Bureaux, and Zhejiang Administration for Market Regulation on 10 November 2020, divisions of the Development and Reform Commission at city and county level shall set the standard on charges for the pre-burial and renovation of pipeline gas facilities for residential users in accordance with the principles of preserving margin and low profit and taking into account the affordability of consumers. It shall be formulated, and the current charging standards shall be lowered in time if the current charging standards are too high.

According to the Notice on Regulating and Adjusting the Installation Charges for Pipeline Gas Constructions in Huzhou (《關於規範和調整湖州市區管道燃氣工程安裝收費的通知》) issued by the HZDRRC and the Huzhou Urban and Rural Construction Bureaux on 8 April 2020, installation charges for pipeline gas construction consist of pre-burial charges and renovation charges of pipeline gas facilities. Installation charges for non-residential pipeline gas construction is negotiated between gas enterprises and customers based on costs. Installation charges for residential pipeline gas construction are restricted by government-guided ceiling charges, among which, the pre-burial charge of pipeline gas facilities is RMB2,800/unit, RMB3,000/unit, RMB4,000/unit, and RMB5,000/unit for multistory residential buildings, high-rise multistory residential buildings, townhouses, and villas respectively; the renovation charge of pipeline gas facilities is RMB1,200/unit, RMB3,000/unit, and RMB3,500/unit for multistory residential buildings, townhouses, and villas respectively.

DISTRIBUTED PHOTOVOLTAIC POWER GENERATION BUSINESS

Distributed photovoltaic power generation business falls within the scope of renewable energies as defined in the Renewable Energy Law of the People's Republic of China (Revised in 2009). Therefore, energy administrative departments of local governments at or above the county level are responsible for administering the development and utilisation of the photovoltaic power generation business within their respective administrative regions.

On 18 November 2013, the National Energy Administration (the "NEA") issued the Circular on Printing and Distributing the Interim Administrative Measures for Distributed Photovoltaic Power Generation Projects (Guo Neng Xin Neng [2013] No. 433), providing for the scale management, project filing, construction requirements, connection to and operation of power grids, generation measurement and settlement, industrial information monitoring and liability for non-compliance of distributed photovoltaic power generation projects. This document stipulates that the energy administrative departments at or below provincial level shall conduct filing administration over distributed photovoltaic power generation projects, and require project owners to sign a relevant site using or leasing agreement with the owner of the architecture, sites and facilities which the project relies on.

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On 28 May 2019, the NEA issued the Circular on Matters Concerning the Construction of Wind Power and photovoltaic Power Generation Projects in 2019 (Guo Neng Fa Xin Neng [2019] No. 49), requiring “to actively promote the construction of grid connection projects at fair prices; to strictly regulate the allocation of subsidised projects in competition; to comprehensively implement the conditions for power distribution and consumption; and to optimise the investment and business environment.”

The Regulation on Promoting the Development and Utilisation of Renewable Energy in Zhejiang Province (Revised in 2021) provides for relevant provisions on the development and utilisation, support, promotion and management of renewable energy in Zhejiang Province. The document stipulates that relevant departments and institutions of the people’s governments at or above the county level are responsible for the management of development and utilisation of renewable energy within their respective scope of duties. Zhejiang Province encourages the development of distributed renewable energy generation systems in development zones (parks), industry cluster areas, higher education parks and other areas with concentrated energy load.

According to the Notice on Implementing the Reform Spirit of “Release, Management and Service” and Optimising the Management of Power Business Licence (《關於貫徹落實“放管服”改革精神優化電力業務許可管理有關事項的通知》) issued by the National Energy Administration on 23 March 2020, distributed power generation projects are not required to obtain a power business licence under the said notice.

Price control policy of distributed photovoltaic power generation project

According to the Renewable Energy Law of the People’s Republic of China (Amended in 2009), the on-grid price of electricity generated by renewable energy resources shall be determined by the price authorities of the State Council according to the characteristics of different types of renewable resources power generation and conditions of different regions in the principle of promoting development and utilisation and economic reasonableness, and shall be adjusted in a timely manner according to technological development. The on-grid price shall be publicised. On 7 January 2019, the National Development and Reform Commission and the NEA issued the Circular on Actively Promoting the Work relating to the Grid Connection without Subsidy for Wind Power and Photovoltaic Power Generation at a Fair Price (Fa Gai Neng Yuan [2019] No.19), promoting the development of wind power and photovoltaic power generation without subsidy through market-oriented electricity transactions. According to the Circular on Matters Concerning the On-grid Price Policies for New Energy in 2021 (Fa Gai Jia Ge [2021] No. 833) promulgated by the National Development and Reform Commission on 7 June 2021 and effective as at 1 August 2021, for newly filed industrial and commercial distributed photovoltaic power generation projects, no longer will they be subsidised by the central government and the grid connection will be implemented at a fair price.

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Ratification is not necessary for distributed photovoltaic power generation programmes to connect to the State Grid Corporation of China

On 18 November 2013, the NEA issued the Circular on Printing and Distributing the Interim Measures for the Administration of Distributed Photovoltaic Power Generation Projects (Guo Neng Xin Neng [2013] No. 433), which stipulates that for distributed photovoltaic power generation projects with a voltage of 35 kilovolts and below connected to the grid, power grid enterprises at the city or county level shall go through the relevant grid-connection procedures in compliance with the simplified procedures. The Opinions on Improving the Grid Connection Services of Distributed Power Supply promulgated by the State Grid Corporation of China in February 2013 and effective from 1 March 2013 stipulates that the customer service centres of the State Grid Corporation of China at city or county level shall provide the service of accepting the access applications for owners of distributed photovoltaic power generation projects.

VAPOUR GENERATION STATIONS

According to Regulations on the Administration of Approval and Filing of Enterprise Investment Projects (Order No. 673 of the State Council of the people's Republic of China) (《企業投資專案核准和備案管理條例》，中華人民共和國國務院令第673號) implemented on 1 February 2017, projects related to national security, major productivity distribution, strategic resource development and major public interests are subject to approval management. The specific project scope, the approval authority and the approval power shall be implemented in accordance with the catalogue of investment projects approved by the government.

According to the Notice of the State Council on Issuing the Catalogue of Investment Projects Approved by the Government (2016 version) (國務院關於發佈政府核准的投資專案目錄(2016年本)的通知》，國發[2016]72號) implemented on 12 December 2016, the cross-border and cross-provincial (district, city) trunk pipeline network projects shall be approved by the competent investment department of the State Council, and the cross-border projects shall be reported to the State Council for the record, and other projects are approved by local governments.

According to the Notice of People's Government of Zhejiang Province on Issuing the Catalogue of Investment Projects Approved by the Government (2017 edition of Zhejiang Province) (《浙江省人民政府關於發佈政府核准的投資專案目錄(浙江省2017年本)的通知》) and the Catalogue of Investment Projects Approved by the Government (2017 edition of Zhejiang Province) (《政府核准的投資專案目錄(浙江省2017年本)》) issued by Zhejiang Government on 3 May 2017, the cross-border and cross-provincial (district, city) trunk pipeline network projects shall be approved by the competent investment department of the State Council, and the cross-border projects shall be reported to the State Council for the record, projects across districts and cities shall be approved by the provincial government, and other projects shall be approved by municipalities with districts.

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According to the Circular on Issuing the Catalogue of Examination and Approval Items for Investment Projects of Zhejiang Province (2020) (Zhe Zheng Ban Fa [2020] No.48) issued by the General Office of the People's Government of Zhejiang Province, the implementation organs for the approval of enterprise investment projects (infrastructure construction) are the development and reform authorities, the rural agriculture departments of provinces, cities (with subordinated districts) and counties, cities or districts.

As advised by our PRC Legal Advisers, our Group's planned establishment of vapour generation stations would require the approval from the HZDRC.

The vapour generation station project shall be submitted to HZDRC for approval, and the application processes shall be completed on the online approval and regulation platform for investment projects of the Zhejiang Provincial Government Service Network.

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, there were no applicable laws and regulations in relation to pricing of heat energy or vapour in the PRC.

For our establishment of vapour generation station and the vapour pipelines, please refer to the paragraph headed "Business – Promote the use of heat energy from vapour generated by our natural gas through natural gas boilers" in this prospectus for details.

LAND-USE RIGHTS, PLANNING AND CONSTRUCTION PERMIT

Land-use rights

According to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) promulgated by National People's Congress on 25 June 1986 and last amended on 26 August 2019, land owned by the State may be remised or allotted to construction units or individuals in accordance with the law. The People's Government at or above the county level shall register and put on record uses of state-owned land used by construction units or individuals, and issue certificates to certify the land use rights.

In accordance with the Law of the PRC on the Administration of the Urban Real Estate (《中華人民共和國城市房地產管理法》) promulgated by the Standing Committee of National People's Congress on 5 July 1994 and last amended on 26 August 2019, the State practises the system of using State-owned lands under due compensation and terms of using the land except the use of State-owned land allocated by the State according to this law. The right of land use shall be remised through auction, bidding or agreement between the related parties. A written contract for the remise shall be signed on the remise of the right to use land, and the land users should pay the remise money for the right of land use in accordance with the contract for the remise.

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Construction Land Planning Permit

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of National People's Congress on 28 October 2007 and last amended on 23 April 2019, a Construction Land Planning Permit is required for the use of both allocated land and granted land.

Construction Work Planning Permit

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), where construction work is conducted in a city or town planning area, the relevant construction entity or individual shall apply for a Construction Work Planning Permit from a competent urban and rural planning administrative department of the People's Government at the municipal or county level or the People's Government at the municipal or county level or to the People's Government of town as recognised by the People's Government of a province, autonomous region or municipality.

Construction Work Commencement Permit

According to the Construction Law of the PRC (《中華人民共和國建築法》) promulgated by the Standing Committee of National People's Congress on 1 November 1997 and last amended on 23 April 2019, a construction entity shall, prior to the commencement of a construction project, apply for a Construction Work Commencement Permit from a competent department of the Construction Administration of the People's Government at or above the county level of the place where the project is located pursuant to the relevant regulations, except for small projects below the threshold value set by the competent construction administrative department under the State Council. Construction projects which have obtained approval of construction commencement reports in accordance with the procedures stipulated by the State Council under its authority are no longer required to apply for construction licences.

Acceptance on Completion of Construction

According to the Rules of As-built Inspection of Housing, Building and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 2 December 2013, after completing the project, an inspection team comprising design, survey, construction, supervision units should be established. Each unit is required to report the compliance status of engineering contracts, the implementation of laws, regulations and mandatory standards for construction in various aspects of the construction.

According to the Administrative Measures for the Filing of As-built Inspection of Housing, Building and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 19 October 2009, a construction entity shall go through the filing formalities with the construction administrative department of the people's government at or above the county level at the place where the project is located within 15 days as of the date on which the as-built inspection of the project is passed.

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PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated by the Standing Committee of National People's Congress on 26 December 1989 and amended on 24 April 2014, enterprises, public institutions and other producers and business operators that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation, etc. generated during production, construction or other activities. Enterprises and public institutions that discharge pollutants shall each establish an environmental protection responsibility system, and specify the responsibilities of the persons in charge and relevant personnel thereof. Facilities for the prevention and control of pollution in a construction project shall be designed, built and put into production and use together with the principal part of the project. The preparation of relevant development and utilisation plans and the construction of the projects having impact on environment shall be subject to environmental impact assessment in accordance with the law. For any development and utilisation plan, in absence of the environmental impact assessment in accordance with the law, the plan shall not be implemented; for any construction project, in absence of the environmental impact assessment in accordance with the law, the construction of the project shall not be commenced.

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated by the Standing Committee of National People's Congress on 28 October 2002 and last amended on 29 December 2018 and the Rule on Classification for Environmental Impact Assessment of Construction Projects (《建設項目環境影響評價分級審批規定》) promulgated by the Ministry of Environmental Protection on 16 January 2009, the PRC government has established a system to appraise the environmental impact of construction projects and classify the appraisal based on the degree of environmental impact caused by the construction project. In the event of significant environmental impact, an environmental impact appraisal report shall include a comprehensive appraisal on the possible environmental impact; in the event of slight environmental impact, an environmental impact report shall include an analysis or special appraisal on the environmental impact; and in the event of minimal environmental impact, no environmental impact appraisal is required but an environmental impact form shall be filed. The registered report should be approved by competent administrative department before starting construction.

PRC LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION

According to the PRC Labour Law (《中華人民共和國勞動法》) promulgated by the Standing Committee of National People's Congress on 5 July 1994 and last amended on 29 December 2018 and the PRC Labour Contract Law (《中華人民共和國勞動合同法》) which was promulgated by the Standing Committee of National People's Congress on 29 June 2007 and further revised on 28 December 2012 together with relevant labour laws and regulations, if an employment relationship is established between the employer and its employees, written labour contracts shall be prepared and financial remuneration shall be paid by the employer to its employees. Such contracts shall stipulate statutory working hours and breaks and holiday system, guaranteeing the labours' rights of enjoying safe and healthy working environment and social insurance, and can only be terminated in accordance with relevant laws.

REGULATORY OVERVIEW

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the Standing Committee of National People's Congress on 28 October 2010 and last amended on 29 December 2018, employees shall participate in basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension, basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees while work-related injury insurance and maternity insurance contributions shall be solely undertaken by employers.

According to the Regulations on the Administration of Housing Fund (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999 and last amended on 24 March 2019, the employer must register with the applicable housing fund management centre and establish a special housing fund account in an entrusted bank. When employing new staff or workers, the employer shall undertake housing provident fund payment and deposit registration at a housing provident fund management centre within 30 days from the date of the employment.

The housing provident fund shall be contributed by both the employer and the employee. The employer shall pay the housing provident fund in the amount of the average monthly salary of the employee in the previous year times a certain deposited ratio designated to the employer, which shall not be less than 5% of an individual employee's monthly average wage of the preceding year. The employer shall pay up and deposit housing provident fund contributions in full in a timely manner. Late or insufficient payments are prohibited.

HISTORY AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

In June 2004, our Company was established in the PRC as a limited liability company. Since 2004 and 2009, we have been the exclusive distributor of PNG in the Wuxing Operating Area and Nanxun Operating Area, respectively, under the Concession Agreements. According to the F&S Report, (i) in 2021, the natural gas consumption volume in Huzhou represented 6.9% of the natural gas consumption volume in Zhejiang Province, which in turn represented 4.9% of the natural gas consumption volume in the PRC; and (ii) we were the largest PNG distributor in Huzhou in terms of urban natural gas sales volume in 2021, with a market share of 44.1% in Huzhou (where the top five PNG distributors in Huzhou together accounted for 92.1% of the entire Huzhou PNG distribution market). Our Operating Area is located within Wuxing District and Nanxun District, Huzhou. Wuxing District and Nanxun District in aggregate occupied 1,565 km², representing 26.9% of the total area of Huzhou as at 2020. However, our Operating Area does not necessarily equate to the entire statutory administrative areas of the Wuxing District and Nanxun District. According to the F&S Report, in 2021, the population density of the Wuxing District and Nanxun District was 1,200 people per km² and 776 people per km², respectively, which was higher than that of the entire Huzhou of 585 people per km². Please refer to the section headed “Business” in this prospectus for further details of our business operations.

On 16 June 2004, Huzhou Huaxing and Xinao Zhejiang Investment Limited (新奧浙江投資有限公司) (“**Xinao Zhejiang**”) founded our Company. Huzhou Huaxing was an indirect wholly-owned subsidiary of City Group which had been used as an investment vehicle by City Group for exclusively holding its equity interest in our Company until 1 April 2020, when such equity interest in our Company was transferred back to City Group at nil consideration as part of its group restructuring. City Group is a state-owned enterprise which was directly wholly-owned by Huzhou SASAC, a PRC government body which principally engaged in equity investment and management of state-owned financial assets as authorised by the relevant finance and regulatory bodies in the PRC. Xinao Zhejiang is a wholly-owned subsidiary of ENN Energy, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2688). In November 2005, Xinao Zhejiang transferred to ENN (China), another wholly-owned subsidiary of ENN Energy, its entire equity interest in our Company. We believe that, in the early stage of our development, our Group could leverage on the expertise and experience of ENN Energy in the clean energy and natural gas sectors in the PRC. Please also refer to the section headed “Relationship with Our Controlling Shareholders” in this prospectus.

Immediately following completion of the Global Offering, and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, we will be owned as to approximately 44.73% by City Group and 30.27% by ENN (China) which is wholly-owned by ENN Energy. Accordingly, City Group, ENN (China) and ENN Energy are regarded as our Controlling Shareholders upon Listing.

HISTORY AND CORPORATE STRUCTURE

In preparation for the Listing, our Company was converted into a joint stock company with limited liability on 2 April 2021 with a registered capital of RMB150,000,000. Further details of the major corporate development of our Company are set out under the paragraph headed “Establishment and Major Shareholding Changes Concerning our Company, our Subsidiaries and our Joint Ventures” in this section below.

MILESTONES

The following events are the key business and corporate milestones of our Group:

Year	Business development
December 2003	Huzhou Huaxing and Xinao Zhejiang entered into a joint venture agreement, as approved by Huzhou Foreign Trade and Economic Cooperation Bureau* (湖州市對外貿易經濟合作局), for the establishment of our Company, which shall have the exclusive rights to the construction and operation of piped gas in Huzhou city centre.
June 2004	Our Company was established and granted the exclusive rights to the investment, construction and operation of piped gas and the provision of relevant construction designs and the maintenance, operation, repair and emergency services of related pipeline facilities in the Wuxing Operating Area for a period of 30 years.
September 2009	Nanxun Xinao was established and granted the exclusive rights to the investment, construction and operation of piped gas and the provision of relevant construction designs and the maintenance, operation, repair and emergency services of related pipeline facilities in the Nanxun Operating Area for a period of 30 years.
May 2012	We established our first city gateway station in Zhejiang Province providing natural gas supplied from two different gas terminal stations, ensuring stable supply of natural gas in Huzhou.
August 2012	Zhongshihua Xinao was established as a joint venture with China Petroleum & Chemical Corporation, whose interest in the joint venture was subsequently transferred to its non-wholly owned subsidiary Sinopec Sales Co., Ltd.* (中國石化銷售股份有限公司) (“ Zhongshihua Sales ”), for the purpose of operating natural gas refuelling stations.

HISTORY AND CORPORATE STRUCTURE

Year	Business development
September 2015	We began the process of “fully replacing coal fuel with gas” (全面煤改氣) in accordance with the Huzhou government’s plan to eliminate coal based furnaces.
July 2017	We completed the construction of the first urban sub-high pressure pipeline network of Huzhou.
May 2018	We established our second city gateway station providing pressure regulation and transmission of natural gas and emergency source of LNG in Wuxing District, Huzhou.
June 2020	We commenced the reconstruction of our LNG storage station in Nanmen, Huzhou.
April 2021	Our Company was converted to a joint stock company with limited liability.

OUR GROUP AND OUR JOINT VENTURES

As at the Latest Practicable Date, our Company had two wholly-owned subsidiaries, four non-wholly owned subsidiaries and two joint ventures. The following table contain information of these entities as of the Latest Practicable Date:

Entity	Date and place of establishment	Amount of registered and paid up capital	Principal activities under business licence
Our Company	16 June 2004 PRC	RMB150,000,000	Distribution and sales of natural gas, and provision of construction and installation services of gas pipeline network in the Wuxing Operating Area.
Subsidiaries			
Xinao Development (100% owned by our Company)	25 April 2005 PRC	RMB9,611,896.22	Distribution and sales of natural gas, and provision of construction and installation services of gas pipeline network in the Wuxing Operating Area.
Xinao Transportation (100% owned by our Company)	22 September 2008 PRC	RMB3,000,000	Transportation of LPG in the urban area of Huzhou.

HISTORY AND CORPORATE STRUCTURE

Entity	Date and place of establishment	Amount of registered and paid up capital	Principal activities under business licence
Huran New Energy (95% owned by our Company)	24 April 2022 PRC	RMB150,000,000 (nil paid as at the Latest Practicable Date)	Provision of technical services for photovoltaic power generation, and sale and manufacture of equipment for photovoltaic power. ^(Note 1)
Nanxun Xinao (51% owned by our Company)	28 September 2009 PRC	RMB35,000,000	Distribution and sales of natural gas, and provision of construction and installation services of gas pipeline network in the Nanxun Operating Area.
Nanxun Xinao Development (51% owned by our Company)	28 November 2017 PRC	RMB5,000,000	Provision of construction and installation services of gas pipeline network in the Nanxun Operating Area.
Deqing Xinrui (100% owned by Nanxun Xinao Development)	26 September 2021 PRC	RMB2,000,000	Provision of project management services for photovoltaic power projects.
Joint Ventures			
Xinao Energy Development (51% owned by our Company) ^(Note 2)	26 April 2019 PRC	RMB50,000,000 (nil paid as at the Latest Practicable Date)	Production and sale of vapour; investment, construction and operation of electricity and heating projects, and business information and consultation. ^(Note 3)
Zhongshihua Xinao (50% owned by our Company)	15 August 2012 PRC	RMB10,000,000	Operation of natural gas refuelling stations.

Notes:

- As at the Latest Practicable Date, Huran New Energy had not commenced business operation.
- Xinao Energy Development is a subsidiary under the definition of the Listing Rules, but is accounted for as a joint venture to our Group pursuant to the relevant applicable accounting standards with the use of equity accounting method. Please refer to note 20(a) to the Accountants' Report in Appendix I to this prospectus for the basis of regarding Xinao Energy Development as our joint venture.
- As at the Latest Practicable Date, Xinao Energy Development had not commenced business operation.

HISTORY AND CORPORATE STRUCTURE

ESTABLISHMENT AND MAJOR SHAREHOLDING CHANGES CONCERNING OUR COMPANY, OUR SUBSIDIARIES AND OUR JOINT VENTURES

The establishment and major shareholding changes concerning our Company, our subsidiaries and our joint ventures during the Track Record Period are set out below.

Our Company

(a) Establishment of our Company

Our Company was established in the PRC as a limited liability company and commenced business on 16 June 2004, with an initial registered capital of USD9,100,000, of which Huzhou Huaxing and Xinao Zhejiang were interested in 50% and 50%, respectively. Our Company principally engaged in the distribution and sales of natural gas and the provision of construction and installation services of gas pipeline network in the Wuxing Operating Area.

Immediately before the subscription of registered capital in our Company by Huzhou Huaxing as described below, our Company was owned by the following shareholders:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held
Huzhou Huaxing	USD4,550,000	50%
ENN (China)	USD4,550,000	50%
Total:	USD9,100,000	100%

(b) Subscription of registered capital by Huzhou Huaxing

On 18 December 2018, ENN (China), Huzhou Huaxing and our Company entered into a capital increase agreement, pursuant to which Huzhou Huaxing agreed to subscribe for approximately 9.64% of the enlarged registered capital of our Company by way of capital contribution in cash at the amount of USD2,173,080. The amount of capital contribution was determined between the parties on an arm's length basis with reference to the fair value of our Company as at 31 March 2018 as appraised by a qualified independent valuer in the PRC. The consideration was fully settled on 27 December 2018 and the subscription was completed on 27 December 2018. The table below sets out the shareholding information of our Company immediately following the subscription:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held (approximately)
Huzhou Huaxing	USD6,723,080	59.64%
ENN (China)	USD4,550,000	40.36%
Total:	USD11,273,080	100%

HISTORY AND CORPORATE STRUCTURE

(c) Subscription of registered capital by Huzhou Huaxing and ENN (China)

On 27 December 2019, our Company, Huzhou Huaxing, ENN (China) and Xinao Development entered into a capital increase agreement, pursuant to which Huzhou Huaxing and ENN (China) agreed to subscribe for an additional registered capital in our Company of an aggregate amount of USD1,238,800, on a pro rata basis based on their then respective shareholdings in our Company. Such additional amount of registered capital of our Company was contributed by Huzhou Huaxing and ENN (China) by transferring all of their interests in the registered capital in Xinao Development (representing 100% of the equity interest in Xinao Development) to our Company. Such consideration was determined between the parties on an arm's length basis with reference to the fair value of Xinao Development as at 30 June 2019 as appraised by a qualified independent valuer in the PRC. The increase in the registered capital and equity transfer were both completed on 27 December 2019. The table below sets out the shareholding information of our Company immediately following the subscription:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held (approximately)
Huzhou Huaxing	USD7,461,880	59.64%
ENN (China)	USD5,050,000	40.36%
Total:	USD12,511,880	100%

(d) Transfer of equity interest by Huzhou Huaxing to City Group

On 13 March 2020, as an internal corporate restructuring of City Group, Huzhou Huaxing and our Company entered into a gratuitous transfer agreement for the transfer of approximately 59.64% equity interest in our Company by Huzhou Huaxing, an investment vehicle used by City Group for exclusively holding its equity interest in our Company, to City Group at nil consideration. Such transfer was completed on 1 April 2020. The table below sets out the shareholding information of our Company immediately following the transfer:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held (approximately)
City Group	USD7,461,880	59.64%
ENN (China)	USD5,050,000	40.36%
Total:	USD12,511,880	100%

HISTORY AND CORPORATE STRUCTURE

(e) Conversion into a joint stock company with limited liability

On 8 February 2021, City Group and ENN (China) entered into a promoters' agreement for (among other matters) the conversion of our Company from a limited liability company into a joint stock company with limited liability. Pursuant to the shareholders' resolutions passed by the then shareholders of our Company on 1 April 2021, the share capital of our Company immediately upon the conversion was RMB150,000,000 divided into 150,000,000 shares of RMB1 each, and City Group and ENN (China) were allotted and issued such number of shares corresponding to the proportion of their respective equity interests in our Company prior to the conversion. The subscription price for these initial shares was determined with reference to the net asset value of our Company as at 31 August 2020 after deduction of the retained profit of our Company. The subscription price was fully paid up on 1 April 2021 and the conversion was completed on 2 April 2021 with the issuance of a new business licence to our Company.

The table below sets out the shareholding information of our Company upon our conversion into a joint stock company with limited liability:

Name of shareholders	Number of shares	Shareholding percentage (approximately)
City Group	89,457,540	59.64%
ENN (China)	60,542,460	40.36%
Total:	150,000,000	100%

Our PRC Legal Advisers have confirmed that with respect to the conversion of our Company into a joint stock company with limited liability, we have completed all the necessary registration filing procedures in compliance with the relevant PRC laws and regulations. Our PRC Legal Advisers are of the view that such conversion was properly and legally completed and was approved by Huzhou Administration for Market Regulation* (湖州市市場監督管理局) and Huzhou SASAC, the competent PRC authorities.

(f) Issue of H Shares

On 17 August 2021, we obtained the CSRC approval for the issue of not more than 57,500,000 H Shares with a nominal value of RMB1 each under the Global Offering. Immediately after the Global Offering, our issued share capital shall comprise a total of 150,000,000 Domestic Shares and, assuming the Over-allotment Option is not exercised, 50,000,000 H Shares. Assuming the Over-allotment Option is exercised in full, our issued share capital immediately after the Global Offering shall comprise a total of 150,000,000 Domestic Shares and 57,500,000 H Shares.

HISTORY AND CORPORATE STRUCTURE

Nanxun Xinao

(a) Establishment of Nanxun Xinao

Nanxun Xinao principally engaged in the distribution and sales of natural gas, and the provision of construction and installation services of gas pipeline network in the Nanxun Operating Area. Nanxun Xinao was established in the PRC as a limited liability company and commenced business on 28 September 2009, with an initial registered capital of RMB35,000,000, of which our Company and Zhejiang Wanfeng were interested in 60% and 40%, respectively. To the best knowledge, information and belief of our Directors after making reasonable enquiries, Zhejiang Wanfeng is principally engaged in the production and sales of foundry machinery and is an Independent Third Party. As at the Latest Practicable Date, Zhejiang Wanfeng is owned as to approximately 36.63% by 萬豐錦源控股集團有限公司 (Wanfeng Jinyuan Holding Group Co., Ltd.*), 21.98% by Wu Jinhua, and the remaining 41.39% by four limited partnerships and three individuals. The equity interest of 萬豐錦源控股集團有限公司 (Wanfeng Jinyuan Holding Group Co., Ltd.*) is owned as to 38.78% by Wu Jinhua and as to the remaining 61.22% by one limited partnership and five individuals. To the best knowledge, information and belief of our Directors after making reasonable enquiries, all the ultimate beneficial owners of Zhejiang Wanfeng are Independent Third Parties.

Since Nanxun Xinao's establishment and immediately before the completion of the transfer of equity interest by Zhejiang Wanfeng to ENN Group as described below, Nanxun Xinao was owned by the following shareholders:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held
Our Company	RMB21,000,000	60%
Zhejiang Wanfeng	RMB14,000,000	40%
Total:	RMB35,000,000	100%

HISTORY AND CORPORATE STRUCTURE

(b) Transfer of equity interest by Zhejiang Wanfeng to ENN Group

On 30 November 2018, ENN Group and Zhejiang Wanfeng entered into an equity transfer agreement for the transfer of 40% equity interest in Nanxun Xinao by Zhejiang Wanfeng to ENN Group for cash at the consideration of RMB180,800,000. Such consideration was determined between the parties on an arm's length basis with reference to the fair value of Nanxun Xinao as at 31 March 2018 as appraised by a qualified independent valuer in the PRC. The transfer was registered on 26 December 2018 with Market Supervision Administration of Nanxun District, Huzhou City* (湖州市南潯區市場監督管理局). The consideration was fully settled on 2 January 2019. The table below sets out the shareholding information of Nanxun Xinao immediately following the transfer:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held
Our Company	RMB21,000,000	60%
ENN Group	RMB14,000,000	40%
Total:	RMB35,000,000	100%

(c) Transfer of equity interest by our Company to ENN Group

On 21 March 2019, an auction was held for the sale of the 9% equity interest in Nanxun Xinao held by our Company. The starting bid was 9% of the fair value of Nanxun Xinao as at 31 March 2018 as appraised by a qualified independent valuer in the PRC, i.e. RMB40,618,800. ENN Group won the auction with the hammer price of RMB43,877,200, which was fully settled on 8 May 2019. On 28 June 2019, our Company and ENN Group entered into an equity transfer agreement for the transfer of 9% equity interest in Nanxun Xinao by our Company to ENN Group. The equity transfer was completed on 17 July 2019 with the registration with Market Supervision Administration of Nanxun District, Huzhou City (湖州市南潯區市場監督管理局).

As advised by our PRC Legal Advisers, the auction was required by the then applicable laws and regulations in the PRC which generally require transfers of state-owned assets to be carried out publicly in legally established propriety rights trading venues, where the transferor shall disclose relevant information and solicit interested purchasers. Where there is more than one interested purchaser, the transfer shall be conducted in an open auction. As confirmed by our Directors, there was more than one interested purchaser at the material time and so the transfer was conducted by way of auction at Huzhou Public Resources Trading Centre* (湖州市公共資源交易中心) in accordance with the then applicable laws and regulations in the PRC. At the material time, equity interest in Nanxun Xinao was state-owned asset since it was owned as to 60% by our Company, which was owned as to 59.64% by Huzhou Huaxing which was an indirect wholly-owned subsidiary of City Group, a state-owned enterprise directly wholly-owned by Huzhou SASAC.

HISTORY AND CORPORATE STRUCTURE

The table below sets out the shareholding information of Nanxun Xiniao immediately following the transfer and up to the Latest Practicable Date:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held
Our Company	RMB17,850,000	51%
ENN Group	RMB17,150,000	49%
Total:	RMB35,000,000	100%

Xiniao Development

(a) Establishment of Xiniao Development

Xiniao Development is principally engaged in the provision of construction and installation services of gas pipeline network and transmission of natural gas in the Wuxing Operating Area. Xiniao Development was established in the PRC as a limited liability company on 25 April 2005 with an initial registered capital of USD1,000,000, of which Huzhou Huaxing was interested in 50% and ENN (China) was interested in 50%, respectively.

(b) Subscription of registered capital by Huzhou Huaxing

On 18 December 2018, Huzhou Huaxing and ENN (China) entered into a capital increase agreement, pursuant to which Huzhou Huaxing agreed to subscribe for an additional registered capital of Xiniao Development of an amount of RMB78,070,000. The amount of capital contribution was determined between the parties on an arm's length basis with reference to the fair value of our Company as at 31 March 2018 as appraised by a qualified independent valuer in the PRC. The increase in registered capital was registered with Huzhou Administration for Market Regulation* (湖州市市場監督管理局) on 26 December 2018. The additional registered capital was fully settled on 28 December 2018. Following the increase in registered capital, Huzhou Huaxing became interested in 59.64% of the enlarged registered capital of Xiniao Development and Xiniao Development became a subsidiary of the Huzhou Huaxing. During the material time, Huzhou Huaxing and ENN (China) were our controlling Shareholders. Prior to 28 December 2018, Xiniao Development was a joint venture of Huzhou Huaxing, the then holding company of our Company, the results of which were not consolidated into the accounts of our Group under the relevant accounting standards.

(c) Subscription of registered capital by Huzhou Huaxing and ENN (China)

On 27 December 2019, our Company, Huzhou Huaxing, ENN (China) and Xiniao Development entered into a capital increase agreement, pursuant to which Huzhou Huaxing and ENN (China) agreed to subscribe for an additional registered capital of our Company of an aggregate amount of USD1,238,800, on a pro rata basis based on their then respective shareholdings in our Company. Such additional amount of registered capital of our Company was contributed by Huzhou Huaxing and ENN (China) by transferring all of their interests in the registered capital in Xiniao Development (representing 100% of the equity interest in Xiniao Development) to our

HISTORY AND CORPORATE STRUCTURE

Company. Huzhou Huaxing was indirectly wholly-owned by City Group, our Controlling Shareholder. ENN (China) was our Controlling Shareholder. The increase in registered capital and equity transfer were fully settled and were properly and legally completed on 27 December 2019, which were registered with the Market Supervision Administration of Wuxing District, Huzhou City* (湖州市吳興區市場監督管理局) on 27 December 2019. Following the transfer of the 100% equity interest in Xinao Development from Huzhou Huaxing and ENN (China) to our Company, Xinao Development became a wholly-owned subsidiary of our Company.

Xinao Transportation

Xinao Transportation is principally engaged in the transportation of LPG in the urban area of Huzhou. Xinao Transportation was established in the PRC as a limited liability company and commenced business on 22 September 2008, with an initial registered capital of RMB3,000,000 and was wholly owned by our Company. There has been no change in the shareholding of Xinao Transportation since its establishment and up to the Latest Practicable Date.

Huran New Energy

Huran New Energy was established in the PRC as a limited liability company on 24 April 2022, with an initial registered capital of RMB150,000,000, of which our Company and Huzhou Zhongran Enterprise Management Partnership (Limited Partnership)* (湖州眾燃企業管理合夥企業(有限合夥)) were interested in 95% and 5%, respectively. As at the Latest Practicable Date, the registered share capital is yet to be paid. Huran New Energy's business scope under its business licence includes engaging in the provision of technical services for photovoltaic power generation, and sale and manufacture of equipment for photovoltaic power. As at the Latest Practicable Date, Huran New Energy had not commenced business operation. There has been no change in the shareholding of Huran New Energy since its establishment and up to the Latest Practicable Date.

Nanxun Xinao Development

(a) Establishment of Nanxun Xinao Development

Nanxun Xinao Development is principally engaged in the provision of construction and installation services of gas pipeline network in the Nanxun Operating Area. Nanxun Xinao Development was established in the PRC as a limited liability company and commenced business on 28 November 2017, with an initial registered capital of RMB5,000,000, of which our Company and Zhejiang Wanfeng were interested in 60% and 40%, respectively.

HISTORY AND CORPORATE STRUCTURE

(b) Transfer of equity interest by Zhejiang Wanfeng to ENN Group

On 30 November 2018, ENN Group and Zhejiang Wanfeng entered into an equity transfer agreement for the transfer of 40% equity interest in Nanxun Xinao Development by Zhejiang Wanfeng to ENN Group at a consideration of RMB49,200,000. The amount of capital contribution was determined between the parties on an arm's length basis with reference to the fair value of our Company as at 31 March 2018 as appraised by a qualified independent valuer in the PRC. The transfer was registered on 26 December 2018 with Market Supervision Administration of Nanxun District, Huzhou City* (湖州市南潯區市場監督管理局). The consideration was fully settled on 2 January 2019. The table below sets out the shareholding information of Nanxun Xinao Development immediately following the transfer:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held
Our Company	RMB3,000,000	60%
ENN Group	RMB2,000,000	40%
Total:	RMB5,000,000	100%

(c) Transfer of equity interest by our Company to ENN Group

On 21 March 2019, an auction was held for the sale of the 9% equity interest in Nanxun Xinao Development held by our Company. The starting bid was 9% of the fair value of Nanxun Xinao Development as at 31 March 2018 as appraised by a qualified independent valuer in the PRC, i.e. RMB7,288,200. ENN Group won the auction with the hammer price of RMB7,872,800, which was fully settled on 8 May 2019. On 28 June 2019, our Company and ENN Group entered into an equity transfer agreement for the transfer of 9% equity interest in Nanxun Xinao Development by our Company to ENN Group. The equity transfer was completed on 17 July 2019 with the registration with Market Supervision Administration of Nanxun District, Huzhou City* (湖州市南潯區市場監督管理局).

As advised by our PRC Legal Advisers, the auction was required by the then applicable laws and regulations in the PRC which generally require transfers of state-owned assets to be carried out publicly in legally established propriety rights trading venues, where the transferor shall disclose relevant information and solicit interested purchasers. Where there is more than one interested purchaser, the transfer shall be conducted in an open auction. As confirmed by our Directors, there was more than one interested purchaser at the material time and so the transfer was conducted by way of auction at Huzhou Public Resources Trading Centre* (湖州市公共資源交易中心) in accordance with the then applicable laws and regulations in the PRC. At the material time, equity interest in Nanxun Xinao Development was state-owned asset since it was owned as to 60% by our Company, which was owned as to 59.64% by Huzhou Huaxing which was an indirect wholly-owned subsidiary of City Group, a state-owned enterprise directly wholly-owned by Huzhou SASAC.

HISTORY AND CORPORATE STRUCTURE

The table below sets out the shareholding information of Nanxun Xinao Development immediately following the transfer and up to the Latest Practicable Date:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held
Our Company	RMB2,550,000	51%
ENN Group	RMB2,450,000	49%
Total:	RMB5,000,000	100%

Deqing Xinrui

Deqing Xinrui is principally engaged in the provision of project management services for photovoltaic power projects. Deqing Xinrui was established in the PRC as a limited liability company and commenced business on 26 September 2021, with an initial registered capital of RMB2,000,000 and was wholly owned by Nanxun Xinao Development. There has been no change in the shareholding of Deqing Xinrui since its establishment and up to the Latest Practicable Date.

Xinao Energy Development

Xinao Energy Development was established in the PRC as a limited liability company on 26 April 2019, with an initial registered capital of RMB50,000,000, of which our Company and ENN Group were interested in 51% and 49%, respectively. As at the Latest Practicable Date, the registered share capital is yet to be paid. Xinao Energy Development is regarded as a joint venture of our Company under the applicable accounting standards and a subsidiary of our Company pursuant to the Listing Rules. Xinao Energy Development's business scope under its business licence includes engaging in the production and sale of vapour, investment, construction and operation of electricity and heating projects, and business information and consultation. As at the Latest Practicable Date, Xinao Energy Development had not commenced business operation as our Company and ENN Group remained in the course of searching for suitable energy projects to jointly undertake through Xinao Energy Development, and there was no subsisting arrangement in connection with any present or future capital contribution obligations, profit sharing arrangements or the conduct of any energy business through Xinao Energy Development. There has been no change in the shareholding of Xinao Energy Development since its establishment and up to the Latest Practicable Date.

Zhongshihua Xinao

(a) Establishment of Zhongshihua Xinao

Zhongshihua Xinao is principally engaged in the operation of natural gas refuelling stations. Zhongshihua Xinao was established in the PRC as a limited liability company and commenced business on 15 August 2012, with an initial registered capital of RMB10,000,000, of which our Company and China Petroleum & Chemical Corporation were each interested in 50%, respectively.

HISTORY AND CORPORATE STRUCTURE

(b) Transfer of equity interest by China Petroleum & Chemical Corporation to Zhongshihua Sales

On 1 April 2014, as part of its internal corporate restructuring, China Petroleum & Chemical Corporation entered into a reorganisation agreement with its non-wholly owned subsidiary, Zhongshihua Sales, to implement, among others, a transfer of all its equity interest in Zhongshihua Xiniao to Zhongshihua Sales by way of transferring all its interest in the registered capital of Zhongshihua Xiniao to the registered capital of Zhongshihua Sales. Such transfer was completed on 29 October 2014 with the registration with Huzhou Administration for Industry and Commerce* (湖州市工商行政管理局). Zhongshihua Xiniao is regarded as a joint venture to our Group pursuant to the relevant accounting standards and accounted for under equity accounting method. Our Group would share the operating result of Zhongshihua Xiniao according to our equity percentage owned in each of the financial reporting period and recover our investment made principally through the dividend distribution from Zhongshihua Xiniao. The table below sets out the shareholding information of Zhongshihua Xiniao immediately following the transfer and up to the Latest Practicable Date:

Name of shareholders	Amount of registered capital held	Percentage of equity interest held
Our Company	RMB5,000,000	50%
Zhongshihua Sales	RMB5,000,000	50%
Total:	RMB10,000,000	100%

Save as disclosed above, there were no other significant changes in the shareholding of our Company, our subsidiaries or joint ventures during the Track Record Period.

MAJOR ACQUISITION DURING THE TRACK RECORD PERIOD

Acquisition of Xiniao Development

On 27 December 2019, our Company, Huzhou Huaxing, ENN (China) and Xiniao Development entered into a capital increase agreement, pursuant to which Huzhou Huaxing and ENN (China) agreed to subscribe for an additional registered capital of our Company of an aggregate amount of USD1,238,800, on a pro rata basis based on their then respective shareholdings in our Company. Such additional amount of registered capital of our Company was contributed by Huzhou Huaxing and ENN (China) by transferring all of their interests in the registered capital in Xiniao Development (representing 100% of the equity interest in Xiniao Development) to our Company. Huzhou Huaxing was indirectly wholly-owned by City Group, our Controlling Shareholder. ENN (China) was our Controlling Shareholder.

The increase in registered capital and equity transfer were fully settled and were properly and legally completed on 27 December 2019, which were registered with the Market Supervision Administration of Wuxing District, Huzhou City* (湖州市吳興區市場監督管理局) on 27 December 2019.

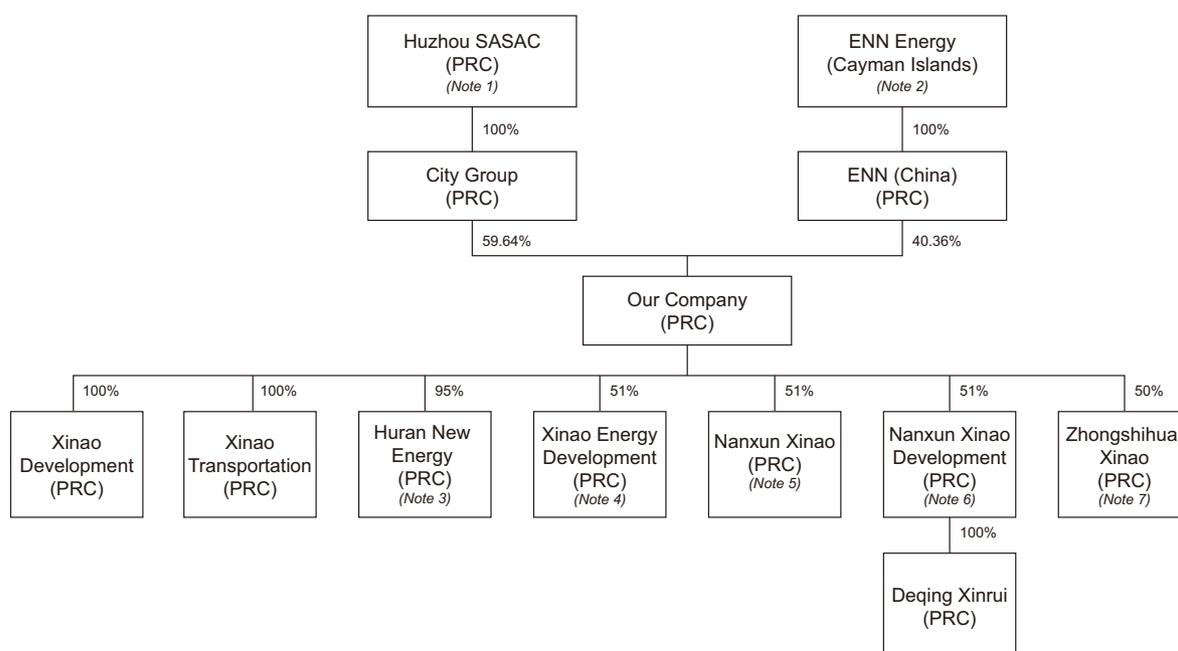
HISTORY AND CORPORATE STRUCTURE

Following the transfer of the 100% equity interest in Xinao Development from Huzhou Huaxing and ENN (China) to our Company, Xinao Development became a wholly-owned subsidiary of our Company.

For further information on the incorporation history of Xinao Development, please refer to the paragraph headed “Establishment and Major Shareholding Changes Concerning our Company, our Subsidiaries and our Joint Ventures – Xinao Development” in this section.

CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group and our joint ventures immediately prior to the Global Offering:



Notes:

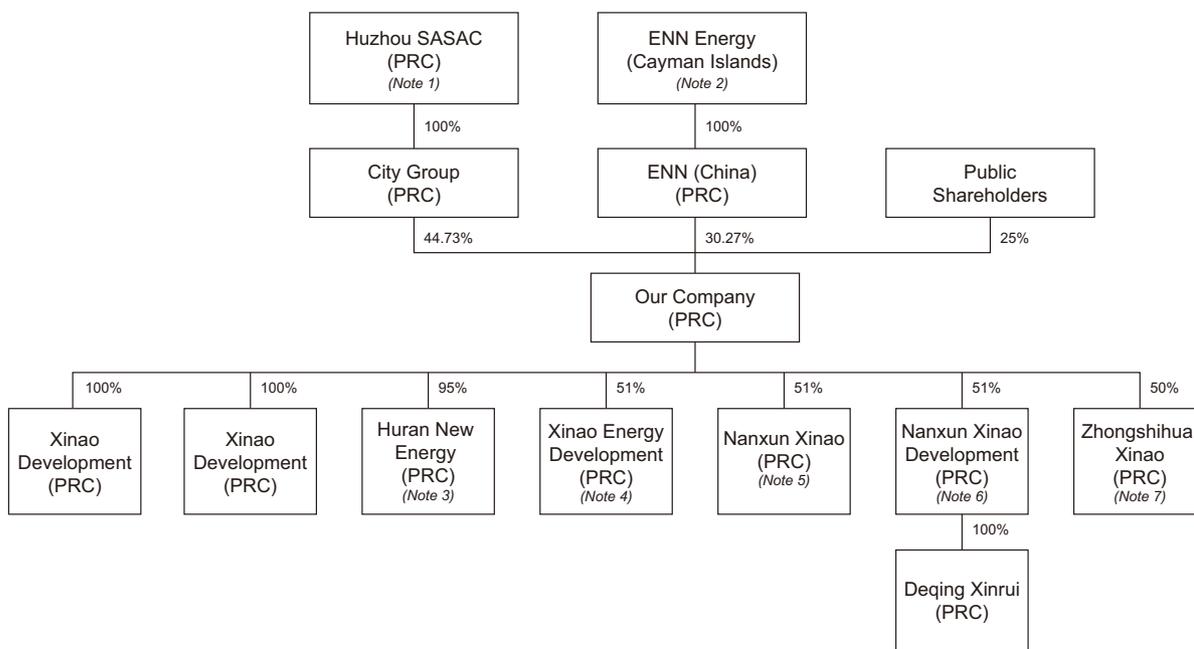
1. Huzhou SASAC, as a functional department of Huzhou Municipal People's Government, reports to and is under the leadership of Huzhou Municipal People's Government, and therefore is a PRC government body (as defined under the Listing Rules).
2. The shares of ENN Energy are listed on the Main Board of the Stock Exchange (stock code: 2688).
3. The remaining 5% equity interest in Huran New Energy was held by Huzhou Zhongran Enterprise Management Partnership (Limited Partnership)* (湖州眾燃企業管理合夥企業(有限合伙)), which as at the Latest Practicable Date had 24 employees of our Group as partners each holding 2.67% to 18.67% interest, out of which Mr. Wang Hua, the chairman of our Board and an executive Director, holding a 4% interest, and Mr. Yang Xiang, the deputy director of the marketing department of our Company, holding a 9.33% interest, were the two general partners, and Mr. Tang Chunhui, the deputy general manager and a joint company secretary of our Company, holding an 18.67% interest, was one of the limited partners.

HISTORY AND CORPORATE STRUCTURE

4. Xinao Energy Development is regarded as a joint venture to our Group pursuant to the relevant accounting standards and accounted for under equity accounting method. The remaining 49% equity interest in Xinao Energy Development was held by ENN Group, which was owned as to 89.48% by Langfang as at the Latest Practicable Date. As at the Latest Practicable Date, Langfang, which was owned as to 90% by Mr. Wang Yusuo (王玉鎖) and 10% by Ms. Zhao Baoju (趙寶菊), was a controlling shareholder of ENN Energy. According to the annual report of ENN Energy (stock code: 2688) for the year ended 31 December 2021, Mr. Wang Yusuo is a founder of ENN Energy Group and Ms. Zhao Baoju is the spouse of Mr. Wang Yusuo. As at the Latest Practicable Date, Mr. Wang Yusuo was the chairman of Langfang, ENN Group, ENN Energy and ENN (China). To the best knowledge, information and belief of our Directors after making reasonable enquiries, the principal business of ENN Group is the sale of clean energy, including solar energy, energy chemical industry and smart energy.
5. The remaining 49% equity interest in Nanxun Xinao was held by ENN Group, which was owned as to 89.48% by Langfang as at the Latest Practicable Date. For further information on Langfang and ENN Group, please refer to Note 3 above.
6. The remaining 49% equity interest in Nanxun Xinao Development was held by ENN Group, which was owned as to 89.48% by Langfang as at the Latest Practicable Date. For further information on Langfang and ENN Group, please refer to Note 3 above.
7. Our Company is also a holder of 50% of the equity interests in Zhongshihua Xinao. The remaining 50% of the equity interests were held by Zhongshihua Sales, a non-wholly owned subsidiary of China Petroleum & Chemical Corporation, the shares of which are listed on the Stock Exchange (stock code: 386). Zhongshihua Xinao is regarded as a joint venture to our Group pursuant to the relevant accounting standards and accounted for under equity accounting method. Our Group would share the operating result of Zhongshihua Xinao according to our equity percentage owned in each of the financial reporting period and recover our investment made principally through the dividend distribution from Zhongshihua Xinao.
8. Please refer to Note 1 to the Accountants' Report in Appendix I to this prospectus for further details of our subsidiaries.
9. All percentages shown in this chart are approximate figures.

HISTORY AND CORPORATE STRUCTURE

The following chart sets out the shareholding and corporate structure of our Group and our joint ventures immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Notes:

1. Huzhou SASAC is a PRC government body.
2. The shares of ENN Energy are listed on the Main Board of the Stock Exchange (stock code: 2688).
3. The remaining 5% equity interest in Huran New Energy was held by Huzhou Zhongran Enterprise Management Partnership (Limited Partnership)* (湖州眾燃企業管理合夥企業 (有限合夥)), which as at the Latest Practicable Date had 24 employees of our Group as partners each holding 2.67% to 18.67% interest, out of which Mr. Wang Hua, the chairman of our Board and an executive Director, holding a 4% interest, and Mr. Yang Xiang, the deputy director of the marketing department of our Company, holding a 9.33% interest, were the two general partners, and Mr. Tang Chunhui, the deputy general manager and a joint company secretary of our Company, holding an 18.67% interest, was one of the limited partners.
4. Xinao Energy Development is regarded as a joint venture to our Group pursuant to the relevant accounting standards and accounted for under equity accounting method. The remaining 49% equity interest in Xinao Energy Development was held by ENN Group, which was owned as to 89.48% by Langfang as at the Latest Practicable Date. As at the Latest Practicable Date, Langfang, which was owned as to 90% by Mr. Wang Yusuo (王玉鎖) and 10% by Ms. Zhao Baoju (趙寶菊), was a controlling shareholder of ENN Energy. According to the annual report of ENN Energy (stock code: 2688) for the year ended 31 December 2021, Mr. Wang Yusuo is a founder of ENN Energy Group and Ms. Zhao Baoju is the spouse of Mr. Wang Yusuo. As at the Latest Practicable Date, Mr. Wang Yusuo was the chairman of Langfang, ENN Group, ENN Energy and ENN (China). To the best knowledge, information and belief of our Directors after making reasonable enquiries, the principal business of ENN Group is the sale of clean energy, including solar energy, energy chemical industry and smart energy.
5. The remaining 49% equity interest in Nannxun Xinao was held by ENN Group, which was owned as to 89.48% by Langfang as at the Latest Practicable Date. For further information on Langfang and ENN Group, please refer to Note 3 above.
6. The remaining 49% equity interest in Nannxun Xinao Development was held by ENN Group, which was owned as to 89.48% by Langfang as at the Latest Practicable Date. For further information on Langfang and ENN Group, please refer to Note 3 above.

HISTORY AND CORPORATE STRUCTURE

7. Our Company is also a holder of 50% of the equity interests in Zhongshihua Xinao. The remaining 50% of the equity interests are held by Zhongshihua Sales, a non-wholly owned subsidiary of China Petroleum & Chemical Corporation, the shares of which are listed on the Stock Exchange (stock code: 386). Zhongshihua Xinao is regarded as a joint venture to our Group pursuant to the relevant accounting standards and accounted for under equity accounting method. Our Group would share the operating result of Zhongshihua Xinao according to our equity percentage owned in each of the financial reporting period and recover our investment made principally through the dividend distribution from Zhongshihua Xinao.
8. Please refer to Note 1 to the Accountants' Report in Appendix I to this prospectus for further details of our subsidiaries.
9. All percentages shown in this chart are approximate figures.

OVERVIEW

We are (i) the largest piped natural gas (PNG) distributor in terms of sales volume in Huzhou (湖州), a major prefecture-level city in Zhejiang Province, the PRC, with a market share of 44.1% in Huzhou; and (ii) the fifth largest PNG distributor in terms of sales volume in Zhejiang Province, with a market share of 3.0% in Zhejiang Province both in 2021, according to the F&S Report. According to the F&S Report, the natural gas consumption volume in Huzhou represented 6.9% and 0.3% of the natural gas consumption volume in Zhejiang Province and the PRC in 2021, respectively. Since 2004 and 2009, we have been the exclusive distributor of PNG in the Wuxing Operating Area and Nanxun Operating Area, respectively, under the Concession Agreements.

During the Track Record Period, our principal business comprised (i) sale of gas, mainly PNG under the Concessions; (ii) provision of construction and installation services to construct and install end-user pipeline network and gas facilities for customers such as property developers and owners or occupants of residential and non-residential properties; and (iii) others, including sale of household gas appliances.

We operate our business in Huzhou, which is a major prefecture-level city in Zhejiang Province with a total area of 5,820 km² and is located in the centre of the Yangtze River Delta, neighbouring Shanghai, Hangzhou, Jiaxing and Jiangsu. The total population of Huzhou was approximately 3.4 million in 2020. According to the F&S Report, the consumption volume of natural gas in Huzhou has grown at a CAGR of 15% from 2017 to 2021, and is expected to further grow at a CAGR of 14.2% from 2022 to 2026, which are higher than the growth rates of natural gas consumption in Zhejiang Province at a CAGRs of 14.4% from 2017 to 2021 and 14.2% from 2022 to 2026.

Our Operating Area is located within Wuxing District and Nanxun District, Huzhou. Wuxing District and Nanxun District in aggregate occupied 1,565 km², representing 26.9% of the total area of Huzhou. However, our Operating Area does not necessarily equate to the entire statutory administrative area of the Wuxing District and Nanxun District. According to the F&S Report, in 2020, the population density of the Wuxing District and Nanxun District was 1,200 per km² and 776 per km², respectively, which was higher than that of the entire Huzhou of 585 per km².

BUSINESS

The following table sets forth the breakdown of our revenue by business segment during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Sale of gas						
– PNG	1,439,471	88.1	1,230,405	86.3	1,609,853	86.4
– LNG	25,169	1.6	16,751	1.2	14,246	0.8
– LPG (Note 1)	11,561	0.7	4,628	0.3	–	–
Sub-total	1,476,201	90.4	1,251,784	87.8	1,624,099	87.2
Provision of construction and installation services	152,498	9.3	165,497	11.6	213,134	11.4
Sales of energy	–	–	–	–	12,466	0.7
Others (Note 2)	4,796	0.3	7,939	0.6	12,770	0.7
Total (before government surcharges)	1,633,495	100.0	1,425,220	100.0	1,862,469	100.0
Less: government surcharges (Note 3)	(3,074)		(3,182)		(3,732)	
Total	1,630,421		1,422,038		1,858,737	

Notes:

1. Since mid-2020, we ceased to sell LPG mainly due to (a) the high maintenance cost arising out of our aged LPG facilities; (b) the increasing demand for natural gas as replacement of LPG; and (c) our intention to focus on the construction of an LNG storage station.
2. “Others” include sale of household gas appliances, insurance referral and leasing of properties.
3. “Government surcharges” comprise business taxes and other surcharges accrued during the Track Record Period.

During the Track Record Period, we generated most of our revenue from our PNG operations in our Operating Area under the Concessions. For FY2019, FY2020 and FY2021, we generated approximately 88.1%, 86.3% and 86.4% of our revenue (before government surcharges), respectively, from our sale of PNG. We supplied PNG (i) on a wholesale basis to two PNG distributors for their onward sale; and (ii) on a retail basis to customers comprising non-residential users (namely industrial and commercial users) and residential users for their own consumption, with non-residential users being our major customers in terms of revenue contribution. As at 31 December 2021, we owned and operated two city gateway stations and an urban pipeline network comprising approximately 1,389.8 km of completed pipelines and approximately 115.5 km of pipelines under construction in our Operating Area.

BUSINESS

Apart from the sale of PNG, we operate our construction and installation business in our Operating Area by constructing and installing end-user pipeline network and gas facilities for property developers and owners or occupants of residential and non-residential properties, allowing new residential and non-residential users to gain access to PNG. During the Track Record Period, we also sold LNG, LPG and household gas appliances on a retail basis.

In view of the increasing application of natural gas boilers to generate vapour for heat energy, starting from 2020, we have also supplied natural gas to non-residential customers for them to generate vapour. Further, the PRC has been facing the pressure on energy supply and environmental degradation with the growing economic development and thus promoting the development of substitute energy. To capture the potential market growth of substitute energy, we intend to penetrate into this market segment by commencing the provision of energy services through distributed photovoltaic power generation.

We achieved stable growth during the Track Record Period. Our total revenue increased from RMB1,630.4 million in FY2019 to RMB1,858.7 million in FY2021, representing a CAGR of 6.8% over the same period. Our net profit increased from RMB143.9 million in FY2019 to RMB166.7 million in FY2021, representing a CAGR of 7.6% over the same period.

OUR COMPETITIVE STRENGTHS

We are the largest PNG distributor in Huzhou under the Concessions with exclusive right in our Operating Area

We are the largest PNG distributor in Huzhou in Zhejiang Province under the Concessions to sell and distribute PNG. As at the Latest Practicable Date, we were the only PNG distributor in our Operating Area. According to the F&S Report, we were the largest PNG distributor in Huzhou in terms of PNG sales volume in 2021, with a market share of 44.1% in Huzhou (where the top five PNG distributors in Huzhou together accounted for 92.1% of the entire Huzhou distribution market).

We have been selling and distributing PNG in Huzhou under the Concessions, namely Wuxing Concession and Nanxun Concession, pursuant to which we obtained exclusive rights to sell and distribute PNG, and to construct urban pipeline network and gas facilities in our Operating Area, for an initial term of 30 years from 16 June 2004 and 30 September 2009, respectively, with a preferential right of renewal upon negotiation and fulfilment of certain conditions. Please refer to the paragraph headed “The Concessions” in this section for details. We owned and operated two city gateway stations and an urban pipeline network comprising approximately 1,389.8 km of completed pipelines and approximately 115.5 km of pipelines under construction in our Operating Area as at 31 December 2021. We believe that our extensive experience in handling natural gas enables us to better understand the natural gas industry. Together with our long operating history and dominant market position, we believe these not only provide us with a recurring stream of revenue, but also enable us to cater for increasing demand, and that we are well placed to capture the robust growth in the natural gas consumption of Huzhou in terms of increasing sales of natural gas as well as expansion of our construction and installation business to connect more new customers in our Operating Area in which we face limited direct market competition.

BUSINESS

We have established our presence in Huzhou, Zhejiang Province of the PRC which possesses regional advantages in terms of infrastructure support, favourable local government policies and a substantial industrial and commercial user base for our business development

Since our inception in 2004, we have operated our natural gas business in Huzhou. Located in the centre of the Yangtze River Delta, neighbouring Shanghai, Hangzhou, Jiaxing and Jiangsu, Huzhou has seen a rapid development of infrastructure construction in the past few years. According to the F&S Report, the infrastructure investment in Huzhou increased from approximately RMB57.6 billion in 2017 to approximately RMB99.2 billion in 2021, representing a CAGR of 14.8%. Looking forward, with continuous government support, infrastructure investment in Huzhou will keep increasing at a notable speed. In particular, the construction of transportation infrastructure will further highlight Huzhou's important position as a transportation hub. For instance, Huzhou is one of the key intersections of "Shangqiu-Hefei-Hangzhou" high-speed railway (fully operated in mid-2020) and "Shanghai-Suzhou-Huzhou" high-speed railway (construction commenced in mid-2020), which connects the flow of talents, capital and information, as well as facilitates transportation and logistics. According to the F&S Report, it is estimated that the infrastructure investment in Huzhou will increase from approximately RMB116.4 billion from 2022 to approximately RMB219.8 billion in 2026, illustrating a CAGR of 17.2%. This kind of infrastructure development stimulates the economic development in Huzhou and positions Huzhou as one of the focal cities in Yangtze River Delta.

In recent years, Huzhou has witnessed a rapid growth in its industry development which mainly includes high-end manufacturing, new material and automobile industries. According to the F&S Report, the industrial added value of Huzhou has increased from approximately RMB119.6 billion in 2017 to approximately RMB154.9 billion in 2021. Going forward, in light of the "Opinions on Leading The High-quality Catch-up Development of Manufacturing Industry with the Concept of Two Mountains" (《關於以“兩山”理念引領製造業高質量趕超發展的若干意見》), the industrial added value of Huzhou is forecasted to be approximately RMB167.0 billion in 2022 and will reach approximately RMB224.0 billion by 2026, representing a CAGR of 7.6%. With growing industrialisation, the energy demand is rising simultaneously. Natural gas, as one of the main industrial energies, will experience an increase in consumption along with the Huzhou's industrial blooming process.

Active economic and industrial development in Huzhou steadily enlarges the user base for natural gas, especially industrial and commercial users, which contributed to a majority of our revenue during the Track Record Period. The total number of our industrial and commercial users, in aggregate, increased from approximately 2,207 as at 31 December 2019 to approximately 3,334 as at 31 December 2021. The total PNG consumption by our industrial and commercial users, in aggregate, increased from approximately 398.5 million m³ for FY2019 to approximately 440.8 million m³ for FY2021. Revenue from our sale of PNG to industrial and commercial users, in aggregate, accounted for 72.9%, 71.3% and 72.0% of our total revenue (before government surcharges) for FY2019, FY2020 and FY2021, respectively. Industrial and commercial users generally consume higher quantity of PNG per user as compared to our residential users. Please refer to the paragraph headed "Pricing of PNG" in this section for details.

BUSINESS

Our Directors believe that our location of operation and the economy structure of Huzhou, which has high industrial development potentials, will benefit us as we generate larger portion of PNG revenue from industrial and commercial users, which generally consume significantly higher quantity of PNG, providing us with a stable income stream.

Further, City Group, one of our Controlling Shareholders, is an investment company wholly-owned by Huzhou SASAC, and an important body for facilitating the energy infrastructure construction and accelerating the construction of major energy projects in Huzhou. We believe that the good relationship between City Group and the Huzhou Municipal People's Government will allow us to enjoy government policy support, provide favourable conditions for the development and approval of our new projects, and facilitate us to attract new PNG users in the Operating Area. In addition, considering the good relationship between City Group and the Huzhou Municipal People's Government, we believe that we have a stable source of PNG supply as the PRC government and its controlled corporations generally will not allow natural gas distributors to suspend natural gas supply, considering the basic necessity of natural gas.

We operate in the fast growing natural gas industry of China which benefits from favourable government policies and increasing demand

Natural gas, which is widely recognised as a more economical, efficient and clean energy source, has been strongly and actively promoted by the PRC government in recent years. The PRC government has been introducing energy planning policies which are expected to accelerate the development of China's natural gas industry and gradually optimise the structure of the energy consumption. According to the F&S Report, the natural gas consumption accounted for approximately 6.9% of the total energy consumption in the PRC in 2017, and such share of the natural gas consumption reached approximately 10.2% in 2021. In order to promote the energy structure optimisation and green energy consumption, the share of natural gas in total energy consumption is expected to further increase in the future. According to the "Strategy for a Revolution in Energy Production and Consumption (2016-2030)" (《能源生產和消費革命戰略(2016-2030)》), it is expected that the natural gas consumption will reach about 13.1% of the total energy consumption in the PRC by 2025. In February 2021, the Zhejiang Province 14th Five-Year Plan for Energy Development (draft for comment) (《浙江省能源發展“十四五”規劃》(徵求意見稿)) was released by the ZJDRG and Zhejiang Energy Administration, setting a series of strategies and goals to support the sustainable transition of energy structure. We believe that our sale of PNG under the Concessions in Huzhou as well as our construction and installation business will continue to benefit from the favourable government policies and industry trends.

BUSINESS

We have a stable operating cash inflow with receipt of payment in advance for most of our sale of PNG

Revenue derived from our sale of PNG accounted for approximately 88.1%, 86.3% and 86.4% of our revenue (before government surcharges) for FY2019, FY2020 and FY2021, respectively. We generally collect payment in advance for our sale of PNG to most of our retail customers (including all the residential users and a majority of the non-residential users). The payment in advance is generally a fee based on the estimated usage of PNG consumed by our customers. For FY2019, FY2020 and FY2021, we recorded positive net cash flows from operating activities of RMB262.7 million, RMB331.7 million and RMB328.5 million, respectively. Therefore, we generally do not have any material overdue receivables. The average turnover days of trade receivables were approximately 14 days, 16 days and 13 days for FY2019, FY2020 and FY2021, respectively. We will gradually adopt the payment in advance method for the rest of the customers which we only collected payment after their usage of PNG during the Track Record Period, subject to their credibilities and payment histories.

Our principal business of sale of PNG provides us with a stable cash inflow as we generally receive payment in advance for our sales and we rarely face credit risks from our customers from such operation during the Track Record Period. Despite we may make weekly payments, including prepayments, to our suppliers, we were able to generate net cash inflow from operating activities during the Track Record Period.

We have an experienced, stable and professional management team supported by highly-skilled employees and the relevant expertise and experience of ENN Energy

We have a management team comprising a group of highly experienced professionals in the natural gas industry, including Ms. Su Li, Mr. Pan Haiming, Mr. Li Haixiao, Mr. Ren Qinfeng, Ms. Jin Jinyun and Mr. Shi Xiangjun. Ms. Su Li, our executive Director, graduated from Shanghai Jiao Tong University in the PRC with an executive master's degree in business administration and has over 15 years of experience in gas industry. Mr. Pan Haiming is our executive Director and has over seven years of experience in gas industry. Mr. Li Haixiao is our general manager and has over 15 years of experience in gas industry. Please refer to the section headed "Directors, Supervisors, Senior Management and Employees" in this prospectus for details.

Our natural gas experts and professional technicians have also obtained professional and academic qualifications and have extensive experience in the natural gas industry. We provide training to our technicians and other staff members to enable them to stay abreast of the latest technological development in the natural gas industry. We believe that our experienced management team, together with our professional technicians and staff contribute to our success.

Further, ENN Energy, one of our Controlling Shareholders, is engaged in clean energy and natural gas business across the PRC. We believe that we can leverage the relevant expertise and experience of ENN Energy in our business development.

OUR BUSINESS STRATEGIES

We aim to achieve future growth and further strengthen our overall competitiveness and market position in the PRC natural gas industry. Our key strategies formulated to achieve our goals are as follows:

Enhance our sales of PNG by upgrading our pipeline network and operational facilities

In recent years, Huzhou has witnessed a rapid growth in its industry development which mainly includes high-end manufacturing, new material and automobile industries. According to the F&S Report, the industrial added value of Huzhou has increased from approximately RMB119.6 billion in 2017 to approximately RMB154.9 billion in 2021. With continuous government support, the industrial added value of Huzhou is forecasted to be approximately RMB167.0 billion in 2022 and will reach approximately RMB224.0 billion by 2026, representing a CAGR of 7.6%. With growing industrialisation, the energy demand is rising simultaneously. Natural gas, as one of the main industrial energies, will experience an increase in consumption along with Huzhou's industrial blooming process. According to the F&S Report, going forward, the consumption volume of natural gas in Huzhou is expected to increase from approximately 1.42 billion m³ in 2022 to approximately 2.45 billion m³ in 2026, demonstrating a CAGR of 14.6%, which is higher than the growth rate of the natural gas consumption in Zhejiang Province.

To fully capitalise our competitive strength in Huzhou and capture the expected growth in natural gas consumption in Huzhou, we intend to enhance our sales of PNG by upgrading our pipeline network and operational facilities, which is detailed as follows:

- (i) to correspond with new road planning and constructions, we plan to equip newly constructed roads with medium pressure pipelines of approximately 56 km in the Wuxing Operating Area, and approximately 113 km in the Nanxun Operating Area in the coming three years after the Listing for connecting potential PNG users located in the regions along the new road planning and constructions;
- (ii) we plan to upgrade our medium pressure pipelines with ring pipeline network of approximately 27 km in the Wuxing Operating Area in the coming three years after the Listing to further enhance the stability of our PNG supply to our customers because with a ring pipeline network, any failure in a particular section of the pipelines would not cause material interruption to our natural gas supply to our customers; and
- (iii) we plan to upgrade our other pipeline network and operational facilities for our PNG business in the Wuxing Operating Area in the coming three years after the Listing, including but not limited to:
 - replacing obsolete pipelines of approximately seven km;
 - upgrading our control system for monitoring our PNG pipeline network and equipment, collecting, processing and storing our operating data (such as pipeline pressure, flow and leakage); and

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- upgrading our remote metre reading and monitoring system and corresponding devices to allow real-time tracking of the PNG usage by our customers.

The remaining useful lives of our existing pipeline network and operational facilities range from nil to 20 years and from nil to 30 years, respectively. We believe our upgrade plan is essential in expanding our user base, enhancing our operational efficiency, enhancing our operational safety and lowering our operational and maintenance costs in this regard in the long run. The above upgrades will be carried out by batches and stages with reference to, among other things, the operating conditions of individual pipeline or operational facility being assessed regularly, the remaining useful lives of the pipeline network and operational facilities and the city development plan in Huzhou. As such, we will be able to continue our operations during the upgrade in substantially the same manner we had been operating during the Track Record Period. The total length of pipeline upgrades of approximately 203 km in the Wuxing Operating Area and the Nanxun Operating Area will be carried out by batches in the coming three years after the Listing, with lengths of pipeline upgrades approximately 81 km, 80 km and 42 km are expected to be completed in the first, second and third year after the Listing, respectively.

The total capital expenditure for the above strategy in respect of both Wuxing Operating Area and Nanxun Operating Area is expected to be approximately HK\$450.8 million (equivalent to approximately RMB385.3 million), of which approximately HK\$376.5 million (equivalent to approximately RMB321.8 million) are expected to be applied to construction, installation and other costs, and approximately HK\$74.3 million (equivalent to approximately RMB63.5 million) are for the procurement of operational facilities and equipment. The total capital expenditure is estimated based on the construction project pricing references issued by the government and the quotations obtained. We intend to apply 20.0% or HK\$52.0 million (equivalent to approximately RMB44.4 million) of the net proceeds from the Global Offering to finance this strategy in respect of the Wuxing Operating Area and the remainder will be funded by our internal resources. Please refer to the paragraph headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for details.

Expand our business to other geographical areas through strategic acquisition

To expand our geographic coverage to other districts in Huzhou or neighbouring cities, we plan to selectively pursue strategic acquisition opportunities in respect of operators engaging in the natural gas and related industry, including integrated energy industry which uses natural gas as fuel, in neighbouring areas in Zhejiang, Jiangsu or Anhui Provinces. According to F&S, acquisition is common in the natural gas and related industry.

Before we make any acquisition, we will conduct preliminary review and feasibility study on the potential target to consider, assess and decide on whether to make such investment. In assessing any strategic acquisition opportunity, we will carefully consider a variety of factors with respect to the target company, including the following: (i) the quality of its assets and business; (ii) the cost and benefit of the acquisition and our internal financial requirements, taking into account our corporate

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strategy and long-term plan; (iii) the synergy between our existing operations and potential target company in terms of infrastructure, technology, know-how, management expertise and business compatibility; (iv) whether the target company has secured any PNG supply and concession rights; (v) whether it has a stable customer base; (vi) its geographical proximity to our existing operations; (vii) the possibility of enhancing the overall competitiveness and sustainability of our existing and future business; and (viii) the size and population of the region in which it is located.

If the acquisition target meets the criteria of our preliminary assessment, we will engage qualified PRC legal advisers to advise us on any potential legal issues in relation to the acquisition or partnership and to ensure that the acquisition and operation of the target company will not give rise to any non-compliance with any applicable law or regulation. If any acquisition materialises, we intend to enhance the performance of the acquired company by sharing our extensive industry experience, implementing our operation model, and reorganising their corporate governance structure to help them integrate into our operations. We believe this strategy will enable us to maintain our growth in the future.

As at the Latest Practicable Date, we did not have any specific acquisition target, plan or a definite timeline and had not entered into any definitive agreement or engaged in any active discussion with any potential target. We will particularly focus on natural gas companies with concession rights in neighboring areas in Zhejiang, Jiangsu or Anhui Provinces, recording annual gross profit of approximately RMB10 million to RMB25 million, leveraging our concession operation experience. According to F&S, there are over 400 natural gas companies in Zhejiang, Jiangsu and Anhui Provinces. According to our PRC Legal Advisers, unless the acquisition involves transaction of state-owned shares of the target, there is no requirement for prior approval from the government for the acquisition of the target and the acquisition will not invalidate the concession rights originally granted to the target. As such, our Directors consider that it is feasible to acquire natural gas companies with concession rights. As for privately owned target, whether to go through a bidding process is a commercial decision between the parties. We expect to make an acquisition of one company once we identify a suitable target. However, there is no assurance that we will be able to acquire any targets given the territorial nature of natural gas companies and the need for government approval for acquisition of state-owned assets. Please see the paragraph headed “Risk Factors – Our expansion plan to acquire targets may not be achievable given that natural gas companies are often territorial in nature and state-owned assets require government approval, which may materially and adversely affect our business, results of operations, financial condition and prospects” in this prospectus for details.

We intend to apply 30.0% or HK\$77.9 million (equivalent to approximately RMB66.6 million) of the net proceeds from the Global Offering to finance this strategy and may apply our internal resources in case of any shortfall. Please refer to the paragraph headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for details.

Expand into distributed photovoltaic power generation business

Photovoltaic power generation industry has been growing rapidly in recent years. During the Zhejiang Province 13th Five-Year Plan for Energy Development (《浙江省能源發展“十三五”規劃》), Zhejiang Province has actively promote the photovoltaic power generation to solve the problems of high power supply pressure and insufficient energy infrastructure, as well as to accelerate the energy structure transformation. According to the F&S Report, the installed capacity of photovoltaic power in Zhejiang Province increased from 1.6 million kilowatts in 2015 to 15.2 million kilowatts in 2020, representing a CAGR of 56.0%. According to the Zhejiang Province 14th Five-Year Plan for Energy Development (draft for comment) (《浙江省能源發展“十四五”規劃》(徵求意見稿)), the photovoltaic power installed capacity in Zhejiang Province is aimed to increase to 28.0 million kilowatts by 2025. According to the F&S Report, the photovoltaic power installed capacity in Huzhou reached 1.8 million kilowatts in 2020, an increase of 1.6 million kilowatts compared to that in 2015, representing a CAGR of 54.3% from 2015 to 2020.

To tap into the growing market of photovoltaic power generation, we intend to construct and operate distributed photovoltaic power system on selected properties (including those owned by City Group and other Independent Third Parties) and sell the electricity generated from such system. We engage third party contractors for the engineering, procurement and construction activities of our distributed photovoltaic power system. We have also assigned our staff to attend external trainings on distributed photovoltaic power generation. Our Directors consider that the management and operation of distributed photovoltaic power system do not require specialised skills or expertise. In light of the above, our Directors believe that we have the sufficient expertise to expand into distributed photovoltaic power generation business. As confirmed by F&S, it is not uncommon for natural gas companies to expand into photovoltaic power generation business.

As for the site selection, we intend to strategically select properties in Huzhou with no other high-rise buildings or heavily air-polluting corporations nearby in order to maximise the exposure to solar radiation and hence generate more electricity. As at the Latest Practicable Date, we installed distributed photovoltaic power system on a property owned by an Independent Third Party, and we tentatively identified (i) 11 properties owned by City Group with rooftop area ranging from approximately 2,000 sq.m. to 65,000 sq.m., which can contain distributed photovoltaic power generation system with capacity ranging from approximately 200 to 4,500 kilowatts peak; and (ii) five properties owned by other Independent Third Parties with rooftop area ranging from approximately 13,000 sq.m. to 0.1 million sq.m., which can contain distributed photovoltaic power generation system with capacity ranging from approximately 1,500 to 11,000 kilowatts peak. We expect to commence the construction and installation of the distributed photovoltaic power generation system on seven and nine properties in FY2022 and FY2023, respectively. As advised by our PRC Legal Advisers, we are not required to obtain any licences or approvals for operation of the distributed photovoltaic system, nor are we required to obtain any approval from the State Grid Corporation of China or permits for the power systems to be installed on the properties. For details, please refer to the paragraph headed “Regulatory Overview – Distributed Photovoltaic Power Generation Business – Ratification is not necessary for distributed photovoltaic power generation programmes to connect to the State Grid

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Corporation of China” in this prospectus. Going forward, to ensure our legal compliance in operating the distributed photovoltaic power generation business, we will check whether the properties on which we plan to install our distributed photovoltaic power generation system possess the requisite title ownership, and will keep track on any future changes in the relevant laws and regulations.

As at the Latest Practicable Date, we had entered into a framework agreement with City Group, one of our Controlling Shareholders, pursuant to which City Group shall allow our Group to install distributed photovoltaic systems in properties owned by the City Group, and we shall preferentially supply the electricity generated by such system to City Group, and we shall be at liberty to sell any electricity generated by such system that is unused by City Group to the State Grid Corporation of China (國家電網公司) (“**State Grid**”). The term of the framework agreement is from 1 June 2021 to 31 December 2023. Pursuant to the framework agreement, City Group shall not charge our Group any fee for the use of their properties, and we shall charge City Group electricity charges for the electricity so supplied at a discount of up to 5% of the government regulated price of electricity. Our Directors considers that the terms of this framework agreement with City Group are no less favourable than that with other independent third parties in this regard, given the relatively large number of rooftops we are able to use on City Group’s properties for installation of distributed photovoltaic power system and City Group does not charge us for the use of their rooftops. Please refer to the paragraph headed “Continuing Connected Transactions – Non-exempted Continuing Connected Transactions – Installation of distributed photovoltaic system and provision of electricity to City Group by our Group” in this prospectus for details. With the distributed photovoltaic power system installed by stages, we expect to generate electricity of approximately 13.7 million kilowatt hours and 31.9 million kilowatt hours, respectively for FY2022 and FY2023. To the best estimate of our Directors, the breakeven could be achieved in less than one month given the low cost of running of the distributed photovoltaic power system; and the investment payback period is expected to be around 9 years after the commencement of operation. The breakeven period and the investment payback period are estimated on the assumption that, among others: (i) 80% of the electricity will be consumed by the users of the relevant buildings and the remaining 20% will be sold to the State Grid; and (ii) the number of annual average solar radiation hours remains constant.

Having considered (i) the growth potential of the distributed photovoltaic power generation market; (ii) the relatively short breakeven period; and (iii) the low cost and effort required for running the distributed photovoltaic power generation system, our Directors consider that tapping into the distributed photovoltaic power generation market is commercially feasible. Our Directors also consider that the low cost of operation of the distributed photovoltaic power generation business will not have a material impact on the cost structure of our Group’s operation. Our expansion into the distributed photovoltaic power generation market is consistent with the carbon neutrality policies of the PRC government and further improve the corporate image of our Group, and in the long run, will generate another stable source of income in addition to our gas business, hence diversifying our operational risks.

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The total capital expenditure for this strategy is expected to be approximately HK\$233.1 million (equivalent to approximately RMB199.2 million) which shall be the fee for the contractor(s) of engineering, procurement and construction arrangement, with reference to the quotations obtained and the prevailing market rates. We intend to apply 30.0% or HK\$77.9 million (equivalent to approximately RMB66.6 million) of the net proceeds from the Global Offering to finance this strategy. The remainder will be funded by our internal resources. Please refer to the paragraph headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for details.

Promote the use of heat energy from vapour generated by our natural gas through natural gas boilers

In view of the increasing application of natural gas boilers to generate vapour for heat energy, starting from 2020, we have supplied natural gas to non-residential customers for them to generate vapour.

Boiler is a major heat energy supply equipment, which can be applied in industrial heating as well as civil heating to provide heat energy. In addition, the hot water or vapour produced by the boiler can also be converted into mechanical energy and electrical energy. Driven by economic development and the continuous increase in downstream demand, according to the F&S Report, the output of industrial boilers in Zhejiang Province increased at a CAGR of 26.6% from 15,864.9 steamed tonnes in 2016 to 40,769.4 steamed tonnes in 2020 accounting for 9.3% of the total volume in China, ranking third among all the provinces. At the same time, with the strong support of government policies, including the Opinions on Comprehensively Strengthening Ecological Environment Protection and Resolutely Fighting Pollution Prevention and Control* (《全面加強生態環境保護堅決打好污染防治攻堅戰的意見》), the market for energy saving and environmentally friendly boilers has developed rapidly. With the advantages of high safety, low operating costs, high thermal efficiency, convenient maintenance and small footprint, natural gas boilers have become the most used boilers after coal-fired boilers. According to F&S, with further promotion of policies and the market, the application of natural gas boilers in heating and other fields will continue to increase and, based on the research and interviews conducted by F&S, it is not uncommon for natural gas companies to engage in vapour generation industry.

In view of the expected growth in application of natural gas boilers, we intend to establish a vapour generation station in Wuxing District, of which phase one will be equipped with (i) two natural gas boilers for generating vapour by boiling water with natural gas; and (ii) vapour pipelines to be constructed by us of approximately five km connecting our vapour generation station to our target customers. We expect to commence construction of phase one of the vapour generation station in mid-2022, which is expected to be completed by mid-2023. Depending on the market condition and the performance of phase one of the vapour generation station, we may further expand the vapour generation station by establishing phase two of it. As advised by our PRC Legal Advisers, (i) the establishment of vapour generation station and the vapour pipelines are not covered under the Concession Agreements, and there are no applicable laws and regulations in the PRC which stipulate concession requirement for such establishment; and (ii) the operation of the vapour generation station requires prior approval from the HZDRC. According to our PRC Legal Advisers, vapour generation industry (i) is one of the industries encouraged by the PRC government

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under the Industrial Structure Adjustment Guidance Catalogue (2019)* (《產業結構調整指導目錄(2019年本)》); and (ii) is not subject to any foreign investment restrictions under the Market Entry Negative List (2020)* (《市場准入負面清單(2020年版)》). As such, our PRC Legal Advisers are of the view that there is no legal impediment for us to obtain the approval from the HZDRC.

Our Directors confirm that the procurement of natural gas will contribute to the major part of the operating costs of this business. Despite the capital expenditure and operating costs involved in setting up the vapour generation station, it is our long-term development strategy to expand our customer base. With the establishment of our vapour generation station, we believe we are open up to a new group of customers which demand for vapour but do not possess necessary facilities to generate vapour for their own use, implying a new source of income for our Group and allowing us to capture the ever-expanding market of natural gas boilers in heating and other fields, which could otherwise be mostly irrelevant to us if we do not have our own vapour generation stations. As such, our Directors consider that this development strategy will have positive impact on our income generating ability. To the best estimate of our Directors, the breakeven could be achieved within a month given the procurement of natural gas contributes to the major part of the operating costs and the fixed cost for operating the vapour generation station is low, and the investment payback period is expected to be around 10 years after the commencement of operation. Based on our cost and benefit analysis, we believe the benefits to be brought by the establishment of the vapour generation station in the long-run will outweigh the estimated costs. Our Directors further confirm that this business, including the construction and operation of the vapour generation station will not be conducted by any joint venture of our Group as such project is sourced by our Company.

As at the Latest Practicable Date, we had not finalised the site selection nor entered into any purchase or lease agreement of the land use right for such expansion plan. The site selection will be subject to the location of the infrastructure and our potential target customers, which are principally industrial users engaged in battery manufacturing and food processing. We also intend to employ additional staff to manage the vapour generation station and our service in this regard. Subject to the market condition, we may establish additional vapour generation stations to further promote the use of heat energy from vapour generated by our natural gas.

The total capital expenditure for establishing a vapour generation station is expected to be approximately HK\$86.9 million (equivalent to approximately RMB74.3 million), of which approximately HK\$45.3 million (equivalent to approximately RMB38.7 million) are expected to be applied to construction, installation and other costs, and approximately HK\$41.6 million (equivalent to approximately RMB35.6 million) are for the procurement of operational facilities and equipment. The total capital expenditure is estimated based on the construction project pricing references issued by the government and the quotations obtained. We intend to apply 10.0% or HK\$26.0 million (equivalent to approximately RMB22.2 million) of the net proceeds from the Global Offering to finance this strategy. The remainder will be funded by our internal resources. Please refer to the paragraph headed “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for details.

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OUR BUSINESS MODEL AND SEGMENTS

During the Track Record Period, our principal business is as follows:

Business	Customers
Sale of gas, mainly PNG in Huzhou (under the Concession), LNG and LPG	Wholesale customers and retail customers comprising residential and non-residential users of gas
Provision of construction and installation services to construct and install end-user pipeline network and gas facilities	Property developers and owners or occupants of residential and non-residential properties
Other businesses, including sale of household gas appliances and leasing of properties	Customers who require such services or products. Please refer to the paragraph headed “Other Businesses” in this section for details.

For the breakdown of our revenue by business segments during the Track Record Period, please refer to the paragraph headed “Overview” in this section.

OUR GAS BUSINESS

Huzhou and its neighbouring region

Huzhou is a major prefecture-level city in Zhejiang Province located in the centre of the Yangtze River Delta, neighbouring Shanghai, Hangzhou, Jiaxing and Jiangsu. It has a total area of 5,820 km² and had a total population of around 3.4 million with an urbanisation rate of 65.6% in 2020. In recent years, Huzhou has witnessed a rapid growth in its industry development which mainly includes high-end manufacturing, new material and automobile industries. According to the F&S Report, the industrial added value in Huzhou has increased from approximately RMB119.6 billion in 2017 to approximately RMB154.9 billion in 2021. With continuous government support, the industrial added value of Huzhou is forecasted to be approximately RMB167.0 billion in 2022 and will reach approximately RMB224.0 billion by 2026, representing a CAGR of 7.6%. With growing industrialisation, the energy demand is rising simultaneously. Natural gas, as one of the main industrial energies, will experience an increase in consumption along with the Huzhou’s industrial blooming process. According to the F&S Report, going forward, the consumption volume of natural gas in Huzhou is expected to increase from approximately 1.42 billion m³ in 2022 to approximately 2.45 billion m³ in 2026, demonstrating a CAGR of 14.6%, which is higher than the growth rate of the natural gas consumption in Zhejiang Province.

Our PNG sale operations in Huzhou

We have an operating history of over 15 years in Huzhou. Pursuant to the Concessions, namely Wuxing Concession and Nanxun Concession, we obtained exclusive rights to sell and distribute PNG in our Operating Area, for an initial term of 30 years from 16 June 2004 and 30 September 2009, respectively, with a preferential right of renewal upon negotiation and fulfilment of certain conditions. Our Operating Area is located within Wuxing District and Nanxun District. Wuxing District and Nanxun District in aggregate occupied approximately 1,565 km², representing

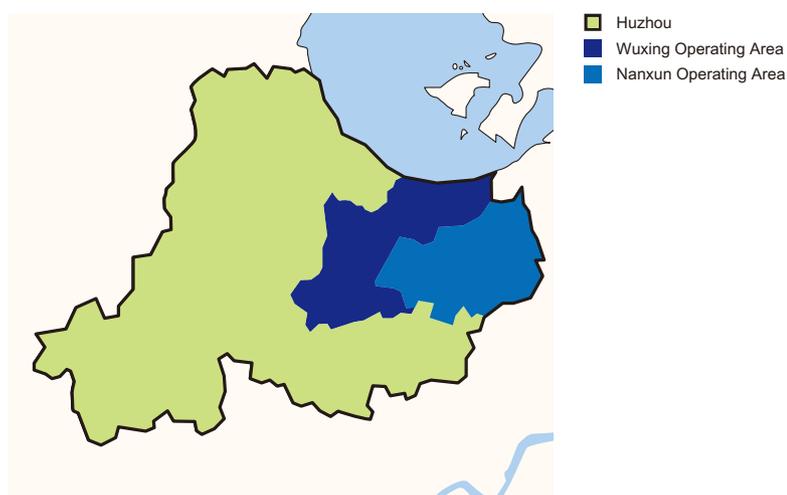
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approximately 26.9% of the total area of Huzhou. According to the F&S Report, approximately 44.1% of natural gas consumption in Huzhou was supplied by us in 2021. The following table sets forth certain general information of Wuxing District and Nanxun District:

	Wuxing District	Nanxun District
Approximate area (km²) (Note)	863	702
Percentage of area out of the total area of Huzhou (%)	14.8	12.1
Approximate population ('000)	1,036.0	545.0
Percentage of population out of the total population of Huzhou (%)	30.4	16.0
Our urban pipeline network as at 31 December 2021	<ul style="list-style-type: none"> – 694.0 km in use; and – 28.0 km under construction 	<ul style="list-style-type: none"> – 695.8 km in use; and – 87.5 km under construction

Note: The sizes of Wuxing District and Nanxun District are for illustrative purpose. Our Operating Area does not necessarily equate to the entire statutory administrative areas of Wuxing District and Nanxun District.

The indicative map shows the approximate boundaries and locations of our Wuxing Operating Area and Nanxun Operating Area for illustrative purpose:



Note: The boundaries and locations of the areas are for illustrative purpose only and may not be exact in geographical terms.

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The following table sets forth the breakdown of our revenue from sale of PNG by Operating Area during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Wuxing Operating Area	688,773	47.8	579,241	47.1	734,284	45.6
Nanxun Operating Area	750,698	52.2	651,164	52.9	875,569	54.4
Total	1,439,471	100.0	1,230,405	100.0	1,609,853	100.0

During the Track Record Period, our revenue generated from Nanxun Operating Area was higher than that from Wuxing Operating Area, primarily due to the larger number of industrial customers we served in Nanxun Operating Area than that in Wuxing Operating Area, while industrial users generally consume higher quantity of PNG per user as compared to residential users.

THE CONCESSIONS

Pursuant to the Measure for the Administration on the Franchise of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) and Administrative Measures for the Franchising of Infrastructure and Public Utilities* (《基礎設施和公共事業特許經營管理辦法》) we entered into the Concession Agreements with the local government of Huzhou whereby we were granted the exclusive right to sell and distribute PNG and to construct urban pipeline network in our Operating Area. Some of the key terms of our Concessions are set forth below:

	Wuxing Concession	Nanxun Concession
Concession period	30 years, commencing from 16 June 2004 to 15 June 2034, with a preferential right of renewal upon negotiation and fulfilment of certain conditions	30 years, commencing from 20 September 2009 to 29 September 2039, with a preferential right of renewal upon negotiation and fulfilment of certain conditions
Concession grantor	Huzhou Housing and Urban-Rural Construction Bureau* (湖州市住房和城鄉建設局) (“Huzhou URCB”)	Huzhou Nanxun District Urban-Rural Development Bureau* (湖州市南潯區城鄉建設局), subsequently renamed as Huzhou Nanxun District Housing and Urban-Rural Development Bureau* (湖州市南潯區住房和城鄉建設局) (“Nanxun URCB”)
Concession grantee	Our Company	Nanxun Xinao, a non-wholly owned subsidiary of our Company

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	Wuxing Concession	Nanxun Concession
Operating Area and business scope	<p>Wuxing Operating Area, namely, the operating area where we are granted the exclusive right for:</p> <p>(i) the investment, construction and operation of piped gas, including sales of natural gas, LPG, manufactured coal gas and other gas fuel; and</p> <p>(ii) the provision of relevant construction designs and the maintenance, operation, repair and emergency services of related pipeline facilities,</p> <p>in the administrative areas of Wuxing District of Huzhou (excluding Fenghuang Industry and Trade District, Fenghuang West District, Yangjiabu Heavy Chemical Industry District, Renhuangshan New District and Taihu Lake Tourist Resort District) and bounded by Xitiaoxi, Huanchenghe, Xintang Port, and Changdou Port</p>	<p>Nanxun Operating Area, namely, the operating area where we are granted the exclusive right for:</p> <p>(i) the investment, construction and operation of piped gas, including sales of natural gas, LPG and other gas fuel; and</p> <p>(ii) the provision of relevant construction designs and the maintenance, operation, repair and emergency services of related pipeline facilities,</p> <p>in the administrative areas of Nanxun District of Huzhou</p>
Pricing of the PNG sale	<p>We shall follow the maximum end-user price determined by the relevant government authorities at which we could sell PNG to the end-users. The fee we charge our customers are calculated based on the unit price as agreed between us and our customers (which shall not exceed the maximum end-user price at the relevant time) times the volume of PNG used in m³.</p>	
Renewal	<p>Renewal will be subject to the negotiation between us and the Concession Grantors. Pursuant to the Concession Agreements, we shall enjoy a preferential right for renewal of the Concessions unless we are materially in breach of any applicable laws and regulations or the stipulations of the Concession Agreement, or we do not provide continuous, safe and stable supply of PNG as stipulated in the Concession Agreements.</p>	
Ownership of natural gas facilities	<p>During the Concession period, we retain the ownership of the urban pipeline network and gas facilities which we have invested in and constructed under the Concession Agreements (the “Urban Natural Gas Facilities and Assets”). In the event that any of the Concession Agreements is terminated or not renewed pursuant to the exercise of our preferential right for renewal, the Concession Grantor concerned shall buyback the Urban Natural Gas Facilities and Assets at the assessed value at the relevant time determined by a third-party assets valuation authority jointly appointed by the Concession Grantor and us.</p>	

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	Wuxing Concession	Nanxun Concession
Termination	<p>The Concession Agreements can be terminated upon mutual agreement of the parties to the agreements.</p> <p>The Concession Grantors also have the right of early termination of the Concessions under certain circumstances, which include but are not limited to:</p> <ul style="list-style-type: none">(i) unauthorised transfer or lease of the Concession;(ii) unauthorised dealing in or pledge of the Urban Natural Gas Facilities and Assets;(iii) serious quality or production safety incidents due to our poor management;(iv) unauthorised suspension of business by us that seriously affects public interest and safety; and(v) our engagement in any unlawful conduct.	

There is no assurance that any of the Concession Agreements will not be terminated before the expiration dates or that we will be successful in renewing any of the Concession Agreements or at all. If any of the Concession Agreements are terminated for whatever reason before expiration, or we fail to renew any of them upon expiration, our business, financial condition and operating results will be materially and adversely affected. Please refer to the paragraph headed “Risk Factors – Risks Relating to Our Business – Our Concessions for the operation of our PNG business will expire or may be terminated before expiration and we may not be able to renew our existing Concessions or secure new concessions.” in this prospectus for details of the risk associated with our business operated under the Concessions.

Our PRC Legal Advisers have opined that Huzhou URCB and Nanxun URCB are the competent authorities which shall be responsible for implementation of the licensing of PNG operation in Wuxing District and Nanxun District. They have been authorised by the Huzhou Municipal People’s Government and Nanxun District Municipal People’s Government of Huzhou, Zhejiang Province, the PRC, respectively, to enter into the Concession Agreements with us and no fraud or deceit by our Company or Nanxun Xinao in the process of obtaining the Concessions. The Concession Agreements are valid and legally binding on the parties thereto. Further, our Company and Nanxun Xinao have obtained the Certificate for Gas Operation granted by the competent authorities in respect of gas business in accordance with the Concession Agreements and we have obtained confirmations from the relevant competent authorities below regarding the legal validity of the Concession Agreements. Accordingly, as advised by our PRC Legal Advisers, we shall have the legal right of the Concessions under the Concession Agreements.

However, the Concessions we acquired were not through any competitive modes since to the best knowledge of our Directors, we were not requested to acquire the Concessions through any competitive modes back then. According to our PRC Legal Advisers, the original Concession Agreements we entered into did not contain certain provisions as required under the Measures for the Administration of Concession for

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Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》), the Regulations on the Administration of Gas in Zhejiang Province (《浙江省燃氣管理條例》) and the standard format of a franchise operation contract, published by the MOFCOM with respect to city pipeline gas supply for guidance. We received written confirmations provided by the Zhejiang URCB, Huzhou URCB and Nanxun URCB in respect of the non-compliance incidents. See the paragraph headed “Legal and compliance matter – Legal Compliance” in this section for details of our non-compliances in relation to our Concessions.

OUR SALE OF PNG

For FY2019, FY2020 and FY2021, 88.1%, 86.3% and 86.4%, respectively, of our revenue (before government surcharges) were generated from our sale of PNG business. The following table sets forth the breakdown of our revenue from our sale of PNG by user category during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Retail sale						
– Industrial	1,134,660	78.8	972,237	79.0	1,279,597	79.5
– Commercial	55,608	3.9	43,345	3.5	60,704	3.8
– Residential	65,035	4.5	76,982	6.3	83,854	5.2
Sub-total	<u>1,255,303</u>	<u>87.2</u>	<u>1,092,564</u>	<u>88.8</u>	<u>1,424,155</u>	<u>88.5</u>
Wholesale	<u>184,168</u>	<u>12.8</u>	<u>137,841</u>	<u>11.2</u>	<u>185,698</u>	<u>11.5</u>
Total	<u><u>1,439,471</u></u>	<u><u>100.0</u></u>	<u><u>1,230,405</u></u>	<u><u>100.0</u></u>	<u><u>1,609,853</u></u>	<u><u>100.0</u></u>

The following table sets forth the breakdown of volume of PNG sold by us by user category during the Track Record Period:

	FY2019		FY2020		FY2021	
	million m ³	%	million m ³	%	million m ³	%
Retail sale						
– Industrial	380.9	77.0	368.7	77.8	420.7	76.9
– Commercial	17.6	3.6	15.5	3.3	20.0	3.7
– Residential	23.8	4.8	27.8	5.9	30.6	5.6
Sub-total	<u>422.3</u>	<u>85.4</u>	<u>412.0</u>	<u>87.0</u>	<u>471.3</u>	<u>86.2</u>
Wholesale	<u>72.3</u>	<u>14.6</u>	<u>61.7</u>	<u>13.0</u>	<u>75.5</u>	<u>13.8</u>
Total	<u><u>494.6</u></u>	<u><u>100.0</u></u>	<u><u>473.7</u></u>	<u><u>100.0</u></u>	<u><u>546.8</u></u>	<u><u>100.0</u></u>

Retail sale of PNG

Most of our PNG was sold to customers on a retail basis, who purchased PNG from us for their own consumption, including residential users and non-residential users, namely, industrial and commercial users.

- **Industrial users:** During the Track Record Period, our sales of PNG to industrial users accounted for the majority of our revenue from sales of PNG. Our major industrial customers during the Track Record Period mainly included companies engaged in printing and dyeing, and aluminium processing industries. In 2020, we began to supply PNG to industrial customer engaged in beverage production for generating vapour through natural gas boilers for, to the best knowledge of our Directors, use in the drying and heating processes during the production.
- **Commercial users:** Our major commercial customers during the Track Record Period mainly included restaurants, hotels, shopping malls, schools, elder centres and public facilities.
- **Residential users:** Residential users are generally households living in residential properties which are connected to our pipeline networks.

We generally enter into agreements with all our retail customers in relation to our supply of PNG to them. Except for all residential users and certain non-residential users whose agreements have no fixed terms, the agreements with our retail customers are generally for a term of five years with automatic renewal term in the absence of disagreement, and generally provide for the unit price of the PNG payable by the users agreed between the parties, subject to adjustment and in accordance with the price cap set by the relevant government authorities and with reference to the metred amount of consumed PNG, which we will take record once per month. We generally collect payment in advance for our sale of PNG to most of our retail customers (including all the residential users and a majority of the non-residential users). The payment in advance is generally a fee based on the estimated usage of PNG consumed by our customers. We will gradually adopt the payment in advance method for the rest of the customers which we only collected payment after their usage of PNG during the Track Record Period.

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The following table sets forth the number of retail customers by user category during the Track Record Period:

	As at 31 December		
	2019	2020	2021
Industrial	653	692	993
Commercial	1,554	1,760	2,341
Residential	179,742	198,289	227,490
Total	181,949	200,741	230,824

While the number of residential users far exceeds the number of non-residential users, namely the industrial and commercial users, the non-residential users contribute to a majority of our revenue, sales volume and earnings due to the fact that such users generally consume higher quantity of PNG per user as compared to residential users.

Wholesale of PNG

During the Track Record Period, we sold PNG to two wholesale customers for their onward sale, including (i) Customer Group A, a PNG distributor serving natural gas users in Fenghuang Economic and Technology Development District* (鳳凰經濟技術開發區) in Huzhou, which is beyond our Operating Area. To the best knowledge of our Directors, we were the only PNG supplier of Customer Group A during the Track Record Period as the facilities of Customer Group A were connected to the city gateway station managed by us; and (ii) a branch company of Zhongshihua Sales, a natural gas refuelling station operator which, to the best knowledge of our Directors, principally sells CNG to drivers with vehicles using natural gas as fuel. Zhongshihua Sales is a partner holding 50% of the equity interest of our joint venture company, Zhongshihua Xinao. Please refer to the section headed “History and Corporate Structure” in this prospectus for details. To the best knowledge of our Directors, these two wholesale customers procured PNG from our Group as they both did not operate the necessary natural gas facilities in Huzhou to connect to the upstream PNG suppliers.

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We supply PNG to our wholesale customers through the connection of our pipelines to their pipelines or facilities. We entered into framework supply agreements with our wholesale customers, salient terms of which are set out as below:

	Customer Group A	Branch company of Zhongshihua Sales
Term	10 October 2005 to 31 December 2023	1 January 2020 to 31 December 2021 ^(Note)
Price	Determined in accordance with the unit price set by the relevant government authorities, which is subject to adjustment in accordance with the unit price of our source of PNG as set by the relevant government authorities	
Termination	The agreement can be terminated if, among others: (i) there is any material breach of the master supply agreement by the other party which cannot be remedied within 30 days' notice of such breach; (ii) we fail to supply PNG for 30 days consecutively or 60 days in a year; (iii) there is any unauthorised transfer or pledge of the contractual rights under this framework supply agreement; or (iv) our master supply agreement(s) with our PNG supplier(s) is (are) terminated.	The agreement can be terminated upon mutual agreement of both parties.

OUR SOURCE OF PNG SUPPLY

Natural gas is the major raw material for our PNG sale business. The amount of natural gas we purchase is dependent on the level of consumption of our customers. When our customers consume PNG, the pressure in our pipelines will decrease and our natural gas processing stations or the city gateway station which regulate the inflow of natural gas from our supplier's network will automatically adjust the inflow of natural gas to maintain the pressure in our pipelines.

Note: As at the Latest Practicable Date, we continued to supply PNG to the branch company of Zhongshihua Sales and were negotiating the renewal of the framework supply agreement with them.

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The principal sources of natural gas of city gas enterprises generally come from upstream PNG suppliers. However, during peak seasons, to the best knowledge of our Directors, the sources of natural gas could also be PNG from other fellow city gas enterprises, pursuant to the mutual natural gas sale and purchase agreements between the city gas enterprises which are for emergency purpose only and involve minimal transaction amounts in general. Apart from PNG suppliers, we have also sourced LNG from various suppliers to supplement our PNG sale during peak seasons and prior consent from the government and/or our PNG suppliers during the Track Record Period was not required for us to acquire LNG from third parties for distribution of gasified LNG through the PNG pipeline networks. We store our LNG inventory in our LNG storage station. If we need to supplement our PNG supply, the LNG will be gasified by heat through gasification facilities at LNG storage station and transmitted into our pipeline.

The following table sets forth the volume and costs of natural gas we purchased during the Track Record Period:

	FY2019		FY2020		FY2021	
	Volume <i>million m³</i>	Costs <i>RMB'000</i>	Volume <i>million m³</i>	Costs <i>RMB'000</i>	Volume <i>million m³</i>	Costs <i>RMB'000</i>
PNG	491.1	1,192,308	379.1	774,525	539.6	1,208,788
LNG	17.3	39,823	101.6	180,826	12.4	37,122
Total	508.4	1,232,131	480.7	955,351	552.0	1,245,910

The following table sets forth the volume of gasified LNG, the corresponding costs, revenue, gross profit and gross profit margin in relation to sale of PNG through gasification of LNG by us during the Track Record Period:

	FY2019	FY2020	FY2021
Volume of gasified LNG (<i>million m³</i>)	6.8	93.3	7.8
Corresponding costs (<i>RMB'000</i>) ^(Note 1)	15,047	164,638	23,399
Revenue (<i>RMB'000</i>)	17,130	239,827	23,079
Gross profit/(loss) (<i>RMB'000</i>)	2,083	75,189	(320) ^(Note2)
Gross profit margin (%)	12.2	31.4	(1.4)

Notes:

- (1) The corresponding costs for gasified LNG represents the costs of purchase of the corresponding LNG.
- (2) We recorded gross loss for the sale of PNG through gasification of LNG in FY2021 primarily due to the relatively higher cost of purchase for LNG and the relatively lower end-user price for PNG as determined and implemented by the HZDRC before November 2021.

For FY2020, we significantly increased our purchase of LNG since the price of LNG in the first half of FY2020 was lower than the benchmark gateway station price of PNG, leading to the significant increase in the gross profit margin for sale of PNG through gasification of LNG for FY2020.

Our PNG suppliers

Prior to September 2020, Supplier A and Supplier F, both being state-owned enterprises, were our principal natural gas suppliers, each of which, to the best knowledge of our Directors, (i) was the only PNG wholesaler to sell PNG to PNG distributors in Zhejiang Province, including Huzhou, during the relevant time, respectively; and (ii) sourced PNG from upstream natural gas suppliers including several leading Chinese oil and gas companies. According to the 2020 Summary issued by the ZJDRC and Zhejiang Energy Regulatory Office of National Energy Administration (浙江省能源局) on 20 January 2020, the Zhejiang government aims to (i) discontinue the monopoly status of the provincial natural gas pipeline companies; (ii) separate the function of natural gas sale and transmission at provincial level; (iii) promote the fair and equal access to the infrastructure of natural gas, such as provincial pipeline network and LNG terminals, by all market entities; and (iv) reform and simplify the natural gas supply chain. As a result, to the best knowledge of our Directors, Supplier F took over the management of the natural gas sales and transmission from Supplier A in early 2020 in preparation for the natural gas supply chain reform under the 2020 Summary. Further, since September 2020, we have (i) ceased to procure natural gas from provincial natural gas companies, including Supplier A and Supplier F, and commenced to procure natural gas from Ningbo Intercity; and (ii) separately entered into PNG supply agreement and transmission agreement with Ningbo Intercity and Supplier F, respectively, which, according to our PRC Legal Advisers, satisfied the requirements under the 2020 Summary by contributing to ending the monopoly status of provincial natural gas companies, and separating the function of natural gas sales and transmission. To the best knowledge of our Directors after making reasonable enquiries, other than the customer-supplier relationship between Supplier A, Supplier F and Ningbo Intercity, neither Supplier A nor Supplier F have any relationship with Ningbo Intercity. In FY2021, in addition to Ningbo Intercity, we commenced sourcing PNG from Supplier G, which is one of the other upstream PNG suppliers and is a subsidiary of a company listed on the Stock Exchange, and two other city gas enterprises, Supplier H and Supplier J.

Our relationship with Ningbo Intercity

In light of the 2020 Summary, on 7 April 2020, ZJDRC issued the Notice on the 2020-2021 Implementation Plan (Trial) for the Pilot Program of Direct Upstream-Downstream Transactions and Transmission of Piped Natural Gas in Zhejiang Province* (《關於印發2020-2021年浙江省管道天然氣上下游直接交易暨管網代輸試點實施方案(試行)的通知》), pursuant to which the ZJDRC announced a pilot program for direct PNG transactions (“**Pilot Program**”) to facilitate the natural gas supply chain reform in Zhejiang Province. We applied to the Pilot Program to become one of the pilot natural gas operators during the early stage of natural gas supply chain reform in 2020. To the best knowledge of our Directors, Ningbo Intercity also applied to the Pilot Program and became one of the pilot natural gas suppliers during the early stage of natural gas supply chain reform in 2020. As such, Ningbo Intercity has been our principal natural gas supplier since September 2020. To the best knowledge of our Directors, Ningbo Intercity is an upstream supplier of natural gas, which has access to an LNG station with storage capacity of approximately 0.6 million m³ of LNG (equivalent to approximately 384 million m³ of natural gas in gaseous state) in Zhoushan, Zhejiang Province. As at the Latest Practicable Date, Ningbo Intercity

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was wholly owned by Xinao Gas Development Company Limited* (新奧燃氣發展有限公司), which was in turn wholly owned by ENN (China), our Controlling Shareholder. As such, Ningbo Intercity is an associate of ENN (China), and hence a connected person of our Company pursuant to Rule 14A.13(1) of the Listing Rules. Please refer to the paragraph headed “Continuing Connected Transactions – Non-exempted continuing connected transactions – Supply of PNG and LNG by Ningbo Intercity to our Group” in this prospectus for details.

We consider the relationship between our Group and Ningbo Intercity to be one of mutual reliance and beneficial to each other, and unlikely to materially and adversely change or terminate for the following reasons:

- it is difficult for Ningbo Intercity to find alternative sizeable customers with operating scale comparable to us for purchase of PNG in Huzhou given (i) that we were the largest PNG distributor in Huzhou, accounting for a market share of 45.1% in terms of PNG sales volume in 2020, while the second and the third largest PNG distributors accounted for only 25.7% and 8.6% of the market share, respectively, in Huzhou in 2020; (ii) that, to the best knowledge of our Directors, we contributed to over 13% of the sales of natural gas by Ningbo Intercity for FY2021; (iii) that we are the exclusive PNG distributor in the Operating Area; and (iv) the high entry barrier of the natural gas industry, in particular intensive capital and concession requirement. To terminate the PNG supply to us would essentially mean for Ningbo Intercity to forgo almost half of the PNG market in Huzhou or the entire PNG markets in the Wuxing Operating Area and Nanxun Operating Area. We believe that Ningbo Intercity would also rely on the PNG sales to us to develop its natural gas business in Huzhou;
- on 26 May 2022, our Group entered into a master supply agreement with Ningbo Intercity in relation to the supply of PNG and LNG in our Operating Area for a term up to 31 December 2024; and
- as at the Latest Practicable Date, Ningbo Intercity was indirectly wholly owned by ENN (China), which is our Controlling Shareholder and has been our Shareholder since November 2005. This long-term shareholding relationship implicates interest alignment between our Group and ENN (China), which provides incentive for ENN (China) to procure Ningbo Intercity to maintain its business relationship with us.

In the unlikely event that the business relationship between our Group and Ningbo Intercity is terminated, we will source PNG from alternative PNG suppliers, including other PNG upstream suppliers and city gas enterprises, in Huzhou as well as in other neighbouring cities. Our Directors believe that it will not be difficult for our Group to source PNG from alternative PNG suppliers in Huzhou as well as in other neighbouring cities at comparable terms and pricing as the purchase price of PNG is based on the benchmark gateway station price which is determined by ZJDR. According to F&S, there were seven major natural gas operators and six major natural gas suppliers in Huzhou, including three leading Chinese oil and gas companies which have sufficient natural gas reserves, ranging from hundred million m³ to over 100 billion m³ of natural gas, to satisfy our annual demand for PNG. Our pipelines are

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not connected to these upstream PNG suppliers and instead, are connected to the city gateways stations and upstream provincial pipeline transmission network managed by Supplier F through which the upstream PNG supplies are transmitted. Please refer to the paragraph headed “Transmission of PNG by Supplier F” in this section for details. In FY2021, we (i) commenced sourcing PNG from another upstream PNG supplier, Supplier G, and two other city gas enterprises, Supplier H and Supplier J; (ii) had entered into PNG master supply agreements with two of them, Supplier G, and Supplier J; and (iii) had commenced negotiation with another upstream PNG supplier in respect of our potential PNG procurement in the future. According to F&S, natural gas is considered as a commodity and basic necessity in the PRC, there are generally adequate supplies of natural gas from a variety of sources, and the PRC government and its controlled corporations generally will not allow natural gas distributors to suspend natural gas supply. Further, we expect to maintain natural gas storage of not less than 5% of our annual consumption volume pursuant to our agreement with a wholly-owned subsidiary of ENN Natural Gas Co., Ltd. to supplement our source of natural gas in the event of shortage or during peak seasons. In light of the above, we believe that we have a stable source of PNG supply.

Going forward, we will also continue to purchase LNG to supplement our source of PNG supply from other suppliers. During the Track Record Period, we maintained business relationship with more than 10 LNG suppliers. We believe that it is not difficult for us purchase sufficient LNG to supplement in case we could not secure sufficient PNG supply from other suppliers. Given that (i) we have commenced sourcing PNG from another upstream PNG supplier, Supplier G, and two other city gas enterprises, Supplier H and Supplier J; (ii) we have secured alternative source of PNG supply from Supplier G and Supplier J, with which we have entered into PNG master supply agreements with; (iii) we have commenced negotiation with an alternative PNG supplier; and (iv) we have multiple sources of LNG supply, our Directors believe that the unlikely event of termination of business relationship with Ningbo Intercity will not have any material adverse effect on our business operation and financial performance. We also expect the purchase from other suppliers to gradually increase and the purchase from Ningbo Intercity to gradually decrease as we intend to further diversify our source of natural gas supply in the future in order to ensure we could source natural gas at the best available terms among those offered by a range of suppliers so as to achieve a better profit margin and to cater for any changing needs of our Group in the future. In particular, by 2023, the relevant PNG and LNG charges in relation to our purchase from Ningbo Intercity are expected to drop and represent approximately 35.0% of our total cost of sales for FY2023.

Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that our relationship with Ningbo Intercity does not have any material impact on the suitability of listing of our Company.

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Master supply agreements with our PNG suppliers

We entered into master supply agreements with Supplier A, Supplier F, Ningbo Intercity, Supplier G and Supplier J for the supply of PNG in our Operating Area during the Track Record Period. The following table sets forth the major terms of these master supply agreements:

	Supplier A	Supplier F	Ningbo Intercity	Supplier G	Supplier J
Term	From 24 September 2004 to 31 December 2023 (terminated with effect from 1 April 2020)	From 1 April 2020 to 31 December 2029 (terminated with effect from 10 September 2020)	(i) From 10 September 2020 to 31 March 2021 (ii) From 1 April 2021 to 31 March 2024 ^(Note)	From August 2021 to 31 March 2022	From July 2021 to July 2024
Scope	Sale and transmission of PNG	Sale and transmission of PNG	Sale of PNG (Transmission of PNG was handled by Supplier F under a separate agreement. Please refer to the paragraph headed "Transmission of PNG by Supplier F" in this section for details.)	Sale of PNG (Transmission of PNG was handled by Supplier F under a separate agreement. Please refer to the paragraph headed "Transmission of PNG by Supplier F" in this section for details.)	Sale and transmission of PNG
Planned purchase volume	We should submit planned PNG purchase volume annually, quarterly, monthly, weekly and daily.	We should submit planned PNG purchase volume annually, monthly, weekly and daily.	We should submit planned PNG purchase volume monthly and daily.	We should submit planned PNG purchase volume annually, quarterly, monthly and daily.	We are not required to submit any planned PNG purchase volume.
Minimum purchase volume	If our actual PNG purchase volume is less than the minimum purchase volume, which is 90% of the planned PNG purchase volume, minus the aggregate PNG volume that is not extracted by us due to (i) force majeure; (ii) our PNG supplier's fault; and (iii) failure to meet the quality standard, we have a take-or-pay obligation for such difference (the "Take-or-pay Obligation").		There is no clause on minimum purchase volume nor take-or-pay obligation in the master supply agreement.	If our actual daily purchase volume is less than the minimum daily purchase volume, which is 95% of the planned daily purchase volume, minus the PNG volume that is not extracted due to (i) force majeure; or (ii) our PNG supplier's fault, for six consecutive days, our PNG supplier will factor in the purchase shortfall amount when making adjustment to the annual PNG purchase volume in the next contract year.	There is no clause on minimum purchase volume nor take-or-pay obligation in the master supply agreement.
Price	Our purchase price, which comprises the price of natural gas and pipeline transmission fee, is determined in accordance with the price set by the relevant government authorities.		Our purchase price, which is the price of natural gas, is determined in accordance with the price set by the relevant government authorities.	Our purchase price, which is the price of natural gas, is determined in accordance with the price set by the relevant government authorities.	Our purchase price, which comprises the price of natural gas and pipeline transmission fee, is determined in accordance with the price set by the relevant government authorities.
Payment terms	We should make periodic payment (weekly for Supplier A, Supplier F and Ningbo Intercity; every 5th, 15th and 25th day of a calendar month for Supplier G; every 10th and 25th day of a calendar month for Supplier J), which includes (i) fees for the amount of PNG supplied for the period minus the prepayment made previously; and (ii) prepayment for the expected amount of PNG to be supplied in the following period.				

Note: The term has been revised up to 31 December 2024 as agreed between Ningbo Intercity and our Company.

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Supplier A	Supplier F	Ningbo Intercity	Supplier G	Supplier J
<p>Termination The master supply agreement can be terminated if, among others:</p> <ul style="list-style-type: none"> (i) there is any material breach of the master supply agreement by the other party which cannot be remedied within 30 days' notice of such breach; (ii) our PNG supplier fails to supply PNG for 30 days consecutively or 60 days in a year; (iii) there is any unauthorised transfer or pledge of the contractual rights under the master supply agreement; or (iv) our Concession right is suspended or revoked. 			<p>The master supply agreement can be terminated if, among others:</p> <ul style="list-style-type: none"> (i) there is any material breach of the master supply agreement by the other party which cannot be remedied within 60 days' notice of such breach; or (ii) any occurrence of force majeure event, which render the impossibility of a party to perform its obligations under the master supply agreement for more than a year. 	
<p>Exclusivity There is no exclusivity clause in the master supply agreement and we may acquire natural gas from other alternative suppliers when our PNG suppliers could not provide us with the additional quantities of PNG that we require.</p>				

Our PRC Legal Advisers opine that the above master supply agreements (when they were in force, as the case may be) are legal and valid pursuant to their terms in accordance with the applicable PRC laws, rules and regulations. As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date or termination date of the relevant master supply agreements (as the case may be), we were in compliance with the terms of the above master supply agreements in all material respects and were not aware of any circumstances which may constitute a material breach or lead to an early termination of any of the above master supply agreements. Nevertheless, to the best knowledge of our Directors, as a result of the structural reforms in the energy section brought along by the 2020 Summary, both state-owned Supplier A and Supplier F agreed to terminate their master supply agreements with us prematurely.

PNG purchased from our PNG suppliers

The following table sets forth the volume of PNG we purchased from our PNG suppliers during the Track Record Period:

	FY2019 <i>million m³</i>	FY2020 <i>million m³</i>	FY2021 <i>million m³</i>
Supplier A	491.1	78.5	–
Supplier F	–	143.2	–
Ningbo Intercity	–	157.4	499.5
Supplier G	–	–	37.5
Supplier H	–	–	2.6
Supplier J	–	–	0.0 ^(Note)
Total	491.1	379.1	539.6

Note: For FY2021, we procured approximately 10,000 m³ of PNG from Supplier J.

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We take into account a variety of factors in determining our planned PNG purchase volume, including historical consumption patterns, potential new customer connections and their expected usage, and contingencies such as weather conditions. As we have had a long operating history, we were able to balance the need for assured supply of PNG while not incurring excessive risk that we may have to fulfil the Take-or-pay Obligation under the master supply agreements with Supplier A or Supplier F with a view to maximise our profit. During the Track Record Period, we had fulfilled the required minimum purchase volume and as such did not trigger the Take-or-pay Obligation.

Transmission of PNG by Supplier F

During the Track Record Period and up to the Latest Practicable Date, our pipelines had been connected to the same city gateway stations and upstream provincial pipeline transmission network in Huzhou, which were then managed by Supplier A and are currently managed by Supplier F. As such, there was no demolition or construction of pipelines as a result of the historical changes of PNG suppliers as the upstream PNG supplies had been transmitted through the same provincial pipeline transmission network. As the 2020 Summary aims to separate the function of natural gas sale and transmission at provincial level, in August 2020, we entered into PNG transmission agreement with Supplier F (which, to the best knowledge of our Directors, managed the upstream provincial pipeline transmission network in Huzhou at the material time) for the transmission of the PNG we procure from Ningbo Intercity since September 2020 and from Supplier G since August 2021. The following table sets forth the major terms of the PNG transmission agreement with Supplier F during the Track Record Period:

Term	Up to 31 March 2022
Service provided	Transmission of PNG from our supplier to our gas facilities.
Price	The pipeline transmission price is determined in accordance with the price set by the relevant government authorities.
Payment term	We should make weekly payment, which includes fees for the amount of PNG transmitted for the week minus the prepayment made previously, and prepayment for the expected amount of PNG to be transmitted in the following week.
Termination	The PNG transmission agreement can be terminated if, among others: <ul style="list-style-type: none">(i) there is any material breach of the PNG transmission agreement by the other party;(ii) either party enters into winding up or liquidation procedures;(iii) our Concession right is suspended or revoked; or(iv) we fail to settle the transmission fee for three consecutive weeks.

Our PRC Legal Advisers opine that the PNG transmission agreement is legal and valid pursuant to its terms in accordance with the applicable PRC laws, rules and regulations. As confirmed by our Directors, as at the Latest Practicable Date, we were in compliance with the terms of the PNG transmission agreements in all material respects and were not aware of any circumstances which may constitute a material breach or lead to an early termination of the PNG transmission agreements.

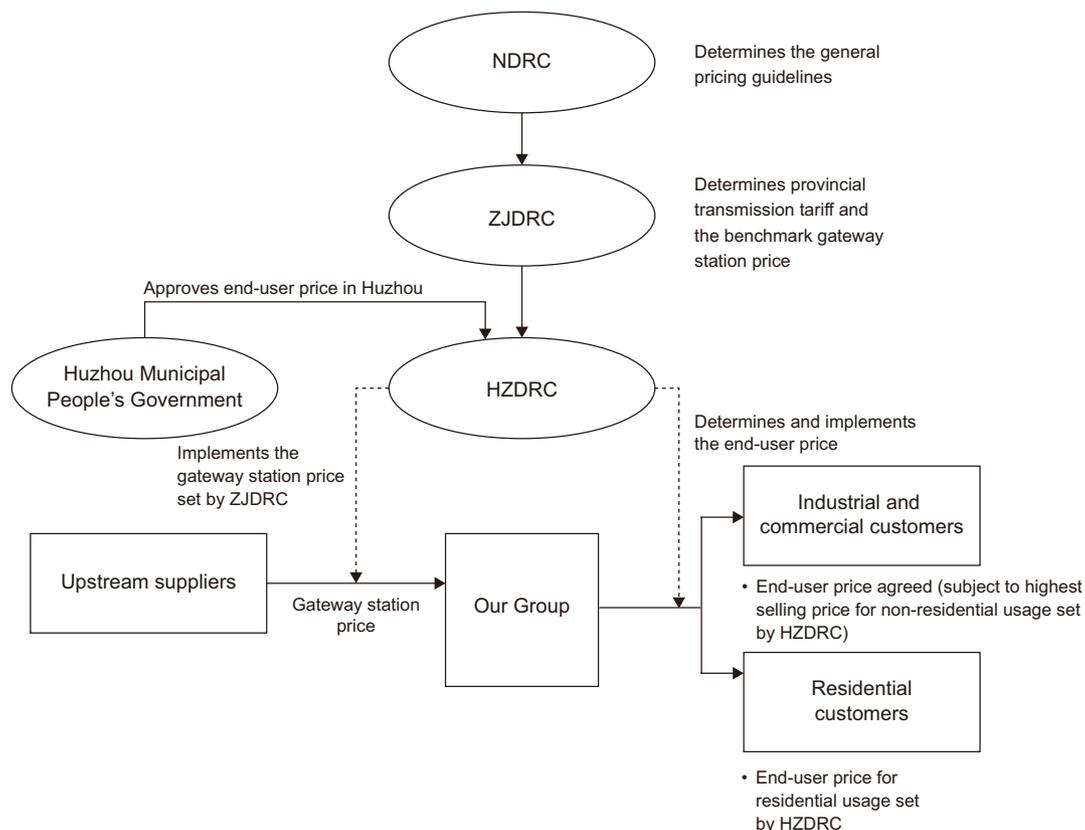
PRICING OF PNG

Pricing of our PNG purchases and sales are subject to regulatory control. With reference to the general pricing guidelines issued by the NDRC, the ZJDRRC determines the benchmark gateway station price on which our purchase price for PNG is based and subject to the approval of the Huzhou Municipal People's Government, the HZDRRC determines the end-user prices on which our selling price of PNG is based, with reference to the benchmark gateway station price set by the ZJDRRC. For residential usage, the end-user price is a fixed price, whereas for industrial and commercial usage, the end-user price could be agreed upon between us and the users up to the highest selling price. According to F&S, when determining the purchase price of natural gas, the government would mainly take factors such as the overall macro economy condition, ex-plant price of natural gas and pipeline transmission costs into account. Meanwhile, for determination of selling price of natural gas, the gateway station price, pipeline transportation costs, downstream gas demand are the major factors that the local government would take into account. As confirmed by our PRC Legal Advisers, we have complied with the various pricing laws in relation to pricing of natural gas during the Track Record Period. See the paragraph headed "Regulatory Overview – Pricing of Natural Gas" in this prospectus for information on the regulatory regime for pricing of natural gas.

There is usually a time gap between (i) the date of notice for adjustment of PNG purchase price as published by the ZJDRRC; and (ii) the date of notice for adjustment of PNG selling price as published by the HZDRRC. The adjustments are usually made retrospectively such that there is also a time delay between the date of notice publication and the effective date of price adjustment. During the Track Record Period, for adjustment of PNG purchase price, the time gap between the effective date of the adjustment and the date of notice published by the authorities ranged from approximately 10 days to one month. On the other hand, for adjustment of PNG selling price, the time gap between the effective date of the adjustment and the notice published by the authorities ranged from approximately 20 days to two months. As confirmed by our Directors, there was no material price mismatch during the Track Record Period. For details of the price adjustment of PNG purchase price and selling price, see "Regulatory Overview – Pricing of Natural Gas" in this prospectus. In light of the delay in price adjustment of PNG selling price as compared with PNG purchase price, any increase in our PNG purchase price may negatively affect our profit margin for the period before we can adjust our selling price accordingly. For instance, based on our unaudited management accounts for the four months ended 30 April 2022, our gross profit and gross profit margin decreased as compared with the corresponding period in FY2021, mainly due to the increase in purchase price of PNG as announced by the ZJDRRC on 17 November 2021 and took effect from 1 November 2021 to 31 March 2022. According to F&S, the Russia-Ukraine conflict has driven up the price of international crude oil, which has led to the increase in the international natural gas price, as well as the corresponding cost of the gas sources of the natural gas importers in the PRC, posing negative impacts on the profitability of the operators in the PRC natural gas industry in general. See the paragraph headed "Summary – Recent Development – Business operations and financial results" for details.

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The diagram below shows the general procedures of how the purchase and selling prices of PNG are determined as at the Latest Practicable Date:



Historical natural gas purchase and selling pricing trends

According to the F&S Report, the purchase price of PNG experienced an upward trend from RMB2.09/m³ in 2017 to RMB2.65/m³ in 2019 and then decreased to RMB2.04/m³ in 2020 mainly due to the impact of COVID-19 and oil price fluctuation. With the recovery of economy activities, the purchase price of PNG increased to approximately RMB2.26/m³ in 2021. The selling prices of PNG are depending on the types of users. The PNG average unit selling price for industrial users fluctuated which changed from RMB2.40/m³ in 2017 to RMB2.62/m³ in 2020 and increased to around RMB3.05/m³ in 2021. For commercial users, the PNG selling price changed from RMB2.63/m³ in 2017 to RMB2.78/m³ in 2020. The selling price for residential users was RMB2.64/m³ in 2017, and it had a relatively stable price tendency and increased to approximately RMB2.73/m³ in 2021. The decrease of PNG selling prices for commercial users was also attributed to supportive policies with the aim to reduce costs of non-residential gas during the pandemic. For further details of the PNG price analysis in Huzhou, see the paragraph headed “Industry Overview – Price Analysis – PNG Price Analysis in Huzhou” in this prospectus.

Our PNG purchase price

The prices at which we purchase PNG from our PNG suppliers were determined in accordance with the price set by the ZJDRD. Our average unit purchase price for PNG, which is calculated by dividing our total PNG purchase cost (comprising price of

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natural gas and pipeline transmission fee prior to September 2020, and price of natural gas since September 2020) by the total PNG purchase volume for FY2019, FY2020 and FY2021, was RMB2.43/m³, RMB2.04/m³ and RMB2.24/m³, respectively. The PNG purchase price decreased from RMB2.43/m³ in FY2019 to RMB2.04/m³ in FY2020 primarily due to the temporary price reduction pursuant to several notices issued by the ZJDRC as a result of the COVID-19 pandemic. Our PNG purchase price increased to RMB2.24/m³ as a result of the combined effect of (i) the Notice on Adjusting Natural Gas Prices of Provincial Gateway Stations during Heating Season (《關於調整供暖季天然氣省級門站價格的通知》) issued by the ZJDRC on 15 April 2021; and (ii) the Notice on Adjusting Natural Gas Prices of Provincial Gateway Stations during Heating Season (《關於調整供暖季天然氣省級門站價格的通知》) issued by ZJDRC on 17 November 2021. For details of the historical price set by the ZJDRC, see “Regulatory Overview – Pricing of Natural Gas” in this prospectus.

According to the Notice on Setting the Price of Pipeline Natural Gas Distribution for Non-residential Use in Huzhou City and the Establishment of an Upstream and Downstream Price Linkage Mechanism (《關於制定湖州市區非居民管道天然氣配氣價格及建立上下游價格聯動機制的通知》) issued by HZDRC on 4 December 2019, the purchase price and selling price of natural gas are linked to each other, showing a similar trend of changes. During the Track Record Period, changes in our PNG purchase price and PNG selling price followed a similar trend. Our Directors believe that such trend will continue in light of the above government policy.

Our PNG selling price

We sell PNG at different prices depending on the types of users in accordance with the pricing set and stipulated by the HZDRC, subject to the approval of Huzhou Municipal People’s Government, from time to time. The average unit selling price of PNG for our sales to end-users in accordance with the regulatory regime during the Track Record Period are set out below:

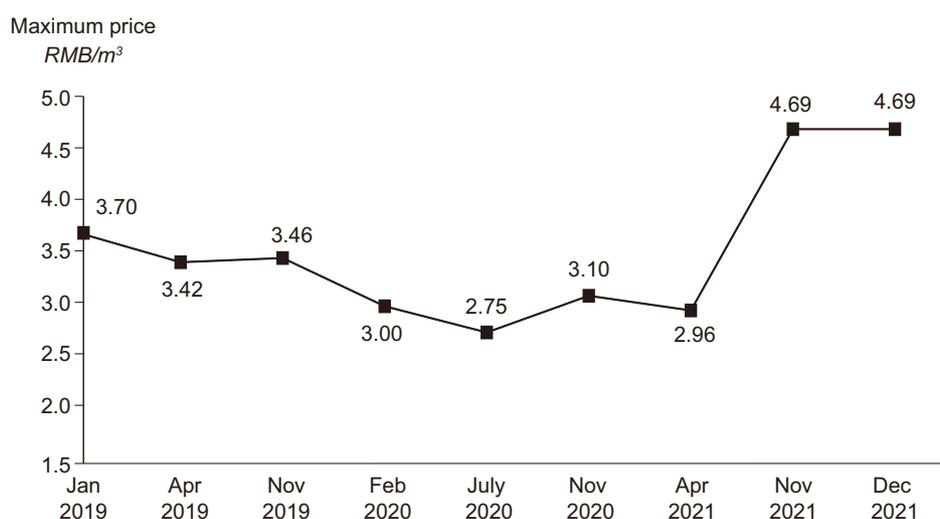
	FY2019 RMB/m ³	FY2020 RMB/m ³	FY2021 RMB/m ³
Industrial users	2.98	2.64	3.04
Commercial users	3.16	2.80	3.02
Residential users	2.73	2.77	2.74

Our average selling price of PNG to residential users remained relatively constant throughout the Track Record Period. The average selling price of PNG to non-residential users dropped in FY2020 primarily due to the reduction of maximum price ceiling set by the HZDRC as a result of the COVID-19 pandemic. The average selling price of PNG to non-residential users increased in FY2021 primarily due to the increase in maximum price ceiling for non-residential usage in urban area as a result of the Notice on Adjusting Pipeline Natural Gas prices for Huzhou non-Residential Usage during Heating Season (《關於調整市區供暖季非居民用管道天然氣銷售價格的通知》) issued by the HZDRC. For details of the maximum price ceiling set by the HJDRC, see the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus.

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In case of PNG for residential usage, we follow the stipulated fixed end-user price on a progressive pricing hierarchy. During the Track Record Period, the price for usage under 300 m³ annually is RMB2.92/m³, the price for usage between 300 and 500 m³ annually is RMB3.50/m³ and the price for usage beyond 500 m³ annually is RMB4.38/m³ (which has been adjusted to RMB3.50/m³ with effect from 1 January 2021). The natural gas price for places for public services including schools, religious places and social welfare places is RMB3.21/m³. For non-residential used PNG, in accordance with the stipulated maximum price ceiling, we determine our selling price upon agreement between us and the users taking into account our relationship with the users and their respective business volume. The chart below illustrates the changes in price ceiling stipulated by the HZDRC for non-residential usage in Huzhou during the Track Record Period:

Maximum PNG Selling Price for Non-residential Usage in Huzhou during the Track Record Period



Please refer to the paragraph headed “Financial Information – Description of Selected Items in Statements of Profit or Loss – Revenue – Sale of gas” in this prospectus for details of fluctuations of PNG selling price during the Track Record Period.

As a result of (i) the difference in PNG purchase price and selling price based on the PNG purchase price and maximum selling price ceiling as stipulated by the government authorities; and (ii) our purchase of LNG from LNG suppliers at relatively low cost for the sale of PNG through gasification of LNG in FY2020, our gross profit margin for sale of PNG increased from 11.2% in FY2019 to 14.8% in FY2020. Our gross profit margin for sale of PNG decreased to 11.9% in FY2021 due to the increase in our cost of sale as a result of the increase in gas storage service fees charged by our PNG suppliers.

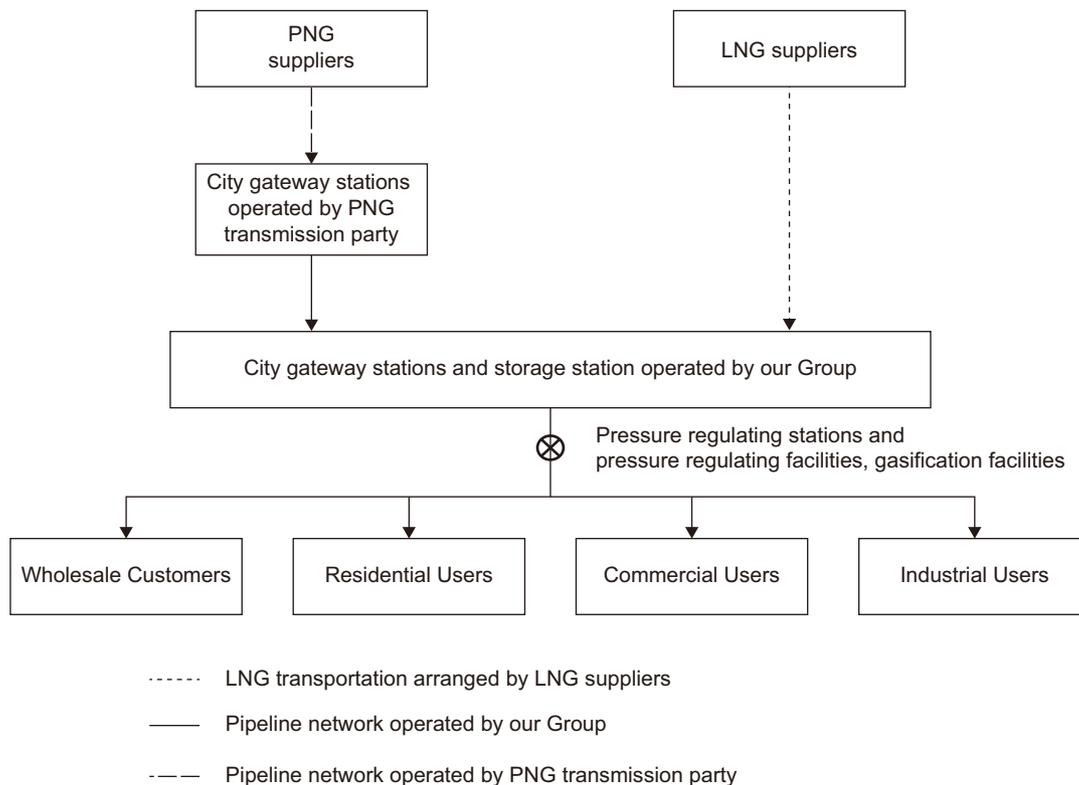
BUSINESS

As the pricing of our PNG purchases and sales are subject to regulatory control, we are obligated to supply natural gas to our customers even if the prices set by the government authorities may cause us to operate at a thin, or even negative profit margin. See the paragraph headed “Risk Factors – We may not be able to procure natural gas at favourable price or stable volume. Any instability in, shortages of or disruption to the supply of natural gas to us could significantly and adversely affect our business. We are also affected by proposed or recently issued PRC government’s policies over our business operation. There is no assurance that we will be able to adapt to these government policies in a timely manner or at all.” in this prospectus for details.

PRINCIPAL PNG OPERATIONAL FACILITIES

The principal operational facilities for our PNG sale business include (i) natural gas stations, which comprise city gateway stations, pressure regulating stations and devices and LNG storage station; (ii) pipeline networks, which comprise urban pipeline networks and end-user pipeline networks; and (iii) our PNG customer service centres.

The following diagram illustrates the major flow of distribution of PNG:



Natural gas stations*City gateway stations*

City gateway stations have three primary functions, which include (i) regulating the pressure of natural gas received from high pressure to sub-high pressure or mid pressure, (ii) quantifying and verifying the amount of natural gas purchased from our supplier, (iii) filtering such natural gas and odourising the natural gas before distributing it into the urban pipeline network so that users and the general public can be alerted to gas leakages.

As at 31 December 2021, we owned and operated two city gateway stations.

Pressure regulating stations and devices

Our pressure regulating stations are connected to our city gateway stations and located along the urban pipeline network and end-user pipeline network. After receiving the PNG transmitted from the city gateway stations, our pressure regulating stations deliver the PNG to our users after further processing such as pressure regulation, volume measurement and filtering.

As at 31 December 2021, we owned and operated seven pressure regulating stations.

LNG storage station

Our LNG storage station is used for receiving, storing and gasifying LNG to supplement our PNG supply. We keep inventory of LNG in our storage tanks and gasify LNG into PNG for distribution in our urban pipeline network. The major equipment of our LNG storage station include gas metres, LNG storage tanks, gasification equipment, valves and pressure regulating devices.

As at 31 December 2021, we operated one LNG storage station which has a storage capacity of approximately 900 m³ of LNG (equivalent to approximately 0.5 million m³ of natural gas in gaseous state). In addition, in the second half of 2020, we commenced the construction of a new LNG storage station in Nanmen which has an expected storage capacity of approximately 2,000 m³ of LNG (equivalent to approximately 1.2 million m³ of natural gas in gaseous state). The new LNG storage station is expected to commence operation in the second half of 2022. During the Track Record Period, an indirect wholly-owned subsidiary of ENN (China) has arranged to lease natural gas storage capacity to us which covered our need to achieve 5% of the annual consumption of each of our Company and Nanxun Xinao, which is equivalent to approximately 24.7 million m³ of natural gas in gaseous state by 2020, with reference to our annual consumption of natural gas in FY2019. In addition, pursuant to the Measures on Pipeline Gas Concession Evaluation Management of Zhejiang Province* (《浙江省管道燃氣特許經營評估管理辦法》), Huzhou URCB evaluated the Concession operation of our Company and our Company passed the evaluation, in particular, in respect of natural gas storage capability. Based on the above, our PRC Legal Advisers are of the view that during the Track Record Period and up to the Latest Practicable Date, we were in compliance with the Advice on Gas

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Storage and Market Mechanism and there had been no circumstances leading to termination or revocation of the Concessions.

To continue to fulfil the natural gas storage of 5% of our annual consumption, which is equivalent to approximately 23.7 million m³ of natural gas in gaseous state by 2021, with reference to our annual consumption of natural gas in FY2020, we entered into an agreement with a wholly-owned subsidiary of ENN Natural Gas Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange (Stock code: 600803), an Independent Third Party, pursuant to which the wholly-owned subsidiary of ENN Natural Gas Co., Ltd. shall provide to us the capacity of storing natural gas of not less than 5% of our annual consumption volume for a term from 1 January 2021 to 31 December 2024. We expect to (i) continue to comply with the natural gas reserve and have the capacity of storing natural gas of not less than 5% of our annual consumption volume pursuant to the Advice on Gas Storage and Market Mechanism; and (ii) supplement our source of natural gas for our sale of PNG in the event of shortage or during peak seasons.

Urban Pipeline networks

After being processed at the city gateway stations and the pressure regulating stations, the PNG is distributed through our urban pipeline network to the end-user pipeline network. Our urban pipeline network mainly consists of mid-pressure pipelines located outside the municipal planning red lines* (市政規劃紅線). To ensure a stable and consistent supply of gas, our urban pipeline networks are generally designed and constructed as a ring pipeline network. The ring pipeline network ensures that the gas supply is not completely cut off in the event of any single point failure along the ring. In case of a failure at a particular section of the ring, a substantial portion of the gas can still be distributed to the end-users.

As at 31 December 2021, we owned and operated an urban pipeline network comprising approximately 1,389.8 km of completed pipelines and approximately 115.5 km of pipelines under construction in our Operating Area.

For details of depreciation method of our pipeline network, please refer to the paragraph headed “Financial Information – Depreciation of Certain Items of Consolidated Statements of Financial Position – Property, plant and equipment” in this prospectus.

PNG customer service centres

As at 31 December 2021, we operated 11 PNG customer service centres in Huzhou. These terminals are mainly for handling (i) account opening applications from PNG customers, (ii) change of account information, (iii) customer enquiries, and (iv) payment.

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OUR LNG SALE BUSINESS

Since July 2019, upon request of our customers, we commenced supplying LNG on a retail basis to industrial customers in certain areas in Huzhou that typically cannot be reached by pipeline network. For FY2019, FY2020 and FY2021, we generated RMB25.2 million, RMB16.8 million and RMB14.2 million from our LNG business, representing 1.5%, 1.2% and 0.8% of our total revenue (before government surcharges), respectively. We typically procure LNG from our LNG suppliers which deliver LNG to our customers directly with their own logistics arrangement, which is in line with the industry practice to the best knowledge of our Directors.

During the Track Record Period, we purchased LNG from Ningbo Intercity, an indirect wholly-owned subsidiary of ENN (China), our Controlling Shareholder. On 26 May 2022, we entered into a master supply agreement with Ningbo Intercity pursuant to which we shall purchase from Ningbo Intercity, and Ningbo Intercity shall sell to us, among others, LNG in our Operating Area for a period up to 31 December 2024. For details, see the paragraph headed “Continuing Connected Transactions – Non-exempted Continuing Connected Transactions – Supply of PNG and LNG by Ningbo Intercity to our Group” in this prospectus.

OUR LPG SALE BUSINESS

During the Track Record Period, we sold bottled LPG to our users on retail basis. The users of LPG typically do not have access to the PNG pipeline networks we operate and consider bottled LPG more convenient for their daily usage due to its ease of transportation and higher calorific value. For FY2019, FY2020 and FY2021, our revenue generated from the LPG sale business on retail basis were RMB11.6 million, RMB4.6 million and nil, accounting for 0.7%, 0.3% and nil of our total revenue (before government surcharges), respectively. We ceased our LPG sale business since June 2020 due to (a) the high maintenance cost arising out of our aged LPG facilities; (b) the increasing demand for natural gas as replacement of LPG; and (c) our intention to focus on the construction of an LNG storage station.

OUR CONSTRUCTION AND INSTALLATION BUSINESS

Pursuant to the Concession Agreements, we were granted the exclusive right to construct urban pipeline network in our Operating Area. Our urban pipeline network and gas facilities are designed to cover our Operating Area in general, whereas our construction and installation business generally focuses on constructing and installing end-user pipeline network and gas facilities, such as natural gas metres and pressure regulators, upon our customers’ demand. Our construction services represent the construction of pipelines and facilities for gas distribution, which the ownership of such constructed assets belongs to our customers. Our installation services represent the construction of pipelines and facilities for gas distribution, which the ownership of such constructed assets belongs to us. Our customers, comprising (i) property developers of newly developed residential properties, (ii) owners or occupants of existing residential properties and (iii) owners or occupants of non-residential properties, generally engage us for construction and installation of end-user pipelines connecting their properties to urban pipeline network prior to our sales of PNG to them. We also approach potential customers from time to time offering to provide

BUSINESS

construction and installation services for our future sales of PNG. For FY2019, FY2020 and FY2021, revenue derived from our construction and installation business amounted to RMB152.5 million, RMB165.5 million and RMB213.1 million, respectively, representing 9.3%, 11.6% and 11.4% of our total revenue (before government surcharges) for the corresponding years.

The table below sets forth the number and the outstanding contract sum of our construction and installation projects during the Track Record Period:

	Starting balance of the outstanding contract sum <i>(RMB'000)</i>	Projects on hand at the beginning of the year	New projects awarded	Projects completed	Projects on hand at the end of the year	Ending balance of the outstanding contract sum <i>(RMB'000)</i>
FY2019	89,344	768	491	569	690	71,406
FY2020	71,406	690	444	315	819	88,430
FY2021	88,430	819	521	377	963	249,307

Our construction and installation service agreements and pricing

We enter into construction and installation service agreements with our customers, terms of which generally include scope of work, contract sum, payment terms and construction period. We generally require our residential customers to settle 30% of the contract sum within five days from signing of the contract, 50% within five days from completion of design work and the remainder of 20% within 15 days completion of the construction work. For non-residential customers, depending on the customer, project scale and work nature, we either require our customers to make full payment within five days from signing of the contract, or by two or three instalments. We should complete the construction and installation works within the construction period as stipulated in the agreements.

We charge our customers construction and installation fees at a fixed price or on a project basis. The construction and installation fee for residential users in Huzhou is subject to the regulated price set by the relevant local pricing authority, and is calculated based on the nature of residential unit, including multi-storey building, high-rise building, townhouse and villa. The construction and installation fee for non-residential users is not regulated by governmental authorities, and is generally agreed on a project by project basis, taking into account factors such as the type of equipment purchased, construction and installation plan, the amount and complexity of the necessary pipeline construction, the relevant estimated costs and pricing in the nearby areas, the raw materials specified by the customers and the size of the project.

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The table below sets forth the breakdown of the revenue from our construction and installation business by types of customers during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Residential users	76,476	50.1	99,168	59.9	108,596	51.0
Non-residential users	76,022	49.9	66,329	40.1	104,538	49.0
Total	152,498	100.0	165,497	100.0	213,134	100.0

Revenue from our construction and installation business by non-residential users dropped from RMB76.0 million in FY2019 to RMB66.3 million in FY2020 mainly attributable to the decreased consumption by our industrial users as a result of the COVID-19 pandemic. Revenue from our construction and installation business by non-residential users increased significantly in FY2021 as our non-residential users resumed normal business operations after the COVID-19 pandemic in the PRC.

On 27 June 2019, the NDRC, the Ministry of Housing and Urban-Rural Development of the PRC and the State Administration for Market Regulation of the PRC jointly issued the “Guiding Opinions on Regulating the Installation Charges for Urban Gas Projects” (關於規範城鎮燃氣工程安裝收費的指導意見(發改價格[2019]1131號)) (the “**Installation Guiding Opinions**”) which came into effect on the same date, which state that the profit-to-cost ratio for installation services for city natural gas projects in principal shall not exceed 10%. For FY2019, FY2020 and FY2021, the gross profit margin attained from our provision of construction and installation services amounted to 45.4%, 40.4% and 39.3%, respectively.

The table below sets forth the breakdown of the gross profit and gross profit margin for our construction and installation business by types of customers during the Track Record Period:

	FY2019		FY2020		FY2021	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Residential users	34,598	45.2	43,214	43.6	46,892	43.2
Non-residential users	34,594	45.5	23,629	35.6	36,927	35.3
Total	69,192	45.4	66,843	40.4	83,819	39.3

As confirmed by our PRC Legal Advisers, (i) the Installation Guiding Opinions are guidance opinions to provide overall guidance on the pricing of construction and installation services and therefore companies are not mandatorily required to comply with the Installation Guiding Opinions; and (ii) the Installation Guiding Opinions stipulate that provincial and city level governments shall determine their own regulations based on the local circumstances. According to the Notice on

Strengthening Natural Gas Price Regulation (《關於加強天然氣價格監管的通知》) (浙發改價格[2020]349號) jointly issued by ZJDRC, Zhejiang Urban and Rural Construction Bureau* (浙江省住房和城鄉建設局) and Zhejiang Administration for Market Regulation* (浙江省市場監督管理局) on 10 November 2020, installation charges for residential pipeline gas construction shall be determined by city and county level governments and installation charges for non-residential pipeline gas construction is negotiated between gas enterprises and customers based on costs.

According to the Notice on Regulating and Adjusting the Installation Charges for Pipeline Gas Constructions in Huzhou (《關於規範和調整湖州市區管道燃氣工程安裝收費的通知》) (the “**Installation Notice**”) issued by the HZDRC and the Huzhou Urban and Rural Construction Bureaux on 8 April 2020, installation charges for pipeline gas construction consist of pre-burial charges and renovation charges of pipeline gas facilities. The Installation Notice, as confirmed by our PRC Legal Advisers, is stipulated pursuant to the Installation Guiding Opinions and determined by the provincial and city level governments based on the local circumstances. Installation charges for non-residential pipeline gas construction is negotiated between gas enterprises and customers based on costs. Installation charges for residential pipeline gas construction are restricted by government-guided ceiling charges. During the Track Record Period, the pre-burial charges and renovation charges for our residential construction and installation projects were charged in accordance with the applicable ceiling charges at the material times. We also set out the relevant government-guided ceiling charges as the basis of charges in our agreements with residential users for construction and installation projects. As at the Latest Practicable Date, the pre-burial charge of pipeline gas facilities is RMB2,800/unit, RMB3,000/unit, RMB4,000/unit, and RMB5,000/unit for multistory residential buildings, high-rise multistory residential buildings, townhouses, and villas respectively; the renovation charge of pipeline gas facilities is RMB1,200/unit, RMB3,000/unit, and RMB3,500/unit for multistory residential buildings, townhouses, and villas respectively.

On the above basis, as confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we have complied with the Installation Notice. For details of the recent regulation on construction and installation fees, please refer to the paragraph headed “Regulatory Overview – Pricing of natural gas – Pricing of construction and installation services” in this prospectus. For the potential impact of such regulation on our construction and installation business, please refer to the paragraph headed “Risk Factors – Risks relating to Our Business – We may not be able to procure natural gas at favourable price or stable volume. Any instability in, shortages of or disruption to the supply of natural gas to us could significantly and adversely affect our business. We are also affected by proposed or recently issued PRC government’s policies over our business operation. There is no assurance that we will be able to adapt to these government policies in a timely manner or at all.” in this prospectus. Taking into account the view of our PRC Legal Advisers that (i) the Installation Guiding Opinions are guidance opinions and provincial and city level governments shall determine their own regulations based on the local circumstances; and (ii) during the Track Record Period and up to the Latest Practicable Date, we have complied with the Installation Notice issued by the HZDRC and the Huzhou Urban and Rural Construction Bureaux, our Directors confirm that we will continue to adopt the existing pricing system for our provision of construction and installation services in compliance with the Installation Notice going forward.

Processes of our construction and installation services

Upon the completion of construction of urban pipeline network in our Operating Area, we commence handling PNG usage requests from (i) property developers and (ii) owners or occupants of existing residential properties, and (iii) owners or occupants of non-residential properties, who engage us to provide construction and installation services for their properties. Depending on the length of pipelines and complexity of construction, a typical construction project generally took from three to 12 months to complete during the Track Record Period. Our construction and installation projects generally follow the processes as set out below:

On-site investigation and design of end-user pipeline network

Upon accepting PNG usage requests, we appoint an independent qualified design institute to conduct on-site investigation and design the end-user pipeline network for our customers. The design has to take into consideration our technical requirements, the size and needs of the users and the environmental conditions of the region covered by the project.

Signing of contracts and upfront payment

After the design is confirmed, we sign construction and installation service contracts with our customers. We generally require our residential customers to settle 30% of the contract sum within five days from signing of the contract, 50% within five days from completion of design work and the remainder of 20% within 15 days completion of the construction work. For non-residential customers, depending on the customer and work nature, we either require our customers to make full payment within five days from signing of the contract, or by two or three instalments. For details on the pricing for our construction and installation services, see the paragraph headed “Our Construction and Installation Business – Our construction and installation service agreements and pricing” above in this section.

Construction and installation of end-user pipeline network and gas facilities

We conduct construction and installation of end-user pipeline network and gas facilities by engaging independent subcontractors. For details on our subcontracting arrangement, see the paragraph headed “Our Construction and Installation Business – Subcontracting” below in this section.

Where we are engaged by the property developers of new residential properties, we would perform safety inspection for the end-user pipeline network connecting these residential properties to the urban pipeline network before we are ready for the release of gas supply to the relevant residential properties. We require individual owners of these residential properties who apply for our PNG supply to enter into PNG usage agreements with us, after which we will perform safety inspection again for the end-user pipeline network connected to their gas appliances. We would then release PNG supply to these residential units. Similar procedures apply to our customers who are the owners or occupants of existing residential properties or non-residential properties, except that we would generally enter into PNG usage agreements with these customers directly before completion of the construction and installation works.

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We would generally collect the balance of construction and installation fee upon completion of the construction and installation works.

We act as a project manager to provide overall project management and supervision to ensure that (i) the construction of the required pipeline network is carried out in accordance with all the relevant standards and regulations; and (ii) the construction carried out by subcontractors is in accordance with contract specifications.

Subcontracting

During the Track Record Period, all of the construction and installation works were carried out by subcontractors engaged by us. Our Directors consider that the practice of outsourcing labour-intensive construction works minimises the labour employed directly by us, allowing us to focus our labour resources on our PNG sales business. For FY2019, FY2020 and FY2021, the costs of sales in relation to the provision of construction and installation services were RMB83.3 million, RMB98.7 million and RMB129.3 million, representing 5.9%, 8.4% and 8.2% of the total cost of sales, respectively.

We select our subcontractors through public tendering annually with annual appraisal on these subcontractors. Our assessment and selection criteria for subcontractors include their qualifications, performance, experience, track record, credit-worthiness and technical expertise. We are not obliged to procure services from any one of them. For FY2019, FY2020 and FY2021, we engaged three, four and four subcontractors to provide construction, installation and related services to us, all of which were Independent Third Parties. As at the Latest Practicable Date, we engaged four subcontractors with which we had maintained business relationship for an average of two years.

The subcontracting agreements with our major subcontractors are typically for a term of one year, subject to renewal for an additional term of one year and generally provide that (i) we are responsible for supplying certain raw materials to the subcontractor; (ii) the subcontractor should complete the construction work within a stipulated period and according to the relevant national standards and our quality requirements specified in the agreement; (iii) the fees payable by us are determined with reference to the scale and complexity of the construction work and on the basis of the relevant provincial pricing guidances; (iv) we settle payment of 87% of the total contract price after the subcontractor submits to us the project completion reporting materials and project settlement statement and confirmation of the fee, up to 90% of the total contract price 10 business days after the warranty period, up to 95% after we have completed documentation filings of the project, and we settle the remaining 5% of the contract price as retention money within one year after the completion of the project; (v) in case of any breach of contract, the party in breach shall be liable to pay damages to the other party in accordance with the PRC contract law. The subcontracting agreements may be terminated by mutual consent of both parties or upon a breach by either party in accordance with the provisions of the subcontracting agreements.

Our internal quality control staff and the relevant quality inspection authority monitor the construction and installation process to ensure that the construction works meet our quality and safety requirements and the relevant national standards.

BUSINESS

Raw materials for our construction and installation services

Raw materials for our construction and installation business mainly include polyethylene pipes, steel pipes, valves, pressure gauges, gas metres, pipeline connectors and accessories. We mainly sourced from suppliers in the PRC through tenders and select them based on their price quotations, quality of their products and services, and our business relationships with them.

SALE OF ENERGY

Leveraging on our experience and sales network in our sale of gas, we commenced our sale of energy business during FY2021. We provide integrated energy services including cooling, heating, and electricity generation through a distributed energy system and other equipment with the use of our natural gas as fuel. We enter into agreements with our customers for the construction and investment of such distributed energy system and/or other equipment before commencement of our supply of energy. We charge our customers based on the actual usage of energy. For FY2021, we generated RMB12.5 million from our sale of energy, representing 0.7% of our total revenue (before government surcharge).

OTHER BUSINESSES

Sale of household gas appliances

During the Track Record Period, we also sold household gas appliances such as flammable gas detectors, stainless steel bellows and underfloor heating pipes. For FY2019, FY2020 and FY2021, we generated RMB0.7 million, RMB2.1 million and RMB5.1 million from our sales of household gas appliances, representing 0.0%, 0.1% and 0.3% of our total revenue (before government surcharges), respectively.

Insurance referral

During the Track Record Period, as an extension to our sales of natural gas business, we cooperated with Xinao Insurance Brokers Co., Ltd.* (新奧保險經紀有限公司), an indirect non-wholly owned subsidiary of Langfang as at the Latest Practicable Date, under which we referred our customers to the insurance company for the purchase of natural gas insurance products upon the request by our customers. To the best knowledge, information and belief of our Directors after making reasonable enquiries, Xinao Insurance Brokers Co., Ltd.* (新奧保險經紀有限公司) is an Independent Third Party. For FY2019, FY2020 and FY2021, we generated RMB2.3 million, RMB4.6 million and RMB5.5 million from our insurance referral income, representing 0.1%, 0.3% and 0.3% of our total revenue (before government surcharges), respectively. For further details of our insurance referral business, see Note 40 to Section II of the Accountants' Report as set out in Appendix I to this prospectus.

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Leasing of properties

We also generated revenue by leasing certain properties to Independent Third Parties during the Track Record Period, which amounted to RMB0.9 million, RMB0.9 million and RMB0.9 million, representing 0.1%, 0.1% and 0.0% of our total revenue (before government surcharges) for FY2019, FY2020 and FY2021, respectively. Such properties are mainly for commercial usage, with an aggregate gross floor area of approximately 132.22 sq.m. as at the Latest Practicable Date.

SEASONALITY

During the Track Record Period, we generally derived higher revenue from our sale of gas in winter. We believe natural gas demand and consumption is seasonal, particularly for residential users as they usually consume more gas to generate heat in winter. However, such seasonal effect on our revenue is not significant as the gas consumption of our major customers, namely non-residential users, is relatively stable throughout all seasons.

We did not experience any significant seasonality for our other operations during the Track Record Period.

MARKETING

Our marketing team promotes our business through organising safety promotion events in different areas within our Operating Area to increase our social presence and enhance our customer base. To enhance our brand image and promote the public's safety awareness on PNG usage, we have also established a specific working group for the reconstruction of aged pipeline network in old communities. As at 31 December 2021, we had 136 staff in our sales, marketing and customer services department.

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OUR CUSTOMERS

For FY2019, FY2020 and FY2021, sales to our five largest customers in aggregate were RMB377.7 million, RMB347.3 million and RMB377.6 million, respectively, which accounted for 23.1%, 24.4% and 20.3%, respectively, of our total revenue for the corresponding years. All of our five largest customers during the Track Record Period are our PNG customers. Sales to our largest customer in each year during the Track Record Period amounted to RMB166.3 million, RMB181.6 million and RMB178.8 million, and accounted for 10.2%, 12.7% and 9.6%, respectively, of our total revenue. Set out below are the details of our five largest customers during the Track Record Period:

For FY2019

No.	Customer	Principal business activities	Year of commencing business relationship with us	Type of products/ services provided by us during the Track Record Period	Transaction Amount (RMB'000)	Percentage of total revenue (%)	Payment method	Credit period
1.	Customer Group A	Distribution and transmission of natural gas	2005	Natural gas	166,336	10.2	Bank transfer	Payment in advance or 30 days
2.	Customer B	Production of textile products	2015	Natural gas, construction and installation services	74,742	4.6	Acceptance bill and prepaid card	Five days
3.	Customer C	Production of special steel	2011	Natural gas, construction and installation services	49,899	3.1	Bank transfer	Payment in advance
4.	Customer E	Production of aluminium alloy material	2006	Natural gas, construction and installation services	45,067	2.8	Delegated bank collection and acceptance bill	Five days
5.	Customer D	Dyeing and printing	2014	Natural gas, construction and installation services	41,615	2.5	Acceptance bill and prepaid card	Payment in advance
Total					<u>377,659</u>	<u>23.1</u>		

BUSINESS

For FY2020

No.	Customer	Principal business activities	Year of commencing business relationship with us	Type of products/ services provided by us during the Track Record Period	Transaction Amount (RMB'000)	Percentage of total revenue (%)	Payment method	Credit period
1.	Customer Group A	Distribution and transmission of natural gas	2005	Natural gas	181,638	12.7	Bank transfer	Payment in advance or 30 days
2.	Customer B	Production of textile products	2015	Natural gas, construction and installation services	54,537	3.8	Acceptance bill and prepaid card	Five days
3.	Customer E	Production of aluminium alloy material	2006	Natural gas, construction and installation services	41,917	2.9	Delegated bank collection and acceptance bill	Five days
4.	Customer Group F	Sale of pipeline materials	2006	Natural gas, construction and installation services	37,101	2.6	Delegated bank collection	30 days
5.	Customer D	Dyeing and printing	2014	Natural gas, construction and installation services	32,067	2.2	Acceptance bill and prepaid card	Payment in advance
Total					347,260	24.4		

For FY2021

No.	Customer	Principal business activities	Year of commencing business relationship with us	Type of products/ services provided by us during the Track Record Period	Transaction Amount (RMB'000)	Percentage of total revenue (%)	Payment method	Credit period
1.	Customer Group A	Distribution and transmission of natural gas	2005	Natural gas	178,809	9.6	Bank transfer	Payment in advance or 30 days
2.	Customer B	Production of textile products	2015	Natural gas, construction and installation services	51,433	2.8	Acceptance bill and prepaid card	Five days
3.	Customer C	Production of special steel	2011	Natural gas	49,972	2.7	Bank transfer	Payment in advance
4.	Customer Group F	Sale of pipeline materials	2006	Natural gas, construction and installation services	49,284	2.6	Delegated bank collection	30 days
5.	Customer E	Production of aluminium alloy material	2006	Natural gas, construction and installation services	48,065	2.6	Delegated bank collection and acceptance bill	Five days
Total					377,563	20.3		

BUSINESS

Our Directors confirmed that none of our Directors, their associates or Shareholders (who to the knowledge of our Directors owned more than 5.0% of the share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period.

OUR SUPPLIERS, RAW MATERIALS AND INVENTORIES

Our raw materials mainly consist of natural gas and LPG, as well as certain raw materials for our construction and installation services. See the paragraph headed “Our construction and installation business – Raw materials for our construction and installation services” in this section above for details. During the Track Record Period, we did not encounter any material disruption to our operations due to shortages of raw materials nor did we experience any difficulty in the sourcing of raw materials. Our Directors have confirmed that our principal raw materials are readily available in the PRC.

Major suppliers and subcontractors

During the Track Record Period, our major suppliers included suppliers of PNG for our PNG supply business, suppliers of raw materials and service providers for our construction and installation business. For FY2019, FY2020 and FY2021, purchases from our five largest suppliers in aggregate were RMB1,264.6 million, RMB951.7 million and RMB1,416.9 million, respectively, which accounted for 95.3%, 87.2% and 89.8% of our total cost of purchase for the respective years. Purchases from our largest supplier in each year during the Track Record Period amounted to RMB1,192.3 million, RMB368.9 million and RMB1,104.7 million, respectively, which accounted for 89.8%, 33.8% and 70.0% of our total cost of purchase for the corresponding years. Set out below are the details of our five largest suppliers during the Track Record Period.

BUSINESS

For FY2019

No.	Supplier	Principal business activities	Year of commencing business relationship with us	Type of products/ services supplied to us during the Track Record Period	Transaction Amount (RMB'000)	Percentage of total cost of purchase (%)	Payment method	Credit period
1.	Supplier A ^(Note)	Construction, operation and sale of PNG	2004	PNG	1,192,308	89.8	Bank transfer	Payment in advance
2.	Ningbo Intercity	Sale of LNG and PNG	2018	PNG, LNG	37,213	2.8	Bank transfer	Five days for LNG, payment in advance for PNG
3.	Supplier C	Construction and installation	2010	Construction and installation service	21,435	1.6	Bank transfer	95% after completion of the project, 5% within 12 months after the acceptance of the project
4.	Supplier B	Sale of LPG	2018	LPG	8,162	0.6	Bank transfer	Seven days
5.	Supplier E	Production and sale of pressure regulating devices	2006	Gas pressure regulating cabinet	5,479	0.4	Bank transfer and acceptance bill	365 days
Total					1,264,597	95.3		

For FY2020

No.	Supplier	Principal business activities	Year of commencing business relationship with us	Type of products/ services supplied to us during the Track Record Period	Transaction Amount (RMB'000)	Percentage of total cost of purchase (%)	Payment method	Credit period
1.	Ningbo Intercity	Sale of LNG and PNG	2018	PNG, LNG	368,909	33.8	Bank transfer	Five days for LNG, payment in advance for PNG
2.	Supplier F ^(Note)	Construction, operation and sale of PNG	2020	Purchase and transmission of PNG	327,061	30.0	Bank transfer	Payment in advance
3.	Supplier A ^(Note)	Construction, operation and sale of PNG	2004	PNG	182,839	16.8	Bank transfer	Payment in advance
4.	Supplier Group D	Sale of LNG	2018	LNG	44,110	4.0	Bank transfer and acceptance bill	Ten days
5.	Hangzhou Qiandao Lake Suilv New Energy Co., Ltd.* (杭州千岛湖遂绿新能源有限公司)	Sale of LNG	2020	LNG	28,802	2.6	Bank transfer	One business day after account reconciliation
Total					951,721	87.2		

BUSINESS

For FY2021

No.	Supplier	Principal business activities	Year of commencing business relationship with us	Type of products/ services supplied to us during the Track Record Period	Transaction Amount (RMB'000)	Percentage of total cost of purchase (%)	Payment method	Credit period
1.	Ningbo Intercity	Sale of LNG and PNG	2018	PNG, LNG	1,104,719	70.0	Bank transfer	Five days for LNG, payment in advance for PNG
2.	Supplier G	Sale of PNG	2021	PNG	111,784	7.1	Bank transfer	Payment in advance
3.	Supplier F ^(Note)	Construction, operation and sale of PNG	2020	Purchase and transmission of PNG	107,391	6.8	Bank transfer	Payment in advance
4.	Supplier C	Construction and installation	2010	Construction and installation service	76,669	4.9	Bank transfer	95% after completion of the project, 5% within 12 months after acceptance at the project
5.	Supplier Group D	Sale of LNG	2018	LNG	16,316	1.0	Bank transfer and acceptance bill	Ten days
Total					1,416,879	89.8		

Note: To the best knowledge, information and belief of our Directors, Supplier A and Supplier F was owned as to 40% and wholly owned by the same company, respectively.

Prior to September 2020, Supplier A and Supplier F were our principal natural gas suppliers, each of which, to the best knowledge of our Directors, was the only PNG wholesaler to sell PNG to PNG distributors in Huzhou during the relevant time. According to the 2020 Summary, the Zhejiang government aims to (i) discontinue the monopoly status of the provincial natural gas pipeline companies; (ii) separate the function of natural gas sale, distribution and transmission at provincial level; (iii) promote the fair and equal access to the infrastructure of natural gas, such as provincial pipeline network and LNG terminals, by all market entities; and (iv) reform and simplify the natural gas supply chain. As a result, we have ceased to procure natural gas from Supplier A and Supplier F and commenced to procure natural gas from Ningbo Intercity since September 2020, which is an indirect wholly-owned subsidiary of ENN (China) and is currently our principal natural gas supplier, and Supplier G since August 2021. On 26 May 2022, our Group entered into a master supply agreement with Ningbo Intercity in relation to supply of PNG and LNG for a period from 1 January 2022 to 31 December 2024. Please refer to the paragraph headed “Continuing Connected Transactions – Non-exempted Continuing Connected Transactions – Supply of PNG and LNG by Ningbo Intercity to our Group” in this prospectus for details. To the best knowledge of our Directors, Ningbo Intercity is an upstream supplier of natural gas in Huzhou. For details, please refer to the paragraph headed “Our Source of PNG supply” in this section.

BUSINESS

Our Directors confirmed that save as disclosed above, none of our Directors or Shareholders (who to the knowledge of our Directors owned more than 5.0% of the share capital of our Company as at the Latest Practicable Date) and their respective associates had any interest in any of our five largest suppliers during the Track Record Period.

During the Track Record Period, we provided PNG to Customer Group A, our top customer for FY2019, FY2020 and FY2021. In late FY2021, we commenced sourcing PNG from Supplier J. Both Supplier J and Customer Group A are subsidiaries of the same holding company, the shares of which are listed on the Main Board of the Stock Exchange. Since we are the exclusive distributor of PNG in our Operating Area, we supplied PNG to our end-users within our Operating Area in which Customer Group A is located. We procured PNG from Supplier J in FY2021 as an alternative source of PNG in addition to the normal purchase from other upstream suppliers based on incidental need. According to the F&S Report, given the exclusive nature of the concession rights, it is not uncommon for a PNG distributor to procure PNG from a PNG supplier while providing PNG to another group company of such PNG supplier. Our Directors confirm that the transactions with the Supplier J and Customer Group A were conducted on arm's length basis and were on normal commercial terms.

Our revenue generated from Customer Group A amounted to approximately RMB166.3 million, RMB181.6 million and RMB178.8 million for FY2019, FY2020 and FY2021, representing approximately 10.2%, 12.7% and 9.6% of our total revenue for the corresponding period, respectively. Gross profit for the sales to Customer Group A for FY2019, FY2020 and FY2021 was RMB3.7 million, RMB8.5 million and RMB1.6 million, respectively. The relevant gross profit margin for FY2019, FY2020 and FY2021 was 2.2%, 4.7% and 0.9%, respectively.

We did not make any purchases from Supplier J in FY2019 and FY2020. Our purchases from Supplier J amounted to RMB36,000, representing 0.0% of our total purchases for FY2021, which are considered by our Directors as immaterial in nature, as compared to our total purchases during the Track Record Period.

Save as disclosed above, there were no other major customers during the Track Record Period which were also our suppliers during the corresponding period.

Inventories

Our inventories mainly consist of construction materials and natural gas. Since we distribute the PNG we purchase from our suppliers to our customers directly, we recorded almost no inventory of PNG except for the PNG which exists in the pipeline network. Thus we recorded insignificant balances of PNG as at each of the balance sheet dates during the Track Record Period.

QUALITY CONTROL AND SAFETY MAINTENANCE

We place significant emphasis on quality control on our raw materials and services, proper maintenance of our facilities as well as maintenance of operation and gas usage safety. Our engineering, safety and quality control department is responsible for the quality control and safety maintenance matters arising from different operation processes. As at 31 December 2021, our engineering, safety and quality control department consisted of 56 staff (including technicians and engineers), a majority of whom had relevant professional qualifications and experience in the natural gas industry. Their responsibilities mainly include: (i) holding regular meetings in relation to safety and maintenance of our facilities; (ii) formulating policies to promote a safe and standardised operation process; (iii) identifying, evaluating and managing possible risks; (iv) providing safety and technical training and education to our employees; (v) keeping proper records of our engineering works, as well as the inspection, quality check and maintenance of our facilities.

We have established strict quality control standards on various aspects of our raw materials supply, pipeline construction, facilities repairs and maintenance to ensure gas safety and stable supply of natural gas. We have in place procedure manuals and policies to cover the maintenance of our operation facilities. We strictly follow government regulations when adopting our own safety rules and emergency recovery plans, which are imposed on all of our employees.

Quality Control

For procurement of our materials, we impose strict control over our suppliers by conducting annual assessment on their quality and choose our suppliers based on the assessment results. If we are aware of any major deficiency in the suppliers, such as provision of false information, violation of laws or labelled as an entity with serious issue in product quality, it is our internal policy not to procure materials from such suppliers. We also require our staff to conduct quality check on materials procured to ensure they have reached the relevant industry standards. In the event that any raw material is defective, our policy requires our quality control personnel to segregate the defective raw materials and we will usually return such materials to the suppliers. For special equipment and certain pipeline components, we require our suppliers to provide quality certification documents and inspection certificates issued by qualified agencies.

In respect of our engineering work, we have put in place an engineering quality management policy which governs the design, procurement, engineering and overall management of our projects. For positions which require specific skills, such as electrical works, welders and operators of pipelines, only staff with the relevant qualifications and licences are permitted to perform such works. We perform review on our engineering workers quarterly to ensure the quality of work meets the required standards. We also conduct regular on-site inspection on our engineering works to monitor their quality and keep record of the inspection results. We also engage independent third party experts to conduct physical tests on the pipeline networks that we or our subcontractors construct to ensure that the pipelines put into operation fulfil all the standards set out in our quality control manuals and in accordance with the relevant regulations.

BUSINESS

Safety Maintenance

We have implemented an operation manual which set out detailed guidelines on the operation procedures and safety maintenance of our operational facilities, including (i) repair and maintenance of our pipeline networks, (ii) inspection and safety assessment of our pipeline networks, LNG and LPG stations and facilities; (iii) cleaning of facilities such as flowmeters and filters; (iv) regulation of pipeline pressures; and (v) detection of gas leakage along our pipeline networks.

We dedicate our staff to patrol our gas pipelines networks on a daily basis to monitor the operating condition of our pipelines. We also install devices along our major pipelines in collecting temperature, pressure and flow data for our staff to analyse and monitor our pipeline operation. When gas leakage or abnormality is detected, our inspection officer will immediately perform emergency contingency measures according to our manuals. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any accidents which had a material impact on our financial conditions or results of operation or which led to death or severe injuries.

We conduct annual inspection for our residential users and regular inspection for our non-residential users depending on its nature and usage of our PNG. During the Track Record Period and up to the Latest Practicable Date, we had been using the call system centre service operated by the ENN Energy Group to maintain an exclusive “95158” hotline, audio mailbox and text messages system linked to our SAP system which has been used by the users in our Operating Area for requests for repair, maintenance and other enquiries. For details, please refer to the paragraph headed “Continuing Connected Transactions – Exempt Continuing Connected Transactions – Provision of call centre services by Hengxin Investment to our Group” in this prospectus. As at the Latest Practicable Date, we had shared the use of the SAP system owned by the ENN Energy Group in our data processing for our financial accounting and customer service. For details, please refer to the paragraph headed “Continuing Connected Transactions – Exempt Continuing Connected Transactions – Sharing the use of SAP system with ENN (China)” in this prospectus. Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we did not experience any safety incidents material complaints, material losses or claims arising from our operations, and were not aware of any threatened or pending action by any regulatory authority in the PRC which had a material adverse impact on us.

For FY2019, FY2020 and FY2021, we incurred approximately RMB4.4 million, RMB2.9 million and RMB4.4 million for the repair and maintenance of PNG pipelines and facilities.

RESEARCH AND DEVELOPMENT

Due to the nature of our business, we did not incur significant research and development expenses during the Track Record Period, and our Directors do not expect to incur any such significant expenses in the near future.

BUSINESS

INTELLECTUAL PROPERTIES

As at the Latest Practicable Date, we had three registered domain names in the PRC and applied for registration of three trademarks in the PRC and one trademark in Hong Kong. Details of our intellectual property rights, which we consider material to our business and operations, are set out in the paragraph headed “Further Information about the Business of our Company – 8. Intellectual property rights of our Group” in Appendix VII to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us.

EMPLOYEES

As at 31 December 2021, we had a total of 424 employees. All of our employees are located in the PRC. The table below sets out our employees by function as at 31 December 2021:

Function	Number of employees
Management and administration	52
Engineering, safety and quality control	56
Operation	150
Sales, marketing and customer services	136
Finance	30
Total	424

We have policies on recruitment, training, duties, remuneration, appraisals, promotion, compensation, benefits and dismissal of our employees. We review our policies and procedures of our employees from time to time to ensure our potential and existing employees are treated in fair and equal manners. We mainly attract talents by offering competitive salaries, benefits, performance rewards, as well as ongoing training and development opportunities. Our employees were mainly recruited through our WeChat public account, on-site recruitment fairs, online platforms and recruitment agencies. For FY2019, FY2020 and FY2021, our employee benefit expenses amounted to RMB59.9 million, RMB68.2 million and RMB87.0 million, respectively, representing 3.7%, 4.8% and 4.7% of our total revenue, respectively.

During the Track Record Period, we also engaged four third-party providers to provide labour outsourcing and labour despatch services for certain positions of temporary, complementary or replacement in nature. As confirmed by our PRC Legal Advisers, we have complied with the mandatory provisions of the relevant PRC laws, regulations and rules in this regard.

Remuneration and benefits

The remuneration package of our employees includes basic salary, performance-related pay, subsidies, overtime payment and annual discretionary bonus, which are generally determined with reference to their qualification, experience and work performance and are reviewed as part of our internal appraisal process on a regular basis. We also provide social insurance and other benefits to our employees pursuant to the PRC labour law and relevant requirements of the national and local governments. We share the contributions of basic endowment insurance, basic medical insurance, unemployment insurance and housing funds with our employees at a certain proportion in accordance with the relevant local requirements. The work injury insurance and maternity insurance are generally paid by us. We conduct monthly appraisals of our employees for determination of their performance-related pay in addition to their basic salary. We also review performance of our employees annually, and apply the results in his or her annual salary review and promotion appraisal. We also offer rewards and promotion opportunities to our employees based on their performance.

Our Directors confirm that during the Track Record Period, our Group had not encountered any material disputes with our employees, which would have materially adversely affected our business operations and financial performance, nor had we experienced any difficulties in the recruitment and retention of experienced staff.

Occupational health and safety

We are subject to various occupational health and safety laws and regulations in the PRC jurisdiction. See the section headed “Regulatory Overview” in this prospectus for further details.

We are committed to providing a safe and healthy working environment for our employees and have implemented specific measures for this purpose, which include but are not limited to:

- (i) adopting internal operational guidelines in relation to various processes of our business, such as operation of our gas gateway stations, offloading and storage of LNG and inspection and leak detection of our pipelines;
- (ii) imposing separate safety management system for specific equipment, such as restriction of access to qualified employees, regular checking and maintenance and taking of proper record for the purchase, replacement, usage and maintenance of such equipment;
- (iii) establishing a comprehensive emergency plan for emergencies in relation to our business operations;
- (iv) appointing members of our engineering, safety and quality control department to monitor the implementation of our safety measures; and
- (v) conducting regular training and assessment to help relevant employees understand the technical knowledge, regulations and industry standards on safety matters.

BUSINESS

To ensure compliance with and to adhere to the standards prescribed under the relevant health and safety laws while engaging our business activities, we have implemented internal policies under various national industry standards. For further details, see the paragraph headed “Quality Control and Safety Maintenance – Quality Control” in this section.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date:

- (i) we had no fatality incidents arising from our operation and project construction and none of our employees had been involved in any major accidents in the course of our operation and project construction;
- (ii) we had complied with the applicable national and local health and safety laws and regulations in all material respects;
- (iii) the relevant PRC authorities had not imposed any material sanctions, penalties, fines or punishments on us for any non-compliance with any health and safety laws or regulations in the PRC; and
- (iv) we were not subject to any claims of material importance for personal or property damage, and for compensation paid to employees.

For risks relating to safety of our operations, please refer to the paragraph headed “Risk Factors – Risks Relating to Our Business – We may not have adequate insurance to cover all hazards common to the natural gas industry to which our operations are subject” in this prospectus.

In view of the outbreak of COVID-19 globally and to ensure continuous business operations of our Group, we have adopted enhanced hygiene and precautionary measures from February 2020 whereby our employees shall take all practicable steps to maintain a hygienic and safe working environment, which include the following measures:

- encouraging our employees to be vaccinated against COVID-19 as early as possible in accordance with the policy issued by the government authorities;
- requiring our employees to report to our human resources department on any special health conditions of themselves and their close family members;
- requiring a 14-day self-quarantine for employees returning from areas of high risks;
- regularly cleaning and disinfecting the landed properties owned and leased by us (including our offices and service counters) and our operational facilities;
- monitoring symptoms of our employees and subcontractors by checking their body temperatures on a daily basis;
- requiring our employees to wear face masks at all times during work and report to us promptly whenever they feel unwell;

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- promoting contact-less working environment through the use of online platforms, mobile applications for work where possible, reduced use of papers and restriction of physical meetings; and
- promoting personal hygiene among our employees.

In light of the recent emergence of variants of COVID-19, including Omicron, we have imposed additional preventive measures such as (i) suspending group events outside of Zhejiang Province; (ii) restraining our employees from non-essential travel to medium-risk or high-risk regions; and (iii) enhancing our report system for better tracking of our employees' health status. We believe that such measures could enable us to better deal with any unexpected changes of the COVID-19 pandemic in the PRC.

Our Directors confirm that the additional costs associated with the enhanced measures have no significant impact on our Group's financial position for FY2020 and FY2021 and are not expected to have significant impact on the same for the year ending 31 December 2022.

PROPERTIES

As of the Latest Practicable Date, no single property interest forming part of our non-property activities had a carrying amount of 15% or more of our total assets. Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests.

Owned properties and land use rights

As at the Latest Practicable Date, we had obtained land use rights for 11 parcels of land with an aggregate site area of approximately 60,895.47 sq.m. and have obtained building ownership certificates for 15 properties with a total gross floor area of approximately 10,633.14 sq.m., which are located in Huzhou, Zhejiang Province. These owned land and properties are typically used as our natural gas stations, offices and warehouses.

Our PRC Legal Advisers have confirmed that we have obtained the proper land use rights certificates and building ownership certificates for the aforementioned land and properties, and that we are entitled to use all parcels of land mentioned above and we legally own all of our properties mentioned above.

In addition, as at the Latest Practicable Date, we occupied three properties with a gross floor area of approximately 292.16 sq.m. as customer service centres in which we had not obtained the real property title certificate (不動產權證) and failed to comply with the Catalog of the Allotted Land* (《劃撥用地目錄》). See the paragraph headed "Legal and Compliance Matters – Legal compliance" below in this section for details.

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Owned pipeline networks

As at 31 December 2021, we owned pipeline networks with a total length of approximately 1,389.8 km in Huzhou, Zhejiang Province, which comprise our natural gas pipelines in our Operating Area under the Concessions. Our PRC Legal Advisers have confirmed that we have the right to and are entitled to use our own pipeline networks.

Leased properties

As at the Latest Practicable Date, we leased 21 properties with a total gross floor area of approximately 3,633.67 sq.m.. Our leased properties are primarily for offices and accommodation for our employees.

The following table sets out the lease term of our leased properties:

Property address	Term	Use of premises	Approximate gross floor area (sq.m.)
Room 306, Block 18, Bocui Garden, Renhuang, Wuxing District, Huzhou* (湖州市吳興區仁皇柏翠苑18幢306室)	22 January 2021 – 21 January 2023	Accommodation for employees	132.63
Room 508, Block 9, Qianzhuang Apartment, Wuxing District, Huzhou* (湖州市吳興區潛莊公寓9幢508室)	1 October 2021 – 30 September 2022	Accommodation for employees	119.07
Room 1706, Block 2, Junming International Huzhou* (湖州市駿明國際2幢1706室)	10 January 2022 – 9 January 2023	Accommodation for employees	84.55
No. 780, Block 111, Laohu Lake, Wuxing District, Huzhou* (湖州市吳興區老虎潭111幢780號) ^(Note 1)	1 September 2019 – 31 August 2022	Customer service centre	42.21
No. 56, Yanglindou, Resident Group, Jinsuo Village, Huanzhu Street, Wuxing District, Huzhou* (湖州市吳興區環竹街道金鎖村居民組楊林門56號)	1 September 2021 – 31 August 2023	Accommodation for employees	75.46
No. 68 and 69 Section 3, Shibo Section, Huzhou* (湖州市市陌段3組段68號、69號) ^(Note 1)	1 March 2021 – 28 February 2023	Sub-leasing	63.88

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Property address	Term	Use of premises	Approximate gross floor area (sq.m.)
No. 180, 182 and 190, Laodong South Road, Block 2, Chaoyang Lane, Huzhou* (湖州市朝陽里2幢勞動南路180,182,190號) ^(Note 2)	1 January 2021 – 31 December 2023	Customer service centre	331.49
No. 521, Nianfeng Road, Nanxun Town* (南潯鎮年豐路521號) ^(Note 1)	1 April 2022 – 15 August 2023	Office	201.48
No. 525, Nianfeng Road, Nanxun Town* (南潯鎮年豐路525號)	16 August 2021 – 15 August 2023	Office	201.48
No. 533 and No. 529, Nianfeng Road, Nanxun Town* (南潯鎮年豐路533號、529號)	16 August 2021 – 15 August 2023	Office	461.42
No. 34-2-1601, Central Park* (中央公園34-2-1601)	1 June 2022 – 31 May 2023	Accommodation for employees	87.74
No. 2, Block 34, Golden Elephant Bay Phase II* (金象灣二期34幢2號) ^(Note 1)	1 January 2022 – 31 December 2022	Warehouse	31.40
The third and fourth floors and the warehouse on the first floor of the house for management of Golden Elephant Bay Phase I, Xiangyang East Road, Nanxun Town, Nanxun District, Huzhou* (湖州市南潯區南潯鎮向陽東路金象灣一期管理用房三、四樓及一樓倉庫) ^(Note 1)	1 January 2022 – 31 December 2023	Office	793.98
No. 5 and No. 6, Block 32 of Commercial Building, Lakeside Garden, Menghu Community, Linghu Town* (菱湖鎮夢湖小區湖畔花園營業房32幢5號、6號) ^(Note 1)	1 September 2020 – 31 August 2025	Customer service centre	234.96
No.129, Fuxing Road, Shuanglin Town, Nanxun District, Huzhou* (湖州市南潯區雙林鎮復興路129號) ^(Note 1)	15 March 2020 – 14 March 2023	Customer service centre	135.00

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Property address	Term	Use of premises	Approximate gross floor area (sq.m.)
Room 35-1-201, Xunxi Xiucheng, Changzeng Road, Nanxun Town* (南潯鎮常增路潯溪秀城35-1-201)	1 December 2021 – 30 November 2023	Accommodation for employees	141.59
Room 3-2-1302, Central Park* (中央公園3-2-1302)	1 January 2022 – 31 December 2022	Accommodation for employees	128.87
Room 23-1-401, Yilong Bay* (逸龍灣)	1 February 2022 – 31 January 2023	Accommodation for employees	130.19
502 Garage, Building 8, Hefu Value Jinwang Homeland, Nanxun District, Huzhou* (湖州市南潯區和孚值金旺家園8幢502車庫) ^(Note 1)	1 January 2022 – 31 December 2022	Warehouse	28.29
1st Floor and 4-9th Floor, No. 4-8, Building 4, No. 1A, Dongzha Road, Linghu Town, Nanxun District* (南潯區菱湖鎮東柵路1A號4幢4-8號一層及4-9層) ^(Note 1)	18 June 2021 – 17 June 2024	Customer service centre	107.98
101, Unit 3, Block 7, Xin Jia Yuan, Jin Wang Lane, Hefu Town, Nanxun District, Huzhou* (湖州市南潯區和孚鎮金旺里新家園7幢3單元101) ^(Note 1)	1 September 2021 – 31 August 2022	Warehouse	100.00

Notes:

- (1) As advised by our PRC Legal Advisers, these properties are subject to title defects for failure to register the relevant lease agreements. See the paragraph headed “Legal and Compliance Matters – Legal compliance” below in this section for details.
- (2) The landlord of the leased property is Huzhou Huaxing, an indirect wholly-owned subsidiary of City Group. For details, see Note 37 “Related party transaction” of Section II of the Accountants’ Report in Appendix I to this prospectus.

Save as disclosed below in the paragraph headed “Legal and Compliance Matters – Legal compliance” in this section, our PRC Legal Advisers have confirmed that that the relevant lease agreements do not violate the mandatory provisions of the relevant PRC laws, regulations and rules, and that we are entitled to use all parcels of land mentioned above.

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INSURANCE

Apart from the mandatory insurance contributions under the PRC's social insurance system, as at the Latest Practicable Date, we have maintained (i) insurance for our operational facilities, machineries and other properties; (ii) third party liability insurance to cover claims in respect of personal injury or asset loss arising from accidents at our operational facilities or relating to the operation of our natural gas business; (iii) comprehensive household insurance for our registered customers to cover claims in respect of personal injury or asset loss arising from use of natural gas or LPG in order to ensure safety our residential users; and (iv) carrier liability insurance to cover claims in respect of our transportation business.

We review our insurance policies from time to time and the insurance policies generally are renewed annually. During the Track Record Period and up to the Latest Practicable Date, we had not made any significant claims under these insurance policies. We believe that the insurance coverage of our natural gas facilities is adequate and standard for natural gas industries in the PRC. Nevertheless, significant damages to our operation facilities or any of our properties, whether as a result of fire and/or any other cause, could still have a material adverse impact on the results of our operations. See the paragraph headed "Risk Factors – Risks Relating to Our Business – We may not have adequate insurance to cover all hazards common to the natural gas industry to which our operations are subject." in this prospectus for details.

IMPACT OF OUTBREAK OF COVID-19 ON OUR BUSINESS

During the Track Record Period, we generated the majority of our revenue from our PNG operations pursuant to the Concessions, which is the sale of PNG in our Operating Area. For FY2019, FY2020 and FY2021, we generated approximately 88.1%, 86.3% and 86.4% of our revenue (before government surcharges), respectively, from our sale of PNG. All of our revenue was generated from customers located in Huzhou, Zhejiang Province. Since the outbreak of COVID-19 in January 2020, the PRC local government has introduced a series of measures in order to prevent and control the pneumonia epidemic. Accordingly, in February 2020 we suspended part of our onsite services such as metres installation, replacement, survey and modification work and safety checks. Moreover, our service counters suspended operations for about one month in February 2020. During the same period, our gas supply, provision of customer services (through our telephone hotlines) and emergency services remained normal.

With the recent emergence of variants of COVID-19 in 2022, including Omicron, which is significantly more infectious than its predecessors, based on past experience gained from previous rounds of COVID-19 outbreak, the PRC government, including provincial government of Zhejiang Province, has improved infection control measures, vaccines and drugs to have the spread of the Omicron virus variant within control. Certain major cities in the PRC including Shanghai had been under lock-down to prevent further spread of COVID-19. As a result, demand from our industrial and commercial users had been slightly impacted due to the temporary suspension of business operations or reduced economic activities as a result of the lock-down and travel restriction across different cities within the PRC. As confirmed by our Directors, as at the Latest Practicable Date, the recent emergence of variants of COVID-19 did not have a material adverse impact on our business operation as the pandemic was within control in Zhejiang Province where our Operating Areas are located.

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Impact on our business operation

As a result of the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in the first half of FY2020, our average selling price to non-residential users experienced a decrease in FY2020. Accordingly, our revenue from retail sales of PNG to industrial users decreased from RMB1,134.7 million in FY2019 to RMB972.2 million in FY2020 while our revenue from retail sales of PNG to commercial users decreased from RMB55.6 million in FY2019 to RMB43.3 million in FY2020. See the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for information on the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19.

The below table sets forth the breakdown of our sales volume of PNG for the period indicated during the Track Record Period:

	Sales volume (million m ³)			Change in sales volume (%)	
	2019	2020	2021	2020 as compared with 2019	2021 as compared with 2020
First quarter	114.4	90.5	121.4	(20.9)	34.0
Second quarter	125.3	123.1	143.0	(1.7)	16.2
Third quarter	121.5	118.3	136.4	(2.6)	13.3
Fourth quarter	133.4	141.7	146.1	6.3	3.1
Total	494.6	473.6	546.9	(4.2)	15.7

The number of non-residential users experienced a slight decrease in March 2020, as certain enterprises suspended their business operations at the request of the PRC government in view of the outbreak of COVID-19. As a result, we experienced decrease in the overall volume of gas sold from January to March 2020 primarily due to the decreased in usage from these commercial and industrial users. As at the Latest Practicable Date, as confirmed by our Directors, certain of our industrial and commercial users experienced temporary suspension of business operations or reduced economic activities due to the lock-down of certain major cities in the PRC including Shanghai and travel restriction across different cities within the PRC. The below table set forth the breakdown of our sales volume of PNG for the four months ended 30 April 2022 as compared with the corresponding period in FY2021:

	Sales volume (million m ³)		Change in sales volume (%)
	2021	2022	
January	52,617	50,774	(3.5)
February	24,517	29,008	18.3
March	44,216	51,126	15.6
April	52,131	48,077	(7.8)
Total	173,481	178,985	3.2

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We recorded slightly lower PNG sales volume in January 2022 as compared to that in 2021 primarily due to the early commencement of the Lunar New Year in 2022 resulting in early suspension of work of our industrial and commercial users prior to the Lunar New Year. As a result of the recent emergence of COVID-19 and lock-down in some major cities in the PRC, demand from our industrial and commercial users was also slightly impacted in April 2022 as compared to that in 2021. However, our Directors believe the outlook for the demand of our gas in the long run will remain positive as the pandemic was within control in Zhejiang Province as at the Latest Practicable Date.

Accordingly, our Directors are of the view that the demand for and revenue generated from our sale of gas had not been materially affected by the COVID-19 pandemic. However, in view of the possible economic impact brought by the outbreak of COVID-19 and variants of COVID-19 to the PRC and global economies, it is possible that we may encounter decrease in demand in our PNG in the future due to any decreased economic activities by our industrial and commercial users. Please refer to the paragraph headed “Risk Factors – Risks Relating to Our Business – Risks relating to natural disasters, epidemics, severe communicable diseases, acts of terrorism or war in the PRC and globally may materially and adversely affect our business. In particular, the recent outbreak of COVID-19 could materially and adversely affect our results of operations and financial condition.” in this prospectus for details.

In relation to our provision of construction and installation services, a total of 18 projects for our provision of construction and installation services had been delayed for generally one month due to the COVID-19 pandemic in FY2020. Despite the recent emergence of variants of COVID-19 in 2022, including Omicron, in the PRC, our Directors confirm that as at the Latest Practicable Date, we had maintained sufficient manpower from our subcontractors in providing our construction and installation services. On the other hand, due to the lock-down of certain major cities in the PRC including Shanghai and travel restriction across different cities within the PRC, there had been slight delay in delivery of raw materials for our construction and installation projects. However, our Directors confirm that as at the Latest Practicable Date, we were able to discharge the obligation under all construction and installation service agreements and none of the construction and installation service agreements were terminated as a result of the slight delay in work progress.

Due to the abovementioned reasons, our Directors are of the view that our Group is able to maintain our sale of gas at a stable level, and therefore there is no material adverse impact on our business operation or on our long-term relationship with our customers.

To prevent any widespread of COVID-19 in our operational facilities and offices, we have adopted enhanced hygiene and precautionary measures whereby our employees and subcontractors shall take all practicable steps to maintain a hygienic and safe working environment. Please refer to the paragraph headed “Employees – Occupational health and safety” in this section above for details.

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Impact on our financial liquidity

Our Directors confirm that our Group has sufficient financial resources including cash and cash equivalents as at 30 April 2022, which amounted to approximately RMB403.6 million, and would be able to meet our essential working capital requirement including administrative expenses, marketing expenses and finance costs. Therefore, in the unlikely event that the operation of our Group is temporarily suspended, our Group has sufficient working capital to satisfy our requirement. In light of the above, our Directors confirm that the outbreak of COVID-19 does not have a material adverse impact on our Group's continuing business operations or sustainability as (i) the natural gas industry is an industry involving community necessity services and it is unlikely that the PRC government would allow natural gas distributors to suspend natural gas supply; (ii) there has been no material disruption to our sale of PNG business; (iii) the construction and installation service is labour intensive and the majority of our employees and workers of our subcontractors have resumed work; (iv) we do not expect the completion date for our construction and installation works to be materially delayed; (v) save for any unforeseeable circumstances in the PRC, our Group expects to be able to discharge our obligations under all existing construction and installation service agreements; and (vi) our Group has sufficient working capital to maintain our operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Due to the importance of environmental sustainability to our Group and the significance of social responsibilities to us, we have adopted the following policies to provide for guidelines in relation to environmental, social and governance aspects of our business operations.

Environmental protection

Despite we understand that our business is generally not regarded as a polluting industry, our Directors are of the view that the adherence to relevant environmental protection laws and regulations is important to the long-term development and success of our Group. In addition to irreversible damage that may be inflicted on the environment, any non-compliances with the relevant environmental protection laws and regulations may also subject our Group to complaints and/or penalties. Any such complaints and/or penalties imposed by the relevant authorities may have an adverse impact on our financial position and reputation, which may in turn affect our business prospects and implementation of our future plans.

We have adopted a stringent environmental management system to ensure that our business operations are in compliance with the relevant environmental protection laws and regulations. We have been accredited with the Environmental Management System Certification Certificate for conforming with GB/T24001-2016/ISO14001:2015 standard for our gas equipment sales and related management activities (labelled range) and our supply of pipeline gas (natural gas) and related management activities (non-labelled range).

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In our operation, we may generate various kinds of pollutants which principally include noise and solid waste. Our Directors believe that our operation does not cause excessive environmental pollution and the actual and potential impact of our operation on the environment is minimal. Despite that, in order to minimise the negative impacts on the environment, we adopted internal environmental policies and measures to identify, assess and manage the environmental-related risks and ensure our compliance with the applicable environmental laws and regulations. Our engineering, safety and quality control department is responsible to oversee and monitor the implementation of such policies. Set out below are some of the key policies which have been adopted by our Group during the Track Record Period:

Management of noise

We emit noise as part of our operation. The main source of noise comes from the operation of our facilities at our city gateway stations and LNG storage station. In order to minimise the noise impact on the environment and our responsible staff, we adopted measures including (i) use of machinery and facilities with lower level of noise emission; and (ii) equipping our responsible staff with noise-cancelling earmuffs.

Management of solid waste

We have adopted practices in relation to the separation, storage, recycling and disposal of solid waste generated during our operation. Prior to 2021, we used to generate empty buckets of odorant after odourising the natural gas before distribution into the urban pipeline network, and we either engaged waste disposal agent or arranged our odorant suppliers to handle the collection, transportation and treatment of used empty buckets of odorant. Since 2021, we have adopted the improved procedure and technology of odourising natural gas at our city gateway stations and we have not generated any used empty buckets of odorant since then, which help minimise the environmental impact of our Group.

Our environmental compliance

As confirmed by our PRC Legal Advisers, during the Track Record Period up to the Latest Practicable Date, we were in compliance with the relevant environmental laws and regulations in all material aspects; we did not encounter any material environmental protection incidents and we had not received any claims for failing to comply with the relevant licencing and environmental requirements in material respects; we did not receive any material claims from our customers or residents in the areas we operate for failing to comply with the relevant environmental requirements. We will continue to strictly implement our environmental protection measures to ensure compliance with the applicable PRC laws and regulations.

Our Directors believe that our operation does not cause excessive environmental pollution and the actual and potential impact of our operation on the environment is minimal. During the Track Record Period, we incurred minimal environmental-related costs including service charges for waste treatment, applying certifications for our environmental management system and environmental impact assessment, which were generally less than RMB100,000 per year. Our Directors consider that the

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annual environmental-related cost was not material during the Track Record Period and such cost is not expected to be material going forward.

Long term initiatives

We recognise the long term needs to solve the problems of high power supply pressure and insufficient energy infrastructure, to accelerate the energy structure transformation and to address the carbon neutrality policies of the PRC government, we intend to construct and operate distributed photovoltaic power generation system in Huzhou in addition to our gas business. See the paragraph headed “Our business strategies – Expand into distributed photovoltaic power generation business” in this section for details.

Social responsibility

The wellbeing of our employees are essential to our business operation and we emphasis on the ethical treatment of our employees, through providing them with an environment to develop their careers and dedicate themselves to the development of our Group. We are also committed to providing a safe and healthy working environment for our employees and have established internal guidelines and measures in order to promote occupational health and work safety. See the paragraph headed “Employees – Occupational health and safety” in this section for further details.

To ensure a safe and healthy working environment for our staff, we engaged independent assessment company to audit our working environment annually. The table below set forth the results of concentration level of certain key harmful substances at our various operation stations from 2019 to 2021:

	Maximum permitted concentration level	Actual concentration level of our Group		
		2019	2020	2021
Pentane (milligrams per cubic metre)				
- TWA ^(Note 1)	500	<0.13	<0.13	<0.13
- PC-STEL ^(Note 2)	1,000	<0.13	<0.13	<0.13
Hexane (milligrams per cubic metre)				
- TWA ^(Note 1)	100	<0.13	<0.13	<0.13
- PC-STEL ^(Note 2)	180	<0.13	<0.13	<0.13

Notes:

1. refers to time weighted average.
2. refers to permissible concentration-short term exposure limit.

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Further, as the largest PNG distributor in Huzhou, we are dedicated to provide safe and stable natural gas supply to our users. In this regard and in view of the recent natural gas explosive accidents happened elsewhere in the PRC, we intend to replace the obsolete part of our pipeline network and upgrade our operational facilities, including our control system for real-time monitoring our PNG pipeline network and equipment, with a view to enhance our operational efficiency and safety. See the paragraph headed “Our business strategies – Enhance our sales of PNG by upgrading our pipeline network and operational facilities” in this section for further details.

We have also implemented an operation manual which set out detailed guidelines on the operation procedures and safety maintenance of our operational facilities, including (i) repair and maintenance of our pipeline networks, (ii) inspection and safety assessment of our pipeline networks, LNG and LPG stations and facilities; (iii) cleaning of facilities such as flowmeters and filters; (iv) regulation of pipeline pressures; and (v) detection of gas leakage along our pipeline networks.

We dedicate our staff to patrol our gas pipelines networks on a daily basis to monitor the operating condition of our pipelines. We also install devices along our major pipelines in collecting temperature, pressure and flow data for our staff to analyse and monitor our pipeline operation. When gas leakage or abnormality is detected, our inspection officer will immediately perform emergency contingency measures according to our manuals. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any accidents which had a material impact on our financial conditions or results of operation or which led to death or severe injuries. See the paragraph headed “Quality control and safety maintenance” in this section for further details.

Governance

We emphasise on business integrity as key to our long-term development in order to establish long-term and stable relationships with our customers, our suppliers, our employees and other market players. We endeavour to uphold the business integrity of our Group by maintaining a risk management and internal control system. Our risk management and internal control system and procedures are designed to meet our specific business needs and to alleviate the risks arising from our daily operations. See the paragraph headed “Internal Control and risk management” in this section for details on the enhanced policies to strengthen our internal governance.

Upon Listing, our Directors confirm that they will closely monitor and ensure strict compliance with Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to environmental, social and governance aspects.

COMPETITION

Under the Concession, we have been granted the exclusive rights to sell and distribute PNG in our Operating Area and to construct urban pipeline network for an initial term of 30 years. Our Operating Area is located within Wuxing Operating Area and Nanxun Operating Area. As at the Latest Practicable Date, we do not have any direct competition for conducting our PNG sale business in the Operating Area in Huzhou.

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While the natural gas industry in Zhejiang Province is fragmented, the natural gas industry in Huzhou is relatively concentrated. According to the F&S Report, in terms of sales volume of PNG in 2021, the top five PNG distributors in Zhejiang Province took up a total share of 28.1%, with us ranking the fifth in Zhejiang Province with a market share of 3.0%.

New market entrants in Zhejiang Province and Huzhou natural gas industry may face significant entry barriers since (i) large capital investments are necessary to construct and maintain natural gas operational facilities, such as urban pipeline networks; (ii) they are expected to meet various governmental regulations and qualification requirements and obtain concession agreements for PNG operation; and (iii) natural gas operators have to establish and maintain a solid and long-term relationship with upstream suppliers to ensure stable and reliable natural gas supply for operation and future development. Other factors that could affect our competitiveness include downstream demand, access to natural gas resources, operational capacities and track record.

As the largest PNG operator in Huzhou in terms of PNG sales volume in 2020, we benefit from the strategic location and economic development of Huzhou, which has generated an increasing consumption demand for natural gas. Capitalising on our over 15 years of operating history in Huzhou, we believe that we have maintained good relationships with the local governmental authorities and our major suppliers and have accumulated solid operational track record in our PNG business. With supportive governmental policies and our experienced management and professional employees, we believe we will be able to continue to expand in the natural gas industry in Zhejiang Province and Huzhou.

LEGAL AND COMPLIANCE MATTERS

Licences and Permits

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had obtained and maintained the validity of all material permits, licences, and approvals from the relevant PRC authorities for our operation. Further information on the material licences and permits necessary for our operation is set out in the section headed “Regulatory Overview” in this prospectus.

The following table sets forth details of our material licences and permits:

Licence/permit/ certificate	Holding entity	Issuing authority	Validity period
Gas Operation Licence (PNG)* (燃氣經營許可證(管 道燃氣(天然氣)))	Our Company	Huzhou Housing and Urban-Rural Construction Bureau* (湖州市住房和城 鄉建設局)	10 June 2021 to 9 June 2025
Gas Operation Licence (PNG)* (燃氣經營許可證(管 道燃氣(天然氣)))	Nanxun Xinao	Huzhou Housing and Urban-Rural Construction Bureau* (湖州市住房和城 鄉建設局)	18 March 2021 to 17 March 2025

Legal compliance

As advised by our PRC Legal Advisers, during the Track Record Period, our Group was involved in the following incidents of non-compliance:

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
<p>(1) The acquisition of our Concessions and the Concession Agreements did not fully comply with the requirements under the applicable laws and regulations in the PRC, including:</p> <p>(i) The Concessions were not acquired through competitive modes as required under the Concession Right Measures; and</p> <p>(ii) The Concession Agreements we entered into did not contain certain provisions as required under the applicable laws and regulations in the PRC.</p>	<p><i>Failure to acquire the Concessions through competitive modes</i></p> <p>According to <i>Measures for the Administration on the Franchise of Municipal Public Utilities</i> (《市政公用事業特許經營管理辦法》) (“Measures for Municipal Public Utilities”), which was implemented on 1 May 2004 and amended on 4 May 2015, and the <i>Measures for the Administration of Concession for Infrastructure and Public Utilities</i> (《基礎設施和公用事業特許經營管理辦法》) (the “Concession Right Measures”), which was implemented on 1 June 2015, government authorities should select investors or operators of municipal public utilities projects through competitive modes such as public bidding and competitive negotiation according to relevant regulations, and enter into concession agreements to grant concession rights with them.</p>	<p>As advised by our PRC Legal Advisers, (i) the Concession Right Measures provide no penalty for acquisition of concession rights without adopting competitive methods; and (ii) no penalty is specified under the applicable laws and regulations in the PRC in relation to the failure to contain certain provisions in the concession agreements.</p> <p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fine or penalty in respect of the non-compliance incident.</p>	<p><i>Consultation with competent authorities</i></p> <p>As advised by our PRC Legal Advisers, the Huzhou URCB and Nanxun URCB are the competent authorities which shall be responsible for implementation of the licensing of PNG operation in Wuxing District and Nanxun District. They have been authorised by the Huzhou Municipal People’s Government and Nanxun District Municipal People’s Government of Huzhou, Zhejiang Province, the PRC, respectively, to enter into the Concession Agreements with us. As confirmed by our Directors, there was no fraud or deceit by our Company or Nanxun Xiniao in the process of obtaining the Concessions.</p>	<p>We have adopted internal policies and procedures to ensure that we will comply with the relevant laws and regulations and prevent recurrence of the non-compliance incident, which include (i) assigning our general manager to be responsible for establishment and management, review and evaluation of our overall compliance system; (ii) reporting to our Board and senior management members in case of potential non-compliance incidents; (iii) engaging external advisers to investigate on any potential non-compliance incidents if necessary; (iv) conducting internal trainings for the relevant personnel responsible for complying with such laws and regulations.</p>
<p>(2) The acquisition of our Concessions and the Concession Agreements did not fully comply with the requirements under the applicable laws and regulations in the PRC, including:</p> <p>(i) The Concessions were not acquired through competitive modes as required under the Concession Right Measures; and</p> <p>(ii) The Concession Agreements we entered into did not contain certain provisions as required under the applicable laws and regulations in the PRC.</p>	<p><i>Failure to acquire the Concessions through competitive modes</i></p> <p>According to <i>Measures for the Administration on the Franchise of Municipal Public Utilities</i> (《市政公用事業特許經營管理辦法》) (“Measures for Municipal Public Utilities”), which was implemented on 1 May 2004 and amended on 4 May 2015, and the <i>Measures for the Administration of Concession for Infrastructure and Public Utilities</i> (《基礎設施和公用事業特許經營管理辦法》) (the “Concession Right Measures”), which was implemented on 1 June 2015, government authorities should select investors or operators of municipal public utilities projects through competitive modes such as public bidding and competitive negotiation according to relevant regulations, and enter into concession agreements to grant concession rights with them.</p>	<p>As advised by our PRC Legal Advisers, (i) the Concession Right Measures provide no penalty for acquisition of concession rights without adopting competitive methods; and (ii) no penalty is specified under the applicable laws and regulations in the PRC in relation to the failure to contain certain provisions in the concession agreements.</p> <p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fine or penalty in respect of the non-compliance incident.</p>	<p><i>Consultation with competent authorities</i></p> <p>As advised by our PRC Legal Advisers, the Huzhou URCB and Nanxun URCB are the competent authorities which shall be responsible for implementation of the licensing of PNG operation in Wuxing District and Nanxun District. They have been authorised by the Huzhou Municipal People’s Government and Nanxun District Municipal People’s Government of Huzhou, Zhejiang Province, the PRC, respectively, to enter into the Concession Agreements with us. As confirmed by our Directors, there was no fraud or deceit by our Company or Nanxun Xiniao in the process of obtaining the Concessions.</p>	<p>We have adopted internal policies and procedures to ensure that we will comply with the relevant laws and regulations and prevent recurrence of the non-compliance incident, which include (i) assigning our general manager to be responsible for establishment and management, review and evaluation of our overall compliance system; (ii) reporting to our Board and senior management members in case of potential non-compliance incidents; (iii) engaging external advisers to investigate on any potential non-compliance incidents if necessary; (iv) conducting internal trainings for the relevant personnel responsible for complying with such laws and regulations.</p>
<p>(3) The acquisition of our Concessions and the Concession Agreements did not fully comply with the requirements under the applicable laws and regulations in the PRC, including:</p> <p>(i) The Concessions were not acquired through competitive modes as required under the Concession Right Measures; and</p> <p>(ii) The Concession Agreements we entered into did not contain certain provisions as required under the applicable laws and regulations in the PRC.</p>	<p><i>Failure to acquire the Concessions through competitive modes</i></p> <p>According to <i>Measures for the Administration on the Franchise of Municipal Public Utilities</i> (《市政公用事業特許經營管理辦法》) (“Measures for Municipal Public Utilities”), which was implemented on 1 May 2004 and amended on 4 May 2015, and the <i>Measures for the Administration of Concession for Infrastructure and Public Utilities</i> (《基礎設施和公用事業特許經營管理辦法》) (the “Concession Right Measures”), which was implemented on 1 June 2015, government authorities should select investors or operators of municipal public utilities projects through competitive modes such as public bidding and competitive negotiation according to relevant regulations, and enter into concession agreements to grant concession rights with them.</p>	<p>As advised by our PRC Legal Advisers, (i) the Concession Right Measures provide no penalty for acquisition of concession rights without adopting competitive methods; and (ii) no penalty is specified under the applicable laws and regulations in the PRC in relation to the failure to contain certain provisions in the concession agreements.</p> <p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fine or penalty in respect of the non-compliance incident.</p>	<p><i>Consultation with competent authorities</i></p> <p>As advised by our PRC Legal Advisers, the Huzhou URCB and Nanxun URCB are the competent authorities which shall be responsible for implementation of the licensing of PNG operation in Wuxing District and Nanxun District. They have been authorised by the Huzhou Municipal People’s Government and Nanxun District Municipal People’s Government of Huzhou, Zhejiang Province, the PRC, respectively, to enter into the Concession Agreements with us. As confirmed by our Directors, there was no fraud or deceit by our Company or Nanxun Xiniao in the process of obtaining the Concessions.</p>	<p>We have adopted internal policies and procedures to ensure that we will comply with the relevant laws and regulations and prevent recurrence of the non-compliance incident, which include (i) assigning our general manager to be responsible for establishment and management, review and evaluation of our overall compliance system; (ii) reporting to our Board and senior management members in case of potential non-compliance incidents; (iii) engaging external advisers to investigate on any potential non-compliance incidents if necessary; (iv) conducting internal trainings for the relevant personnel responsible for complying with such laws and regulations.</p>
<p>(4) The acquisition of our Concessions and the Concession Agreements did not fully comply with the requirements under the applicable laws and regulations in the PRC, including:</p> <p>(i) The Concessions were not acquired through competitive modes as required under the Concession Right Measures; and</p> <p>(ii) The Concession Agreements we entered into did not contain certain provisions as required under the applicable laws and regulations in the PRC.</p>	<p><i>Failure to acquire the Concessions through competitive modes</i></p> <p>According to <i>Measures for the Administration on the Franchise of Municipal Public Utilities</i> (《市政公用事業特許經營管理辦法》) (“Measures for Municipal Public Utilities”), which was implemented on 1 May 2004 and amended on 4 May 2015, and the <i>Measures for the Administration of Concession for Infrastructure and Public Utilities</i> (《基礎設施和公用事業特許經營管理辦法》) (the “Concession Right Measures”), which was implemented on 1 June 2015, government authorities should select investors or operators of municipal public utilities projects through competitive modes such as public bidding and competitive negotiation according to relevant regulations, and enter into concession agreements to grant concession rights with them.</p>	<p>As advised by our PRC Legal Advisers, (i) the Concession Right Measures provide no penalty for acquisition of concession rights without adopting competitive methods; and (ii) no penalty is specified under the applicable laws and regulations in the PRC in relation to the failure to contain certain provisions in the concession agreements.</p> <p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fine or penalty in respect of the non-compliance incident.</p>	<p><i>Consultation with competent authorities</i></p> <p>As advised by our PRC Legal Advisers, the Huzhou URCB and Nanxun URCB are the competent authorities which shall be responsible for implementation of the licensing of PNG operation in Wuxing District and Nanxun District. They have been authorised by the Huzhou Municipal People’s Government and Nanxun District Municipal People’s Government of Huzhou, Zhejiang Province, the PRC, respectively, to enter into the Concession Agreements with us. As confirmed by our Directors, there was no fraud or deceit by our Company or Nanxun Xiniao in the process of obtaining the Concessions.</p>	<p>We have adopted internal policies and procedures to ensure that we will comply with the relevant laws and regulations and prevent recurrence of the non-compliance incident, which include (i) assigning our general manager to be responsible for establishment and management, review and evaluation of our overall compliance system; (ii) reporting to our Board and senior management members in case of potential non-compliance incidents; (iii) engaging external advisers to investigate on any potential non-compliance incidents if necessary; (iv) conducting internal trainings for the relevant personnel responsible for complying with such laws and regulations.</p>

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
<p>The Wuxing Concession was granted by the Huzhou URCB pursuant to HuZhengHan [2003] No. 80 Approval (湖政函[2003]80號批覆) dated 24 December 2003 and [2004] No. 50 Special Meeting Minutes (市政府[2004]50號專題會議紀要精神) issued by Huzhou Municipal People's Government, as authorised by Huzhou Municipal People's Government. According to the PRC Legal Advisers, all levels of the legislation authorities of the PRC had not promulgated any laws, regulations or rules specifying that the concessions for municipal public utilities shall be acquired through competitive modes at the time when the Company acquired the Wuxing Concession in accordance with the official approval issued by Huzhou Municipal People's Government until Measures for the Administration on Franchise of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) implemented on 1 May 2004.</p>	<p>The Nanxun Concession was granted by the Nanxun URCB pursuant to [2009] No. 27 Special Meeting Minutes on Questions on Franchise of Municipal Public Utilities of Nanxun District issued by Huzhou Municipal People's Government (關於南潯區市政公用事業特許經營權問題形成專題會議紀要 [2009]27號) and Approval issued by No. 44 Executive Meeting of Nanxun District Municipal People's Government (湖州市南潯區人民政府第44次常務會議審議同意), as authorised by Nanxun District Municipal People's Government. Nanxun District Municipal People's Government referred to means of single-source procurement as prescribed in the PRC Government Procurement Law when selecting Nanxun Xiniao as the capable gas operator, which did not fully comply with the regulatory requirement that government authorities should select investors or operators of municipal public utilities projects through competitive modes such as public bidding and competitive negotiation, as specified in the Measures for the Administration on Franchise of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) then in effect.</p>	<p>In satisfying that there was no fraud, deceit nor bribery carried out by the Company or Nanxun Xiniao in the process of obtaining the Concessions, the Sole Sponsor had performed the following due diligence work: (i) obtained and reviewed the written confirmations obtained from Huzhou URCB and Nanxun URCB that the Concession Agreements are in compliance with the relevant PRC laws and regulations; (ii) obtained and reviewed the Company's Letter (as defined below) and the Huzhou Government's Letter (as defined below) (iii) discussed with the Company and the PRC Legal Advisers to understand the background of the process of obtaining the Concessions and obtained the confirmation from the Company that there is no fraud or deceit by the Company or Nanxun Xiniao in the process of obtaining the Concessions; (iv) obtained and reviewed the approval from the People's Government of Huzhou regarding the establishment of the Company and the operation of natural gas in the Operating Area; (v) obtained and reviewed the advanced draft legal opinion prepared by the PRC Legal Advisers and noted that no evidence suggests that there was fraud or deceit by the Company or Nanxun Xiniao in the process of obtaining the Concessions; (vi) obtained and reviewed the background search report from independent third party search agent and noted that the Group is not subject to any litigation or investigation in relation to any fraud or deceit in the process of obtaining the Concessions; and (vii) conducted desktop search on the Group and noted that the Group is not subject to any litigation or investigation in relation to any fraud or deceit in the process of obtaining the Concessions.</p>	<p>In satisfying that there was no fraud, deceit nor bribery carried out by the Company or Nanxun Xiniao in the process of obtaining the Concessions, the Sole Sponsor had performed the following due diligence work: (i) obtained and reviewed the written confirmations obtained from Huzhou URCB and Nanxun URCB that the Concession Agreements are in compliance with the relevant PRC laws and regulations; (ii) obtained and reviewed the Company's Letter (as defined below) and the Huzhou Government's Letter (as defined below) (iii) discussed with the Company and the PRC Legal Advisers to understand the background of the process of obtaining the Concessions and obtained the confirmation from the Company that there is no fraud or deceit by the Company or Nanxun Xiniao in the process of obtaining the Concessions; (iv) obtained and reviewed the approval from the People's Government of Huzhou regarding the establishment of the Company and the operation of natural gas in the Operating Area; (v) obtained and reviewed the advanced draft legal opinion prepared by the PRC Legal Advisers and noted that no evidence suggests that there was fraud or deceit by the Company or Nanxun Xiniao in the process of obtaining the Concessions; (vi) obtained and reviewed the background search report from independent third party search agent and noted that the Group is not subject to any litigation or investigation in relation to any fraud or deceit in the process of obtaining the Concessions; and (vii) conducted desktop search on the Group and noted that the Group is not subject to any litigation or investigation in relation to any fraud or deceit in the process of obtaining the Concessions.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
	<p>As confirmed by Huzhou Municipal People's Government in the letter issued to Zhejiang URCCB dated 24 February 2022, Huzhou Municipal People's Government stated that the Concessions were granted considering urban pipeline gas facilities were vital public utilities of essential and significant importance to a large number of residential living and business operation, in accordance with the principles of public interest and protection of reliance interest under the PRC administrative laws, the concessions to invest, construct and operate such infrastructures shall not be cancelled or revoked merely due to such non-compliance of competitive modes in acquiring the concessions. Zhejiang URCCB has concurred with such opinions in its written confirmation dated 25 February 2022.</p>			
	<p>As confirmed by F&S, with the aim to attract investment, some natural gas companies in the PRC were directly selected by local government authorities to be the natural gas operator with concession right in the operating area, especially in the 2000s. As such, direct selection of natural gas operators by the relevant government authorities is not unusual in the natural gas industry in the PRC.</p>			

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
<p>Failure to contain certain provisions in the Concession Agreements</p>	<p>According to the Concession Right Measures, the Regulations on the Administration of Gas in Zhejiang Province (《浙江省燃气管理条例》) and the standard format of a franchise operation contract, pipeline gas supply for guidance, the concession contract shall contain certain provisions. See the paragraph headed "Regulatory Overview – Concession in municipal public utilities projects" in this prospectus for further details. According to our PRC Legal Advisers, the original Concession Agreements we entered into did not contain certain provisions as required, including (i) the business scope, registered capital, capital contribution and equity transfer of the project company; (ii) investment and financing term and method (which was not applicable in our Concessions); (iii) performance guarantee; and (iv) risk sharing during the Concession period, as the original Concession Agreements, to the best knowledge of our Directors, were based on the standard agreements provided by Huzhou URCB and Nanxun URCB. These required provisions were also not covered in the respective supplemental agreements as per the instructions of Huzhou URCB and Nanxun URCB.</p>		<p>Further, our Company and Nanxun Xiniao have obtained the Certificate for Gas Operation granted by the competent authorities in respect of gas business in accordance with the Concession Agreements.</p>	
			<p>Each of Huzhou URCB and Nanxun URCB issued a confirmation in January 2021 stating that (i) the Concession Agreements are legal and effective; (ii) we have the legal Concession rights under the Concession Agreements; (iii) we had complied with the terms of the Concession Agreements and had not been subject to any penalties from Huzhou URCB or Nanxun URCB; and (iv) these had been no circumstances leading to early termination or revocation of the Concessions. In addition, our PRC Legal Advisers conducted an interview with the Housing and Urban-Rural Construction Bureau of Zhejiang Province ("Zhejiang URCB") in August 2021 and Zhejiang URCB confirmed that, (i) Zhejiang URCB has delegated the authority to grant and manage the Concession rights to the Housing and Urban-Rural Construction Bureau at city and/or county level; (ii) Huzhou URCB and Nanxun URCB are the competent authorities to grant and manage the Concession rights; and (iii) Zhejiang URCB will not intervene with the decisions made by Huzhou URCB and Nanxun URCB in respect of the legality and validity of the Concessions.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p>Pursuant to the written confirmation from Zhejiang URCB on 26 October 2021, which states, among others that (i) pursuant to the Regulation on the Administration of Gas in Zhejiang Province (《浙江省燃氣管理條例》), the Measures for the Administration on the Franchise of Municipal Public Utilities (《市政公用事業特許經營管理辦法》), Huzhou URCB and Nanxun URCB are the competent government departments which shall be responsible for the implementation and administration of PNG concessions in Huzhou and Nanxun as authorised by the local government. Zhejiang URCB will not intervene with the lawful decisions made by Huzhou URCB and Nanxun URCB in respect of the grant of the Concessions; (ii) Zhejiang URCB will not intervene with the Concession Agreements and the subsequent amendments thereto entered into lawfully by and between Huzhou URCB, Nanxun URCB and PNG enterprises; and (iii) Zhejiang URCB has never imposed administrative penalties on the Company, Nanxun Xinao, Huzhou Xinao Gas Company Limited* (湖州新奧燃氣有限公司) and Huzhou Xinao Wanteng Gas Company Limited* (湖州新奧萬豐燃氣有限公司).</p>	
			<p>Moreover, pursuant to the written confirmation from Zhejiang URCB on 4 November 2021, Zhejiang URCB confirmed that the Group will not be subject to any administrative punishment in relation to the matters contemplated in the confirmation if the Group continues to operate in compliance with the relevant PRC laws and regulations in the future.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p>The Company issued a letter to Huzhou Municipal People's Government on 23 February 2022 (the "Company's Letter") and Huzhou Municipal People's Government issued a letter to Zhejiang URCB on 24 February 2022 (the "Huzhou Government's Letter"). Each of the Company's Letter and the Huzhou Government's Letter has set out all background and circumstances relating to the non-compliance incident, including that the Concessions were not acquired through competitive modes and the original Concession Agreements did not contain certain provisions as required, which, according to the PRC Legal Advisers, truly, accurately and completely furnished information in relation to the Non-Compliances relied upon by Zhejiang URCB to issue its written confirmation on 25 February 2022.</p>	
			<p>Pursuant to the written confirmation from Zhejiang URCB on 25 February 2022, Zhejiang URCB confirmed that (i) Zhejiang URCB concurred with the decisions made by the local authorities in relation to the matters of the Concessions and the non-compliances; (ii) the Concessions are valid; (iii) no retrospective action will be taken or administrative penalties will be imposed against the Company or Nanxun Xinao in respect of the non-compliances; (iv) there was no circumstance leading to the cancellation or revocation of the Concessions or any administrative penalties; and (v) Zhejiang URCB will not cancel or revoke the Concessions or impose any administrative penalty against the Company and Nanxun Xinao.</p> <p>According to our PRC Legal Advisers, Huzhou URCB, Nanxun URCB and Zhejiang URBC are the competent authorities to issue the respective confirmations or express such view in the interview.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p data-bbox="287 936 335 1276">No risk of third parties challenging the validity of the Concessions</p> <p data-bbox="351 936 526 1276">As advised by our PRC Legal Advisers, there is no legal basis for third parties to challenge the Concession Agreements, including the supplemental agreements, on the ground of infringement of right to fair competition despite that the Concessions were not acquired through competitive mode.</p>	
			<p data-bbox="558 936 893 1276">Article 46 of the PRC Administrative Litigation Law (amended in 2017) (《中華人民共和國行政訴訟法(2017 修正)》) stipulates that except as otherwise provided by the law, a person shall directly file a complaint with a competent People's Court within six months from the day when such person knew or ought to have known of the disputed administrative action. The limitation period for an administrative action is five years commencing from the date when the disputed administrative action occurs except for those actions involving real properties which is not case here.</p>	

Enhanced internal control measures to prevent recurrence

Potential impact on our operations and financial conditions

As advised by our PRC Legal Advisers, the limitation period concerning administrative actions under the original Concession Agreements shall not start running when the supplemental agreements were entered into for each of the Concessions, which merely stipulated the preferential renewal right granted to the original concession grantee and supplemented the missing provisions in the original Concession Agreements as required by the applicable laws and regulations of the PRC. No material change were made to the original Concession Agreements, nor was independent administrative action or concession involved or granted in the supplemental agreements. Accordingly, the limitation period concerning administrative actions under the original Concession Agreements shall not start running again even when the various supplemental agreements were entered into in 2020 and 2021, and there is short of legal basis for independent third parties to challenge the various supplemental agreements.

Actual and/or potential maximum penalty

Reasons for non-compliance and relevant personnel of our Group involved

Non-compliance incident

Article 40 of the Measures for the Administration of Concession for Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》) specifies that preference shall be given to the original concession grantee in granting the concession under the same conditions where a concession grantee is to be re-selected due to expiration of a concession term. The implementing government department and the original concession grantee shall formulate a contingency plan to ensure the continuous and stable provision of public goods or services before a new concessionaire is selected.

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p>As advised by our PRC Legal Advisers, independent third parties cannot seek to revoke the Concession by challenging the failure to contain requisite provisions in the Concession Agreements as they are not "interested parties" to the Concession Agreements for a cause of action of supplementing missing provisions, which disqualifies them as the competent plaintiffs.</p>	
			<p>Article 25 of the PRC Administrative Litigation Law (amended in 2017) (《中華人民共和國行政訴訟法(2017修正)》) stipulates that the counter party of an administrative action or a party with an interest in the administrative action is entitled to bring a complaint against the administrative action.</p>	
			<p>Article 12 of the Interpretation of the Supreme People's Court on Application of the PRC Administrative Litigation Law (《最高人民法院關於適用〈中華人民共和國行政訴訟法〉的解釋》) effective from 8 February 2018 further elaborates the circumstances under which a party shall be deemed "with an interest in the administrative action". As advised by our PRC Legal Advisers, none of the circumstances applied herein.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p>Furthermore, as advised by our PRC Legal Advisers, independent third parties cannot seek to revoke the Concessions by initiating administrative review against the Group and/or parties who provide confirmations to the Group in relation to the Concessions (e.g. Huzhou URCB).</p>	
			<p>Article 9 of the PRC Administrative Review Law (amended in 2017) (《中華人民共和國行政復議法(2017修正)》) stipulates that a person shall file an application for administrative review within 60 days from the day when such person knew of the specific administrative action, except as prescribed otherwise by any law.</p>	
			<p>As more than 60 days had passed since the acquisition of Concession rights by the Group and the execution of the various supplement agreements, as advised by our PRC Legal Advisers, any administrative review initiated by independent third parties seek to revoke the Concessions shall be time-barred by the statutory period of limitation.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p>Our Directors also confirm that, from the date of commencement of our operation and up to the Latest Practicable Date, we were in compliance with the terms of the Concession Agreements in all material respects and were not aware of any circumstances which may lead to a material breach or otherwise an early termination of the Concession Agreements.</p>	
			<p>On the basis of (i) the confirmations issued by Zhejiang URCB, Huzhou URCB and Nanxun URCB; (ii) there being no fraud or deceit by our Company or Nanxun Xiniao in the process of obtaining the Concessions; (iii) the interview with the Zhejiang URCB; (iv) there being no penalty for acquisition of concession rights without adopting competitive methods under the Concession Right Measures, our PRC Legal Advisers are of the view that (a) the Concessions are legal and valid; (b) the likelihood of our Group's exposure to fines and penalties for this non-compliance is remote; (c) this non-compliance will not lead to the early termination or revocation of the Concessions; and (d) this non-compliance has no material adverse impact on our operations and thus no material impact on the Listing.</p>	
				<p>Based on the opinion of our PRC Legal Advisers, our Directors consider that such non-compliance will not have any material impact on the Listing. As such, we made no provision in this regard.</p>

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p>On the basis that (i) supplemental agreements were entered into by Huzhou URCB and Nanxun URCB in 2020 and 2021, pursuant to which preferential renewal rights were granted by Huzhou URCB and Nanxun URCB to our Company and Nanxun Ximao for renewal of the Concessions, respectively; (ii) each of Zhejiang URCB, Huzhou URCB and Nanxun URCB had issued written confirmations which confirmed, among other things, that (a) the Concessions are valid; (b) we had complied with the terms of the Concession Agreements; and (c) there was no circumstance leading to the cancellation or revocation of the Concessions or any administrative penalties; (iii) our Directors confirmed that from the date of commencement of our operation and up to the Latest Practicable Date, we were in compliance with the terms of the Concession Agreements in all material respects and were not aware of any circumstances which may lead to a material breach or otherwise an early termination of the Concession Agreements; and (iv) the opinion of our PRC Legal Advisers as stated above, the Sole Sponsor is of the view that such non-compliance incident would not have a material adverse impact on the renewal of the Concessions by the Group.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
<p>(2) Our Company failed to comply with the foreign investment policy from our establishment date and up to 26 December 2018.</p>	<p>According to the Catalogue of Industry Guidance for Foreign Investment (revised in 2015) (《外商投資產業指導目錄(2015年修訂)》), the Catalogue of Industry Guidance for Foreign Investment (revised in 2017) (《外商投資產業指導目錄(2017年修訂)》), and the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》) jointly promulgated by the NDRC and the MOFCOM on 10 March 2015, 18 June 2017, and 28 June 2018, respectively, enterprises engaged in the construction and operation of urban gas, heat and water supply and drainage pipelines and networks for cities with an urban population of 500,000 or more shall be controlled by Chinese shareholders.</p>	<p>According to the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2019) (《外商投資准入特別管理措施(負面清單)(2019年版)》), and the Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) jointly promulgated by the NDRC and the MOFCOM on 30 June 2019, and 23 June 2020, respectively, the construction and operation of urban gas and heat supply and drainage pipelines and networks for cities are no longer subject to restriction on foreign investment.</p>	<p>As advised by our PRC Legal Advisers, upon subscription of registered capital by Huzhou Huaxing on 26 December 2018, pursuant to the Articles of Associations effective then, (i) the Board of Directors of our Company shall consist of five Directors, three of whom shall be appointed by Huzhou Huaxing and two of whom shall be appointed by ENN (China); and (ii) all Board resolutions shall be passed by more than 50% of the Directors. On this basis, our PRC Legal Advisers are of the view that Huzhou Huaxing obtained control over our Company since then.</p>	<p>We have adopted internal policies and procedures to ensure that we will comply with the relevant laws and regulations and prevent recurrence of the non-compliance incident, which include (i) assigning our general manager to be responsible for establishment and management, review and evaluation of our overall compliance system; (ii) reporting to our Board and senior management members in case of potential non-compliance incidents; (iii) engaging external advisers to investigate on any potential non-compliance incidents if necessary; (iv) conducting internal trainings for the relevant personnel responsible for complying with such laws and regulations.</p>
			<p>Huzhou Bureau of Commerce* (湖州市商務局) issued a written confirmation in March 2021 to confirm that our Company was legally established, complied with all relevant procedures and there were no circumstances of obtaining approval by deceptive or other illegal means. According to our PRC Legal Advisers, Huzhou Bureau of Commerce* (湖州市商務局) is the competent authority to issue such confirmation.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
	<p>As at the date of establishment, our Company was held as to 50% by Huzhou Huaxing and Xiniao Zhejiang, respectively. From November 2005 until 26 December 2018, our Company was held as to 50% by Huzhou Huaxing and ENN (China). According to the Articles of Association effective then, the Board of Directors of our Company shall consist of five Directors, three of whom shall be appointed by Huzhou Huaxing and two of whom shall be appointed by ENN (China). All Board resolutions shall be passed by more than 75% of the Directors.</p> <p>Accordingly, as advised by our PRC Legal Advisers, Huzhou Huaxing did not obtain control over our Company from the date of establishment and up to 26 December 2018. On this basis, our Company failed to comply with the foreign investment policy from our establishment date and up to 26 December 2018.</p> <p>Such non-compliance was primarily due to the misunderstanding of the interpretation of the relevant laws and regulations by the then management responsible for handling such matter at the relevant time as it was unfamiliar with the relevant laws and regulations in the PRC.</p>	<p>According to the Law of the People's Republic of China on Administrative Penalty* (《中華人民共和國行政處罰法》), where violations have not been investigated within two years, administrative punishment is no longer to be imposed, unless the violations involve public health and safety or financial security with harmful consequences.</p> <p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fine or penalty in respect of the non-compliance incident.</p>	<p>On the basis of (i) the written confirmation issued by Huzhou Bureau of Commerce* (湖州市商務局); (ii) we have complied with the then requirements on foreign investment policy since 26 December 2018; and (iii) administrative punishment is no longer imposed as two years have passed since the above remedial action, our PRC Legal Advisers are of the view that (a) the Concessions are legal and valid; (b) the likelihood of our Group's exposure to fines and penalties for this non-compliance is remote; (c) this non-compliance will not lead to the early termination or revocation of the Concessions; and (d) this non-compliance has no material adverse impact on our operations and thus no material impact on the Listing.</p>	<p>Based on the opinion of our PRC Legal Advisers, our Directors consider that such non-compliance will not have material impact on the Listing. As such, we made no provision in this regard.</p>

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
<p>(3) As at the Latest Practicable Date, we had not obtained the real property title certificate (不動產權證) for three properties occupied by us with an aggregate gross floor area of approximately 282.16 sq.m. (the "Relevant Owned Properties").</p>	<p>Such non-compliance was primarily due to (i) the properties are resettlement house (安置房) located within allocated land (劃撥土地) under which the real property title certificate (不動產權證) could not be obtained as procedures of the transfer of land use right could not be completed by virtue of the nature of such land being a collectively-owned rural land; and (ii) the former management responsible for handling such matter did not have a comprehensive understanding of the relevant regulatory requirements.</p>	<p>As advised by our PRC Legal Advisers, according to Urban Real Estate Administration Law of the PRC* (《中華人民共和國城市房地產管理法》), property which has not been registered and received a property ownership certificate in accordance with the law shall not be transferred. For allocated land use right, the transfer of property shall be submitted to the relevant government authorities for approval. If the relevant government authorities approve the transfer, the transferee shall take relevant procedures for the transfer of the land use right and pay for the land use right transfer fee.</p>	<p>According to a written confirmation issued by the People's Government of Baididian Town, Wuxing District, Huzhou City* (湖州市吳興區八里店鎮人民政府) in January 2021, the Relevant Owned Properties are not considered as illegal, and are not subject to any risk of demolition, relocation or redemption. It further confirmed that from 1 January 2018 and up to the date of the written confirmation, the Relevant Owned Properties and their usage were not subject to any administrative penalties. According to our PRC Legal Advisers, the People's Government of Baididian Town, Wuxing District, Huzhou City* (湖州市吳興區八里店鎮人民政府) is the competent authority to issue such confirmation.</p>	<p>We have adopted internal policies and procedures to ensure that we will comply with the relevant laws and regulations and prevent recurrence of the non-compliance incident, which include (i) requiring the legal department and/or relevant personnel to check whether the real property title certificate has been obtained for the property before entering into a lease agreement; (ii) assigning our general manager to be responsible for establishment and management, review and evaluation of our overall compliance system; (iii) reporting to our Board and senior management members in case of potential non-compliance incidents; (iv) engaging external advisers to investigate on any potential non-compliance incidents if necessary; (v) conducting internal trainings for the relevant personnel responsible for complying with such laws and regulations.</p>
<p>Further, the Relevant Owned Properties are used as customer service centres. As advised by our PRC Legal Advisers, such use did not comply with the requirements of the Catalog of Allotted Land* (《劃撥用地目錄》).</p>	<p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not received any rectification order or been subject to any fine or penalty in respect of the non-compliance incident.</p>			

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
			<p data-bbox="311 946 343 1308">Considering that the Relevant Owned Properties comprise only a small portion of our owned properties, and that the Relevant Owned Properties are not material to our principal business activities and are easily replaceable in case of relocation, our PRC Legal Advisers are of the view that the title defects will have no material adverse effects on our business operations or financial condition and the Listing.</p>	
			<p data-bbox="359 946 391 1308">Based on the opinion of our PRC Legal Advisers, our Directors consider that such non-compliance will not have any material operational or financial impact on us. As such, we made no provision in this regard.</p>	

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
<p>(4) As at the Latest Practicable Date, the lease agreements of 10 of our leased properties (the “Relevant Leased Properties”) had yet to be registered with the relevant government authorities. The Relevant Leased Properties are used for offices, sub-leasing, accommodation for employees and warehouse.</p>	<p>The lease agreements of the Relevant Leased Properties had yet to be registered primarily due to:</p> <p>(i) the relevant landlords did not cooperate to file the lease agreements and other relevant documents, which was beyond our control; and</p> <p>(ii) no real property title certificate (不動產權證) was obtained by the landlord and thus the lease agreements could not be registered.</p>	<p>According to the Measures for Administration of Lease of Commodity Properties (《商品房屋租賃管理辦法》), lease agreements have to be registered with the relevant authorities within 30 days from execution. Our PRC Legal Advisers advised us that under relevant PRC laws and regulations, the relevant government authority may require the parties to a lease to register the lease agreement within a given period, and a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease may be imposed on the parties to the lease for failing to rectify it within the given period. The estimated maximum penalty that may be imposed on us is RMB100,000.</p>	<p>Considering that the Relevant Leased Properties comprise only a small portion of our leased properties, and that the Relevant Leased Properties are not used for production purpose and are easily replaceable in case of relocation, our PRC Legal Advisers are of the view that the title defects will have no material adverse effects on our business operations or financial condition and the Listing.</p> <p>Based on the opinion of our PRC Legal Advisers, our Directors consider that such non-compliance will not have any material operational or financial impact on us. As such, we made no provision in this regard.</p>	<p>We have adopted internal policies and procedures to ensure that we will comply with the relevant laws and regulations and prevent recurrence of the non-compliance incident, which include (i) requiring the legal department and/or relevant personnel to register the lease agreements with the relevant government authorities as soon as they have been signed; (ii) assigning our general manager to be responsible for establishment and management, review and evaluation of our overall compliance system; (iii) reporting to our Board and senior management members in case of potential non-compliance incidents; (iv) engaging external advisers to investigate on any potential non-compliance incidents if necessary; (v) conducting internal trainings for the relevant personnel responsible for complying with such laws and regulations.</p>

Non-compliance incident	Reasons for non-compliance and relevant personnel of our Group involved	Actual and/or potential maximum penalty	Potential impact on our operations and financial conditions	Enhanced internal control measures to prevent recurrence
		<p>A lease without completing the statutory lease registration will be subject to a registered lease entered into between a bona fide third party tenant and the landlord regarding the property in question. As advised by our PRC Legal Advisers, the lease agreements in relation to the Relevant Leased Properties are valid and shall be binding on the parties even without filing the statutory lease registration.</p>		
		<p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not received any rectification order or been subject to any fine or penalty in respect of non-registration of lease agreement.</p>		

BUSINESS

City Group, one of our Controlling Shareholders, has agreed to indemnify us for all claims, costs, expenses and losses incurred by us arising from the abovementioned incidents of non-compliance.

Views of our Directors and the Sole Sponsor

Our Directors consider, and the Sole Sponsor concurs, that the abovementioned non-compliance incidents would not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules or the suitability of listing of our Company under Rule 8.04 of the Listing Rules having taken into account that:

- (i) the confirmations from the relevant competent government authorities have indicated that the relevant authorities will not/are unlikely to impose any penalty on our Company;
- (ii) the relevant competent provincial-level government authorities have verbally confirmed that they have delegated power to the municipal-level government authorities;
- (iii) the Group did not receive any penalty or rectification order in respect of the abovementioned non-compliance incidents during the Track Record Period and up to the Latest Practicable Date;
- (iv) our Directors and senior management were not involved for certain historical non-compliance incidents including the failure to acquire the Concessions through competitive modes as required under the Concession Right Measures and failure to comply with the foreign investment policy;
- (v) the non-compliance incidents did not involve any dishonesty or fraudulent act on the part of our Directors;
- (vi) the PRC Legal Advisers have opined that the non-compliance incidents have no material impact on our operations and to the Listing;
- (vii) our Group has implemented the enhanced internal control measures to ensure ongoing compliance;
- (viii) our independent internal control consultant has reviewed the internal control measures in relation to the abovementioned non-compliance incidents, and is of the view that the controls over the non-compliance incidents are in place; and
- (ix) upon the training provided to our Directors, our Directors are fully aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules.

BUSINESS

Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against our Group, that would have a material adverse effect on our business, financial condition or results of operations.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control and Risk Management System

Our Directors are responsible for the formulation and overseeing the implementation of our internal control measures and effectiveness of quality and risk management system. We have adopted, or expect to adopt before the Listing, a series of internal control policies, procedures and programmes designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system are summarised below:

- (1) we have appointed BOCOM International (Asia) as our compliance adviser upon the Listing to advise our Group on compliance matters in accordance with the Listing Rules;
- (2) we will consider appointing a qualified PRC law firm as our external PRC legal advisers which will assist us in performing the requisite legal due diligence and complying with the relevant laws and regulations in respect of our business operations;
- (3) we will provide our Directors, senior management and employees involved with training and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;
- (4) we will from time to time remind our employees of their obligations to contribute to their part of the social insurance and housing provident funds in order to comply with the applicable PRC laws and regulations, and advise them on the procedures for making such contributions; and
- (5) we will consider appointing an external Hong Kong legal adviser to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations.

BUSINESS

In order to ensure that our internal control procedures are sufficient for management of external and internal risks, we have engaged an internal control consultant (the “**Internal Control Consultant**”) to conduct a review of our internal control systems in February 2021 and the material findings in our internal control system as identified by the Internal Control Consultant include the followings:

- (a) failed to establish an independent internal audit department;
- (b) failed to establish a complete sales management system; and
- (c) failed to establish a complete procurement management system.

The Internal Control Consultant recommended a number of measures to improve our internal control system based on its findings, including:

- (a) establishing an internal audit department which directly reports to the audit committee under the board of Directors with an updated internal audit management measures clarifying the reporting objects, work scope, duties and responsibilities, reporting system and implementation standards of internal control;
- (b) enhancing the sales management related policies including pricing management, pre-sale management, sales management process, receivables management, customers complaint, customer inspection, credit management, after-sales management and signing and approval of contracts; and
- (c) enhancing PNG procurement management system, LNG procurement management system, raw materials procurement management system clarifying the selection of suppliers, procurement application and approval, procurement records and overall management.

Our Directors confirm that we have implemented the relevant suggestions proposed by our internal control consultant. The Internal Control Consultant raised no further comment in follow-up review in June 2021.

We strive to foster a strong compliance culture among our Group. Our Directors believe that compliance creates value for us and dedicate to cultivating a compliance culture among all of our employees. To ensure such compliance culture is embedded into everyday workflow and set the expectations for individual behaviour across the organisation, we regularly conduct internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training.

As our business continues to expand, we will refine and enhance our internal control systems to respond to the evolving requirements of our expanded operations as appropriate. We will continue to review our internal control systems to ensure compliance with applicable regulatory requirements.

CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

Upon the Listing, the transactions set forth below will constitute continuing connected transactions (as defined in the Listing Rules) of our Company (collectively, the “**Continuing Connected Transactions**”):

Name of connected person	Relationship with our Company	Nature of transaction	Term	Waiver sought
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EXEMPT CONTINUING CONNECTED TRANSACTIONS

1.	Various associates of City Group	By virtue of being associates of City Group, our Controlling Shareholder	Supply of PNG by our Group	Five years or up to 29 September 2039	Not applicable
2.	Huzhou Shushan Sanatorium Co., Ltd.* (湖州蜀山老年醫院有限公司) (“ Shushan Sanatorium ”)	By virtue of being an associate of City Group, our Controlling Shareholder	Supply of heat energy by our Group	From 23 October 2020 to 22 October 2040	Not applicable
3.	Nanjing Xinao Intelligent Technology Co., Ltd.* (南京新奧智能科技有限公司) (“ Nanjing Xinao Technology ”)	By virtue of being an associate of ENN (China), our Controlling Shareholder	Sale of gas appliances to our Group	From 1 January 2022 to 31 December 2022	Not applicable
4.	Xinao Hengxin Investment Company Limited* (新奧恒新投資有限公司) (“ Hengxin Investment ”)	By virtue of being an associate of ENN Energy, our Controlling Shareholder	Provision of call centre system service to our Group	From 1 January 2021 to 31 December 2022	Not applicable
5.	ENN (China)	By virtue of being our Controlling Shareholder	Sharing the use of SAP system	For an indefinite term	Not applicable

CONTINUING CONNECTED TRANSACTIONS

Name of connected person	Relationship with our Company	Nature of transaction	Term	Waiver sought
NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS				
6. City Group	By virtue of being our Controlling Shareholder	Installation of distributed photovoltaic system and provision of electricity by our Group	From 1 June 2021 to 31 December 2023	Applied for waiver from strict compliance with announcement and independent Shareholders' approval requirements
7. City Group	By virtue of being our Controlling Shareholder	Provision of gas pipeline construction and installation services by our Group	From 1 January 2021 to 31 December 2023	Applied for waiver from strict compliance with announcement and independent Shareholders' approval requirements
8. Ningbo Intercity	By virtue of being an associate of ENN (China), our Controlling Shareholder	Supply of PNG and LNG to our Group	PNG and LNG agreement with our Company: From 1 January 2022 to 31 December 2024 LNG agreement with Nanxun Xinao: From 1 January 2022 to 31 December 2024	Applied for waiver from strict compliance with announcement and independent Shareholders' approval requirements

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Supply of PNG by our Group

Major terms of the transactions:

As we have been granted the exclusive right to sell and distribute PNG in our Operating Area pursuant to the Concessions for an initial term of 30 years from 16 June 2004 to 15 June 2034 for Wuxing Operating Area and 30 years from 30 September 2009 to 29 September 2039 for Nanxun Operating Area, we have been selling our PNG on a retail basis in our ordinary and usual course of business to industrial, commercial and residential users in our Operating Area, including certain associates of City Group which were located in our Operating Area, for their own consumption.

CONTINUING CONNECTED TRANSACTIONS

We have entered into PNG supply agreements (the “**PNG Supply Agreements**”) with some of the associates of City Group for our supply of the PNG to them mostly for a period of five years with automatic renewal term in the absence of disagreement or up to 29 September 2039 for certain non-residential users. Similar to that for our other Independent Third Party users of PNG, the selling price we charge our users in general for the PNG supplied by us is to be determined by the unit price which is subject to the price cap set by the relevant government authorities and by reference to the metred amount of the PNG consumed by the relevant users. Although the terms of these PNG Supply Agreements are more than three years, our Directors consider, and the Sole Sponsor concurs, that such terms are fair and reasonable and it is a normal business practice on the following bases:

- (i) we generally enter into agreements with our non-residential customers in relation to our supply of PNG to them. The terms of certain PNG Supply Agreements entered into with customers located in our Nanxun Operating Area were made up to 29 September 2039 with the intention to match with the expiry date of the initial term of our exclusive right to sell and distribute PNG in our Nanxun Operating Area pursuant to the Nanxun Concession;
- (ii) as advised by Frost & Sullivan, it is common that the terms of the PNG supply agreements with non-residential customers are more than three years;
- (iii) as we are the exclusive distributor of PNG in our Operating Area, our customers can secure a stable supply of PNG from us under the long term PNG Supply Agreements. Our Directors are of the view that it is within market practice to enter into long term PNG Supply Agreements with non-residential users; and
- (iv) the transactions contemplated under the PNG Supply Agreements are on normal commercial terms that are comparable to or no more favourable to those connected persons than those provided to Independent Third Party users.

Reasons for the transactions:

As we are the exclusive PNG supplier in our Operating Area and these associates of City Group are located and operating in our Operating Area, we expect that we will continue to supply PNG to them in our ordinary and usual course of business after the Listing.

Historical amount:

Set out below the annual total selling price we charged various associates of City Group for our supply of PNG during the Track Record Period:

	FY2019 <i>(RMB million)</i>	FY2020 <i>(RMB million)</i>	FY2021 <i>(RMB million)</i>
Total selling price	<u>0.1</u>	<u>1.0</u>	<u>3.2</u>

CONTINUING CONNECTED TRANSACTIONS

Listing Rules implications:

As City Group is our Controlling Shareholder, its associates are connected persons of our Company under the Listing Rules pursuant to Rule 14A.13(1) of the Listing Rules.

As our PNG are consumer goods that are supplied to these connected persons for their own consumption, and our supply of PNG to them are conducted in our ordinary and usual course of business and on normal commercial terms that are comparable to or no more favourable to these connected persons than those provided to Independent Third Party users, pursuant to Rule 14A.97 of the Listing Rules, these continuing connected transactions, namely selling of PNG to these connected persons in our Operating Area, will be fully exempt from annual review, disclosure and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Supply of heat energy by our Group

Major terms of the transactions:

On 25 December 2019, we entered into a heat energy system construction and supply agreement (the "**Heat Energy Agreement**") with Shushan Sanatorium, under which we agreed to construct a water boiler powered by PNG and electricity in Shushan Sanatorium in our own costs, and following the completion of construction of the water boiler, we shall supply to Shushan Sanatorium heat energy generated from the water boiler and Shushan Sanatorium shall pay to us a monthly service fee for the heat energy supplied for a term of 20 years, subject to the parties' agreement on renewal upon expiry. The construction of the water boiler was completed in October 2020. The term of supply of heat energy under the Heat Energy Agreement is from 23 October 2020 to 22 October 2040. For further details, please refer to the paragraph headed "Business — Sale of Energy" in this prospectus.

Under the Heat Energy Agreement, the monthly service fee is determined based on the actual usage of heat energy by Shushan Sanatorium and the government regulated prices for PNG, electricity and water from time to time as well as our cost of construction of the water boiler. The propriety title of the water boiler shall be transferred to Shushan Sanatorium at the end of the 20-year term.

Although the term of the Heat Energy Agreement is more than three years, our Directors consider, and the Sole Sponsor concurs, that such term is fair and reasonable and it is a normal business practice on the following bases:

- (i) given the substantial upfront investment by our Group in the construction of the water boiler for Shushan Sanatorium, it is in the interest of our Group to secure the recovery of the cost of the investment gradually over the term of the Heat Energy Agreement;
- (ii) the Shushan Sanatorium being a healthcare centre for the elderly, it is in the interest of the community to secure a long term and stable supply of heat energy for the users of the centre;

CONTINUING CONNECTED TRANSACTIONS

- (iii) as advised by Frost & Sullivan, it is not uncommon for the term of heat energy supply agreements for healthcare facilities to be more than three years; and
- (iv) the transactions contemplated under the Heat Energy Agreement are on normal commercial terms that are comparable to or no more favourable than those provided to Independent Third Parties.

Reasons for the transactions:

Leveraging on our experience, sales network and the urban pipeline network for distribution of natural gas in our Operating Area, we commenced our sale of energy business during the Track Record Period, using our natural gas as fuel and the water boiler constructed by us to supply heat energy to users in our Operating Area. As the term of supply of heat energy under the Heat Energy Agreement is from 23 October 2020 to 22 October 2040, we expect that we will continue to supply heat energy to Shushan Sanatorium in our ordinary and usual course of business after Listing.

Historical amount:

Set out below the total service fee we charged Shushan Sanatorium for our supply of heat energy during the Track Record Period:

	FY2019 (RMB million)	FY2020 (RMB million)	FY2021 (RMB million)
Total service fee	<u>nil</u>	<u>nil</u>	<u>2.1</u>

Listing Rules implications:

As City Group is our Controlling Shareholder, Shushan Sanatorium being its associate is a connected person of our Company under the Listing Rules pursuant to Rule 14A.13(1) of the Listing Rules.

As the heat energy supplied is a consumer goods that is supplied to Shushan Sanatorium for its own consumption in its premises, and our supply of heat energy to Shushan Sanatorium is conducted in our ordinary and usual course of business and on normal commercial terms that are comparable to or no more favourable than those provided to Independent Third Parties, pursuant to Rule 14A.97 of the Listing Rules, the Heat Energy Agreement and the transactions thereunder will be fully exempt from annual review, disclosure and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Sale of gas appliances by Nanjing Xinao Technology to our Group

Major terms of the transactions:

On 29 December 2021, we entered into a gas appliances sale and purchase agreement (the “**Gas Appliances Agreement**”) with Nanjing Xinao Technology, pursuant to which we have agreed to purchase gas appliances from Nanjing Xinao Technology from time to time during the period from 1 January 2022 to 31 December 2022 at the respective agreed purchase prices for each model of these gas appliances which are on normal commercial terms and no less favourable to our Group than those available from Independent Third Party for comparable products.

Reasons for the transactions:

Nanjing Xinao Technology, an indirect wholly-owned subsidiary of ENN (China), principally engaged in the sale of gas appliances. During the Track Record Period, we had purchased household gas appliances from Nanjing Xinao Technology for re-sale to our customers in our ordinary and usual course of business. As we consider that ENN Energy Group’s extensive line of products are able to match our customers’ needs, and ENN Energy Group offered us a competitive price for similar products, we expect that we will continue to purchase gas appliances from Nanjing Xinao Technology in our ordinary and usual course of business after the Listing.

Historical amount:

Set out below the annual total purchase price charged by Nanjing Xinao Technology to our Group for gas appliances during the Track Record Period:

	FY2019 (RMB million)	FY2020 (RMB million)	FY2021 (RMB million)
Total purchase price	<u>0.4</u>	<u>1.0</u>	<u>1.6</u>

Listing Rules implications:

As at the Latest Practicable Date, Nanjing Xinao Technology was wholly owned by Xinao Gas Development Company Limited* (新奧燃氣發展有限公司) (“**Xinao Gas Development**”), which was in turn wholly owned by ENN (China), our Controlling Shareholder. As such, Nanjing Xinao Technology is an associate of ENN (China), and hence a connected person of our Company pursuant to Rule 14A.13(1) of the Listing Rules.

Since the expected annual purchase price for gas appliances for the year ending 31 December 2022 is less than HK\$3 million and the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) is less than 5%, the transactions contemplated under the Gas Appliances Agreement constitute de minimis transactions under Rule 14A.76(1) of the Listing Rules and are therefore fully exempt from the independent shareholders’ approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Provision of call centre system services by Hengxin Investment to our Group

Major terms of the transactions:

On 22 February 2021, we entered into a call centre system service agreement, as supplemented from time to time (the “**Call Centre System Service Agreement**”) with Hengxin Investment, pursuant to which Hengxin Investment has agreed to provide to our Group the service to maintain an exclusive “95158” hotline, audio mailbox and text messages system linked to our SAP system (the “**Call Centre System Service**”) which has been used by the users in our Operating Area for requests for repairs, maintenance and other enquiries since 2004. Hengxin Investment is principally engaged in, among others, computer and communication equipment leasing and information technology consulting services. The service fees charged by Hengxin Investment on our Group is based on the actual usage of each type of the service by our Group and the agreed unit service fee in respect each type of Call Centre System Service, which is as follows:

Call Centre System Service	Fee (RMB) (Note)
95158 hotline	150.00 per month
Call	0.34 per call
Text message	0.048 per text message
Audio mailbox system	765.00 per phone line per month

Note: The unit service fee is determined with reference to the fee charged by the telecommunications service provider of Hengxin Investment.

The term of the Call Centre System Service Agreement is from 1 January 2021 to 31 December 2021, which shall be automatically extended for one year up to 31 December 2022 unless either party objects to such extension prior to expiry of the initial one-year period.

Reasons for the transactions:

During the Track Record Period and up to the Latest Practicable Date, we had been using the Call Centre System Service operated by the ENN Energy Group for our business operations. We expect that we will continue the use of Call Centre System Service after the Listing.

Historical amount:

Set out below the fee charged by Hengxin Investment in respect of the Call Centre System Service during the Track Record Period:

	FY2019 <i>(RMB million)</i>	FY2020 <i>(RMB million)</i>	FY2021 <i>(RMB million)</i>
Total fee	<u>nil</u>	<u>nil</u>	<u>1.1</u>

CONTINUING CONNECTED TRANSACTIONS

During FY2019 and FY2020, no service fee had been charged by Hengxin Investment in respect of our use of the Call Centre System Service. During FY2021, under mutual agreement, Hengxin Investment started to charge us service fees in accordance with the charging basis as disclosed above, as well as a start-up fee of RMB1.0 million which represents the consideration of the design, implementation and other services rendered by Hengxin Investment in the past years.

Listing Rules implications:

As at the Latest Practicable Date, Hengxin Investment is directly wholly owned by ENN Energy, our Controlling Shareholder and hence is a connected person of our Company pursuant to Rule 14A.13(1) of the Listing Rules.

Since the expected annual total service fees to be charged by Hengxin Investment for Call Centre System Service for the year ending 31 December 2022 is less than HK\$3 million and the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) is less than 5%, the transactions contemplated under the Call Centre System Service Agreement constitute de minimis transactions under Rule 14A.76(1) of the Listing Rules and are therefore fully exempt from the independent shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

Sharing the use of SAP system with ENN (China)

Major terms of the transactions:

On 31 May 2021, we entered into an agreement (the "**SAP Sharing Agreement**") with ENN (China), pursuant to which ENN (China) agreed to grant us the right to use the SAP system owned by ENN Energy Group and set up certain password-protected accounts for data processing for our financial accounting and customer service operations at nil consideration for an indefinite term.

Although the term of the SAP Sharing Agreement is indefinite, our Directors consider, and the Sole Sponsor concurs, that such indefinite term is fair and reasonable and it is a normal business practice on the following bases:

- (i) the SAP system has been integrated into our business operations and has improved the efficiency of data processing, an indefinite term secures the availability of such SAP system for the stability of our business operations;
- (ii) the terms in relation to segregation measures and data security in the SAP Sharing Agreement could minimise the data risk and enhance our independence from ENN (China) in the long run; and
- (iii) we could minimise the chance of having to incur unnecessary costs and suffer from disruptions to our business in the event of having to seek alternative suppliers and conducting data migration.

CONTINUING CONNECTED TRANSACTIONS

Reasons for the transactions:

During the Track Record Period and up to the Latest Practicable Date, we had shared the use of the SAP system owned by the ENN Energy Group. Please refer to the paragraph headed “Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Operational Independence – Licences and Operational Facilities” in this prospectus for details. We expect that we will continue to use the SAP system after the Listing. By entering into the SAP Sharing Agreement, we can minimise the undue burden and costs arising from data migration, while our files and data on the SAP system will be segregated with those of ENN Energy Group and all encrypted and our accounts will be also password protected to prevent unauthorised access.

Historical amount:

No fee had been charged by ENN (China) in respect of our use of the SAP system during the Track Record Period.

Listing Rules implications:

As at the Latest Practicable Date, ENN (China) is our Controlling Shareholder and hence a connected person of our Company pursuant to Rule 14A.07(1) of the Listing Rules.

Since no fee is charged by ENN (China) in respect of our use of the SAP system, the transactions contemplated under the SAP Licence Agreement constitute de minimis transactions under Rule 14A.76(1) of the Listing Rules and are therefore fully exempt from the independent shareholders’ approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Installation of distributed photovoltaic system and provision of electricity to City Group by our Group

Major terms of the transactions:

On 1 June 2021, we entered into a framework agreement with City Group (the “**PV Framework Agreement**”), pursuant to which our Group is permitted to install distributed photovoltaic systems in properties owned by City Group, and we shall first supply the electricity generated by such system to City Group before we sell any unutilised electricity generated by such system to the State Grid Corporation of China (國家電網公司). The term of the PV Framework Agreement is from 1 June 2021 to 31 December 2023. Pursuant to the PV Framework Agreement, City Group shall not charge our Group any fee for the use of their properties, and we shall charge City Group electricity charges for the electricity so supplied at a discount of up to 5% of the government regulated price of electricity. As advised by our PRC Legal Advisers, as at the Latest Practicable Date, there was no law, regulation or policy document in the PRC which regulates discounts on the government regulated price of electricity applied to photovoltaic power users. Based on the aforementioned, our PRC Legal

CONTINUING CONNECTED TRANSACTIONS

Advisers are of the view that the granting of a discount of up to 5% of the government regulated price of electricity does not violate any law or regulation in the PRC.

Reasons for the transactions:

As we expand into distributed photovoltaic power generation business, we will need a number of premises and rooftops for installing distributed photovoltaic systems in our ordinary and usual course of business. As at the Latest Practicable Date, we identified 11 buildings owned by City Group with rooftop area ranging from 2,000 sq.m. to 65,000 sq.m., which can contain distributed photovoltaic power generation system with capacity ranging from approximately 200 to 4,500 kilowatts peak. Our Group plans to install such system in 4 and 7 properties owned by City Group in FY2022 and FY2023, respectively. It is expected that the accumulated installed distributed photovoltaic systems could generate electricity of approximately 7.3 million kilowatt hours and 10.8 million kilowatt hours in FY2022 and FY2023, respectively. Please refer to the paragraph headed “Business – Our Business Strategies – Expand into distributed photovoltaic power generation business” in this prospectus for details of our plan to expand into distributed photovoltaic power generation business. We expect that we will continue to use properties owned by, and supply the electricity so generated to, City Group in our ordinary and usual course of business after the Listing.

To the best knowledge, information and belief of our Directors after making reasonable enquiries, City Group did not engage any other party to supply photovoltaic power during the Track Record Period.

Historical amount:

We had not engaged in distributed photovoltaic business during the Track Record Period.

Annual caps and basis of determination:

Our Directors estimate that the annual caps for the electricity charges for each of the two years ending 31 December 2023 will be as follows:

	FY2022 (RMB million)	FY2023 (RMB million)
Annual caps for electricity charges	<u>6.5</u>	<u>9.7</u>

In determining the above annual caps, our Directors have considered generally:

- (a) the expected expansion rate of our Group’s distributed photovoltaic business and number of properties owned by City Group to be installed with our distributed photovoltaic system;
- (b) the expected demand of electricity by City Group; and
- (c) the range of historical government regulated price of electricity during the Track Record Period and the anticipated government regulated price of electricity.

CONTINUING CONNECTED TRANSACTIONS

Our Directors' view and the Sole Sponsor's view:

Our Directors (including our independent non-executive Directors), after reviewing the terms of the PV Framework Agreement, are of the view, and the Sole Sponsor concurs after conducting independent due diligence including but not limited to obtaining and reviewing the government regulated price for electricity and information provided by our Company that the PV Framework Agreement and the transactions contemplated thereunder have been entered into on normal commercial terms or better (having such meaning as defined in the Listing Rules), in the ordinary and usual course of business of our Group and that the terms of the PV Framework Agreement as well as the proposed annual caps are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole.

Listing Rules implications:

As at the Latest Practicable Date, City Group is our Controlling Shareholder and hence a connected person of our Company pursuant to Rule 14A.07(1) of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) relating to the largest annual cap for the electricity charges under the PV Framework Agreement is below 5% but the largest annual cap exceeds HK\$3 million, the transactions contemplated under the PV Framework Agreement are subject to the annual reporting, annual review and announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Provision of gas pipeline construction and installation services to City Group by our Group

Major terms of the transactions:

On 19 August 2021, we entered into the gas pipeline construction framework agreement (the "**Framework Agreement**") with City Group, pursuant to which we, as supplier, have agreed to provide gas pipeline construction and installation services (the "**Construction Services**") for real estate development projects undertaken by City Group and its subsidiaries in our Operating Area. The term of the Framework Agreement is from 1 January 2021 to 31 December 2023. Pursuant to the Framework Agreement, our service fee for the provision of the Construction Services for residential projects shall be determined in accordance with the price set by the Huzhou Municipal People's Government from time to time, which as at Latest Practicable Date is as follows:

Type of housing	Price of Construction Services for residential projects per household (RMB)
Multi-storey residential	2,800
High-rise residential	3,000
Townhouse	4,000
Villa	5,000

CONTINUING CONNECTED TRANSACTIONS

For non-residential projects, our service fee shall be based on the manpower and materials as agreed on a project by project basis, which vary with factors such as the length of pipeline constructed and the size of gas facilities. Our service fee shall be determined in accordance with the unit price for manpower and each type of material set by the Zhejiang Provincial Government from time to time.

For residential projects, the number of residential households contracted for in FY2019, FY2020 and FY2021 is 287, 8,329 and 1,563, respectively, which were generally high-rise residential housing, of which 160, 2,290 and 287 had been completed in FY2019, FY2020 and FY2021, respectively, and 7,595 and 1,563 are expected to be completed in FY2022 and FY2023, respectively.

For non-residential projects, the number of projects contracted for in FY2019, FY2020 and FY2021 is 3, 11 and 4, respectively, of which 9 and 11 were completed in FY2020 and FY2021, and 1 is expected to be completed in FY2022. The length of pipelines contracted for in FY2019, FY2020 and FY2021 is 1,363 m, 3,710 m and 1,907 m, respectively, of which 3,934 m and 3,781 m had been completed in FY2020 and FY2021, and 1,230 m are expected to be completed in FY2022.

Reasons for the transactions:

During the Track Record Period, we provided the Construction Services to various subsidiaries of City Group that undertook real estate development projects in our Operating Area in the ordinary and usual course of our construction and installation business. Given that we are the only authorised provider of Construction Services in our Operating Area, we expect that we will continue to provide the Construction Services to City Group and its subsidiaries from time to time in their future real estate development projects in our Operating Area in our ordinary and usual course of business after the Listing.

Historical amount:

Set out below the annual service fees charged by us on such subsidiaries of City Group for our Construction Services during the Track Record Period:

	FY2019 (RMB million)	FY2020 (RMB million)	FY2021 (RMB million)
Total service fee	<u>3.8</u>	<u>4.7</u>	<u>26.1</u>

The amount due from various subsidiaries of City Group for our Construction Services recognised as a contract liability as at 31 December 2021 is RMB9.0 million. We commenced providing Construction Services to various subsidiaries of City Group in 2018. The contract sums and the number of contracted projects were relatively small in the early stage of our business relationship. As our business relationship developed over the years, such numbers increased significantly. As such, the amount of contract liability as at 31 December 2021 is significantly higher than that as at previous year ends and part of which is expected to be recognised as revenue in FY2022.

CONTINUING CONNECTED TRANSACTIONS

Annual caps and basis of determination:

Our Directors estimate that the annual caps for service fees under the Framework Agreement for the two years ending 31 December 2023 will be as follows:

	FY2022 <i>(RMB million)</i>	FY2023 <i>(RMB million)</i>
Annual caps for service fees	<u>41.3</u>	<u>43.4</u>

In determining the above annual caps, our Directors have considered generally:

- (a) the price set by Huzhou Municipal People's Government for residential projects and by Zhejiang Provincial Government for non-residential projects;
- (b) the historical transaction amount, contract liability and expected scale and completion dates of the projects contracted for as set out above; and
- (c) the expected growing demand for our Construction Services by City Group and its subsidiaries with reference to the expected scale and completion dates of the projects contemplated by City Group and its subsidiaries.

Our Directors' view:

Our Directors (including our independent non-executive Directors), after reviewing the terms of the Framework Agreement, are of the view that the Framework Agreement and the transactions contemplated thereunder have been entered into on normal commercial terms or better (having such meaning as defined in the Listing Rules), in the ordinary and usual course of business of our Group and that the terms of the Framework Agreement as well as the proposed annual caps are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole.

Listing Rules implications:

As at the Latest Practicable Date, City Group is our Controlling Shareholder, and hence a connected person of our Company pursuant to Rule 14A.13(1) of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) relating to the largest annual cap for the service fees under the Framework Agreement is below 5%, but the largest annual cap exceeds HK\$3 million, the transactions contemplated under the Framework Agreement are subject to the annual reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Supply of PNG and LNG by Ningbo Intercity to our Group

Major terms of the transactions:

On 26 May 2022, we entered into a master supply agreement with Ningbo Intercity, pursuant to which we shall purchase from Ningbo Intercity, and Ningbo Intercity shall sell to our Group, PNG and LNG in our Operating Area for a period from 1 January 2022 to 31 December 2024 (the “**Master Supply Agreement**”). Pursuant to the Master Supply Agreement, the PNG charges shall be determined with reference to the government regulated price of PNG whereas LNG charges shall be determined with reference to the market price of LNG. Other major terms of such transactions are set out in the paragraph headed “Business – Our Source of PNG Supply – Master supply agreements with our PNG suppliers” in this prospectus.

Reasons for the transactions:

During the Track Record Period and up to the Latest Practicable Date, Ningbo Intercity has been primarily engaged in the upstream supply of natural gas. Throughout the Track Record Period, we purchased LNG from Ningbo Intercity, which has access to an LNG station in Zhoushan, Zhejiang Province. As a result of the 2020 Summary, after we ceased to procure natural gas from provincial natural gas companies, we commenced the purchase of PNG from Ningbo Intercity in September 2020 as Ningbo Intercity was the designated pilot natural gas supplier for us during the early stage of natural gas supply chain reform under the 2020 Summary. For further details, please refer to the paragraph headed “Business – Our Source of PNG Supply” in this prospectus. We expect that we will continue to purchase PNG and LNG from Ningbo Intercity in our ordinary and usual course of business after the Listing.

Historical amount:

Set out below the total PNG and LNG charges charged by Ningbo Intercity during the Track Record Period:

	FY2019 <i>(RMB million)</i>	FY2020 <i>(RMB million)</i>	FY2021 <i>(RMB million)</i>
Total PNG and LNG charges	<u>37.2</u>	<u>368.9</u>	<u>1,104.7</u>

Annual caps and basis of determination:

Our Directors estimate that the annual caps for PNG and LNG charges for the three years ending 31 December 2024 will be as follows:

	FY2022 <i>(RMB million)</i>	FY2023 <i>(RMB million)</i>	FY 2024 <i>(RMB million)</i>
Annual caps for PNG and LNG charges	<u>1,800</u>	<u>1,400</u>	<u>1,062</u>

CONTINUING CONNECTED TRANSACTIONS

In determining the above annual caps, our Directors have considered generally:

- (a) the historical cost of PNG and LNG purchased by our Group during the Track Record Period, being approximately RMB1,232.1 million, RMB955.4 million and RMB1,245.9 million for FY2019, FY2020 and FY2021, respectively;
- (b) the availability of independent PNG and LNG suppliers and the expected increase in purchase from independent PNG and LNG suppliers and decrease in purchase from Ningbo Intercity;
- (c) the expected growing demand of PNG and LNG by industrial, commercial and residential users in our Operating Area; and
- (d) the range of historical market prices of LNG and PNG and government regulated price of PNG during the Track Record Period and the anticipated market prices of LNG and PNG and government regulated price of PNG, including the reference prices in previous transactions with our other independent PNG and LNG suppliers.

Our Directors' view:

Our Directors (including our independent non-executive Directors), after reviewing the terms of the Master Supply Agreement, are of the view that the Master Supply Agreement and the transactions contemplated thereunder have been entered into on normal commercial terms or better (having such meaning as defined in the Listing Rules), in the ordinary and usual course of business of our Group and that the terms of the Master Supply Agreement as well as the proposed annual caps are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole.

Listing Rules implications:

As at the Latest Practicable Date, Ningbo Intercity was wholly owned by Xinao Gas Development, which was in turn wholly owned by ENN (China), our Controlling Shareholder. As such, Ningbo Intercity is an associate of ENN (China), and hence a connected person of our Company pursuant to Rule 14A.13(1) of the Listing Rules.

Since the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) relating to the largest annual cap for the PNG and LNG charges under the Master Supply Agreement exceeds 25%, the transactions contemplated under the Master Supply Agreement are subject to the annual reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

APPLICATION FOR WAIVER FROM THE ANNOUNCEMENT REQUIREMENT, CIRCULAR AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

The non-exempted continuing connected transactions as disclosed in the paragraph headed "Non-exempted Continuing Connected Transactions" above (the "**Non-exempted Continuing Connected Transactions**") were entered into prior to the Listing Date and have been disclosed in this prospectus. Our Directors expect that potential investors of our Company will participate in the Global Offering on the basis of such disclosure and, on this basis, consider that strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules in respect thereof immediately after the Listing would be unduly burdensome and would impose unnecessary administrative costs on our Company. Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of these continuing connected transactions. We will, however, comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of these continuing connected transactions. Our Directors confirm that, for all Non-exempted Continuing Connected Transactions to be entered into by our Group (if any), our Company will comply with the applicable Listing Rules, unless a separate application for waiver is made for the dispensation with the applicable announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Sole Sponsor is of the view that the transactions contemplated under each of the abovementioned Non-exempted Continuing Connected Transactions have been entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better, and that the respective terms of these Non-exempted Continuing Connected Transactions and the respective annual caps set out above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. As at the Latest Practicable Date, our Board consisted of eight Directors, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. The information of the current members of our Board is set out as follows:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities
Executive Directors					
Mr. Wang Hua (汪驊)	45	Executive Director and chairman of our Board	15 January 2020	21 April 2021	Overall day-to-day management of the business operation of our Group
Ms. Su Li (蘇莉)	50	Executive Director	14 December 2010	3 April 2014	Overall business strategies and operation of our Group
Mr. Pan Haiming (潘海明)	57	Executive Director	2 April 2014	2 April 2014	Overall business strategies and operation of our Group
Non-executive Directors					
Mr. Zhang Yuying (張宇迎)	49	Non-executive Director and vice chairman of our Board	28 September 2020	28 September 2020	Supervision of the management of our Group
Ms. Wu Zhanghuan (吳張歡)	48	Non-executive Director	27 November 2019	27 November 2019	Supervision of the management of our Group
Independent non-executive Directors					
Mr. Chang Li Hsien Leslie (張立憲)	67	Independent non-executive Director	11 May 2021	11 May 2021	Overseeing the overall affairs of our Group at Board level, being the chairman of the audit committee and a member of the remuneration committee and the nomination committee of our Company

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities
Dr. Lau Suet Chiu Frederic (劉雪樵)	70	Independent non-executive Director	11 May 2021	11 May 2021	Overseeing the overall affairs of our Group at Board level, being the chairman of the remuneration committee and a member of the audit committee and the nomination committee of our Company
Mr. Zhou Xinfa (周鑫發)	66	Independent non-executive Director	11 May 2021	11 May 2021	Overseeing the overall affairs of our Group at Board level, being the chairman of the nomination committee and a member of the audit committee and the remuneration committee of our Company

Executive Directors

Mr. Wang Hua (汪驊), aged 45, is an executive Director and the chairman of our Board who is responsible for the overall day-to-day management of the business operation of our Group. Mr. Wang joined our Company in January 2020 as the chief financial officer. Mr. Wang was appointed a Director, the chairman of our Board and the legal representative of our Company on 21 April 2021 and was re-designated as an executive Director on 9 June 2021. Mr. Wang is also the chairman of the board and the legal representative of Xinao Development.

Mr. Wang has extensive experience in financial management. From December 1999 to May 2003, he served as a staff member of Huzhou Finance Bureau* (湖州市財政局). From May 2003 to March 2011, Mr. Wang successively served as a staff member and the deputy head of the integrated department of Huzhou Local Taxation Inspection Bureau* (湖州市地稅稽查局). From March 2011 to June 2013, Mr. Wang was a deputy chief of the asset management department of Huzhou Finance Bureau* (湖州市財政局). From June 2013 to June 2014, Mr. Wang was the vice-chairman of Huzhou Wuxing District Finance Bureau* (湖州市吳興區財政局). From June 2014 to January 2019, Mr. Wang was the chairman of the finance department of Huzhou Economic and Technological Development Zone Management Committee* (湖州經濟技術開發區管委會). From January 2019 to May 2019, Mr. Wang served as a principal staff member of Huzhou Economic Development Zone Management Committee* (湖州經濟開發區管理委員會). From September 2019 to January 2020, Mr. Wang was a deputy sales general manager of the sales department of Huzhou Zhicheng Road Securities Branch of DFZQ* (東方證券股份有限公司湖州志成路支行), a securities branch principally engaged in securities brokerage.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wang graduated from Zhejiang Academy of Finance & Economics* (浙江財經學院) (currently known as Zhejiang University of Finance & Economics* (浙江財經大學)) in the PRC with a professional certificate in taxation in July 1999. He has been a senior economist in the PRC since 2021.

Ms. Su Li (蘇莉), aged 50, is an executive Director who is responsible for the overall business strategies and operation of our Group. Ms. Su was appointed as a Director on 3 April 2014 and re-designated as an executive Director on 9 June 2021. Ms. Su is also a director of each of Xinao Development, Xinao Energy Development, Nanxun Xinao, Nanxun Xinao Development and Deqing Xinrui.

Ms. Su has extensive experience in business management in the gas industry. From July 2002 to March 2003, she successively interned in ENN Energy and Bengbu Xinao Gas Company Limited* (蚌埠新奧燃氣有限公司), a subsidiary of ENN Energy principally engaged in investment in gas pipeline infrastructure. From April 2003 to April 2012, Ms. Su worked successively as senior project manager and deputy general manager of two coordination centres of ENN Energy in Zhejiang Province. From December 2010 to August 2012, Ms. Su was the general manager of our Company. From April 2012 to March 2021, Ms. Su was successively the acting general manager of Zhejiang-Shanghai region, assistant to chief executive officer and general manager of ENN Energy in Zhejiang province. Ms. Su has been a senior vice president and the convenor of Zhejiang business co-ordination group of ENN Energy since February 2018 and March 2021, respectively. Please refer to the paragraph headed “Relationship with Our Controlling Shareholders – Independence from our Controlling Shareholders – Management Independence” in this prospectus for further information.

Ms. Su graduated from Shanghai Jiao Tong University in the PRC through distance learning with an executive master’s degree in business administration in December 2015.

Ms. Su was a shareholder, director or a manager of the companies below which were deregistered. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Quzhou Xinao Gas Development Company Limited* (衢州新奧燃氣發展有限公司)	The PRC	Provision of services in relation to gas supply	Merger with a fellow subsidiary	10 March 2020	Deregistered and dissolved
Wenzhou Xinao Gas Engineering Company Limited* (溫州新奧燃氣工程有限公司)	The PRC	Development and maintenance of gas equipment	Merger with a fellow subsidiary	25 November 2019	Deregistered and dissolved

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Jiangxi Xiniao Xinneng Development Company Limited* (江西新奧新能發展有限公司)	The PRC	Provision of services in relation to gas supply	Cessation of business operation	28 February 2020	Deregistered and dissolved
Taizhou Xiniao Yuxing Energy Company Limited* (台州新奧宇星能源有限公司)	The PRC	Development of renewable energy technology	Cessation of business operation	13 November 2019	Deregistered and dissolved
Rui'an City Xiniao Gas Company Limited* (瑞安市新奧燃氣有限公司)	The PRC	Provision of services in relation to gas supply	Cessation of business operation	5 July 2017	Deregistered and dissolved
Xiniao (Zhejiang) Energy Sales Company Limited* (新奧(浙江)能源銷售有限公司)	The PRC	Supply of energy and investment in related technology	Cessation of business operation	29 July 2020	Deregistered and dissolved
Haining Xinmai Property Company Limited* (海寧新脈置業有限公司)	The PRC	Development and management of business offices	Cessation of business operation	23 March 2018	Deregistered and dissolved
Taizhou Xiniao Shihua Autogas Company Limited* (台州新奧石化車用燃氣有限公司)	The PRC	Development of autogas technology and sale of gas for motor vehicles	Cessation of business operation	8 April 2021	Deregistered and dissolved
Xiniao (Hangzhou) Network Information Consultancy Service Partnership (Limited Partnership)* (新奧(杭州)網絡信息諮詢服務合夥企業(有限合夥))	The PRC	Provision of enterprise management consultancy services	Cessation of business operation	1 September 2021	Deregistered and dissolved

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Jinhua Xinao Gas Development Company Limited* (金華新奧燃氣發展有限公司)	The PRC	Provision of services in relation to gas supply	Cessation of business operation	23 November 2021	Deregistered and dissolved

As confirmed by Ms. Su, the deregistered companies above were solvent at the time when they were deregistered and so far as she was aware, the deregistration of the companies above has not resulted in any liability or obligation being imposed against her.

Mr. Pan Haiming (潘海明), aged 57, is an executive Director of our Company who is responsible for the overall business strategies and operation of our Group. Mr. Pan was appointed as a Director, the chairman of our Board and the legal representative of our Company on 2 April 2014. He ceased to be the chairman of our Board and the legal representative of our Company on 21 April 2021 and was re-designated as an executive Director on 9 June 2021. Mr. Pan is also a director of Xinao Development, Xinao Energy Development, Nanxun Xinao and Nanxun Xinao Development.

Mr. Pan has extensive experience in business administration and management. From August 1986 to February 1993, Mr. Pan worked in Huzhou Real Estate Management Office* (湖州市房地產管理處), which was principally engaged in real estate management in Huzhou. From March 1993 to December 2013, Mr. Pan successively served as the deputy manager and manager of the budget and final accounts department, chief economist and the deputy general manager responsible for construction projects and financials of City Group, our Controlling Shareholder. Since March 2021, Mr. Pan has been deputy secretary of the commission for discipline inspection of City Group.

Mr. Pan graduated from Tongji University in the PRC with a professional certificate in industrial and civil construction through distance learning in December 1993. He has been a senior cost engineer in the PRC since January 2011.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Pan was a person in charge of the company below which was deregistered. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Huzhou Zhongshihua Xinao Natural Gas Company Limited Deqing No. 7 Oil and Gas Refuelling Joint Station* (湖州中石化新奧天然氣有限公司德清第七加油站加氣合建站)	The PRC	Sale of compressed natural gas	Cessation of business	21 May 2020	Deregistered and dissolved

As confirmed by Mr. Pan, the deregistered company above was solvent at the time when it was deregistered and so far as he was aware, the deregistration of the company above has not resulted in any liability or obligation being imposed against him.

Non-executive Directors

Mr. Zhang Yuying (張宇迎), aged 49, is a non-executive Director and the vice chairman of our Board. Mr. Zhang was appointed as a Director on 28 September 2020 and re-designated as a non-executive Director on 9 June 2021. Mr. Zhang is also a director and the vice chairman of Xinao Development, and a director of each of Nanxun Xinao and Nanxun Xinao Development.

Mr. Zhang has extensive experience in corporate market insight, strategic research and planning and operations. Mr. Zhang joined ENN Energy Group in January 2004 and has since held various positions in business planning and strategic performance management of ENN Energy Group. From December 2019 to December 2021, Mr. Zhang was an executive director and the president of ENN Energy, where he assisted the chief executive officer of ENN Energy to ensure the execution and achievement of strategies and smart operation of ENN Energy Group, especially on its strategic execution of integrated energy business. Since December 2021, Mr. Zhang has been a non-executive director of ENN Energy. Please refer to the paragraph headed “Relationship with Our Controlling Shareholders – Independence from our Controlling Shareholders – Management Independence” in this prospectus for further information. Since May 2022, Mr. Zhang has also been the chairman of the board of directors of ENC Digital Technology Co., Ltd* (新智認知數字科技股份有限公司), a PRC intelligent safety solutions provider listed on the Shanghai Stock Exchange (stock code: 603869).

Mr. Zhang graduated from Renmin University of China in the PRC with a master’s degree in business administration in July 2003.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Zhang was a director of the companies below which were deregistered. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Liaoning Xiniao Ruineng Energy Development Company Limited* (遼寧新奧睿能能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	18 February 2020	Deregistered and dissolved
Xinghua Xiniao Energy Development Company Limited* (興化新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	16 November 2020	Deregistered and dissolved
Jinta Xiniao Energy Development Company Limited* (金塔新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	21 October 2020	Deregistered and dissolved
Xiniao (Zhejiang) Energy Sales Company Limited* (新奧(浙江)能源銷售有限公司)	The PRC	Supply of energy and investment in related technology	Cessation of business operation	29 July 2020	Deregistered and dissolved
Xuchang Xiniao Transportation Energy Company Limited* (許昌新奧交通能源有限公司)	The PRC	Sale of LNG	Cessation of business operation	15 April 2019	Deregistered and dissolved
Yuzhou Xiniao Transportation Energy Company Limited* (禹州新奧交通能源有限公司)	The PRC	Sale of LNG	Cessation of business operation	17 April 2019	Deregistered and dissolved
Xiniao (Shanghai) Energy Sales Company Limited* (新奧(上海)能源銷售有限公司)	The PRC	Supply of energy and investment in related technology	Cessation of business operation	6 December 2019	Deregistered and dissolved

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Quzhou Xinao Gas Development Company Limited* (衢州新奧燃氣發展有限公司)	The PRC	Provision of services in relation to gas supply	Merger with a fellow subsidiary	10 March 2020	Deregistered and dissolved
Qingdao Xinao West Coast Energy Company Limited* (青島新奧西海岸能源有限公司)	The PRC	Provision of services in relation to energy supply	Merger with a fellow subsidiary	17 January 2019	Deregistered and dissolved
Tianjin Xinao Energy Trading Company Limited* (天津新奧能源貿易有限公司)	The PRC	Gas operations and sales of pipeline equipment and components	Cessation of business operation	26 January 2021	Deregistered and dissolved
Nanyang Xinao Clean Energy Company Limited* (南陽新奧清潔能源有限公司)	The PRC	Development and utilisation of clean energy	Cessation of business operation	13 April 2021	Deregistered and dissolved
Huizhou Longmen Xinao Energy Development Company Limited* (惠州龍門新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	17 August 2021	Deregistered and dissolved
Xinao (Tianjin) Energy Sales Company Limited* (新奧(天津)能源銷售有限公司)	The PRC	Supply of energy and investment in related technology	Cessation of business operation	14 September 2021	Deregistered and dissolved
Pingdingshan Xinao Clean Energy Company Limited* (平頂山新奧清潔能源有限公司)	The PRC	Development and utilisation of clean energy	Cessation of business operation	15 October 2021	Deregistered and dissolved

As confirmed by Mr. Zhang, the deregistered companies above were solvent at the time when they were deregistered and so far as he was aware, the deregistration of the companies above has not resulted in any liability or obligation being imposed against him.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Wu Zhanghuan (吳張歡), aged 48, is a non-executive Director. Ms. Wu was appointed as a Director on 27 November 2019 and re-designated as a non-executive Director on 9 June 2021. Ms. Wu is also a director of Xiniao Development.

Ms. Wu has extensive experience in financial management. From August 1995 to August 1996, Ms. Wu was a teacher in Huzhou No. 2 High School* (湖州市第二中學). From August 1996 to September 1997, Ms. Wu was a staff member of Huzhou Finance and Taxation Bureau Chengxi Office* (湖州市財稅局城西財稅所). From September 1997 to February 2011, Ms. Wu successively served as a staff member of the budget department, economic development section and the deputy director's office of economic development section of Huzhou Finance Bureau* (湖州市財政局) and from February 2011 to August 2019, she was successively the deputy director and director of economic development department and the director of administration and politics department. Since August 2019, Ms. Wu served as a deputy general manager of City Group, our Controlling Shareholder. Please refer to the paragraph headed "Relationship with Our Controlling Shareholders – Independence from our Controlling Shareholders – Management Independence" in this prospectus for further information. Since March 2020, Ms. Wu has been a director of Bank of Huzhou Co., Ltd.* (湖州銀行股份有限公司). Ms. Wu joined our Company as a Director on 27 November 2019.

Ms. Wu graduated from Zhejiang Normal University* (浙江師範大學) in the PRC with a bachelor's degree in physics education (with a minor in computer application) in July 1995. She has been conferred the qualification of intermediate economist in the PRC in November 2000 by the Ministry of Personnel of the PRC.

Independent non-executive Directors

Mr. Chang Li Hsien Leslie (張立憲), aged 67, is an independent non-executive Director. Mr. Chang was appointed as our independent non-executive Director on 11 May 2021.

Mr. Chang has extensive experience in company operations, investment management, finance and professional accounting. From 1984 to 1994, Mr. Chang worked at the United States offices of KPMG (formerly known as KPMG Peat Marwick), where his last position was partner and director of Chinese Practice. Mr. Chang joined CITIC Pacific Ltd. (currently known as CITIC Limited), a conglomerate listed on the Stock Exchange (stock code: 267) in August 1994 and was executive director, deputy managing director and finance director when he resigned in October 2008, where he had overall responsibilities in accounting and financial management functions of the CITIC Pacific Group and engaged in management of several businesses of the Group. From November 2006 to October 2008, Mr. Chang was an alternate director of the board of Cathay Pacific Airways Limited, a Hong Kong aviation company listed on the Stock Exchange (stock code: 293). Mr. Chang was on a career break between October 2008 and March 2010. In April 2010, Mr. Chang joined HKC (Holdings) Limited, a property development group with primary assets in the PRC and Hong Kong, the shares of which were listed on the Stock Exchange prior to its privatisation and withdrawal of listing in June 2021 (stock code: 190), as the managing director and chief financial officer, and from September 2010 to December 2013, he was an executive director and the chief executive officer of the company, as well as the vice-chairman and executive director of its subsidiary listed on the Stock

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Exchange, China Renewable Energy Investment Limited, a company engaged in renewable energy business in China (stock code: 987). From March 2011 to October 2014, Mr. Chang was an independent non-executive director of Pou Sheng International (Holdings) Limited, a Chinese sportswear and footwear company listed on the Stock Exchange (stock code: 3813), where he was also a member of the audit committee of the board.

Since March 2014, Mr. Chang has been the senior advisor of CITIC Capital (Holdings) Limited, which is primarily engaged in alternative investment, asset management and investment advisory services. Since September 2020, Mr. Chang has been an independent director of Canadian Solar Inc., a solar energy company listed on NASDAQ (stock code: CSIQ) and a director of CSI Solar Co., Ltd.* (阿特斯陽光電力股份有限公司), its subsidiary in the PRC.

Mr. Chang graduated from George Mason University in the United States with a bachelor's degree of business administration (major in accountancy) in May 1984. He became a member of each of the American Institute of Certified Public Accountants in December 1988, the Hong Kong Institute of Certified Public Accountants in February 1989 and the New York State Society of Certified Public Accountants in February 1990, and became a Chartered Global Management Accountant in July 2012.

Mr. Chang was a director of the company below which was deregistered. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
HKC (Ganzhou) Holdings Limited 香港建設(贛州)控股有限公司	Hong Kong	Property construction in Jiangxi Province, The PRC	Cessation of business operation	9 November 2012	Dissolved by deregistration

As confirmed by Mr. Chang, the deregistered company above was solvent at the time when it was deregistered and so far as he was aware, the deregistration of the company above has not resulted in any liability or obligation being imposed against him.

Dr. Lau Suet Chiu Frederic (劉雪樵), aged 70, is an independent non-executive Director. Dr. Lau was appointed as our independent non-executive Director on 11 May 2021.

Dr. Lau has extensive experience in financial regulation and management. From 1994 to 2004, Dr. Lau served in the Hong Kong Monetary Authority successively as a senior manager responsible for derivatives matters, the head of Banking Policy Division, the chief representative in New York and the director of the Banking Supervision Division. From 2005 to 2011, Dr. Lau was an executive director of Dah Sing Bank, where he was responsible for risk management functions of the bank. From March 2007 to January 2011, Dr. Lau was an executive director of Dah Sing Banking Group Limited, a banking company listed on the Stock Exchange (stock code:

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2356), and was later a non-executive director between January 2011 and May 2011. From May 2011 to January 2014, Dr. Lau was an independent director of Shenzhen Development Bank Co., Ltd.* (深圳發展銀行股份有限公司) (subsequently renamed as Ping An Bank Co., Ltd.* (平安銀行股份有限公司)), a commercial bank. Since October 2017, Dr. Lau has been a member of the global advisor committee, and subsequently the vice chairman of AMTD Group Company Limited, the holding company of AMTD International Inc. (“AMTD”), a Hong Kong financial services group listed on the New York Stock Exchange (stock code: HKIB), chairman of the executive management committee of AMTD Group Company Limited and the president and a director of AMTD Digital Inc., a subsidiary of AMTD. From May 2019 to October 2020, Dr. Lau was the chief executive officer of Airstar Bank Limited, a Hong Kong virtual bank of which AMTD is a shareholder, and is currently a director of the bank.

Dr. Lau graduated from the University of South Australia in Australia with a doctor of philosophy in business management in June 2004.

Mr. Zhou Xinfa (周鑫發), aged 66, is an independent non-executive Director. Mr. Zhou was appointed as our independent non-executive Director on 11 May 2021.

Mr. Zhou has experience in energy research and engineering. For example, he was appointed as the manager of main laboratory at Zhejiang Energy and Nuclear Technology Application Research Institute* (浙江省能源與核技術應用研究院), which is principally engaged in research and development of new energy and nuclear technology, in August 2013. Mr. Zhou has been an independent director of Hengsheng Energy Co., Ltd.* (恒盛能源股份有限公司), a Chinese energy company listed on the National Equities Exchange and Quotations (stock code: 872062) and an independent non-executive director of JiaXing Gas Group Co., Ltd.* (嘉興市燃氣集團股份有限公司), a gas company based in Jiaxing City, Zhejiang Province listed on the Stock Exchange (stock code: 9908) since July 2019 and June 2021, respectively.

Mr. Zhou graduated from Zhejiang University* (浙江大學) in the PRC with a master’s degree in engineering in January 1992. He has been conferred the qualification of professor-level senior engineer in December 2006 by the Department of Personnel of Zhejiang Province (浙江省人事廳).

Save as disclosed above, as at the Latest Practicable Date, each of our Directors (i) did not hold other positions in our Company or other members of our Group; (ii) had no other relationship with any of the Directors, Supervisors, senior management or Controlling Shareholders of our Company; (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and (iv) did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules as at the Latest Practicable Date.

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SUPERVISORS

As at the Latest Practicable Date, the board of Supervisors of our Company consisted of three members. The following table sets out certain information about our Supervisors.

Name	Age	Position	Date of joining our Group	Date of appointment	Roles and responsibilities
Ms. Liu Fei (柳斐)	46	Chairman of the board of Supervisors	18 December 2018	18 December 2018	Supervision of the Board and senior management
Mr. Xu Guoxin (徐國新)	51	Employee representative Supervisor	1 November 2005	1 April 2021	Operational management of the gas pipeline network of our Group and supervision of the Board and senior management
Mr. Cai Rui (蔡銳)	47	Supervisor	18 December 2018	18 December 2018	Supervision of the Board and senior management

Ms. Liu Fei (柳斐), aged 46, is our Supervisor and chairman of the Supervisory Board who is responsible for supervision of the Board and senior management.

Ms. Liu has extensive experience in fire safety and asset management. From July 1999 to December 2016, Ms. Liu successively served as staff officer, engineer, deputy head of fire prevention and supervision office, head of technical audit division, captain and instructor of the Huzhou branch of Zhejiang Province Fire Corps of Chinese People's Armed Police Force. From December 2016 to January 2019, Ms. Liu worked successively as a deputy general manager and general manager of the asset management division of City Group, a state-owned enterprise principally engaged in investment projects in Huzhou and a Controlling Shareholder of our Company. From September 2017 to January 2019, Ms. Liu was the general manager of Huzhou City Investment Asset Management Company Limited* (湖州市城投資產管理有限公司), a wholly-owned subsidiary of City Group principally engaged in asset management. Since January 2019, Ms. Liu has served as the general manager of human resources department of City Group. Please refer to the paragraph headed "Relationship with Our Controlling Shareholders – Independence from our Controlling Shareholders – Management Independence" in this prospectus for further information. Since December 2018, she has served as a Supervisor of our Company.

Ms. Liu graduated from Zhejiang University in the PRC with a bachelor's degree in law in June 1999. She has been an engineer specialising in construction management in the PRC since October 2017.

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Mr. Xu Guoxin (徐國新), aged 51, is our employee representative Supervisor who is responsible for the operational management of our gas pipeline network and supervision of the Board and senior management.

Mr. Xu has extensive experience in gas project operations. From December 1986 to October 2005, Mr. Xu served successively as a staff member and deputy manager of Huzhou Coal Gas Company Pipeline Liquefied Gas Branch* (湖州市煤氣公司管道液化氣分公司), which was principally engaged in the supply of PNG in Huzhou. Mr. Xu joined our Company since November 2005, where he successively served as deputy chief and chief of engineering department, and was promoted to his current position of chief of operations department in September 2012. He was appointed as the employee representative Supervisor of our Company on 1 April 2021.

Mr. Xu attended an online course held by Beijing Foreign Studies University (北京外國語大學) in the PRC and was awarded a professional certificate in business enterprise management in January 2021.

Mr. Cai Rui (蔡銳), aged 47, is our Supervisor who is responsible for supervision of the Board and senior management.

Mr. Cai has extensive experience in legal and compliance matters. From November 2006 to April 2007, Mr. Cai interned at the legal centre of ENN Group. From April 2007 to January 2008, Mr. Cai was a senior legal manager at the risk management office of ENN Group. Since January 2008, Mr. Cai has been working in ENN Energy, a Controlling Shareholder, where he was successively the senior legal manager and director of contract management of legal department, senior attorney and deputy chief of risk management department, deputy chief and chief of legal department and deputy convenor of the legal matter empowerment group. He is currently the legal matters professional convenor of the legal and compliance matters empowerment group of ENN Energy. Please refer to the paragraph headed “Relationship with Our Controlling Shareholders – Independence from our Controlling Shareholders – Management Independence” in this prospectus for further information. Since December 2018, Mr. Cai has served as a Supervisor of our Company, and a supervisor of each of Nanxun Xinao and Nanxun Xinao Development. Since September 2021, he has also served as the supervisor of Deqing Xinrui.

Mr. Cai graduated from Xi'an Jiaotong University* (西安交通大學) in the PRC with a bachelor's degree in economic law in July 1998. He obtained the legal professional qualification certificate in the PRC in February 2005.

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Mr. Cai was a supervisor of the companies below which were deregistered. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Huade Xiniao Energy Development Company Limited* (化德新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	29 May 2020	Deregistered and dissolved
Xinjiang Xiniao Xinneng Energy Development Company Limited* (新疆新奧新能能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	3 April 2020	Deregistered and dissolved
Foshan Xiniao Energy Development Company Limited* (佛山新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	8 January 2020	Deregistered and dissolved
Kunming Xiniao Energy Development Company Limited* (昆明新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	3 June 2020	Deregistered and dissolved
Jingshan Xiniao Energy Development Company Limited* (京山新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	17 March 2021	Deregistered and dissolved
Xiniao Anjie Trading Company Limited* (新奧安捷貿易有限公司)	The PRC	Trading of energy supply-related goods and raw materials	Cessation of business operation	27 February 2019	Deregistered and dissolved

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Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Dalian Xinao Fanneng Energy Company Limited* (大連新奧泛能能源有限公司)	The PRC	Development of new energy technology	Cessation of business operation	31 August 2018	Deregistered and dissolved
Baiyin Xinao Energy Development Company Limited* (白銀新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	20 November 2020	Deregistered and dissolved
Xinao (Shanghai) Energy Sales Company Limited* (新奧(上海)能源銷售有限公司)	The PRC	Supply of energy and investment in related technology	Cessation of business operation	6 December 2019	Deregistered and dissolved
Hainan Xinao Energy Development Company Limited* (海南新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	12 November 2020	Deregistered and dissolved
Liaoning Xinao Ruineng Energy Development Company Limited* (遼寧新奧睿能能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	18 February 2020	Deregistered and dissolved
Ejin Horo Banner Xinao Energy Development Company Limited* (伊金霍洛旗新奧能源發展有限公司)	The PRC	Provision of services in relation to renewable energy supply	Cessation of business operation	29 May 2020	Deregistered and dissolved
Shaoguan Xinao Energy Development Company Limited* (韶關新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	25 January 2021	Deregistered and dissolved

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Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Xinao (Zhejiang) Energy Sales Company Limited* (新奧(浙江)能源銷售有限公司)	The PRC	Supply of energy and investment in related technology	Cessation of business operation	29 July 2020	Deregistered and dissolved
Jilin Xinao Xinneng Energy Company Limited* (吉林新奧新新能源有限公司)	The PRC	Provision of services in relation to renewable energy supply	Cessation of business operation	5 January 2021	Deregistered and dissolved
Alxa League Xinao Xinneng Energy Development Company Limited* (阿拉善盟新奧新能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	28 July 2020	Deregistered and dissolved
Xinghua Xinao Energy Development Company Limited* (興化新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	16 November 2020	Deregistered and dissolved
Jinta Xinao Energy Development Company Limited* (金塔新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	21 October 2020	Deregistered and dissolved
Hunan Liling Shangtou Xinao Gas Company Limited* (湖南醴陵湘投新奧燃氣有限公司)	The PRC	Sales of natural gas including LNG and compressed natural gas	Cessation of business operation	16 April 2018	Deregistered and dissolved
Yunnan Xinao Energy Development Company Limited* (雲南新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	17 June 2020	Deregistered and dissolved

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Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Guizhou Xiniao Energy Development Company Limited* (貴州新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	24 May 2021	Deregistered and dissolved
Huludao Zhongyou Xiniao Gas Co., Ltd.* (葫蘆島中油新奧燃氣有限責任公司)	The PRC	Sale of PNG	Cessation of business operation	28 May 2021	Deregistered and dissolved
Jiahe Xiniao Energy Development Company Limited* (嘉禾新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	22 June 2021	Deregistered and dissolved
Yancheng Mingsheng Oil and Gas Sales Company Limited* (鹽城明升油氣銷售有限公司)	The PRC	Sale of fuel and lubricating oil and operation management of oil and gas stations	Cessation of business operation	12 August 2021	Deregistered and dissolved
Huizhou Longmen Xiniao Energy Development Company Limited* (惠州龍門新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	17 August 2021	Deregistered and dissolved
Shaoyang Xiniao Energy Development Company Limited* (邵陽新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	18 August 2021	Deregistered and dissolved
Xiniao (Tianjin) Energy Sales Company Limited* (新奧(天津)能源銷售有限公司)	The PRC	Supply of energy and investment in related technology	Cessation of business operation	14 September 2021	Deregistered and dissolved

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Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Xingyang Xinao Tanshan Energy Development Company Limited* (榮陽新奧壇山能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	28 September 2021	Deregistered and dissolved
Huludao Xinao Transportation Energy Company Limited* (葫蘆島新奧交通能源有限公司)	The PRC	Sale of gas and battery recharge for motor vehicles	Cessation of business operation	1 November 2021	Deregistered and dissolved
Xiapu Zhongqi New Energy Company Limited* (霞浦縣中氣新能源有限公司)	The PRC	Research and development on solar power, wind power and bioenergy	Cessation of business operation	2 December 2021	Deregistered and dissolved
Shouning Zhongqi New Energy Company Limited* (壽寧縣中氣新能源有限公司)	The PRC	Research and development on solar power, wind power and bioenergy	Cessation of business operation	10 December 2021	Deregistered and dissolved
Langxi Xinao Energy Development Company Limited* (郎溪新奧能源發展有限公司)	The PRC	Provision of services in relation to energy supply	Cessation of business operation	11 February 2022	Deregistered and dissolved

As confirmed by Mr. Cai, the deregistered companies above were solvent at the time when they were deregistered and so far as he was aware, the deregistration of the companies above has not resulted in any liability or obligation being imposed against him.

Save as disclosed above, as at the Latest Practicable Date, each of our Supervisors (i) did not hold other positions in our Company or other members of our Group; (ii) had no other relationship with any of the Directors, Supervisors, senior management or Controlling Shareholders of our Company; (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and (iv) did not have any interest in the Shares within the meaning of Part XV of the SFO.

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Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter in respect of our Supervisors that needs to be brought to the attention of the Shareholders and there was no information relating to our Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management of our businesses. The following table sets forth information regarding our senior management other than the executive Directors listed above:

Name	Age	Position	Date of joining our Group	Date of appointment	Roles and responsibilities
Mr. Li Haixiao (李海笑)	44	General manager of our Company and Xiniao Development and chairman of Nanxun Xiniao, Nanxun Xiniao Development and Deqing Xinrui	11 January 2019	15 January 2020	Overall management of the business operations of our Group
Ms. Sun Xiaohui (孫曉慧)	47	Financial controller of our Company	6 April 2021	6 April 2021	Overall financial and investments management of our Group
Mr. Ren Qinfeng (任勤峰)	50	Deputy general manager of our Company and supervisor of Nanxun Xiniao, Nanxun Xiniao Development and Xiniao Energy Development	28 September 2009	1 March 2019	Management of party and labour union matters
Ms. Jin Jinyun (金錦雲)	51	Deputy general manager of our Company	13 September 2017	13 September 2017	Operation and safety management of our Group's gas pipeline network
Mr. Tang Chunhui (湯春輝)	41	Deputy general manager of our Company, secretary of our Board and vice-chairman and standing deputy general manager of Xiniao Energy Development	1 April 2005	25 February 2019	Management of the general administration office and services supervisory office, business development, project tender management of our Group and Board secretarial matters

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Name	Age	Position	Date of joining our Group	Date of appointment	Roles and responsibilities
Mr. Shi Xiangjun (施向軍)	54	Acting general manager of Nanxun Xinao and general manager of Deqing Xinrui	16 June 2004	20 August 2020	Overall management of the business operations of Nanxun Xinao

Mr. Li Haixiao (李海笑), aged 44, is the general manager of our Company who is responsible for the overall management of the business operations of our Group. He is also the general manager of Xinao Development and the chairman of Nanxun Xinao and Nanxun Xinao Development.

Mr. Li has extensive experience in management in the gas industry. He had spent his entire career working in companies principally engaged in supply of gas in the PRC. From February 2003 to December 2005, Mr. Li worked as a manager in the production and engineering departments of Nanjing Gaochun Towngas China Company Limited* (南京高淳港華燃氣有限公司) (then known as Nanjing Baijiang Pipe Gas Company Limited* (南京百江管道燃氣有限公司)). From February 2006 to November 2009, Mr. Li served as the director of business development of the Nanjing Office of The Hong Kong and China Gas Company Limited, a gas, water supply and energy company in Hong Kong and the PRC listed on the Stock Exchange (stock code: 3), where he was responsible for developing the company's business in Nanjing, the PRC. From November 2009 to August 2012, Mr. Li served as the general manager of Suining Towngas China Company Limited* (睢寧港華燃氣有限公司), a gas company. From September 2012 to August 2013, Mr. Li worked as the standing deputy general manager of Taizhou Towngas China Company Limited* (泰州港華燃氣有限公司), a gas company. Mr. Li joined ENN Group in September 2013 as a temporary staff member of human resources department. From December 2013 to December 2018, Mr. Li successively served as assistant to general manager, general manager of Ningbo area and general manager of ENN Group's Zhejiang marketing and sales centre. Mr. Li joined our Company in January 2019 and has since served as the general manager of Nanxun Xinao. He was further appointed as the general manager of our Company in January 2020, the chairman of Nanxun Xinao and Nanxun Xinao Development in February 2020 and the chairman of Deqing Xinrui in September 2021.

Mr. Li graduated from Chongqing University* (重慶大學) in the PRC with a bachelor's degree in urban gas engineering in June 2002.

Ms. Sun Xiaohui (孫曉慧), aged 47, is the financial controller of our Company who is responsible for the overall financial and investments management of our Group.

Ms. Sun has extensive experience in financial management. From December 1995 to March 1996, Ms. Sun worked as an accountant in Huzhou Architectural Design Research Institute* (湖州市建築設計研究院). From March 1996 to December 2002, Ms. Sun served as an accounting personnel in Huzhou Construction Industry Management Office* (湖州市建築業管理處) of the Huzhou Municipal People's Government. From January 2003 to May 2013, Ms. Sun worked successively as

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accountant and deputy manager of the finance department of Huzhou Urban Construction Investment Group Company Limited* (湖州市城建投資集團有限公司) (“**Huzhou Urban Construction**”), a wholly-owned subsidiary of City Group, a Controlling Shareholder of our Company, primarily engaged in infrastructure investment in Huzhou. From May 2013 to June 2016, Ms. Sun was a manager of the financing department of Huzhou Urban Construction Development Centre* (湖州市城市建設發展中心). From June 2016 to September 2017, Ms. Sun returned to Huzhou Urban Construction and served as a deputy general manager. From September 2017 to April 2021, Ms. Sun was successively deputy chief of the safety and security office and deputy general manager of planning and finance department of City Group. Ms. Sun joined our Company in April 2021 and has since served as our financial controller.

Ms. Sun graduated from Hangzhou School of Commerce* (杭州商學院) (now known as Zhejiang Gongshang University (浙江工商大學)) in the PRC with a professional certificate in financial accounting in July 1995 and from Zhejiang Gongshang University with a master’s degree in project management in October 2013. She has been a qualified senior accountant since April 2010.

Mr. Ren Qinfeng (任勤峰), aged 50, is a deputy general manager of our Company who is responsible for management of party and labour union matters in our Group. He is also a supervisor of Nanxun Xinao, Nanxun Xinao Development and Xinao Energy Development.

Mr. Ren has extensive experience in management in the gas industry. From July 1997 to April 2000, Mr. Ren worked as a technician of the air separation and compression workshop of PetroChina Tarim Petrochemical Plant* (中石油塔里木石化廠), which was principally engaged in the production of petrochemicals and related products. From April 2000 to October 2005, Mr. Ren worked successively as deputy head of oil reserves equipment factory, chief of storage safety section, deputy manager of Jiuquan sales branch company, deputy head of storage safety and environmental protection department and deputy head of investment and construction management department of PetroChina Gansu Sales Company* (中國石油天然氣股份有限公司甘肅銷售公司), which was principally engaged in the sale of petroleum-based goods and services in Gansu Province, the PRC. From October 2005 to March 2008, Mr. Ren worked successively as deputy chief of preparation working group and deputy manager of PetroChina Gansu Lanzhou Gas Sales Branch Company* (中國石油天然氣股份有限公司甘肅蘭州天然氣銷售分公司), which was principally engaged in the sale of natural gas in Lanzhou City of Gansu Province, the PRC. From March 2008 to September 2009, Mr. Ren worked successively as manager of projects department and deputy general manager of Zhejiang Wanfeng, which was principally engaged in the production and sales of foundry machinery. Mr. Ren joined our Group in September 2009 as director and deputy general manager of Nanxun Xinao and Nanxun Xinao Development when they were first established, and was appointed to his current positions of supervisor of the two companies and deputy general manager of our Company in March 2019. Since its establishment in April 2019, Mr. Ren has been a supervisor of Xinao Energy Development.

Mr. Ren graduated from the University of Petroleum* (石油大學) in the PRC with a bachelor’s degree in chemical equipment and machinery in July 1997. He has been a qualified engineer in ground construction and oil-gas storage and transportation since March 2004.

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Mr. Ren was a director and manager of the company below which was deregistered. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Beijing Zhilifang Energy Technology Company Limited* (北京志立方能源科技有限公司)	The PRC	Management of energy technology software	Merger with another company	25 October 2018	Deregistered and dissolved

As confirmed by Mr. Ren, the deregistered company above was solvent at the time when it was deregistered and so far as he was aware, the deregistration of the company above has not resulted in any liability or obligation being imposed against him.

Ms. Jin Jinyun (金錦雲), aged 51, is a deputy general manager of our Company who is responsible for the operation and safety management of our Group's gas pipeline network.

Ms. Jin has extensive experience in engineering project management. From July 1997 to November 2004, Ms. Jin was a customer service manager of Hainan Minsheng Gas Group Co., Ltd.* (海南民生燃氣集團股份有限公司), which was principally engaged in the provision of natural gas and related services in Hainan Province, the PRC. From December 2004 to August 2017, Ms. Jin successively worked as a manager, assistant to general manager, head of pipeline network operations department and a deputy general manager of Yongkang Xinao Gas Company Limited* (永康新奧燃氣有限公司), a subsidiary of ENN (China) principally engaged in the provision of natural gas and related services in Yongkang City, Zhejiang Province, the PRC. She joined our Company in September 2017 and has since served as a deputy general manager.

Ms. Jin graduated from Hainan University* (海南大學) in the PRC with a bachelor's degree in chemical engineering in July 1996. She has been a senior economist in the PRC since 2021.

Mr. Tang Chunhui (湯春輝), aged 41, is a deputy general manager of our Company and the secretary of our Board who is responsible for management of the general administration office and services supervisory office, business development, project tender management and Board secretarial matters. He is also the vice-chairman and a standing deputy general manager of Xinao Energy Development.

Mr. Tang has extensive experience in customer service management. Mr. Tang joined our Company in April 2005 shortly after graduation from university, and has served successively as intern in the marketing department, administrative assistant, deputy head and head of the general office, assistant to general manager and head of customer service department. Mr. Tang was promoted to the current position of member of the party branch of our Company, deputy general manager and discipline

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inspection team leader in August 2016, February 2019 and September 2020, respectively. Mr. Tang was also appointed as the secretary of our Board in April 2021. Since its establishment in April 2019, Mr. Tang has been the vice-chairman and a standing deputy general manager of Xinao Energy Development.

Mr. Tang graduated from Huzhou University* (湖州師範學院) in the PRC with a bachelor's degree in computer science and technology in July 2004. He has been a level one enterprise human resources professional in the PRC since July 2012 and a senior economist in the PRC since 2021.

Mr. Tang was a person in charge of the companies below which were deregistered. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before deregistration	Reason for deregistration	Date of deregistration	Current status
Huzhou Xinao Gas Company Limited Zhili Branch* (湖州新奧燃氣有限公司織裡營業所)	The PRC	Sale of gas and provision of related services	Merger with a fellow branch company	23 July 2020	Deregistered and dissolved
Huzhou Xinao Gas Company Limited Huafeng Distribution Centre* (湖州新奧燃氣有限公司華豐配送點)	The PRC	Sale of LNG	Cessation of business operation	23 July 2020	Deregistered and dissolved
Huzhou Xinao Gas Company Limited Bilanghu Gas Exchange Centre* (湖州新奧燃氣有限公司碧浪湖換氣點)	The PRC	Sale of LNG and gas equipment	Cessation of business operation	23 July 2020	Deregistered and dissolved
Huzhou Xinao Gas Development Company Limited Zhili Branch* (湖州新奧燃氣發展有限公司織裡營業所)	The PRC	Design and installation of gas equipment	Merger with a fellow branch company	24 July 2020	Deregistered and dissolved

As confirmed by Mr. Tang, the deregistered companies above were solvent at the time when they were deregistered and so far as he was aware, the deregistration of the companies above has not resulted in any liability or obligation being imposed against him.

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Mr. Shi Xiangjun (施向軍), aged 54, is the acting general manager of Nanxun Xinao who is responsible for the overall management of the business operations of Nanxun Xinao.

Mr. Shi has extensive experience in management in the gas industry. From December 1986 to February 2003, he worked as a business manager in Huzhou Metal Materials Company Limited* (湖州市金屬材料有限公司), which is principally engaged in the sale of metals and metal hardware in Huzhou. Mr. Shi joined Huzhou Natural Gas Company Limited* (湖州市天然氣有限公司), which was principally engaged in the supply of gas in Huzhou, in February 2003 as a staff member. He joined our Company in September 2004 and has served as a deputy chief of marketing department and the chief of customer services department. From September 2012 to July 2014, he served as a deputy general manager of Nanxun Xinao. From July 2014 to August 2020, he served successively as assistant general manager and the head of construction department of our Company. Since August 2020, he has served as the acting general manager of Nanxun Xinao. Since September 2021, he has served as the general manager of Deqing Xinrui.

Mr. Shi graduated from China University of Geosciences* (中國地質大學) in the PRC through an online course with a bachelor's degree in economics in April 2005. He has been conferred the qualification of senior economist specialising in business administration in December 2020 by the Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳).

Save as disclosed above, as at the Latest Practicable Date, each of our senior management (i) did not hold other positions in our Company or other members of our Group; (ii) had no other relationship with any of the Directors, Supervisors, senior management or Controlling Shareholders of our Company; (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and (iv) did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter in respect of our senior management that needs to be brought to the attention of the Shareholders and there was no information relating to our senior management that is required to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules as at the Latest Practicable Date.

JOINT COMPANY SECRETARIES

Mr. Tang Chunhui (湯春輝), aged 41, was appointed as the joint company secretary of our Company on 9 June 2021. Mr. Tang is one of our senior management. Please refer to the paragraph headed "Senior Management" in this section for his biography.

Ms. Mak Sze Man (麥詩敏), aged 48, was appointed as the joint company secretary of our Company on 9 June 2021. Ms. Mak has extensive experience in the corporate secretarial field. Since March 2000, she has worked in Tricor Services Limited, which is responsible for providing corporate services to clients, where her current position is senior manager of corporate services.

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Ms. Mak is currently the company secretary or joint company secretary of three companies listed on the Stock Exchange, namely Zhongsheng Group Holdings Limited (stock code: 881), Far East Horizon Limited (stock code: 3360) and Huaxin Cement Co., Ltd. (stock code: 6655). She was a joint company secretary of Dali Foods Group Company Limited (stock code: 3799), a company listed on the Stock Exchange, from May 2019 to August 2021.

Ms. Mak has been an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom since October 2006. Ms. Mak graduated with a master's degree in corporate governance from the Graduate School of Business of The Hong Kong Polytechnic University in Hong Kong in December 2006.

BOARD DIVERSITY AND POLICY

We have adopted a board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate skills, expertise and diversity of perspectives that are required to support the execution of our business strategy. Pursuant to the Board Diversity Policy, selection of candidates for Directors will be based on a range of diversity perspectives, including but not limited to skills, professional experience, educational background, knowledge, expertise, culture, independence, age and gender. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board and the business needs of our Company from time to time. Our Board believes that such merit-based appointments will best enable our Company to serve the Shareholders and other stakeholders going forward.

Our Board consists of eight members, comprising three executive Directors, two non-executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of gender and experiences, including management and strategic planning, finance and accounting experiences in addition to the PNG business. Furthermore, our Board has a good mix of new and experienced Directors, who have valuable knowledge and insights of our Group's business over the years, while the new Directors are expected to bring in fresh ideas and new perspective to our Group. Our nomination committee will (i) report annually, in the corporate governance report contained in our annual report, on our Board's composition under diversified perspectives, and monitor the implementation of the Board Diversity Policy; and (ii) review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the Board Diversity Policy and discuss any revisions that may be required, and recommend any such revisions to our Board for consideration and approval.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The aggregate amounts of remuneration of our Directors and Supervisors for FY2019, FY2020 and FY2021 were nil, nil and RMB0.7 million, respectively. The aggregate amount of remuneration which was paid by our Company to our five highest paid individuals for FY2019, FY2020 and FY2021 were approximately RMB2.3 million, RMB2.3 million and RMB2.2 million, respectively. Details of the remuneration of our Directors, Supervisors and chief executives are set out in Note 9 to the Accountants' Report in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors' and Supervisors' service contracts referred to in the paragraph headed "Further Information about our Directors and Supervisors – 10. Directors – (b) Particulars of Directors' and Supervisors' service contracts" as set out in Appendix VII to this prospectus, the aggregate amount of directors' and supervisors' fee and other emoluments payable to our Directors and Supervisors for the year ending 31 December 2022 is estimated to be approximately RMB1.0 million and RMB0.3 million respectively, excluding any discretionary bonuses.

Our Directors, Supervisors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors, Supervisors and senior management.

After Listing, the remuneration committee of our Company will review and make recommendations to our Board on the remuneration and compensation packages of our Directors, Supervisors and senior management with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of our Group.

As confirmed by our Directors, during the Track Record Period, (i) no remuneration was paid by us to, or received by, our Directors or Supervisors or the five highest paid individuals as an inducement to join or upon joining us; (ii) no compensation was paid to, or is receivable by, our Directors or past Directors or the five highest paid individuals for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group; and (iii) none of our Directors waived any emoluments.

EMPLOYEES

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment or retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes. Please refer to the paragraph headed "Business – Employees" in this prospectus for details of our employees.

BOARD COMMITTEES**Audit committee**

Our Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company. At present, our audit committee comprises Mr. Chang Li Hsien Leslie, Dr. Lau Suet Chiu Frederic and Mr. Zhou Xinfu, all being independent non-executive Directors. Mr. Chang Li Hsien Leslie is the chairman of our audit committee.

Remuneration committee

Our Company has established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our remuneration committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors, Supervisors and senior management of our Group and review performance based remuneration. At present, our remuneration committee comprises Mr. Chang Li Hsien Leslie, Dr. Lau Suet Chiu Frederic and Mr. Zhou Xinfu, all being independent non-executive Directors. Dr. Lau Suet Chiu Frederic is the chairman of our remuneration committee.

Nomination committee

Our Company has established a nomination committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our nomination committee are to review the structure, size and composition (including the skills, knowledge and experiences) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Directors; to identify individual suitably qualified as potential Board members and to select or make recommendation to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors. At present, our nomination committee comprises Mr. Chang Li Hsien Leslie, Dr. Lau Suet Chiu Frederic and Mr. Zhou Xinfu, all being independent non-executive Directors. Mr. Zhou Xinfu is the chairman of the nomination committee.

Corporate Governance Functions

For the purpose of performing the corporate governance functions in accordance with code provision A.2 of the Corporate Governance Code, the Board has adopted written terms of reference in accordance with code provision A.2.1 of the Corporate Governance Code which provide for, among others, (i) developing and reviewing our Group's policies and practices on corporate governance and making recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of our Directors and senior management; (iii) reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and our Directors; and (v) reviewing our Company's compliance with the Corporate Governance Code and disclosure in the annual reports of our Company.

COMPLIANCE ADVISER

We have appointed BOCOM International (Asia) as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where our Company proposes to use the proceeds of the Hong Kong Public Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, we will be owned as to approximately 44.73% by City Group and 30.27% by ENN (China).

City Group is a state-owned enterprise which was directly wholly owned by Huzhou SASAC, a PRC government body which is principally engaged in equity investment and management of state-owned financial assets as authorised by the relevant finance and regulatory bodies in the PRC. As at the Latest Practicable Date, to the best knowledge, information and belief of our Directors after making reasonable enquiries, Huzhou SASAC, directly or indirectly, invested in companies which engaged in, among others, gas supply, water supply, sewage treatment, pipeline construction, infrastructure construction, urban construction, and property development.

ENN (China) is a wholly-owned subsidiary of ENN Energy, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2688). As at the Latest Practicable Date, based on the disclosure of interest notices filed to the Stock Exchange in respect of interests of ENN Energy, ENN Energy was indirectly owned as to approximately 32.78% by ENN Natural Gas Co., Ltd., the shares of which are listed on the Shanghai Stock Exchange (stock code: 600803). ENN Energy Group principally engages in investment and construction, as well as operation and management of gas pipeline infrastructures, integrated energy stations and vehicle and ship refuelling stations, the sales and distribution of piped gas, liquefied natural gas, photovoltaic power generation and other multi-energy products, and energy trading business and provision of other services in relation to energy supply in the PRC.

Pursuant to the Listing Rules, City Group, ENN (China) and ENN Energy are regarded as our Controlling Shareholders.

BUSINESS DELINEATION

There is a clear delineation of business between (i) each of City Group and ENN Energy Group; and (ii) our Group based on geographical locations.

As the grantee of the Concessions, we have been, and will continue to be, the exclusive distributor of PNG in our Operating Area pursuant to the Wuxing Concession Agreement and Nanxun Concession Agreement. During Track Record Period and up to the Latest Practicable Date, we conducted our business only within our Operating Area, comprising the Wuxing Operating Area and Nanxun Operating Area, which had been developed by us and all along been managed and operated by our core management, without any involvement of ENN Energy Group or its management team.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of ENN (China), ENN Energy and City Group confirmed that during the Track Record Period and up to the Latest Practicable Date, other than its interest in our Group, each of ENN (China), ENN Energy and City Group does not have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business currently engaged by our Group (the “**Restricted Business**”), including but not limited to the distribution and sales of PNG and LNG, the provision of construction and installation services to construct and install end-user pipeline network and gas facilities and the sale of other relevant products (the “**Restricted Products**”) of our Group in Huzhou.

Based on the annual report of ENN Energy for the year ended 31 December 2021, ENN Energy Group is principally engaged in investment and construction, as well as operation and management of gas pipeline infrastructures, integrated energy stations and vehicle and ship refuelling stations, the sales and distribution of piped gas, liquefied natural gas, photovoltaic power generation and other multi-energy products, and energy trading business and provision of other services in relation to energy supply in the PRC, covering Anhui, Guangdong, Guangxi, Sichuan, Heilongjiang, Hebei, Henan, Jiangxi, Yunnan, Jiangsu, Beijing Municipality, Fujian, Hunan, Inner Mongolia, Shandong, Shanghai, Zhejiang, Tianjin, Shaanxi, Liaoning, Shanxi, Hainan and Hubei. Moreover, based on publicly available information, City Group and its subsidiaries are not involved in any similar business to the Group in Huzhou.

Due to the nature of our business, our customers are located within our Operating Area where we are the exclusive PNG distributor. During the Track Record Period, there were no overlapping customer units between ENN Energy Group’s business and our business.

Based on the above, our Directors are of the view that there is a clear geographical delineation between the business of (i) ENN Energy Group; and (ii) the business of our Group and there is no overlap or competition of the businesses of our Group and that of City Group and ENN Energy Group. Such geographical delineation will ring-fence our existing operations from any potential competition from the business conducted by ENN Energy Group. Despite there is no competition that currently exists between our Group and our Controlling Shareholders, in order to avoid any possible future competition between our Group and our Controlling Shareholders, our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company pursuant to which each of our Controlling Shareholders has undertaken not to engage in the Restricted Business in Huzhou. Please refer to the paragraph headed “Deed of Non-Competition” in this section for details.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In view of our plan to expand into distributed photovoltaic power generation business and to expand our current business to other geographical areas through strategic acquisition as disclosed in the paragraph headed “Business – Our Business Strategies” in this prospectus, we may engage in competing business with ENN Energy Group in the future, particularly on sales and distribution of gas and the distributed photovoltaic business. However, our Directors are of the view that the delineation of business remains clear and we will be able to carry on business independently from ENN Energy Group due to the following factors:

(i) Limited overlap of geographical operating areas

We intend to focus on expanding our business to other parts of Huzhou while identifying suitable cooperation or acquisition targets in neighbouring cities. For instance, while our expansion plans on our distributed photovoltaic business are still in a preliminary stage, we have already entered into a framework agreement (the “**PV Framework Agreement**”) with City Group to secure venues for installing distributed photovoltaic systems and purchasers of electricity generated by such system. Please refer to the paragraph headed “Continuing Connected Transactions – Non-exempted Continuing Connected Transactions – Installation of distributed photovoltaic system and provision of electricity to City Group by our Group” in this prospectus for details of the PV Framework Agreement.

To the best knowledge, information and belief of our Directors after making reasonable enquiries, as at the Latest Practicable Date, ENN Energy Group has not engaged in, and has no current plan to engage in any business relating to the generation or sale of any form of energy, including energy photovoltaic power generation in Huzhou. Further, given our long operating history and substantive infrastructure as a leading natural gas supplier in substantial parts of Huzhou, we believe we will have a strong competitive advantage as we expand to the rest of Huzhou and poses a high entry barrier for ENN Energy Group. Accordingly, competition with ENN Energy Group is generally confined to areas outside Huzhou, which only constitute a limited part of our expansion plans.

Given the preliminary stage of planning and wide investment targets, our Directors consider that the issue on competition outside Huzhou is open to further negotiation with our Controlling Shareholders when our expansion plan materialises. We take into account multiple considerations in our expansion planning, including market potential and the extent of existing competition in the target cities. In this regard, competition with our Controlling Shareholders and other competitors makes little difference. As a matter of business reality, our Directors consider competition with Controlling Shareholders unlikely and, in any event, insignificant both within and outside Huzhou.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(ii) Different business focus and scale of operations

As we expand our geographical coverage to cities outside Huzhou, we target to build business relationships and cooperate with state-owned enterprises, seizing opportunities to engage in government-led projects. In addition to the PV Framework Agreement entered into with City Group, we have entered into another framework agreement with the organising committee of a trade cooperation zone in Huzhou, under which we enjoy priority in developing distributed photovoltaic power generation systems in such trade cooperation zone. We believe that with our strong relationship with Huzhou local government, we are more familiar with the needs and expectations of local governments and state-owned businesses and therefore have a competitive advantage over wholly private enterprises.

To the best knowledge, information and belief of our Directors after making reasonable enquiries, ENN Energy Group generally only engage in projects, whether in relation to natural gas, photovoltaic power generation or other forms of energy, through market competition involving other private enterprises in cities neighbouring Huzhou. Based on this difference in business focus, we believe that our future business is unlikely to compete with ENN Energy Group.

We also expect to operate our planned new business on a smaller and distinct scale as compared to ENN Energy Group. Given our new entry to an existing market and limited resources on expansion, we expect to dedicate our development to a specific project or a small geographical area. This is contrasted with ENN Energy Group's substantial scale of operations and business across all aspects of the market in a larger region in general. When considered together with the difference in business focus, we believe our target and actual customers will likely be distinct from ENN Energy Group.

(iii) Management and financial independence

We have full control and independent decision-making power over all matters in the management of our daily operations, free from influence of ENN Energy Group. We also have a sufficient number of independent Directors who are able to make independent judgment in the best interests of the Shareholders as a whole. Where our Board is to make any business decision involving potential competition with ENN Energy Group, only two out of the eight Directors, namely Ms. Su Li, an executive Director, and Mr. Zhang Yuying, a non-executive Director, are required to abstain from voting by reason of their relationship with ENN Energy Group. This avoids any reliance or interdependence between our management team and those of ENN Energy Group in our respective decision-making progress.

Further, we are financially independent from ENN Energy Group. There is no financing arrangement between any members of our Group and ENN Energy Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Rule 8.10 of the Listing Rules

Save as disclosed above and in this prospectus, as at the Latest Practicable Date, none of our Controlling Shareholders and our Directors had any interest in any other business which competes or is likely to compete, either directly or indirectly with our business which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associates (other than us) based on the following reasons:

Operational Independence

Master Supply Agreement with Ningbo Intercity

Ningbo Intercity, an indirect wholly-owned subsidiary of ENN (China), is one of our major suppliers during the Track Record Period, and accounted for approximately 2.8%, 33.8% and 70.0% of our total cost of purchase during FY2019, FY2020 and FY2021, respectively. Such increase in the total cost of purchase was attributable to the fact that Ningbo Intercity became our designated pilot natural gas supplier in September 2020 as we ceased procuring natural gas from our then major provincial natural gas suppliers, Supplier A and Supplier F, during the early stage of natural gas supply chain reform under the 2020 Summary.

On 26 May 2022, we entered into a master supply agreement with Ningbo Intercity pursuant to which we agreed to purchase from Ningbo Intercity, and Ningbo Intercity agreed to sell to our Group, PNG and LNG up to 31 December 2024 (the “**Master Supply Agreement**”). Please refer to the paragraphs headed “Business – Our Source of PNG Supply” and “Continuing Connected Transactions – Supply of PNG and LNG by Ningbo Intercity to our Group” in this prospectus for details of the Master Supply Agreement.

Our Directors are of the view that the Master Supply Agreement would not give rise to undue reliance on Ningbo Intercity or ENN Energy Group which impacts our operational independence for the following reasons:

- (i) We are the largest PNG distributor in Huzhou and are granted the exclusive right to sell and distribute PNG in our Operating Area pursuant to the Concessions for an initial term of 30 years from 16 June 2004 to 15 June 2034 for Wuxing Operating Area and 30 years from 30 September 2009 to 29 September 2039 for Nanxun Operating Area. The reliance between Ningbo Intercity and us are mutual and complementary;

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- (ii) According to the 2020 Summary issued by the ZJDRC and Zhejiang Energy Regulatory Office of National Energy Administration (浙江省能源局) on 20 January 2020, the Zhejiang government aims to (i) discontinue the monopoly status of the provincial natural gas pipeline companies; (ii) separate the function of natural gas sale and transmission at provincial level; (iii) promote the fair and equal access to the infrastructure of natural gas, such as provincial pipeline network and LNG terminals, by all market entities; and (iv) reform and simplify the natural gas supply chain. As a result, we may source supply of natural gas from different suppliers without entering into a long-term natural gas supply agreement with them. Please refer to the paragraph headed “Business – Our source of PNG supply – Our PNG suppliers” in this prospectus for details of our selection criteria for suppliers;
- (iii) The Huzhou Municipal People’s Government determines the benchmark gateway station price on which our purchase price for PNG is based and the end-user prices on which our selling price of PNG is based with reference to the general pricing guidelines and provincial level pricing issued by the NDRC and the ZJDRC. On this basis, our Directors consider that the purchase price for PNG from Ningbo Intercity is fair and reasonable; and
- (iv) Apart from Ningbo Intercity, there are other comparable suppliers capable of supplying of LNG and/or PNG to our Group at competitive prices, suitable payment terms and sufficient available quantities. For LNG, during the Track Record Period, we maintained business relationship with more than 10 LNG suppliers. For PNG, during the Track Record Period, apart from Ningbo Intercity, we also sourced PNG from Supplier A and Supplier F up to September 2020, and since FY2021, we also commenced sourcing PNG from another upstream PNG supplier, Supplier G, and two other city gas enterprises, Supplier H and Supplier J. In response to the natural gas supply chain reform under the 2020 Summary, we have been in negotiation with different alternative natural gas suppliers and we expect to further diversify our source of supply of natural gas in the future in order to ensure we could source natural gas at the best available terms among those offered by a range of suppliers so as to achieve a better profit margin and to cater for any changing needs of the Group in the future, and to ensure we have access to different alternative suppliers in case of emergency or as a matter of contingency. Please refer to the paragraph headed “Business – Our Source of PNG Supply” in this prospectus for details of our relationship with Ningbo Intercity and our existing and prospective sourcing from independent suppliers. Given the above, going forward, we expect the purchase from independent suppliers to gradually increase and the purchase from Ningbo Intercity to gradually decrease accordingly.

Licences and operational facilities

We had obtained and maintained the validity of all material licences necessary to carry on our businesses during the Track Record Period and up to the Latest Practicable Date, and have sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders.

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During the Track Record Period and up to the Latest Practicable Date, we had leased a property located at No. 180, 182 and 190, Laodong South Road, Block 2, Chaoyang Lane, Huzhou with a gross floor area of 331.49 sq.m. from Huzhou Huaxing, an indirect wholly-owned subsidiary of City Group, for an initial term from 1 January 2018 to 31 December 2020, which was subsequently renewed to 31 December 2023, for the use as one of our 11 PNG customer service centres.

During the Track Record Period and up to the Latest Practicable Date, we had been sharing the use of the SAP system owned by ENN Energy Group in data processing for our financial accounting and customer service. Our files and data on the SAP system are segregated from those of ENN Energy Group and are all encrypted and managed by our own finance department. Our accounts of the SAP system are also password-protected to prevent unauthorised access. Our Directors are of the view that notwithstanding such sharing arrangement, such existing SAP system can be replaced by other comparable systems, without any material disruptions to our operations. Further, we have taken the following internal control measures to ensure our operations remain independent and not subject to undue disruption caused by the SAP system:

- (i) any information related to our Group in the SAP system is entirely independent and segregated from those of other parties. No user of such system, including those within the ENN Energy Group, can access our data without all requisite authority, permissions and passwords managed and granted solely by us. The integrity of our information stored on the SAP system is further protected by the agreement governing our shared use of such system with ENN Energy Group, which provides us with legal recourse in the event ENN Energy Group seeks to gain unauthorised access to our data through such system;
- (ii) we have engaged an independent internal control consultant who, having reviewed the sharing arrangement and operations of the SAP system, is of the view that we have adequate internal control in place notwithstanding our sharing of the use of SAP system with other parties and such arrangement would not compromise the independence of our data. Further, the internal control consultant has reviewed the terms of the agreement on sharing the use of SAP system as disclosed in the paragraph headed “Continuing Connected Transactions – Exempted Continuing Connected Transactions – Sharing the use of SAP system with ENN (China)” in this prospectus and is satisfied that the confidentiality clause, user access settings and other terms of such agreement are sufficient to ensure the independence of our operations in using the SAP system;
- (iii) we have internal control policies in place to respond to potential major emergencies or material disruptions to our business, including where the SAP system becomes unavailable for use on both short-term and long-term bases. We have alternative softwares covering all aspects of our daily operations to substitute the SAP system in case of any contingency; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) our audit committee shall review, at least on an annual basis, the effectiveness and adequacy of the above measures. They are empowered to engage Independent Third Party advisers or experts to advise us on any matters regarding the sharing arrangement at the cost of our Company.

During the Track Record Period and up to the Latest Practicable Date, we had also been using an exclusive telephone hotline, audio mailbox and text messages system service (collectively, the “**Call Centre System Service**”) operated by ENN Energy Group.

Our Directors consider the continued use of the Call Centre System Service both necessary and advantageous to our daily operations since the customer service hotline, which forms part of the Call Centre System Service, has been in use ever since our Company was established in 2004 and is widely known within our Operating Area. Retaining this hotline assists in promoting our services, including emergency repair and maintaining contact with our customers. The Call Centre System Service is also able to operate in conjunction and in sync with other software systems currently used in our daily operations.

Notwithstanding our use of the SAP system and the Call Centre System Service, our Directors believe that our Group is capable of carrying on business independent of ENN Energy and its associates for the following reasons:

- (i) the two systems are both replaceable. We have alternative software covering all aspects of the SAP system ready to operate in place of the SAP system in short notice. We have internal guidelines in place to facilitate speedy replacement of systems in case either system becomes unavailable for any reason;
- (ii) the underlying agreements for our use of the two systems imposed no obligation on us to pay ENN Energy Group or fulfil any obligations which will cause material disruption to our daily operations in the event we terminate such use;
- (iii) on an operational level, all procedures under the two systems are handled independently by our Group. We have full, direct and independent rights on the SAP system in relation to the access and use of our data, which precludes any person, including users of the SAP system in the ENN Energy Group, from accessing financial and customer information of our Group without our prior approval. We are in charge of all aspects of the Call Centre System Service from staffing and training to data analytics and system authorisation. Further, our Directors are of the view that the Call Centre System Service is a simple system in the usual operations of our business not involving any sophisticated or proprietary technology. As such, we do not rely on ENN Energy Group to operate our financial, accounting and customer services functions. We believe that if we were to replace our existing SAP system and call services system, our operations staff will be able to adapt to the new systems in an adequate and timely manner; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) as confirmed by Frost & Sullivan, it is within normal market practice for companies to receive systemic support in their operations from their controlling shareholders.

Notwithstanding the above, our Directors consider that there is no urgency or apparent economic benefit to discontinue the SAP system and the Call Centre System Service. Any change in system will inevitably incur costs and disruptions to our operations which we believe to be unnecessary when balanced against the benefits of retaining them as disclosed in the paragraph headed “Continuing Connected Transactions – Exempt Continuing Connected Transactions” in this prospectus. Our Directors believe it is in the best interests of our Company and our Shareholders as a whole to retain the use of the two systems.

Save for the property leased from Huzhou Huaxing, the SAP system and the Call Centre System Service which we currently share with and procure from ENN Energy Group, all the information technology systems, corporate functions, properties and facilities necessary for our business operations are independent from our Controlling Shareholders and/or their respective close associates.

Access to customers

Our Group has independent access to sources of customers and suppliers. Our Group has also established a set of internal control procedures which facilitate the effective operation of our business.

Therefore, our operations are independent of and not connected with any of our Controlling Shareholders. On this basis, our Directors believe that we do not unduly rely on our Controlling Shareholders to carry on our business.

Continuing connected transactions

The section headed “Continuing Connected Transactions” in this prospectus sets out the continuing connected transactions between our Group and our Controlling Shareholders or their associates which will continue after the completion of the Global Offering. All such transactions are determined after arm’s length negotiations and on normal commercial terms. Save for the continuing connected transactions set out in the section headed “Continuing Connected Transactions” in this prospectus, our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective close associates upon completion of the Global Offering. Notwithstanding that there are certain transactions with related parties and connected persons of our Company, during the Track Record Period, we have full rights to make all decisions on, and to carry out our own business operations independently of our Controlling Shareholders and their respective close associates. Such continuing connected transactions will not have any negative impact on our operational independence from our Controlling Shareholders and their respective close associates after Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently upon Listing.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, save that we had been sharing the use of the SAP system owned by ENN Energy Group in data processing for our financial accounting and customer service, we had our own finance department and independent accounting systems. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders.

Amounts due to related parties by our Group amounted to approximately RMB0.6 million, RMB1.8 million and RMB0.6 million as at 31 December 2019, 2020 and 2021, respectively, which were all trade in nature and will be settled in accordance with respective normal credit terms. For further details of related party transactions and balances, please refer to Notes 24 and 40 to the Accountants' Report in Appendix I to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, none of our Controlling Shareholders, our Directors or their respective associates, had provided any other financial assistance or any guarantee, security or pledge for any of our banking facilities and other borrowings.

In light of the foregoing, our Directors are of the view that our Group is financially independent from and does not rely on our Controlling Shareholders and/or their associates for any financial assistance.

Management Independence

Our Board comprises three executive Directors, two non-executive Directors and three independent non-executive Directors. Our board of Supervisors comprises three Supervisors.

As at the Latest Practicable Date, some of our Directors and Supervisors held the following management positions in our Controlling Shareholders:

Directors and Supervisors	Position in our Company	Position in our Controlling Shareholders
Ms. Su Li (蘇莉)	Executive Director	Senior vice president and the convenor of Zhejiang business co-ordination group of ENN Energy
Mr. Pan Haiming (潘海明)	Executive Director	Deputy secretary of the commission for discipline inspection of City Group
Mr. Zhang Yuying (張宇迎)	Non-executive Director and vice chairman of our Board	Non-executive director of ENN Energy

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Directors and Supervisors	Position in our Company	Position in our Controlling Shareholders
Ms. Wu Zhanghuan (吳張歡)	Non-executive Director	Deputy general manager of City Group
Ms. Liu Fei (柳斐)	Supervisor and chairman of the Supervisory Board	General manager of the human resources department of City Group
Mr. Cai Rui (蔡銳)	Supervisor	Legal matters professional convenor of the legal and compliance matters empowerment group of ENN Energy

Save as disclosed above, other members of the Board and the board of Supervisors do not have any overlapping management positions with our Controlling Shareholders.

Ms. Su, as executive Director, provides high level strategic advice to our Company leveraging her extensive experience in business management and insights gained from ENN Energy. Mr. Pan confirms that he does not have substantial management responsibilities in his position with City Group. Mr. Zhang and Ms. Wu, as non-executive Directors, do not participate in our daily operation and management and only participate in board meetings of our Company where decisions are made collectively by members of the Board. Ms. Liu and Mr. Cai are Supervisors who do not assume any executive role in our Group.

Despite there are four Directors and two Supervisors who hold overlapping positions in our Company and in our Controlling Shareholders, there are four non-overlapping Directors and one Supervisor who are independent of City Group, ENN (China) and ENN Energy to provide professional advice and judgement to the Board and provide checks and balances over the decision-making on transactions involving any potential conflicts of interests between our Group and City Group, ENN (China) and ENN Energy. In addition, the Board is assisted by an independent management team which carries out the business decisions of our Board independently from our Controlling Shareholders.

Our Directors are satisfied that our management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Each of our Directors is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In such case, as we have eight Directors (including independent non-executive Directors), our Board has sufficient members to satisfy the quorum requirement.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

To protect our Group from any potential competition, our Controlling Shareholders have given non-compete undertakings in our favour under the Deed of Non-competition on 16 June 2021, pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with us that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective subsidiaries and such other associates under their control (other than our Group) shall:

- (i) save for any direct or indirect investments of the Controlling Shareholders and/or their respective associates (excluding our Group) in any member of our Group, not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the Restricted Business in Huzhou, the PRC from time to time;
- (ii) not solicit any existing or then existing employee of our Group for employment by them or their respective associates under their control (excluding our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as our Controlling Shareholders and/or Directors or their respective associates for the purpose of competing with the Restricted Business; and
- (iv) in respect of any enquiry for service undertaken or proposed to be undertaken by them or their respective associates under their control (excluding our Group) involving the Restricted Business and/or the marketing, sales, distribution, production and/or provision of any Restricted Products, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the Restricted Business and/or the marketing, sales, distribution, production and/or provision of the Restricted Products.

For the above purpose, the “Relevant Period” means the period commencing from the date of the Deed of Non-competition and shall, in respect of each Controlling Shareholder, expire upon the earliest date of occurrence of the events below:

- (a) the date on which such Controlling Shareholder ceases to be a controlling shareholder of our Company (as defined under the Listing Rules); or
- (b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders has undertaken under the Deed of Non-competition that it shall, and procure its respective associates under its control (other than our Group) to, provide to us and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by our Controlling Shareholders. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Deed of Non-competition in our annual report.

In relation to our plan to expand into the distributed photovoltaic power generation business, our Directors consider the Deed of Non-competition to be effective and feasible in managing the potential future competition between our Group and ENN Energy Group in the circumstances for the following reasons:

- (i) any competition between our Group and ENN Energy Group within Huzhou is effectively managed by the combined effect of our strong presence and the Deed of Non-competition. As disclosed in the paragraph headed “Business Delineation” in this section, we have secured locations for developing our distributed photovoltaic electricity generation systems across Huzhou pursuant to framework agreements we have entered into with different branches of Huzhou government. We believe that such head start in the development of new infrastructure, coupled with our long operating history as a leading natural gas supplier in our Operating Area, pose a high entry barrier for ENN Energy Group in developing distributed photovoltaics in Huzhou. The Deed of Non-competition enhances this entry barrier by prohibiting ENN Energy Group from engaging in aspects of energy services already undertaken by us, including the development of infrastructure. All in all, when combined with our competitive advantage, the Deed of Non-competition in its current form is sufficient to deter ENN Energy Group from starting a competing distributed photovoltaic power generation business in Huzhou; and
- (ii) given our focus in Huzhou, the scope of Deed of Non-competition is sufficient for present purposes. As disclosed in the paragraph headed “Business Delineation” of this section, we intend to focus on developing our distributed photovoltaic power generation business in Huzhou, while plans outside Huzhou are yet to be developed. Our Directors and ENN Energy, our Controlling Shareholder, both consider that the issue on competition outside Huzhou is open to further negotiation when our expansion plan materialises. There are multiple considerations in our expansion planning, including market potential and the extent of existing competition in the target cities. In this regard, competition with ENN Energy Group and with other competitors makes little difference. As a matter of business reality taking into account our distinct scale and focus of business operations in other cities, our Directors consider that competition outside Huzhou unlikely and, if any, insignificant.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to the compliance and enforcement of the Deed of Non-competition, we have adopted the following corporate governance measures:

- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders;
- (ii) we will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;
- (iii) we will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and
- (iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Deed of Non-competition, he/she shall disclose his/her interests to our Board and may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

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

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Class of Shares held after the Global Offering	Capacity/ Nature of interest	As at the Latest Practicable Date		Immediately following completion of the Global Offering	
			Number of Shares held/ interested	Approximate percentage of shareholding in our Company	Approximate percentage of shareholding in the relevant class (Note 1)	Approximate percentage of shareholding in the total share capital of our Company (Note 2)
City Group (Note 3)	Domestic Shares	Beneficial owner	89,457,540	59.64%	59.64%	44.73%
Huzhou SASAC (Note 3)	Domestic Shares	Interest in a controlled corporation	89,457,540	59.64%	59.64%	44.73%
ENN (China) (Note 4)	Domestic Shares	Beneficial owner	60,542,460	40.36%	40.36%	30.27%
ENN Energy (Note 4)	Domestic Shares	Interest in a controlled corporation	60,542,460	40.36%	40.36%	30.27%

Notes:

- (1) The calculation is based on the total number of 150,000,000 Domestic Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.
- (2) The calculation is based on the total number of 200,000,000 Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.
- (3) City Group is wholly-owned by Huzhou SASAC. Under the SFO, Huzhou SASAC is deemed to be interested in the same number of Shares in which City Group is interested.
- (4) ENN (China) is wholly-owned by ENN Energy, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2688). As at the Latest Practicable Date, based on disclosure of interest notices filed to the Stock Exchange in respect of interests of ENN Energy, no shareholders controlled, directly or indirectly, one-third or more of the voting power at the general meetings of ENN Energy. Under the SFO, ENN Energy is deemed to be interested in the Shares in which ENN (China) is interested.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this section, our Directors are not aware of any other persons who will, immediately following completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

SHARE CAPITAL

As at the date of this prospectus, the share capital of our Company is RMB150,000,000, divided into 150,000,000 Shares with a nominal value of RMB1.00 each.

On 17 August 2021, we obtained the CSRC approval for the issue of not more than 57,500,000 H Shares with a nominal value of RMB1.00 each under the Global Offering. As a result, a total of 150,000,000 Domestic Shares with nominal value of RMB1.00 each will be in issue upon the Listing.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of shares	Approximate percentage to total share capital
150,000,000	Domestic Shares	75.00%
<u>50,000,000</u>	H Shares to be issued under the Global Offering	<u>25.00%</u>
<u><u>200,000,000</u></u>	Shares	<u><u>100%</u></u>

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of shares	Approximate percentage to total share capital
150,000,000	Domestic Shares	72.29%
<u>57,500,000</u>	H Shares to be issued under the Global Offering	<u>27.71%</u>
<u><u>207,500,000</u></u>	Shares	<u><u>100%</u></u>

The above table assumes the Global Offering becomes unconditional and is completed.

Our Shares

Upon completion of the Global Offering, our Domestic Shares and H Shares are both ordinary shares in our Company. H Shares may only be subscribed for and traded in HK\$. Domestic Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC or via Shanghai-Hong Kong Stock Connect (滬港通) or Shenzhen-Hong Kong Stock Connect (深港通), H Shares generally cannot be subscribed for by or traded by legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC. We must pay all dividends in respect of H Shares in HK\$ and all dividends in respect of Domestic Shares in RMB.

SHARE CAPITAL

Under the PRC Company Law, in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange.

Except as described in this prospectus and in relation to the despatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

Under our Articles of Association, any change or abrogation of the rights of class shareholders should be approved by way of a special resolution of the general meeting of shareholders and by a separate meeting of shareholders convened by the affected class shareholders. However, as provided in our Articles of Association, the procedures for the approval by separate class shareholders shall not apply (i) where we issue, upon approval by a special resolution of our Shareholders in a general meeting, either separately or concurrently in any twelve-month period, not more than 20% of each of the existing issued Domestic Shares and H Shares; (ii) where the plan for the issue of Domestic Shares and H Shares upon the Company's establishment is implemented within fifteen months following the date of approval by the authorised securities regulatory authorities of the State Council; or (iii) upon the transfer of our Domestic Shares held by the holders of our Domestic Shares to overseas investors and the listing and trading of such transferred shares shall have obtained the approval of the authorised securities regulatory authorities of the State Council.

Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Upon Listing, we will have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange.

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be transferred to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange provided that prior to the transfer and trading of such transferred shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such transfer, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

SHARE CAPITAL

If any of our Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on the Stock Exchange, such transfer and conversion will need to obtain the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the transfer and conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No class shareholder voting is required for the listing and trading of the transferred shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed transfer. The relevant procedural requirements for the transfer and conversion of the Domestic Shares to H Shares are:

- (1) The holder of Domestic Shares shall obtain the requisite approval of CSRC or the authorised securities approval authorities of the State Council for the transfer of all or part of its Domestic Shares into H Shares.
- (2) The holder of Domestic Shares shall issue to us a removal request in respect of a specified number of the Shares attaching the relevant documents of title.
- (3) Subject to obtaining the approval of the Board, we would then issue a notice to the H Share Registrar with instructions that, with effect from a specified date, our H Share Registrar is to issue the relevant holders with H share certificates for such specified number of Shares.
- (4) Such specified number of Domestic Shares to be transferred to H Shares are then re-registered on the H share register maintained in Hong Kong on the condition that:
 - (a) our H Share Registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H share register and the due despatch of H share certificate; and
 - (b) the admission of the H Shares (converted from Domestic Shares) to trade in Hong Kong will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time.

SHARE CAPITAL

- (5) Upon completion of the transfer and conversion, the shareholding of the relevant holder of Domestic Shares in our domestic share register will be reduced by such number of Domestic Shares transferred and the number of H Shares in the H share register will correspondingly be increased by the same number of Shares.
- (6) We will comply with the Listing Rules to inform our Shareholders and the public by way of an announcement of such fact not less than three days prior to the proposed effective date.

LOCK-UP OF SHARES

The PRC Company Law provides that in relation to the Global Offering of a company, the shares issued by a company prior to the Global Offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to its statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange* (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 working days upon listing.

CIRCUMSTANCES OF GENERAL MEETING OF OUR COMPANY

Please refer to the paragraph headed “8. Notice and Schedule of the General Meeting” in Appendix V to this prospectus for details.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in “Appendix I – Accountant’s Report” to this prospectus. The consolidated financial information has been prepared in accordance with IFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors”.

OVERVIEW

We are (i) the largest piped natural gas (PNG) distributor in terms of sales volume in Huzhou (湖州), a major prefecture-level city in Zhejiang Province, the PRC, with a market share of 44.1% in Huzhou; and (ii) the fifth largest PNG distributor in terms of sales volume in Zhejiang Province, with a market share of 3.0% in Zhejiang Province both in 2021, according to the F&S Report. According to the F&S Report, the natural gas consumption volume in Huzhou represented 6.9% and 0.3% of the natural gas consumption volume in Zhejiang Province and the PRC in 2021, respectively. Since 2004 and 2009, we have been the exclusive distributor of PNG in the Wuxing Operating Area and Nanxun Operating Area, respectively, under the Concession Agreements. Our Operating Area does not necessarily equate to the entire statutory administrative areas of Wuxing District and Nanxun District.

For each of the FY2019, FY2020 and FY2021, our total revenue was RMB1,630.4 million, RMB1,422.0 million and RMB1,858.7 million, respectively, representing a CAGR of 6.8% over the three years from FY2019 to FY2021. Our net profit for the years were RMB143.9 million, RMB192.3 million and RMB166.7 million, respectively, representing a CAGR of 7.6% over the three years from FY2019 to FY2021.

BASIS OF PRESENTATION

The financial information has been prepared by our Directors based on accounting policies which conform with IFRSs which comprise all standards and interpretations approved by the International Accounting Standards Board, on the basis of presentation as set out in Note 2.1 to Section II of the Accountants’ Report contained in Appendix I to this prospectus, and no adjustments have been made in preparing the financial information.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Concession for the operation of our business in our Operating Area

We are principally engaged in the sale and distribution of PNG in our Operating Area in Huzhou under the Concessions. During the Track Record Period, over 85.0% of our revenue was generated from the sale and transmission of PNG, which are now under the Concessions. The Wuxing Concession and Nanxun Concession are for an initial term of 30 years from 16 June 2004 and 30 September 2009, respectively, with a preferential right of renewal upon negotiation and fulfilment of certain conditions. See the paragraph headed “Business – Our Gas Business – The Concessions” in this prospectus for detailed terms of the Concession Agreements.

If our Concession Agreement is terminated for whatever reasons before or upon expiration, and we are not able to renew it or relocate to an alternative area to continue our operations which is comparable to our existing operation in the Operating Area, our business, results of operations and financial position will be substantially and adversely impacted. Please refer to the paragraph headed “Risk Factors – Risks Relating to Our Business – Our Concessions for the operation of our PNG business will expire or may be terminated before expiration and we may not be able to renew our existing Concessions or secure new concessions.” in this prospectus.

Government’s price control regime for natural gas

Our results of operations and financial condition may be affected by government policies regarding our natural gas purchase and selling prices. According to the PRC Pricing Law, the PRC government may direct, guide or fix the prices of public utilities. We are entitled to determine our selling price of natural gas subject to a maximum price imposed by the HZDRC. We are required to obtain approval from the relevant local pricing authority for our selling price of PNG sold in a particular region, as well as any adjustment to our selling price. For natural gas for residential usage, the relevant local pricing authority determines our selling price and any price adjustments. See the paragraph headed “Business – Pricing of Natural Gas” in this prospectus for further information of the pricing of natural gas in the PRC.

In any event, we have limited control over the pricing of our natural gas sales, which are strictly controlled by the government and adjusted from time to time. Any unfavourable changes to the pricing of our sales of natural gas may adversely affect our revenue, cash flows and results of operation.

For illustrative purposes only, the following table sets out a sensitivity analysis of the effect of fluctuations of our per unit selling price of natural gas on our profit before tax during the Track Record Period. Fluctuation in our per unit average selling price are assumed to be 5%, 10% and 20%.

FINANCIAL INFORMATION

Hypothetical fluctuations	Increase/decrease in unit selling price		
	+/-5%	+/-10%	+/-20%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase/decrease in profit before taxation			
FY2019	+/-71,960	+/-143,921	+/-287,841
FY2020	+/-61,569	+/-123,138	+/-246,275
FY2021	+/-80,493	+/-160,985	+/-321,971

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

Cost of natural gas

Natural gas purchase price is generally determined with reference to the maximum price imposed by the ZJDRC. Our purchase price for the natural gas is subject to negotiation with our suppliers, which is determined based on a combination of factors including the relevant government guided benchmark gateway station prices, pipeline transmission tariff and settlement terms. Provincial Development and Reform Commissions set natural gas gateway station price within their provinces based on conditions of their regions.

In any event, we have limited control over the pricing of both our natural gas supplies, which are strictly controlled by the government and adjusted from time to time. If the prices (a) of natural gas that we purchase from our PNG suppliers or (b) of LNG that we purchase from other suppliers to supplement our PNG sale during peak seasons or (c) that we sell to our customers fluctuate due to changes in prevailing market conditions or regulatory policies and we are unable to pass the impact of the price adjustments to our customers in a timely manner, our revenue, cash flows and results of operation will be materially adversely affected.

For illustrative purposes only, the following table sets out a sensitivity analysis of the effect of fluctuations of our per unit purchase price of natural gas on our profit before tax during the Track Record Period. Fluctuation in our cost of materials from our cost of sales are assumed to be 5%, 10% and 20%.

Hypothetical fluctuations	Increase/decrease in per unit purchase price of natural gas		
	+/-5%	+/-10%	+/-20%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Decrease/increase in profit before taxation			
FY2019	-/+64,220	-/+128,440	-/+256,880
FY2020	-/+52,197	-/+104,394	-/+208,788
FY2021	-/+70,928	-/+141,856	-/+283,713

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Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

Sales and customer mix

Our natural gas business comprises mainly transmission and sale of natural gas and construction and connection of gas pipelines during the Track Record Period. Our gross profit margin were recorded at 14.0%, 17.6% and 15.4% for FY2019, FY2020 and FY2021, respectively. The fluctuation was mainly due to the different sales mix as different types of sale generated different gross profit margin with different trend.

During the Track Record Period, our sales of gas generated gross profit margin of 10.8%, 14.4% and 11.8% while construction contracts generated gross profit margin of 45.4%, 40.4% and 39.3% for FY2019, FY2020 and FY2021, respectively. The fluctuation of gross profit margin of transmission and sales of natural gas is highly driven by our purchase and selling price of sales of PNG, the change in demand of natural gas sales to different types of users and different selling price to different types of users, whilst fluctuation of gross profit margin of construction and connection of gas pipelines is driven by the types of construction projects undertaken.

Consequently, our gross profit margins are impacted by our sales mix in our products and services and hence the revenue from each business segments. Going forward, we will continue to evaluate and adjust our portfolio of our services and product offerings from time to time to focus on products with higher profit margins, greater market demand and potential to maintain or increase our profitability.

Fluctuation in supply of gas

Natural gas constitutes the major raw material for our PNG sale and transmission business. For FY2019, FY2020 and FY2021, our cost of PNG sold amounted to RMB1,208.2 million, RMB967.2 million, and RMB1,330.2 million, respectively, representing 86.2%, 82.5% and 84.6%, respectively, of our total cost of sales. For details please refer to the paragraph headed “Business – Our Source of PNG Supply” in this prospectus.

As we do not maintain a reserve of natural gas, we may need to source alternative supply of natural gas when we receive an insufficient supply of natural gas from our suppliers. Further, we may also face shortage of natural gas in the PRC as a whole, due to reasons beyond our control, for examples, disruption of natural gas supply of our upstream suppliers or the occurrence of any adverse political and economic conditions in natural gas exporting countries, resulting in the significant fluctuation of natural gas supply in the market. If we are not able to source sufficient amount of natural gas on commercially acceptable terms, or at all, our business, financial condition and operating result would be materially and adversely affected.

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Impact of COVID-19

Beginning in late 2019, the PRC and various countries around the world encountered an outbreak of COVID-19, which is highly contagious. The World Health Organisation has declared that the outbreak of COVID-19 as a public health emergency of international concern in January 2020 and characterised COVID-19 as a pandemic in March 2020. Due to the COVID-19 outbreak, there was a temporary suspension of the construction projects and production operation in Huzhou and, to the best of our knowledge, that of the operations of our certain industrial and commercial customers as the resumption of work by enterprises after the Lunar New Year holiday were delayed and not be earlier than 9 February 2020 in order to effectively strengthen the prevention and control of the spread of COVID-19 in Zhejiang Province. Consequently, the sales volume decreased by 25.3% in the first quarter of 2020 compared to the same period in 2019. Further, given the government policy, the average selling price of our PNG decreased during the period from 1 February 2020 to 30 April 2020. Given that (i) our staff have resumed to normal work by March 2020; and (ii) most of our industrial and commercial users have resumed business operations by March 2020, our Directors consider that the demand as well as sales volume of our gas has returned to normal level as at the Latest Practicable Date.

In the PRC, business activities have largely resumed, government emergency measures have been significantly relaxed, and the general economy is gradually recovering. With the recent emergence of variants of COVID-19, including Omicron, which is significantly more infectious than its predecessors, based on past experience gained from previous rounds of COVID-19 outbreak, the PRC government, including provincial government of Zhejiang Province, has improved infection control measures, vaccines and drugs to have the spread of the Omicron virus variant within control. As confirmed by our Directors, as at the Latest Practicable Date, the recent emergence of variants of COVID-19 did not have a material adverse impact on our business operation.

See the paragraph headed “Business – Impact of Outbreak of COVID-19 on our Business” in this prospectus for further details of the impact of COVID-19 on our business during the Track Record Period.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

We have identified certain accounting policies that are significant to the preparation of our Group’s financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgements and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Our significant accounting policies, estimates and judgements, which are important for the understanding of our financial condition and results of operations, are set forth in Notes 2.3 and 3 to Section II of the Accountants’ Report as set out in Appendix I to this prospectus.

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RESULTS OF OPERATIONS

The following table summarises the consolidated statements of profit or loss from the financial statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue	1,630,421	100.0	1,422,038	100.0	1,858,737	100.0
Cost of sales	(1,402,256)	(86.0)	(1,172,024)	(82.4)	(1,573,265)	(84.6)
Gross profit	228,165	14.0	250,014	17.6	285,472	15.4
Other income and gains	8,826	0.5	61,074	4.2	19,520	1.1
Selling and distribution expenses	(22,504)	(1.4)	(24,049)	(1.7)	(35,056)	(1.9)
Administrative expenses	(22,215)	(1.4)	(28,469)	(2.0)	(40,210)	(2.2)
Impairment of financial assets, net	(419)	–	(551)	–	214	–
Other expenses	(582)	–	(539)	–	(4,965)	(0.3)
Finance costs	(248)	–	(281)	–	(1,235)	(0.1)
Share of profits and losses of:						
Joint ventures	1,923	0.1	455	–	(2,052)	(0.1)
Profit before tax	192,946	11.8	257,654	18.1	221,688	11.9
Income tax expense	(49,046)	(3.0)	(65,387)	(4.6)	(54,996)	(2.9)
Profit for the year	<u>143,900</u>	<u>8.8</u>	<u>192,267</u>	<u>13.5</u>	<u>166,692</u>	<u>9.0</u>
Profit attributable to:						
Owners of the parent	94,956	66.0	145,560	75.7	119,714	71.8
Non-controlling interests	48,944	34.0	46,707	24.3	46,978	28.2
	<u>143,900</u>	<u>100.0</u>	<u>192,267</u>	<u>100.0</u>	<u>166,692</u>	<u>100.0</u>

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DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF PROFIT OR LOSS

Revenue

During the Track Record Period, we mainly generated revenue from our gas operation, namely distribution and sales of natural gas, and acting as a main contractor of construction and installation and management of gas pipelines. During the Track Record Period, all our revenue was generated in the PRC. The following table sets forth the breakdown of the sources of our revenue for the periods indicated.

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of gas	1,476,201	90.5	1,251,784	88.0	1,624,099	87.4
Provision of construction and installation services	152,498	9.4	165,497	11.6	213,134	11.4
Sales of energy	–	–	–	–	12,466	0.7
Others ⁽¹⁾	4,796	0.3	7,939	0.6	12,770	0.7
	<u>1,633,495</u>	<u>100.2</u>	<u>1,425,220</u>	<u>100.2</u>	<u>1,862,469</u>	<u>100.2</u>
Less: Government surcharges ⁽²⁾	<u>(3,074)</u>	<u>(0.2)</u>	<u>(3,182)</u>	<u>(0.2)</u>	<u>(3,732)</u>	<u>(0.2)</u>
Total	<u>1,630,421</u>	<u>100.0</u>	<u>1,422,038</u>	<u>100.0</u>	<u>1,858,737</u>	<u>100.0</u>

Notes:

- (1) "Others" comprise sale of household gas appliances, insurance referral and leasing of properties.
- (2) "Government surcharges" comprise of business taxes and other surcharges accrued during the Track Record Period. Our government surcharges remained relatively stable in FY2019, FY2020 and FY2021, representing 0.2% of our total revenue in the respective year.

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Sales of gas

Our sales of gas included sales of PNG to customers, including residential, commercial and industrial customers. We also sold LNG and LPG during the Track Record Period. Our sales of gas amounted to RMB1,476.2 million, RMB1,251.8 million and RMB1,624.1 million for FY2019, FY2020 and FY2021, respectively. Revenue from sales of gas is recognised at a point in time when the performance obligation is satisfied upon delivery of the gas. The following table sets forth the breakdown on sales of gas during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Sale of gas						
Sales of:						
– PNG						
• Retail	1,255,303	85.0	1,092,564	87.3	1,424,155	87.7
• Wholesales	184,168	12.5	137,841	11.0	185,698	11.4
	1,439,471	97.5	1,230,405	98.3	1,609,853	99.1
– LNG	25,169	1.7	16,751	1.3	14,246	0.9
– LPG	11,561	0.8	4,628	0.4	–	–
Total	1,476,201	100.0	1,251,784	100.0	1,624,099	100.0

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Sales of PNG – retail

The tables below set forth key data of our retail sales of PNG during the Track Record Period.

	FY2019		FY2020		FY2021	
	As a percentage to total %		As a percentage to total %		As a percentage to total %	
Residential users						
Revenue (RMB'000)	65,035	5.2	76,982	7.0	83,854	5.9
Sales volume ('000 m ³)	23,790	5.6	27,826	6.8	30,588	6.5
Average selling price (RMB/m ³)	2.73		2.77		2.74	
Non-residential users						
<i>Industrial users</i>						
Revenue (RMB'000)	1,134,660	90.4	972,237	89.0	1,279,597	89.8
Sales volume ('000 m ³)	380,870	90.2	368,662	89.5	420,741	89.2
Average selling price (RMB/m ³)	2.98		2.64		3.04	
<i>Commercial users</i>						
Revenue (RMB'000)	55,608	4.4	43,345	4.0	60,704	4.3
Sales volume ('000 m ³)	17,577	4.2	15,467	3.7	20,092	4.3
Average selling price (RMB/m ³)	3.16		2.80		3.02	
<i>Total/overall</i>						
Revenue (RMB'000)	1,255,303	100.0	1,092,564	100.0	1,424,155	100.0
Sales volume ('000 m ³)	422,237	100.0	411,955	100.0	471,421	100.0
Average selling price (RMB/m ³)	2.97		2.65		3.02	

(i) Residential users

Our sales of PNG to residential users amounted to RMB65.0 million, RMB77.0 million and RMB83.9 million for FY2019, FY2020 and FY2021, respectively, representing 5.2%, 7.0% and 5.9% of our total revenue from retail sales of PNG in the respective years. Our sales volume increased generally during the Track Record Period mainly due to the increase in number of residents using our PNG along with the growth of demand of natural gas associated with the continued economic development in Huzhou. The average selling price of PNG sold to our residential users were RMB2.73/m³, RMB2.77/m³ and RMB2.74/m³ in FY2019, FY2020 and FY2021, respectively. The average selling price of PNG sold to our residential users was relatively lower during FY2019 as higher proportion of residential users consumed less gas and remained at lower price hierarchy. The fluctuation of average selling price of PNG sold to residential users basically depends on the number of users within different gas usage hierarchy in the pricing system. There was no adjustment to the hierarchical pricing system and the price set by the pricing bureaus during the Track Record Period. Nevertheless, since 1 January 2021, the gas price of the third tier to residential users were suspended and temporarily implemented at the gas price of the second tier according to the notice issued by HZDRC. Accordingly, the average selling price of PNG to our residential users decreased to RMB2.74/m³ in FY2021. See the paragraph headed "Regulatory Overview – Pricing of Natural Gas" in this prospectus for details of the hierarchical pricing system.

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(ii) Industrial users

Our sales of PNG to industrial users amounted to RMB1,134.7 million, RMB972.2 million and RMB1,279.6 million for FY2019, FY2020 and FY2021, respectively, representing 90.4%, 89.0% and 89.8% of our total revenue from retail sales of PNG in the respective years. The decrease in revenue from sales of PNG to industrial users from FY2019 to FY2020 was primarily due to the temporary suspension of factory operation as a result of the temporary impact of the COVID-19 in the first half of FY2020 partially offset by the additions of new customers. As a result of the relief of the suspension of industrial and commercial activities in February 2020, our sales to industrial users increased to RMB1,279.6 million in FY2021. Our increase was also due to the addition of new industrial users in FY2021.

Our per unit selling price to our industrial users decreased from FY2019 to FY2020 following the general decrease in per unit purchase price of PNG from RMB2.43/m³ to RMB2.04/m³ due to the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in the first half of FY2020. On 11 February 2020, the ZJDRC issued the Notice on Temporarily Reducing Prices of Gas, Water and Electricity for Enterprises During the Epidemic Prevention of COVID-19 (《關於新冠肺炎防疫期間臨時降低企業用氣用水用電價格的通知》), the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises was reduced by RMB0.14/m³; the applicable period was from 1 February 2020 to 30 April 2020. See “Regulatory Overview — Pricing of Natural Gas” for details. As a result of the relief of the temporary price reduction during the outbreak of COVID-19, the average selling price of PNG sold to our industrial users increased to RMB3.04/m³ in FY2021. The increase was partially offset by the decrease in selling price to non-residential users with reference to the overall decrease in the maximum price imposed by the HZDRC. Please refer to the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for details.

(iii) Commercial users

Our sales of PNG to commercial users amounted to RMB55.6 million, RMB43.3 million and RMB60.7 million for FY2019, FY2020 and FY2021, respectively, representing 4.4%, 4.0% and 4.3% of our total revenue from retail sales of PNG in the respective years. The sales volumes sold to our commercial users decreased from FY2019 to FY2020 primarily due to the temporary suspension of operation of our commercial customers as a result of the temporary impact of the COVID-19 in the first half of FY2020 partially offset by the additions of new customers. As a result of the relief of the suspension of industrial and commercial activities in February 2020, our sales volume to commercial users increased from 15.5 million m³ in FY2020 to 20.1 million m³ in FY2021. Our increase was also due to the addition of new commercial users in FY2021.

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Our per unit selling price to our commercial users decreased from FY2019 to FY2020 following the general decrease in per unit purchase price of PNG from RMB2.43/m³ to RMB2.04/m³ due to the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in the first half of FY2020. On 11 February 2020, the ZJDRC issued the Notice on Temporarily Reducing Prices of Gas, Water and Electricity for Enterprises During the Epidemic Prevention of COVID-19 (《關於新冠肺炎防疫期間臨時降低企業用氣用水用電價格的通知》), the natural gas price ceiling Zhejiang Natural Gas Development Co., Ltd. selling to city gas enterprises was reduced by RMB0.14/m³; the applicable period was from 1 February 2020 to 30 April 2020. See “Regulatory Overview – Pricing of Natural Gas” for details. As a result of the relief of the temporary price reduction during the outbreak of COVID-19, the average selling price of PNG sold to our commercial users increased from RMB2.80/m³ in FY2020 to RMB3.02/m³ in FY2021. The increase was partially offset by the decrease in selling price to non-residential users with reference to the overall decrease in the maximum price imposed by the HZDRC. Please refer to the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for details.

Sales of PNG – wholesale

The tables below set forth key data of our wholesale of PNG during the Track Record Period.

	FY2019	FY2020	FY2021
Revenue (RMB'000)	184,168	137,841	185,698
Sales volume ('000 m ³)	72,336	61,651	75,454
Average selling price (RMB/m ³)	2.55	2.24	2.46

Our sales of PNG to our wholesale customers mainly represented sales to a PNG distributor for their onward sale depending on the market demand.

Our per unit selling price to our wholesale customers decreased from FY2019 to FY2020 following the general decrease in per unit purchase price of PNG from RMB2.43/m³ to RMB2.04/m³ due to the temporary price reduction amidst the outbreak of COVID-19 in the first half of FY2020. To the best knowledge of our Directors, the sales volumes sold to our wholesale customers decreased from FY2019 to FY2020 primarily due to the decrease in demand from the end users of our wholesale customers. Our wholesale revenue increased in FY2021. To the best of the knowledge of our Directors, such increase was primarily due to the increase in demand from the end users of our wholesale customers resulting from the increase in LNG price in FY2021. The average selling price of PNG sold to our wholesale customers increased from RMB2.24/m³ in FY2020 to RMB2.46/m³ in FY2021, primarily due to the relief of the temporary price reduction during the outbreak of COVID-19 to our non-residential users.

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Sales of LNG

Our sales of LNG were mainly to industrial users, which amounted to RMB25.2 million, RMB16.8 million and RMB14.2 million for FY2019, FY2020 and FY2021, respectively.

The decrease in revenue from sales of LNG in FY2020 was primarily due to the temporary suspension of factory operation of our industrial customer as a result of the temporary impact of the COVID-19 in the first half of FY2020.

The decrease from sales of LNG in FY2021 was primarily due to the decrease in demand from our customers as a result of the increase in per unit selling price.

Sales of LPG

During the Track Record Period, we sold LPG to residential, commercial and industrial users on a retail basis. The residential, commercial and industrial users of LPG typically do not have access to the PNG pipeline networks we operate and consider LPG more convenient for their daily usage due to its ease of transportation and higher calorific value. We also sold LPG to wholesale customers for their onward sale depending on the market demand. In FY2019 and FY2020, sales of LPG amounted to RMB11.6 million and RMB4.6 million, respectively. The significant decrease in revenue from sales of LPG in FY2020 was primarily due to the cessation of such business in FY2020. Since mid-2020, we ceased to sell LPG mainly due to (a) the high maintenance cost arising out of our aged LPG facilities; (b) the increasing demand for natural gas as replacement of LPG; and (c) our intention to focus on the construction of an LNG storage station. Consequently, our revenue from sales of LPG decreased to nil in FY2021.

Provision of construction and installation services

Revenue from the provision of construction and installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because our performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the costs incurred, relative to the estimated total costs for satisfaction of the construction and installation services. Our revenue from provision of construction and installation services amounted to RMB152.5 million, RMB165.5 million and RMB213.1 million for FY2019, FY2020 and FY2021, respectively. Our revenue from provision of construction and installation services increased from FY2019 to FY2020 and FY2021 primarily attributable to the increase in the contract sum of the projects completed.

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Sale of energy

Leveraging on our experience and sales network in our sale of gas, we commenced our sale of energy business during FY2021. We provide integrated energy services including cooling, heating, and electricity generation through a distributed energy system and other equipment with the use of our natural gas as fuel. We enter into agreements with our customers for the construction and investment of such distributed energy system and/or other equipment before commencement of our supply of energy. We charge our customers based on the actual usage of energy. For FY2021, we generated RMB12.5 million from our sale of energy, representing 0.7% of our total revenue (before government surcharge).

Cost of sales

Our cost of sales comprised cost of purchase of gas, construction costs for gas supply infrastructure, depreciation, staff costs, cost of construction material and others.

The following table sets forth, for the periods indicated, a breakdown of our cost sales by nature:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Cost of PNG sold	1,208,245	86.2	967,152	82.5	1,330,221	84.6
Cost of LNG sold	24,776	1.8	16,188	1.4	13,205	0.8
Cost of energy sold	–	–	–	–	6,721	0.4
Construction costs	83,306	5.9	98,654	8.4	124,188	7.9
Depreciation and amortisation	43,131	3.1	47,068	4.0	51,003	3.2
Employee benefit expenses	26,385	1.9	31,094	2.7	35,346	2.2
Amortisation of intangible assets	7,159	0.5	7,149	0.6	7,338	0.5
Others	9,254	0.6	4,719	0.4	5,243	0.4
	<u>1,402,256</u>	<u>100.0</u>	<u>1,172,024</u>	<u>100.0</u>	<u>1,573,265</u>	<u>100.0</u>

Our cost of sales amounted to RMB1,402.3 million, RMB1,172.0 million and RMB1,573.3 million, respectively, for FY2019, FY2020 and FY2021.

Our cost of PNG sold is our main cost of sales, representing 86.2%, 82.5% and 84.6% of our total cost of sales for FY2019, FY2020 and FY2021, respectively.

Due to the outbreak of COVID-19, our cost of PNG sold decreased from FY2019 to FY2020 primarily due to the decrease in (i) our total sales volume in FY2020; and (ii) average per unit cost of purchase of PNG. As a result of the relief of the suspension of industrial and commercial activities in February 2020, our cost of PNG sold increased from FY2020 to FY2021 which was generally in line with the increase in total sales volume of PNG in FY2021.

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The average per unit cost of purchase of PNG decreased from FY2019 to FY2020, primarily due to the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in FY2020. The average per unit cost of purchase of PNG increased in FY2021 compared to that in FY2020, with reference to the overall increase in the maximum price imposed by the ZJDRC. Please refer to the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for details.

Our depreciation recorded in our cost of sales primarily represented the depreciation of our gas pipelines.

Our cost of provision of construction and installation services increased from FY2019 to FY2021, which was generally in line with the fluctuation in such revenue.

The following table sets out the breakdown of our cost of sales by sources of our revenue during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of gas						
– PNG	1,278,046	91.1	1,048,877	89.5	1,418,561	90.2
– LNG	24,776	1.8	16,189	1.4	13,912	0.9
– LPG	14,255	1.0	6,008	0.5	–	–
Sub-total	1,317,077	93.9	1,071,074	91.4	1,432,473	91.1
Provision of construction and installation services	83,306	6.0	98,654	8.4	129,315	8.2
Sales of energy	–	–	–	–	6,984	0.4
Others	1,873	0.1	2,296	0.2	4,493	0.3
Total	1,402,256	100.0	1,172,024	100.0	1,573,265	100.0

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Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by sources of our revenue for the periods indicated:

	FY2019		FY2020		FY2021	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Sales of gas						
– PNG	161,425	11.2	181,528	14.8	191,292	11.9
– LNG	393	1.6	562	3.4	334	2.3
– LPG	(2,694)	(23.3)	(1,380)	(29.8)	–	–
Sub-total	<u>159,124</u>	<u>10.8</u>	<u>180,710</u>	<u>14.4</u>	<u>191,626</u>	<u>11.8</u>
Provision of construction and installation services	69,192	45.4	66,843	40.4	83,819	39.3
Sales of energy	–	–	–	–	5,482	44.0
Others	<u>2,923</u>	<u>60.9</u>	<u>5,643</u>	<u>71.1</u>	<u>8,277</u>	<u>64.8</u>
Total (before government surcharges)	231,239	14.2	253,196	17.8	289,204	15.5
Less: Government surcharges	<u>(3,074)</u>		<u>(3,182)</u>		<u>(3,732)</u>	
Total/overall	<u><u>228,165</u></u>	<u>14.0</u>	<u><u>250,014</u></u>	<u>17.6</u>	<u><u>285,472</u></u>	<u>15.4</u>

For FY2019, FY2020 and FY2021, our gross profit amounted to RMB228.2 million, RMB250.0 million and RMB285.5 million, respectively. The respective gross profit margin was 14.0%, 17.6% and 15.4%, respectively. The increase in our gross profit margin during the Track Record Period was mainly attributable to the increase in gross profit margin from our sales of PNG during the Track Record Period and the increase in revenue contribution from our provision of construction and installation services which attained higher gross profit margin compared to the sales of gas.

Our gross profit margin attained from the provision of construction and installation services decreased from 45.4% in FY2019 to 40.4% in FY2020, primarily due to the discounts given to non-residential users with larger operational scale and higher expected PNG usage. The gross profit margin remained relatively stable at 39.3% in FY2021.

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The following table sets forth a breakdown of gross profit and gross profit margin of retail sales of PNG by different types of users for the periods indicated:

	FY2019			FY2020			FY2021			
	Gross profit RMB'000	Per unit purchase price ^(Note) RMB/m ³	Per unit selling price RMB/m ³	Gross profit RMB'000	Gross profit margin %	Per unit purchase price ^(Note) RMB/m ³	Per unit selling price RMB/m ³	Gross profit margin %	Per unit purchase price RMB/m ³	Per unit selling price RMB/m ³
Sales of PNG by type of users										
Residential users	3,179	2.43	2.73	15,613	20.3	2.04	2.77	4.5	2.24	2.74
Industrial users	144,366	2.43	2.98	150,232	15.5	2.04	2.64	13.9	2.24	3.04
Commercial users	9,906	2.43	3.16	9,234	21.3	2.04	2.80	13.3	2.24	3.02

Note: The pipeline transmission fees are included in the PNG purchase price as they are charged under the same PNG supply agreement prior to September 2020, rather than under a separate PNG transmission agreement as a result of the separation of natural gas sales and transmission under the 2020 Summary since September 2020.

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Residential users

Our gross profit for retail sales to residential users were RMB3.2 million, RMB15.6 million and RMB3.8 million in FY2019, FY2020 and FY2021, respectively, while our gross profit margin were 4.9%, 20.3% and 4.5% during the respective year.

Our gross profit and gross profit margin increased from FY2019 to FY2020 primarily due to the (i) decrease in per unit purchase price due to the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in the first half of FY2020; and (ii) increase in average selling price of PNG sold to our residential users during FY2020 was primarily due to the higher average selling price per unit because the usage of our users has reached a higher hierarchy according to the hierarchical pricing system set by the relevant government authorities.

Our gross profit and gross profit margin decreased from FY2020 to FY2021 primarily due to the adjustment of natural gas price of residential usage for usage beyond 500 m³ annually from RMB4.38/m³ to RMB3.50/m³ pursuant to the Notice on Adjusting Pipeline Natural Gas prices during Heating Season in Urban Area (《關於調整市區供暖季管道天然氣銷售價格的通知》) issued by the HZDRC in December 2020. Please refer to the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for details.

Industrial users

Our gross profit for retail sales to industrial users were RMB144.4 million, RMB150.2 million and RMB178.1 million in FY2019, FY2020 and FY2021, respectively, while our gross profit margin were 12.7%, 15.5% and 13.9% during the respective year. Our gross profit and gross profit margin increased from FY2019 to FY2020 primarily due to the increase in our per unit selling price in response to the fluctuations of per unit purchase price in the respective year.

Our gross profit margin for retail sales to industrial users decreased from FY2020 to FY2021, primarily due to the combined effect of (i) increase in the pipeline transportation fee and gas storage service fees during FY2021, as well as the increase in per unit purchase price; and (ii) increase in per unit selling price to industrial users as mentioned above.

Commercial users

Our gross profit for retail sales to commercial users were RMB9.9 million, RMB9.2 million and RMB8.1 million in FY2019, FY2020 and FY2021 respectively, while our gross profit margin were 17.8%, 21.3% and 13.3% during the respective year. Our gross profit and gross profit margin increased from FY2019 to FY2020 primarily due to the increase in our per unit selling price in response to the fluctuations of per unit purchase price in the respective year.

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Our gross profit margin for retail sales to commercial users decreased from FY2020 to FY2021 primarily due to the increase in the pipeline transportation fee and gas storage service fees during FY2021, despite the increase in per unit selling price.

Other income and gains

Other income and gains mainly represents interest income from bank deposits, gain on disposal of items of property, plant and equipment, fair value gains on wealth management products and government grants. Other income and gains amounted to RMB8.8 million, RMB61.1 million and RMB19.5 million in FY2019, FY2020 and FY2021, respectively.

The following table sets forth a breakdown of other income and gains for the periods indicated:

	FY2019 <i>RMB'000</i>	FY2020 <i>RMB'000</i>	FY2021 <i>RMB'000</i>
Other income			
Bank interest income	5,314	10,445	6,256
Finance income on the net investment in a lease	–	127	763
Government grants ^(Note)	892	2,308	2,807
Others	462	275	126
	<u>6,668</u>	<u>13,155</u>	<u>9,952</u>
Other gains			
Gain on disposal of property, plant and equipment	1,103	46,992	2,018
Recovery of written-off trade receivables	1,010	673	–
Fair value gains on wealth management products	–	–	7,443
Gain on disposal of materials	45	254	107
	<u>2,158</u>	<u>47,919</u>	<u>9,568</u>
	<u><u>8,826</u></u>	<u><u>61,074</u></u>	<u><u>19,520</u></u>

Note: The government grants were one-off in nature and are recognised when received. There were no unfulfilled conditions or contingencies relating to these subsidies that were included in our consolidated statements of profit or loss.

Our bank interest income was relatively higher at RMB10.4 million in FY2020, primarily due to the higher bank balance during the year despite the relatively stable bank and cash balances as at 31 December 2019 and 2020, primarily resulting from the dividend paid near the end of FY2020. Our bank interest income decreased in FY2021, primarily due to the decrease in average bank balance during the period.

We had fair value gains on wealth management products during FY2021, which was attributable to the investment in management products in certain banks in the PRC with the interest rate ranged from 1.5% to 3.2% per annum during the year.

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Our gain on disposal of property, plant and equipment was relatively higher at RMB47.0 million in FY2020, primarily due to the disposal of gas station located in Xi Sai Road to local government in FY2020 following the city planning of Huzhou local government. The construction of the gas station was completed in late 2003 and such gas station was disposed to a company controlled by the local government at consideration of RMB58.0 million at their request for the city planning in FY2020. As at the date of disposal, the net carrying amount of the gas station was RMB12.5 million. Thus, we recorded gain on disposal of RMB45.5 million in FY2020. The gain on disposal of property, plant and equipment for FY2021 represented disposal of pipelines mainly in a dormitory and Donglin Industrial Area in Huzhou and Nanxun District at the request by the local government for city planning in the respective areas.

Selling and distribution expenses

Selling and distribution expenses primarily comprised of employee benefit expenses, depreciation and amortisation, repair and maintenance, utility expenses and consumables.

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefit expenses	20,480	91.0	21,873	91.0	31,347	89.4
Depreciation	437	1.9	150	0.6	130	0.4
Advertising and promotion expenses	574	2.6	413	1.7	454	1.3
Others	1,013	4.5	1,613	6.7	3,125	8.9
Total	22,504	100.0	24,049	100.0	35,056	100.0

Selling and distribution expenses amounted to RMB22.5 million, RMB24.0 million and RMB35.1 million for FY2019, FY2020 and FY2021, respectively. As a percentage of total revenue, our selling and distribution expenses accounted for 1.4%, 1.7% and 1.9% during the respective years.

Our employee benefit expenses remained relatively stable at RMB20.5 million and RMB21.9 million in FY2019 and FY2020, respectively. Our employee benefit expenses increased to RMB31.3 million in FY2021, primarily due to the (i) increase in number of staff for sales and marketing; and (ii) increase in general salary level.

Others was relatively higher in FY2021 as we incurred an one-off communication fee for a new service provider which was not incurred previously.

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Administrative expenses

Administrative expenses primarily comprise employee benefit expenses, depreciation and amortisation, office expenses, professional fee, travelling and entertainment expenses and utility expenses.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Employee benefit expenses	13,014	58.6	15,231	53.5	20,349	50.6
Listing expenses	–	–	4,322	15.2	9,469	23.6
Professional fee	666	3.0	1,628	5.7	994	2.5
Depreciation and amortisation	899	4.0	484	1.7	861	2.1
Business development expenses	2,949	13.3	2,717	9.5	2,672	6.6
Rental expenses	615	2.8	560	2.0	532	1.3
Office expenses	1,687	7.6	1,564	5.5	1,937	4.8
Others	2,385	10.7	1,963	6.9	3,396	8.5
Total	22,215	100.0	28,469	100.0	40,210	100.0

Administrative expenses amounted to RMB22.2 million, RMB28.5 million and RMB40.2 million for FY2019, FY2020 and FY2021, respectively. As a percentage of total revenue, our administrative expenses accounted for 1.4%, 2.0% and 2.2% during the respective years.

Our employee benefit expenses significantly increased during the Track Record Period, primarily due to (i) increase in number of staff; and (ii) increase in general salary level.

Office expenses recorded in our administrative expenses primarily represented general office expenses for our operations, repair and maintenance expenses and motor vehicle expenses.

Depreciation and amortisation recorded in administrative expenses primarily arising from our office building, warehouses and staff dormitory.

Impairment losses on financial assets, net

We provide impairment losses to our trade receivables, prepayments, other receivables and other assets of RMB0.4 million and RMB0.6 million in FY2019 and FY2020, respectively. We then recorded reversal of impairment losses on financial assets of RMB0.2 million in FY2021.

We assess whether there are any indicators of impairment for all non-financial assets at the end of each of the Track Record Period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair

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value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Other expenses

Other expenses primarily comprise the loss on disposal of property, plant and equipments, impairment of assets and research and development expenses. Other expenses amounted to RMB0.6 million, RMB0.5 million and RMB5.0 million for FY2019, FY2020 and FY2021, respectively. Our other expenses was relatively higher in FY2021, primarily due to the research and development of RMB4.3 million incurred. We recorded research and development expenses of RMB4.3 million in FY2021, primarily for the development on new technology and safety in relation to our sale of natural gas. No research and development expenses was incurred in other years during the Track Record Period.

Finance costs

Finance costs represented interest on our interest-bearing bank borrowings and interest expenses on leases. Finance costs amounted to RMB0.2 million, RMB0.3 million and RMB1.2 million for FY2019, FY2020 and FY2021, respectively.

Share of profit or losses of joint ventures

Our share of results of joint ventures represented share of post-acquisition profits and other comprehensive income, net of dividend received and receivables from them.

We shared the profits of joint ventures of RMB1.9 million and RMB0.5 million in FY2019 and FY2020, respectively. We had share of losses of RMB2.1 million in FY2021 primarily due to the decrease in demand of CNG of our joint venture following the government policy of promoting electric vehicles in Huzhou.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate. During the Track Record Period, all of our profits was derived from our business in the PRC and our profits generated from our operations were principally subject to the PRC enterprise income tax.

PRC enterprise income tax

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries of our Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 (the "**New Corporate Income Tax Law**").

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Our income tax expense was RMB49.0 million, RMB65.4 million and RMB55.0 million for FY2019, FY2020 and FY2021, respectively; the effective tax rate for the same period was 25.4%, 25.4% and 24.8%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

REVIEW OF HISTORICAL RESULTS OF OPERATION

FY2021 compared to FY2020

Revenue

Our revenue increased by RMB436.7 million or 30.7% from RMB1,422.0 million in FY2020 to RMB1,858.7 million in FY2021 mainly as a result of the increase in (i) sales of gas by RMB372.3 million; and (ii) construction and installation services by RMB47.6 million.

(i) Sales of gas

Our revenue from sales of gas increased by RMB372.3 million or 29.7% from RMB1,251.8 million in FY2020 to RMB1,624.1 million in FY2021 primarily due to the increase in revenue from sales of PNG of RMB379.4 million, partially offset by the decrease in revenue from sales of LNG of RMB2.5 million and sales of LPG of RMB4.6 million in FY2021.

(a) Sales of PNG

– Retail sales

Our increase in revenue from retail sales of PNG was primarily attributable to (i) increase in sales of PNG to our industrial users and commercial users by RMB307.4 million and RMB17.4 million, respectively, as a result of the relief of temporary suspension of industrial activities and operations of our commercial users which was posted during FY2020 amidst the outbreak of COVID-19 and additions of both industrial and commercial users during FY2021. Consequently, the total sales volume to our industrial customers and commercial customers increased from 368.7 million m³ in FY2020 to 420.7 million m³ in FY2021 and from 15.5 million m³ in FY2020 to 20.1 million m³ in FY2021, respectively; and (ii) increase in sales of PNG to our residential users by RMB6.9 million, mainly due to the additions of residential users during FY2021. The increase in revenue from retail sales of PNG was partially offset by the decrease in overall per unit average selling price from RMB2.77/m³ in FY2020 to RMB2.74/m³ in FY2021, primarily due to the relief of the temporary price reduction during the outbreak of COVID-19 to our non-residential users. Despite the increase in average per unit selling price to our non-residential users, the average per unit selling price to our residential users decrease in FY2021 mainly due to the temporary suspension of the third tier pricing to residential users according to the notice issued by HZDRC commencing on 1 January 2021.

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– Wholesales

Our revenue from wholesale of PNG increased by RMB47.9 million or 34.7% from RMB137.8 million in FY2020 and RMB185.7 million in FY2021. To the best of the knowledge of our Directors, such increase was primarily due to the increase in demand from the end users of our wholesale customers resulting from the increase in LNG price in FY2021. The average selling price of PNG sold to our wholesale customers increased from RMB2.24/m³ in FY2020 to RMB2.46/m³ in FY2021, primarily due to the relief of the temporary price reduction during the outbreak of COVID-19 to our non-residential users.

(b) Sales of LNG

Our revenue from sales of LNG decreased from RMB16.8 million in FY2020 to RMB14.2 million in FY2021 primarily due to the decrease in demand from our customers as a result of the increase in per unit selling price.

(c) Sales of LPG

Our sales of LPG decreased by RMB4.6 million or 100.0% from RMB4.6 million in FY2020 to nil in FY2021 primarily due to the cessation of sales of LPG since mid-2020.

(ii) *Provision of construction and installation services*

Our revenue from the provision of construction and installation services increased by RMB47.6 million or 28.8% from RMB165.5 million in FY2020 to RMB213.1 million in FY2021 primarily due to the increase in value of works completed in FY2021 attributable to certain projects of larger contract sum in FY2021, such as projects for industrial buildings and commercial buildings in Huzhou.

Cost of sales

Cost of sales increased by RMB401.3 million or 34.2% from RMB1,172.0 million in FY2020 to RMB1,573.3 million in FY2021. Such increase was primarily due to the increase in cost of sale of PNG of RMB369.7 million which was mainly attributable to increase in our total sales volume in FY2021 as well as the increase in average per unit cost of purchase of PNG. The average per unit cost of purchase of PNG increased from FY2020 to FY2021, primarily due to the increase in per unit purchase price with reference to the overall increase in the maximum price imposed by the ZJDRRC. Please refer to the paragraph headed “Regulatory Overview – Pricing of Natural Gas” in this prospectus for details. The increase in cost of sales was also attributable to the increase in the cost for our construction and installation services of RMB30.7 million which was generally in line with the increase in our revenue from construction and installation services.

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Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by RMB35.5 million or 14.2% from RMB250.0 million in FY2020 to RMB285.5 million in FY2021. Our gross profit margin decreased from 17.6% in FY2020 to 15.4% in FY2021, primarily due to the decrease in gross profit margin attained from the sales of PNG to our (i) residential users resulting from the temporary suspension of the gas price of the third tier in FY2021 as discussed above; and (ii) non-residential users resulting from the increase in the pipeline transportation fee and gas storage service fees during FY2021 and the increase in average per unit purchase price.

Other income and gains

Other income and gains decreased from RMB61.1 million in FY2020 to RMB19.5 million in FY2021, mainly due to the decrease in gain on disposal of property, plant and equipment of RMB45.0 million resulting from disposal of a gas station located in Xi Sai Road to local government in FY2020 following the city planning of Huzhou local government. The decrease in other income and gains was partially offset by the fair value gain on wealth management products of RMB7.4 million during FY2021. For details, please see “– Description of Certain Items of Consolidated Statements of Financial Position – Financial assets at fair value through profit or loss” in this section.

Selling and distribution expenses

Selling and distribution expenses increased by RMB11.1 million or 46.3% from RMB24.0 million in FY2020 to RMB35.1 million in FY2021. The increase was primarily due to the increase in the employee benefit expenses of RMB9.5 million resulting from the increase in number of headcounts and salary level.

Administrative expenses

Administrative expenses increased by RMB11.7 million or 41.1% from RMB28.5 million in FY2020 to RMB40.2 million in FY2021. The increase was primarily due to increase in the (i) Listing expenses of RMB5.1 million primarily for our Listing; and (ii) employee benefit expenses of RMB5.1 million resulting from the increase in number of headcounts and salary level.

Other expenses

Other expenses increased by RMB4.5 million from RMB0.5 million in FY2020 to RMB5.0 million in FY2021. Such increase was primarily due to the research and development expenses of RMB4.3 million incurred in FY2021, primarily for the development on new technology and safety in relation to our sale of natural gas. No research and development expenses was incurred in other years during the Track Record Period.

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Finance costs

Finance costs increased from RMB0.3 million in FY2020 to RMB1.2 million in FY2021, primarily due to the increase in interest expense arising from discounted bills receivables.

Share of profit and loss of joint ventures

We shared profit of joint ventures of RMB0.5 million in FY2020 and losses of RMB2.1 million in FY2021. Such decrease was primarily due to decrease in profit from Zhongshihua Xinao following the decrease in demand of the CNG as a result of the government policy of promoting electric vehicles in Huzhou.

Income tax expense

Income tax expense decreased by RMB10.4 million or 15.9% from RMB65.4 million in FY2020 to RMB55.0 million in FY2021 primarily due to the decrease in assessable income. Our effective tax rate remained relatively stable at 25.4% and 24.8% in FY2020 and FY2021, respectively.

Profit for the year

As a result of the foregoing, profit for the year decreased by RMB25.6 million or 13.3% from RMB192.3 million in FY2020 to RMB166.7 million in FY2021. Our net profit margin (being the profit for the year attributable to owners of the Company divided by revenue for the respective year) decreased from 10.2% for FY2020 to 6.4% for FY2021 which was mainly due to decrease in gains on disposal of property, plant and equipment and increase in Listing expenses as mentioned above.

FY2020 compared to FY2019

Revenue

Our revenue decreased by RMB208.4 million or 12.8% from RMB1,630.4 million in FY2019 to RMB1,422.0 million in FY2020 mainly as a result of the combined effect of the decrease in sales of gas by RMB224.4 million; and the increase in revenue from construction and installation services by RMB13.0 million.

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(i) *Sales of gas*

Our revenue from sales of gas decreased by RMB224.4 million or 15.2% from RMB1,476.2 million in FY2019 to RMB1,251.8 million in FY2020 primarily due to the decrease in revenue from (i) sales of PNG of RMB209.1 million; (ii) sales of LNG of RMB8.4 million; and (iii) sales of LPG of RMB7.0 million.

(a) Sales of PNG

– Retail sales

Our decrease in revenue from retail sales of PNG was primarily attributable to (i) decrease in sales of PNG to our industrial users and commercial users by RMB162.4 million and RMB12.3 million, respectively, as a result of the temporary suspension of industrial activities and operations of our commercial users during the first half of FY2020 amidst the outbreak of COVID-19 in FY2020. Consequently, the total sales volume to our industrial customers and commercial customers decreased from 380.9 million m³ in FY2019 to 368.7 million m³ in FY2020 and from 17.6 million m³ in FY2019 to 15.5 million m³ in FY2020, respectively. In addition, the per unit average selling price to our industrial users and commercial customers decreased from RMB2.98/m³ in FY2019 to RMB2.64/m³ in FY2020 and from RMB3.16/m³ in FY2019 to RMB2.80/m³ in FY2020, respectively, primarily due to the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in the first half of FY2020.

The decrease in retail sales of PNG was partially offset by the increase in sales of PNG to residential users from RMB65.0 million in FY2019 to RMB77.0 million in FY2020, primarily due to the increase in sales volume resulting from increase in total number of users and the increase in usage in residential places amidst the outbreak of COVID-19 in the first half of FY2020. The per unit average selling price to our residential users increased from RMB2.73 per m³ in FY2019 to RMB2.77 per m³ in FY2020, primarily due to the higher average selling price per unit because the usage of our users has reached a higher hierarchy according to the hierarchical pricing system.

– Wholesales

Our revenue from wholesales decreased from RMB184.2 million in FY2019 to RMB137.8 million in FY2020. Our decrease in revenue from wholesales of PNG was primarily attributable to the temporary suspension of industrial activities during the first half of FY2020 amidst the outbreak of COVID-19 in FY2020. Consequently, the total sales volume decreased from 72.3 million m³ in FY2019 to 61.7 million m³ in FY2020. In addition, the per unit average selling price to our wholesale users decreased from RMB2.55 per m³ in FY2019 to RMB2.24 per m³ in FY2020, primarily due to the temporary price reduction amidst the outbreak of COVID-19 in the first half of FY2020.

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(b) Sales of LNG

Our revenue from sales of LNG decreased from RMB25.2 million in FY2019 to RMB16.8 million in FY2020 primarily due to the temporary suspension of factory operation of our customer as a result of the temporary impact of the COVID-19 in the first half of FY2020.

(c) Sales of LPG

Our sales of LPG decreased by RMB7.0 million or 60.3% from RMB11.6 million in FY2019 to RMB4.6 million in FY2020 primarily due to the decrease in total sales resulting from the cessation of sales of LPG since mid-2020.

(ii) *Provision of construction and installation services*

Our revenue from the provision of construction and installation services increased by RMB13.0 million or 8.5% from RMB152.5 million in FY2019 to RMB165.5 million in FY2020 primarily due to the increase in value of works completed in FY2020 resulting from the larger contract sum of the projects completed in FY2020.

Cost of sales

Cost of sales decreased by RMB230.3 million or 16.4% from RMB1,402.3 million in FY2019 to RMB1,172.0 million in FY2020. Such decrease was primarily due to the decrease in cost of PNG of RMB229.2 million which was mainly attributable to decrease in (i) our total sales volume in FY2020; and (ii) average per unit cost of purchase of PNG. The average per unit cost of purchase of PNG decreased from FY2019 to FY2020, primarily due to the temporary price reduction set by relevant government authorities amidst the outbreak of COVID-19 in FY2020.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by RMB21.8 million or 9.6% from RMB228.2 million in FY2019 to RMB250.0 million in FY2020. Our gross profit margin increased from 14.0% in FY2019 to 17.6% in FY2020, which was mainly due to (i) increase in gross profit margin from sales of natural gas; and (ii) increase in revenue contribution from our provision of construction and installation services which attained higher gross profit margin compared to that of sales of natural gas.

Other income and gains

Other income and gains increased from RMB8.8 million in FY2019 to RMB61.1 million in FY2020, mainly due to the increase in (i) gain on disposal of property, plant and equipment of RMB45.9 million resulting from disposal of a gas station located in Xi Sai Road to local government in FY2020 following the city planning of Huzhou local government; and (ii) bank interest income of RMB5.1 million.

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Selling and distribution expenses

Selling and distribution expenses increased by RMB1.5 million or 6.7% from RMB22.5 million in FY2019 to RMB24.0 million in FY2020. The increase was primarily due to the increase in the employee benefit expenses of RMB1.4 million resulting from the increase in number of headcounts and salary level.

Administrative expenses

Administrative expenses increased by RMB6.3 million or 28.4% from RMB22.2 million in FY2019 to RMB28.5 million in FY2020. The increase was primarily due to increase in the (i) Listing expenses of RMB4.3 million primarily for our Listing; and (ii) employee benefit expenses of RMB2.2 million resulting from the increase in number of headcounts and salary level.

Other expenses

Other expenses remained relatively stable at RMB0.6 million and RMB0.5 million in FY2019 and FY2020, respectively.

Finance costs

Finance costs remained relatively stable at RMB248,000 and RMB281,000 in FY2019 and FY2020, respectively.

Share of profit and loss of joint ventures

Our share of profit of joint ventures decreased by RMB1.4 million or 73.7% from RMB1.9 million in FY2019 to RMB0.5 million in FY2020. Such decrease was primarily due to decrease in profit from Zhongshihua Xinao following the decrease in demand of the CNG.

Income tax expense

Income tax expense increased by RMB16.4 million or 33.5% from RMB49.0 million in FY2019 to RMB65.4 million in FY2020 primarily due to the increase in assessable income. Our effective tax rate remained relatively stable at 25.4% in both FY2019 and FY2020.

Profit for the year

As a result of the foregoing, profit for the year increased by RMB48.4 million or 33.6% from RMB143.9 million in FY2019 to RMB192.3 million in FY2020. Our net profit margin (being the profit for the year attributable to owners of the Company divided by revenue for the respective year) increased from 5.8% for FY2019 to 10.2% for FY2020 which was mainly due to the increase in gross profit margin as mentioned above.

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SUMMARY OF ASSETS AND LIABILITIES

The following table sets out our consolidated financial position as at the dates indicated:

	As at 31 December		
	2019 RMB'000	2020 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Lease receivables	–	3,644	3,607
Property, plant and equipment	732,826	757,408	835,650
Investment properties	731	704	1,947
Right-of-use assets	27,764	26,697	26,960
Goodwill	28,506	28,506	28,506
Other intangible assets	106,174	98,767	91,705
Investments in joint ventures	12,818	10,605	8,553
Deferred tax assets	5,687	1,719	1,365
Other non-current assets	614	–	–
	<u>915,120</u>	<u>928,050</u>	<u>998,293</u>
CURRENT ASSETS			
Inventories	17,258	21,505	29,347
Lease receivables	–	807	807
Trade and bills receivables	61,900	61,532	66,357
Prepayments, other receivables and other assets	26,985	23,319	36,829
Due from related parties	45	12,394	22,569
Financial assets at fair value through profit or loss	–	–	150,000
Pledged deposits	20	24	24
Cash and cash equivalents	554,741	551,669	588,673
Assets classified as held for sale	12,478	–	–
	<u>673,427</u>	<u>671,250</u>	<u>894,606</u>
CURRENT LIABILITIES			
Trade payables	112,107	110,396	140,407
Other payables and accruals	264,693	146,717	255,650
Contract liabilities	195,829	260,419	291,477
Due to related parties	563	1,817	642
Tax payables	7,784	35,469	40,521
Lease liabilities	298	17	535
	<u>581,274</u>	<u>554,835</u>	<u>729,232</u>
NET CURRENT ASSETS	<u>92,153</u>	<u>116,415</u>	<u>165,374</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,007,273</u>	<u>1,044,465</u>	<u>1,163,667</u>

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	As at 31 December		
	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Contract liabilities	79,569	77,817	90,404
Deferred tax liabilities	37,168	39,720	38,705
Deferred income	1,133	1,067	1,000
Other non-current liabilities	4,000	4,000	15,239
Lease liabilities	10	304	570
	<u>121,880</u>	<u>122,908</u>	<u>145,918</u>
 Total non-current liabilities	 <u>121,880</u>	 <u>122,908</u>	 <u>145,918</u>
 Net assets	 <u>885,393</u>	 <u>921,557</u>	 <u>1,017,749</u>
 EQUITY			
Equity attributable to owners of the parent			
Share capital	98,947	98,947	150,000
Other reserves	724,648	725,228	793,916
	<u>823,595</u>	<u>824,175</u>	<u>943,916</u>
 Non-controlling interests	 <u>61,798</u>	 <u>97,382</u>	 <u>73,833</u>
 Total equity	 <u>885,393</u>	 <u>921,557</u>	 <u>1,017,749</u>

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

During the Track Record Period, our property, plant and equipment mainly consisted of gas pipelines for our gas operations, buildings in the PRC, plant and machinery and construction in progress. Our property, plant and equipment amounted to RMB732.8 million, RMB757.4 million and RMB835.7 million as at 31 December 2019, 2020 and 2021, respectively.

The property, plant and equipment remained relatively stable at RMB732.8 million as at 31 December 2019 and RMB757.4 million as at 31 December 2020. The balance then increased to RMB835.7 million as at 31 December 2021, primarily due to the construction of the emergency reserve station of LNG in Huzhou.

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Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	30–50 years
Gas pipelines	20 years
Plant and machinery	10–30 years
Office and other equipment	6 years
Motor vehicles	6 years
Instrument and apparatus	6 years
Leasehold improvement	3–10 years
Others	6 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

Investment properties

Investment properties represented mainly comprised of properties in Huzhou, leased to related parties and Independent Third Parties under operating leases for generating rental income. Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Our investment properties amounted to RMB731,000, RMB704,000 and RMB1.9 million as at 31 December 2019, 2020 and 2021, respectively. Our investment properties decreased as at 31 December 2019 to 2020, primarily due to depreciation charge of RMB27,000 during FY2020. Our investment properties increased to RMB1.9 million as at 31 December 2021, primarily due to the transfer of our owner-occupied properties, with net carrying amount of RMB1.3 million, from buildings as they were leased out for commercial use in FY2021.

Right-of-use assets

We have consistently adopted IFRS 16 throughout the Track Record Period. Our leases have been recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in our consolidated statements of financial position. We recognised right-of-use assets at the commencement date of the lease (i.e. the date on which the underlying asset is available for use), except for short-term leases and leases of low value assets (being amount insignificant to our Group during the Track Record Period) which were recognised in our property related expenses.

Our right-of-use assets included (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs we incurred; and (iv) an estimate of the costs to be incurred by us in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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As at 31 December 2019, 2020 and 2021, our right-of-use assets represented operating lease arrangements for payments for interest in leasehold land and buildings, for our operation. Our right-of-use assets decreased from RMB27.8 million as at 31 December 2019 to RMB26.7 million as at 31 December 2020 primarily resulting from depreciation of RMB1.7 million. Our right-of-use asset then remained relatively stable at RMB27.0 million as at 31 December 2021.

Goodwill

Our goodwill, amounted to RMB28.5 million as at 31 December 2019, 2020 and 2021, arose from the completion of the acquisition of Xinao Development in December 2018.

Impairment testing of goodwill

Goodwill acquired in a business combination is allocated to cash-generating units (“**CGUs**”) that are expected to benefit from that business combination. The management considers that each subsidiary represents a separate CGU for the purpose of goodwill impairment testing.

The recoverable amount of Xinao Development was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by the management. The discount rate applied to the cash flow projections was 11.8% and cash flows beyond the five-year period were extrapolated using a growth rate of 3.0%.

Assumptions were used in the value-in-use calculation of the cash-generating units for FY2019, FY2020 and FY2021. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill:

- | | |
|-----------------|---|
| Revenue: | The bases used to determine the future earnings potential are historical sales and average and expected growth rates of the market in the PRC. |
| Gross margins: | The gross margins are based on the average gross margin achieved in the past five years and expected trend in the future. |
| Expenses: | The value assigned to the key assumptions reflects past experience and management’s commitment to maintain the Group’s operating expenses to an acceptable level. |
| Discount rates: | The discount rates used are before tax and reflect management’s estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of our Group during the Track Record Period. |

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The values assigned to the key assumptions on market development of industrial products and infrastructure industries, discount rates and raw materials price inflation are consistent with external information sources.

According to the results of the impairment testing on CGU, the amounts (i.e., the headroom) by which the estimated recoverable amounts of the CGU exceed its carrying amounts are set out as below:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xinao Development	56,606	70,674	87,616

The directors of the Company also performed a sensitivity analysis of the headroom to changes in the expected revenue or the pre-tax discount rate for the FY2019, FY2020 and FY2021. Had the following estimated key assumptions been changed as below, the headroom would have decreased to the amounts as follows:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– Pre-tax discount rate increased by 1%	25,760	26,180	26,920
– Expected revenue decreased by 2%	13,450	8,840	9,960

Based on the above assessment and the historical results, in the opinion of the directors of the Company, the reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amounts of the CGU to exceed its respective recoverable amounts as at 31 December 2019, 2020 and 2021.

No impairment of goodwill was recognised for FY2019, FY2020 and FY2021.

Inventories

Our inventories consisted of construction materials and natural gas. The following table sets forth a summary of our inventory balances as at the date indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Construction materials	15,456	22,056	29,208
Gas (PNG, LNG, LPG)	2,066	1,398	1,265
	<u>17,522</u>	<u>23,454</u>	<u>30,473</u>
Impairment	(264)	(1,949)	(1,126)
	<u>(264)</u>	<u>(1,949)</u>	<u>(1,126)</u>
Total	<u><u>17,258</u></u>	<u><u>21,505</u></u>	<u><u>29,347</u></u>

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Due to the nature of natural gas, we only maintain a very small amount of gas reserve. Thus, our balance of gas remained relatively low at RMB2.1 million, RMB1.4 million and RMB1.3 million as at 31 December 2019, 2020 and 2021, respectively. Our balance of inventories increased from RMB17.3 million as at 31 December 2019 to RMB21.5 million as at 31 December 2020, primarily as a result of the increase in construction materials for our construction and installation services. Our balance of inventories then increased to RMB29.3 million as at 31 December 2021, primarily due to the increase in purchase of construction materials for our construction and installation services and gas for our business needs.

We also periodically review our inventory levels for slow-moving inventory, obsolescence or decline in market value. Allowance is made when the net realisable value of inventories falls below the cost or any of the inventories is identified as obsolete. Since our construction materials generally have a long lifespan, during the Track Record Period, no allowance for impairment was recorded.

The following table sets forth the turnover days of our inventories for the periods indicated.

	FY2019	FY2020	FY2021
Average turnover days of inventories ⁽¹⁾	4	6	6

⁽¹⁾ Average turnover days of inventories for FY2019, FY2020 and FY2021 is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant period by cost of sales and multiplying by 365 days.

Our average turnover days of inventories remained relatively low at 4 days, 6 days and 6 days in FY2019, FY2020 and FY2021, respectively.

As at the Latest Practicable Date, RMB29.3 million or all of our inventories as at 31 December 2021 had been sold or utilised.

Trade and bills receivables

The following table sets forth the breakdown of our trade and bills receivables as at the dates indicated:

	As at 31 December		
	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	11,633	14,706	20,030
Impairment	(1,156)	(1,203)	(956)
Bills receivable	10,477 51,423	13,503 48,029	19,074 47,283
	61,900	61,532	66,357

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Our trade and bills receivables primarily arise from our sales of gas and construction and installation services. Our trade and bills receivables remained relatively stable approximately RMB61.9 million and RMB61.5 million as at 31 December 2019 and 2020, respectively. Our trade and bills receivables then increased to RMB66.4 million as at 31 December 2021, primarily due to the increase in revenue.

Our sales of gas is mainly receipt in advance from our customers. Our trading terms with our construction customers are mainly on credit except for certain new customers where payment in advance is required. The average credit period range for trade receivables is within 30 to 90 days. The average maturity period of bills receivables is 6 to 12 months. As at 31 December 2019, 2020 and 2021, our trade and bills receivables were aged within 12 months which is consistent with our average credit period of trade receivables and maturity period of bills receivables.

We seek to maintain strict control over our outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk. In view of the aforementioned and the fact that our trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Ageing of trade receivables based on invoice dates and net of loss allowance, for the dates indicates, are as follows:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	31,222	34,126	39,912
3 months to 6 months	28,791	8,627	23,902
6 months to 1 year	1,887	18,779	2,543
	61,900	61,532	66,357
	61,900	61,532	66,357

Our trade receivables aged six months to one year was relatively higher at RMB18.8 million as at 31 December 2020 primarily attributable to the bills receivables, which has an average maturity period of 6 to 12 months, amidst the outbreak of COVID-19. The amount was substantially settled in FY2021.

An impairment analysis is performed at the end of each of the years using a provision matrix to measure expected credit losses (“ECL”). The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The overall expected credit loss rates for trade receivables were 9.9%, 8.2% and 4.8% for the balances as at 31 December 2019, 2020 and 2021, respectively. The ECL for bills receivable, which are all bank acceptance notes, approximates to zero. Those banks who issue bank acceptance notes are creditworthy banks with no recent history of default.

The overall expected credit loss rates for trade receivables decreased from 9.9% for the total balance as at 31 December 2019 to 4.8% for the balance as at 31 December 2021, primarily due to the increase in trade receivables aged within 3 months to our total trade receivables, from 50.4% as at 31 December 2019 to 60.1% as at 31 December 2021, which were generally assigned with lower expected loss rates.

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According to the expected credit loss method, the accounts receivable portfolio is divided based on the age of the receivables. Customers with the same aged period were assigned with similar expected loss rates. The expected loss rates of our customers also varied with reference to the historical credit loss experience combined with the current situation and the forecast of future economic conditions.

The following table sets forth the movements in the allowance for impairment of trade receivables as the dates indicated:

	As at 31 December		
	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>
At beginning of year	775	1,156	1,203
Impairment losses, net	381	563	(103)
Write-off of trade receivables	–	(516)	(144)
	1,156	1,203	956
At end of year	1,156	1,203	956

As at the Latest Practicable Date, RMB57.2 million or 86.2% of our trade receivables outstanding as at 31 December 2021 were settled.

Amongst the unsettled amount of RMB9.2 million as at the Latest Practicable Date, there was bills receivables amounted to RMB8.6 million that were not yet due as at the same date. Given that the normal maturity period of 6 to 12 months, we will consider providing provision for the unsettled amount after the respective maturity date. In view of the longer maturity period of our bills receivables, we considered that sufficient provision has been made and there is no material recoverability issue.

The table below sets forth a summary of average turnover days of trade receivables as at the dates indicated:

	FY2019	FY2020	FY2021
Average turnover days of trade receivables ⁽¹⁾	14	16	13

⁽¹⁾ Average turnover days of trade receivables for FY2019, FY2020 and FY2021 is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant period by revenue and multiplying by 365 days.

Our average turnover days of trade receivables were 14 days, 16 days and 13 days for FY2019, FY2020 and FY2021, respectively, which is within the range of credit period offered.

FINANCIAL INFORMATION

Prepayments, other receivables and other assets

The following table sets forth the breakdown of our prepayments, other receivables and other assets as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment	132	2,417	13,830
Other receivables	1,550	2,158	1,225
Deposits	879	4,713	4,643
Other current assets	24,774	14,369	17,358
	<u>27,335</u>	<u>23,657</u>	<u>37,056</u>
Impairment	(350)	(338)	(227)
	<u>26,985</u>	<u>23,319</u>	<u>36,829</u>

Our prepayments, other receivables and other assets primarily comprised (i) prepayments for Listing expenses, procurement of gas and other office expenses; (ii) deposits for tender of construction projects and performance bond for the transmission of gas; and (iii) other current assets mainly represented tax recoverable. Our prepayments, other receivables and other assets decreased from RMB27.0 million as at 31 December 2019 to RMB23.3 million as at 31 December 2020, primarily due to the decrease in tax recoverable in relation to the decrease in additions property, plant and equipment in FY2020 partially offset by the increase in performance bond for the transmission of gas in FY2020. The balance then increased to RMB36.8 million as at 31 December 2021, primarily due to the increase in prepayments of RMB11.4 million mainly attributable to the increase in (i) prepayment for gas of RMB8.1 million 10 days in advance; and (ii) prepayment for Listing expenses of RMB3.2 million.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss, which amounted to RMB150.0 million as at 31 December 2021, represented our investment in two wealth management products issued by banks in the PRC. We receive minimum interest rate and the actual interest rate ranged from 1.5% to 3.2% per annum during the year.

As at 31 December 2021, the breakdown of unlisted investments were wealth management products as below:

Issuer	Amount	Date of expiry
	<i>RMB'000</i>	
China Construction Bank	100,000	17 May 2022
China Construction Bank	50,000	13 January 2022

The investments with principal of RMB50.0 million has been matured in January 2022. The remaining investment has been matured in May 2022.

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Investment and treasury policies and internal control measures

We have established a set of investment and treasury policies and internal control measures that allow us to achieve prudent and reasonable returns on our investment while monitoring and mitigating our exposure to investment risks. Under these policies and measures, any proposed investment must be made in compliance with the applicable laws and regulations, must not interfere with our business operation or capital expenditures, and must emphasise on capital preservation.

Our Board is primarily responsible for formulating investment strategies for our Group, overseeing the implementation of our investment strategies, approving investment decisions, and controlling and monitoring our investments with the assistance of our management and finance department. Our finance department is primarily responsible for overseeing our Group's financial management and capital preservation, and is mainly responsible for executing our Board's investment decisions. Our Board and finance department is also responsible for regularly reviewing our investments and adjust our plans where appropriate.

Our finance department, under the supervision of Ms. Sun Xiaohui, our financial controller, reviews our cash position, operating cash requirements and potential investment opportunities periodically. Ms. Sun has extensive experience in financial management. For details of Ms. Sun, please see her biographical details as set out in the section "Directors, Supervisors, Senior Management and Employees".

All of these investments made after the Listing will be subject to the compliance with Chapter 14 of the Listing Rules.

Assets classified as held for sale

As at 31 December 2019, we had assets classified as held for sale of RMB12.5 million in relation to the gas station located in Xi Sai Road as we decided to dispose of in December 2019. Our assets classified as held for sale comprised of the carrying amount of property, plant and equipment of RMB10.5 million and right-of-use asset of RMB2.0 million as at 31 December 2019.

The assets were subsequently disposed of in FY2020, with a gain on disposal of RMB45.5 million recognised in other gains in FY2020.

Trade payables

Our trade payables are primarily derived from payables relating to payment to our subcontractors for construction work, purchase of construction materials and LPG and LNG. The trade payables are non-interest-bearing and are normally settled within 90 days.

Trade payables amounted to RMB112.1 million, RMB110.4 million and RMB140.4 million, respectively, as at 31 December 2019, 2020 and 2021. Our trade payables remained relatively stable at RMB112.1 million and RMB110.4 million as at 31 December 2019 and 2020, respectively. Our trade payables then increased to RMB140.4 million as at 31 December 2021, which was generally in line with the increase in purchase during the period.

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The table below sets forth, as at the end of reporting periods indicated, the ageing analysis of our trade and bills payables:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	84,917	77,064	119,995
91-180 days	9,695	13,308	7,306
181-365 days	12,351	8,000	6,942
More than 1 year	5,144	12,024	6,164
	112,107	110,396	140,407
	112,107	110,396	140,407

The following table sets out the average trade payables turnover days for the Track Record Period:

	FY2019	FY2020	FY2021
Average turnover days of trade payables ⁽¹⁾	29	35	29

⁽¹⁾ Average turnover days of trade payables for each of FY2019, FY2020 and FY2021 is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant period by cost of sales and multiplying the resulting value by 365 days.

Average trade payables turnover days remained relatively stable at 29 days, 35 days and 29 days in FY2019, FY2020 and FY2021, respectively.

As at the Latest Practicable Date, RMB108.3 million or 77.1% of trade payables outstanding as at 31 December 2021 had been fully settled. Our Directors confirmed that during the Track Record Period up to the Latest Practicable Date, there was no material default in payment of trade payables.

The relatively lower settlement of accounts payable was primarily due to (i) the unsettled amount included endorsed bills of RMB8.6 million which has been received by us. Since the endorsed bills have recourse rights, the unexpired endorsed bills receivable cannot be derecognized until the maturity date; and (ii) an estimated labor and other cost of RMB23.4 million has not been settled because it is agreed to be paid after the completion of the project agreed with the suppliers.

FINANCIAL INFORMATION

Other payables and accruals

The following table sets forth the breakdown of our other payables and accruals as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Security deposits	1,375	54,777	86,549
Purchase of fixed assets	20,893	4,636	26,259
Payroll and welfare	44,705	44,462	56,625
Dividend payable	158,000	11,116	45,134
Other tax payables	12,905	19,632	20,683
Prepayment from the government for the long term assets disposal	26,000	9,395	10,671
Deferred income	–	–	918
Others	815	2,699	8,811
	<u>264,693</u>	<u>146,717</u>	<u>255,650</u>

Our other payables and accruals mainly represented security deposits for construction projects from customers, payables for purchase of fixed assets, payroll and welfare payables, dividend payables and other tax payables. Other payables and accruals decreased from RMB264.7 million as at 31 December 2019 to RMB146.7 million as at 31 December 2020, which was mainly attributable to the decrease in dividend payables of RMB146.9 million resulting from the settlement, partially offset by the increase in security deposits of RMB53.4 million primarily in relation to construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城鄉建設局) which we require larger amount of deposits. Our other payables and accruals then increased to RMB255.7 million as at 31 December 2021, primarily due to the increase in (i) dividend payables of RMB34.0 million. Such dividend payables are expected to be settled before the Listing with our internal resources; (ii) security deposits of RMB31.8 million primarily due to the additions of construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城鄉建設局) which we require larger amount of deposits; and (iii) payables for purchase of fixed assets of RMB21.6 million for our construction of pipelines.

FINANCIAL INFORMATION

Contract liabilities

The advances received from customers for the provision of construction and installation services, and sales of gas are recognised as contract liabilities in the consolidated statement of financial position and revenue are recognised when we render relevant services or sales of goods.

The following table sets forth the breakdown of our contract liabilities as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Short-term advances received from customers:</i>			
Sale of natural gas	124,078	121,285	124,332
Construction and installation services	71,231	138,630	162,919
Fire alarm goods	520	504	3,076
Steam generator	–	–	1,150
	195,829	260,419	291,477
<i>Long-term advances received from customers:</i>			
Construction and installation services	79,569	77,817	86,388
Fire alarm goods	–	–	4,016
	79,569	77,817	90,404
Total	275,398	338,236	381,881

Our contract liabilities increased RMB275.4 million as at 31 December 2019 to RMB338.2 million as at 31 December 2020 primarily due to the increase in advances received from customers for construction and installation services of RMB65.6 million resulting from the increase in number of construction projects on hand. Our contract liabilities then increased to RMB381.9 million as at 31 December 2021 primarily due to the increase in advances received from customers for construction and installation services of RMB32.9 million resulting from the increase in number of construction projects on hand.

As at the Latest Practicable Date, RMB201.7 million or 69.2% of our short-term contract liabilities outstanding as at 31 December 2021 were recognised as our revenue.

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Amounts due from related parties

Our amounts due from related parties amounted to RMB45,000, RMB12.4 million and RMB22.6 million as at 31 December 2019, 2020 and 2021, respectively. The balance increased as at 31 December 2020 and 2021 primarily attributable to the increase in receivables from Ningbo Intercity of RMB12.1 million and RMB7.1 million, respectively, for prepayment for the purchase of materials and PNG. The amounts due from related parties amounted to RMBnil, RMB12.3 million and RMB22.6 million, respectively, as at 31 December 2019, 2020 and 2021, were trade in nature, unsecured and interest-free.

All the amounts due from related parties, which are non-trade in nature, are expected to be settled before the Listing; while the balances which are trading in nature, will be settled in accordance with respective normal credit terms. For further details of related party transactions and balances, please refer to Notes 24 and 40 to Section II of the Accountants' Report in Appendix I to this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of cash are for the payment of procurement of gas, costs used for provision of construction and installation services, staff costs, various operating expenses and capital expenditure and have been funded primarily through a combination of cash generated from our operations and bank borrowings.

The following table summarises, for the periods indicated, our consolidated statements of cash flows:

	FY2019 <i>RMB'000</i>	FY2020 <i>RMB'000</i>	FY2021 <i>RMB'000</i>
Net cash flows from operating activities	262,699	331,618	327,773
Net cash flows used in investing activities	(165,066)	(30,823)	(251,847)
Net cash flows from/(used in) financing activities	35,281	(303,867)	(38,922)
Net increase/(decrease) in cash and cash equivalents	132,914	(3,072)	37,004
Cash and cash equivalents at beginning of year	421,827	554,741	551,669
Cash and cash equivalents at end of year	<u>554,741</u>	<u>551,669</u>	<u>588,673</u>

Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed "Future Plans and Use of Proceeds" in this prospectus.

FINANCIAL INFORMATION

Operating activities

During our Track Record Period, our cash inflow from operating activities was principally from the receipt of proceeds for our sale of gas and from our construction projects. Our cash outflow used in operating activities was principally for purchase of gas and construction costs.

For FY2021, we had net cash generated from operating activities of RMB327.8 million, mainly as a result of the cash generated from operations before change in working capital of RMB273.0 million, tax paid of RMB50.6 million and cash inflows from changes in working capital of RMB105.3 million. The change in working capital primarily reflected (i) increase in other payables and accruals of RMB64.8 million primarily due to the increase in (a) dividend payables of RMB34.0 million; and (b) security deposits of RMB31.8 million primarily due to the additions of construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城乡建设局) which we require larger amount of deposits; (ii) increase in contract liabilities of RMB43.6 million primarily resulting from the increase in advances received from customers for construction and installation services due to the increase in number of construction projects on hand; and (iii) increase in trade payables of RMB30.0 million, which was generally in line with the increase in purchase during the period. Such cash inflows from changes in working capital was partially offset by the increase in changes in balances with related parties of RMB11.4 million and increase in prepayments, other receivables and other assets of RMB10.0 million resulting from the increase in (i) prepayment for gas of RMB8.1 million 10 days in advance; and (ii) prepayment for Listing expenses of RMB3.2 million.

For FY2020, we had net cash generated from operating activities of RMB331.6 million, mainly as a result of the cash generated from operations before change in working capital of RMB267.4 million, tax paid of RMB23.4 million and cash inflows from changes in working capital of RMB87.6 million. The change in working capital primarily reflected (i) increase in contract liabilities of RMB62.8 million resulting from the increase in advances received from customers for construction and installation services of RMB65.6 million due to the increase in number of construction projects on hand; and (ii) increase in other payables and accruals of RMB46.0 million resulting from the increase in security deposits of RMB53.4 million primarily in relation to construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城乡建设局). Such cash inflows from changes in working capital was partially offset by the changes in balances with related parties of RMB11.1 million.

For FY2019, we had net cash generated from operating activities of RMB262.7 million, mainly as a result of the cash generated from operations before change in working capital of RMB242.3 million, tax paid of RMB59.2 million and cash inflows from changes in working capital of RMB79.6 million. The change in working capital primarily reflected (i) increase in contract liabilities of RMB53.6 million (a) in respect of our construction and installation services of RMB40.9 million primarily attributable to the number of projects undertaken by Xinao Development, which was consolidated to our Group following the acquisition of Xinao Development in December 2018; and (b) advances received from sales of natural gas of RMB12.2 million resulting from the increase in number of users and the usage of gas from them; and (ii) increase in other payables and accruals of RMB17.9 million resulting from the increase in accrued payroll and welfare.

FINANCIAL INFORMATION

Investing activities

During the Track Record Period, our cash inflows from investing activities was principally proceeds from disposal of property, plant and equipment and disposal of shares of subsidiaries. Our cash outflows used in investing activities was principally for purchase of items of property, plant and equipment.

For FY2021, we had net cash used in investing activities of RMB251.8 million primarily attributable to the (i) net purchase of wealth management products of RMB142.6 million; and (ii) purchase of property, plant and equipment of RMB115.0 million.

For FY2020, we had net cash used in investing activities of RMB30.8 million primarily attributable to purchase of items of property, plant and equipment of RMB91.1 million partially offset by the proceeds from disposal of items of property, plant and equipment of RMB57.6 million in relation to the disposal of the gas station located in Xi Sai Road recorded as our assets classified as held for sale.

For FY2019, we had net cash used in investing activities of RMB165.1 million primarily attributable to purchase of items of property, plant and equipment of RMB171.3 million partially.

Financing activities

During the Track Record Period, our cash inflow from financing activities was principally proceeds from contribution from shareholder, deemed contribution from subsidiaries of the shareholder and proceeds from bank loans. Our cash outflow used in financing activities was principally for payment of dividends and interest and repayment of bank loans.

For FY2021, we had net cash used in financing activities of RMB38.9 million primarily attributable to the payment of dividends and interest of RMB37.7 million.

For FY2020, we had net cash used in financing activities of RMB303.9 million primarily attributable to the payment of dividends and interest of RMB303.3 million.

For FY2019, we had net cash generated from financing activities of RMB35.3 million primarily attributable to the proceeds from the disposal of partial interest in a subsidiary without losing control of RMB51.8 million. The cash inflows was partially offset by the repayment of bank loans of RMB15.0 million.

FINANCIAL INFORMATION

Net Current Assets and Liabilities

We recorded net current assets of RMB92.2 million, RMB116.4 million, RMB165.4 million and RMB185.5 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			30 April
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
CURRENT ASSETS				
Inventories	17,258	21,505	29,347	30,121
Lease receivables	–	807	807	807
Trade and bills receivables	61,900	61,532	66,357	66,001
Prepayments, other receivables and other assets	26,985	23,319	36,829	46,413
Due from related parties	45	12,394	22,569	13,011
Financial assets at fair value through profit or loss	–	–	150,000	340,000
Pledged deposits	20	24	24	24
Cash and cash equivalents	554,741	551,669	588,673	403,598
Assets classified as held for sale	12,478	–	–	–
Total current assets	673,427	671,250	894,606	899,975
CURRENT LIABILITIES				
Trade payables	112,107	110,396	140,407	142,232
Other payables and accruals	264,693	146,717	255,650	253,186
Contract liabilities	195,829	260,419	291,477	294,683
Due to related parties	563	1,817	642	618
Tax payables	7,784	35,469	40,521	23,254
Lease liabilities	298	17	535	521
Total current liabilities	581,274	554,835	729,232	714,494
NET CURRENT ASSETS	92,153	116,415	165,374	185,481

Our net current assets increased from RMB92.2 million as at 31 December 2019 to RMB116.4 million as at 31 December 2020. The increase was primarily due to the decrease in other payables and accruals of RMB118.0 million resulting from the decrease in dividend payables of RMB146.9 million resulting from the settlement, partially offset by the increase in security deposits of RMB53.4 million primarily in relation to construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城鄉建設局).

FINANCIAL INFORMATION

Our net current assets then increased to RMB165.4 million as at 31 December 2021. Such increase was primarily due to the (i) increase in financial assets at fair value through profit or loss of RMB150.0 million; and (ii) increase in prepayment for gas of RMB8.1 million 10 days in advance and prepayment for Listing expenses of RMB3.2 million; (iii) increase in cash and cash equivalents of RMB37.0 million from our operations. The increase in net current assets was partially offset by the (i) increase in other payables and accruals of RMB108.9 million primarily due to increase in dividend payables of RMB34.0 million, increase in security deposits of RMB31.8 million primarily due to the additions of construction projects for Huzhou Housing and Urban-Rural Development Bureau* (湖州市住房和城鄉建設局) which we require larger amount of deposits and increase payables for purchase of fixed assets of RMB21.6 million for our construction of pipelines; (ii) increase in contract liabilities of RMB31.1 million primarily resulting from the increase in advances received from customers for construction and installation services due to the increase in number of construction projects on hand; and (iii) increase in trade payables of RMB30.0 million, which was generally in line with the increase in purchase during the period.

Our net current assets then increased to RMB185.5 million as at 30 April 2022, primarily attributable to the decrease in tax payables of RMB17.3 million as at 30 April 2022 due to the payment of tax.

Working Capital Sufficiency

Our Directors confirm that, taking into consideration the financial resources presently available to us, including our operating cash flow, other internal resources, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our liquidity. Details of the proceeds from Global Offering necessary to meet our operations and to fund our future plans are set out in “Future Plans and Use of Proceeds”.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in the Accountants’ Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

CAPITAL EXPENDITURES

Our Group’s capital expenditures have principally consisted of expenditures on additions of property, plant and equipment and prepaid land lease payments. During the Track Record Period, our Group incurred capital expenditures of RMB171.3 million, RMB91.1 million and RMB115.0 million, respectively. Between 1 January 2022 and the Latest Practicable Date, we did not make any material capital expenditures.

FINANCIAL INFORMATION

For the years ending 2022 and 2023, we estimate that our capital expenditures will amount to approximately RMB156.6 million and RMB68.5 million, respectively, primarily for the purchases and construction of property, plant and equipment.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for further information.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operating activities and proceeds from borrowings and notes and other internal resources. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for at least the next 12 months.

PROPERTY INTERESTS

Please refer to the paragraph headed "Business – Properties" for details.

CONTRACTUAL AND CAPITAL COMMITMENTS

We had the following capital commitments at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Contracted, but not provided for:</i>			
Plant and equipment	95,000	10,000	12,500

INDEBTEDNESS

The following table sets forth the breakdown of our total indebtedness as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 April
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)
Due to related parties	563	1,817	642	618
Lease liabilities	308	321	1,105	943
	<u>871</u>	<u>2,138</u>	<u>1,747</u>	<u>1,561</u>

FINANCIAL INFORMATION

Bank loans

As at 31 December 2019, 2020 and 2021 and 30 April 2022, we did not have any bank loans.

As at 30 April 2022, being the latest practicable date for the purpose of indebtedness statement, we do not have any banking facilities available to us.

During the Track Record Period, our Directors confirmed that we did not experience any delay or default in repayment of bank borrowings nor experience any difficulty in obtaining banking facilities with terms that are commercially acceptable to us. As at the date of this prospectus, we did not have any plan for material external debt financing.

Amounts due to related parties

Our amounts due to related parties amounted to RMB563,000, RMB1.8 million, RMB642,000 and RMB618,000 as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively, were trade in nature, unsecured, interest-free and repayable on demand.

For further details of related party transactions and balances, please refer to Notes 24 and 41 to Section I of the Accountants' Report in Appendix I to this prospectus.

Lease liabilities

Our Group has adopted IFRS 16 consistently throughout the Track Record Period. As such, leases have been recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in our Group's consolidated statements of financial position.

Our lease liabilities remained relatively stable at RMB0.3 million as at 31 December 2019 and 2020. Our lease liabilities then increased from RMB0.3 million as at 31 December 2020 to RMB1.1 million as at 31 December 2021.

Contingent liabilities

As at 30 April 2022, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the Latest Practicable Date, our Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

FINANCIAL INFORMATION

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	For the year ended/as at 31 December		
	2019	2020	2021
Gross Profit Margin (%) ⁽¹⁾	14.0	17.6	15.4
Net Profit Margin (%) ⁽²⁾	5.8	10.2	6.4
Return on equity (%) ⁽³⁾	11.5	17.7	12.7
Return on total assets (%) ⁽⁴⁾	6.0	9.1	6.3
Current ratio ⁽⁵⁾	1.2	1.2	1.2
Gearing ratio (%) ⁽⁶⁾	–	–	–
Net debt to equity ratio (%) ⁽⁷⁾	Net cash	Net cash	Net cash

Notes:

- (1) Gross profit margin for FY2019, FY2020 and FY2021 was calculated on gross profit divided by revenue for the respective year. See the paragraph headed “Review of Historical Results of Operation” in this section for more details on our gross profit margins.
- (2) Net profit margin for FY2019, FY2020 and FY2021 was calculated on profit for the year attributable to owners of the Company divided by revenue for the respective year. See the paragraph headed “Review of Historical Results of Operation” in this section for more details on our net profit margins.
- (3) Return on equity for FY2019, FY2020 and FY2021 was calculated based on the profit for the year attributable to owners of the Company for the respective periods divided by the total equity attributable to the Shareholders as at the respective years and multiplied by 100%.
- (4) Return on total assets for FY2019, FY2020 and FY2021 was calculated based on the profit for the year attributable to owners of the Company for the respective years divided by the total assets of the respective years and multiplied by 100%.
- (5) Current ratios as at 31 December 2019, 2020 and 2021 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
- (6) Gearing ratios as at 31 December 2019, 2020 and 2021 were calculated based on the total interest-bearing borrowings as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.
- (7) Net debt to equity ratios as at 31 December 2019, 2020 and 2021 was calculated based on net debts (being total interest-bearing borrowings net of cash and bank balance) as at the respective dates divided by total equity as at the respective dates.

FINANCIAL INFORMATION

Return on equity

Our return on equity 11.5% and 17.7% for FY2019 and FY2020, respectively. The increase was mainly due to the increase in net profit margin as mentioned previously. Our return on equity decreased to 12.7% for FY2021, primarily due to the decrease in net profit generated in FY2021 and the increase in total equity as at 31 December 2021 due to accumulation of profits.

Return on total assets

Our return on total assets was 6.0% and 9.1% for FY2019 and FY2020, respectively. The increase was primarily attributable to the increase in net profit margin as mentioned previously. Our return on total assets decreased to 6.3% for FY2021, primarily due to the decrease in net profit generated in FY2021 and the increase in total assets as at 31 December 2021 as discussed previously.

Current ratio

Our current ratio was 1.2 times, 1.2 times and 1.2 times as at 31 December 2019, 2020 and 2021, respectively, which was remained relatively stable.

Gearing ratio

We do not have interest-bearing loans as at 31 December 2019, 2020 and 2021.

Net debt to equity ratio

We maintained net cash position as at 31 December 2019, 2020 and 2021.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risk, such as market risk (including interest rate risk), foreign currency risk, credit risk and liquidity risk.

Details of the risk to which we are exposed are set out in Note 43 to Section II of the Accountants' Report, the text of which is set out in Appendix I to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

FINANCIAL INFORMATION

LISTING EXPENSES

Total estimated expenses (based on the Offer Price of HK\$6.08 per H Share) in relation to the Global Offering are expected to amount to approximately RMB37.8 million, or approximately 14.6% of the gross proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised), which include (i) underwriting-related expenses (including but not limited to commissions and fees) of approximately RMB9.1 million, (ii) professional fees and expenses of legal advisers and reporting accountant of approximately RMB16.8 million and (iii) other fees and expenses, including fee to Sole Sponsor, financial printer and other professional parties, of approximately RMB11.9 million. During the Track Record Period, we incurred Listing expenses of approximately RMB18.4 million, of which (i) RMB4.3 million and RMB9.5 million had been charged as administrative expenses in our consolidated statements of profit or loss in FY2020 and FY2021, respectively; and (ii) RMB4.6 million is expected to be accounted for as a deduction from equity directly upon Listing. We expect to incur additional listing expenses of approximately RMB19.4 million, which is expected to be recognised directly as a deduction in equity upon Listing.

DIVIDEND

The PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank facilities or other agreements that we or our subsidiaries may enter into in the future.

The amount of dividend actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders. Our Board has the absolute discretion to recommend any dividend.

We declared dividends of RMB86.0 million, RMB156.1 million and RMB70.5 million, respectively, in FY2019, FY2020 and FY2021. Except for the dividend declared in FY2021, all dividends have been fully paid. The dividend declared in FY2021 is expected to be paid before Listing with our internal resources.

On 19 May 2022, each of Xinao Development, Nanxun Xinao and Nanxun Xinao Development declared a special dividend to their then shareholders (namely, our Company and ENN Group) and, on 9 June 2022, our Company declared a special dividend to our then Shareholders (namely, City Group and ENN (China)). The aggregate amount of these special dividends payable to the relevant shareholders of our Company and/or the subsidiaries, excluding the dividends payable by our subsidiaries to our Company, amounted to RMB212.0 million (the “**Special Dividends**”), of which City Group and ENN (China) were entitled to receive an aggregate sum of RMB176.1 million and ENN Group was entitled to receive a sum of RMB35.9 million. Investors should note that public Shareholders after the Listing will not be entitled to the Special Dividends.

FINANCIAL INFORMATION

The date of payment of the Special Dividends shall be determined by the Board but in any event it shall be within 12 months after the Listing Date. Up to the Latest Practicable Date, the Directors had not set a specific payment date for the distribution of the Special Dividends. Our Directors shall determine the payment date of the Special Dividends taking into account of various factors including our operation needs and financial resources and the ability for us to maintain sufficient flexibility for our operations and business expansion.

Our Directors confirm that, taking into consideration the cash and cash equivalents presently available to us, our positive operating cash flow for the next 12 months, other financial resources, and the estimated net proceeds from the Global Offering for our expansion plan and general working capital, we have, and will have, sufficient funds to make payment of the Special Dividends and the payment of the Special Dividends is not expected to adversely affect our overall financial position.

Please see the paragraph headed “Summary – Recent Development – Special Dividends prior to the Listing” of this prospectus for details.

Currently we do not have a formal dividend policy and there is no assurance that dividends of any amount will be declared or be distributed in any year.

DISTRIBUTABLE RESERVES

Our Company was established as a limited liability company under the laws of the PRC on 16 June 2004 and converted into a joint stock company with limited liability on 2 April 2021. For our Company’s distributable reserves, please see Note 34 to Section II of the Accountants’ Report in Appendix I to this Prospectus.

Our Directors confirm that the Company has sufficient distributable reserve to meet the Special Dividends in accordance with laws and regulations of the PRC and the Articles.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see the section “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for our unaudited pro forma adjusted net tangible assets.

After taking into consideration the declaration and payment of the Special Dividends, the unaudited pro forma adjusted consolidated net tangible assets of our Group per Share would be HK\$5.09 based on the Office Price of HK\$6.08 per H Share.

FINANCIAL INFORMATION

MATERIAL ADVERSE CHANGE

Our Directors expect that there will be a decrease in the Company's net profit for FY2022 as a result of the increase in the government-regulated purchase price of PNG which is expected to remain at high level in FY2022 due to the recent Russia-Ukraine conflict which led to the surge of natural gas price in the global market and thus the increase in LNG purchase price of our upstream suppliers. Further, our Directors expect that our gross profit margin will decrease substantially by approximately 40% in FY2022 as compared with FY2021 driven by the expected decrease in gross profit margin from sales of natural gas due to the sharp increase in purchase price of PNG as well as the possible impact brought by the recent emergence of variants of COVID-19. For details, see "Summary – Recent Development – Business operations and financial results" in this prospectus. Save for the above, our Directors confirm that there have not been any material adverse changes in our financial or trading position or our prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions that had affected or would affect our business operations or financial conditions materially and adversely.

RECENT DEVELOPMENT

Please see the paragraph headed "Summary – Recent Development" of this prospectus for details.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For details of our future plans, please refer to the paragraph headed “Business – Our Business Strategies” in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$259.8 million (equivalent to approximately RMB222.1 million) from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions, incentives and other estimated offering expenses payable by us and at the Offer Price of HK\$6.08 per H Share. We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 20.0%, or HK\$52.0 million (equivalent to approximately RMB44.4 million), will be used to enhance our sales of PNG by upgrading our pipeline network and operational facilities in Wuxing District, of which approximately HK\$20.8 million, HK\$16.1 million and HK\$15.1 million (equivalent to approximately RMB17.8 million, RMB13.8 million and RMB12.8 million) will be used in 2022, 2023 and 2024, respectively. Details are as follows:
 - (i) to correspond with new road planning and constructions, we plan to equip newly constructed roads with medium pressure pipelines of approximately 56km in the Wuxing Operating Area in the coming three years after the Listing;
 - (ii) we plan to upgrade our medium pressure pipelines with ring pipeline network of approximately 27km in the Wuxing Operating Area in the coming three years after the Listing; and
 - (iii) we plan to upgrade our other pipeline network and operational facilities for our PNG business in the Wuxing Operating Area in the coming three years after the Listing, including but not limited to:
 - replacing obsolete pipelines of approximately seven km;
 - upgrading our control system for monitoring our PNG pipeline network and equipment, collecting, processing and storing our operating data, such as pipeline pressure, flow and leakage; and
 - upgrading our remote metre reading and monitoring system, and corresponding devices to allow real-time tracking of the PNG usage by our customers;
- approximately 30.0%, or HK\$77.9 million (equivalent to approximately RMB66.6 million), will be used to expand our business to other geographical areas through strategic acquisition;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 30.0%, or HK\$77.9 million (equivalent to approximately RMB66.6 million), will be used to expand into distributed photovoltaic power generation business, of which approximately HK\$51.7 million and HK\$26.2 million (equivalent to approximately RMB44.1 million and RMB22.5 million), respectively, is expected to be used in FY2022 and FY2023;
- approximately 10.0%, or HK\$26.0 million (equivalent to approximately RMB22.2 million), will be used to promote the use of heat energy from vapour generated by our natural gas through natural gas boilers;
- approximately 10%, or HK\$26.0 million (equivalent to approximately RMB22.2 million), will be used for working capital and general corporate purposes.

The total capital expenditure for the above strategies is expected to be an aggregate of approximately HK\$928.7 million (equivalent to approximately RMB793.8 million). We intend to apply the net proceeds of approximately HK\$259.8 million from the Global Offering (equivalent to approximately RMB222.1 million), assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions, incentives and other estimated offering expenses payable by us and at the Offer Price of HK\$6.08 per H Share, to finance the above strategies and the remainder will be funded by our internal resources or bank financing (as appropriate). Our Directors believe that our Group has sufficient financial resources to finance the remainder of the capital expenditure for our business strategies after taking into account of our cash and cash equivalents of RMB403.6 million as at 30 April 2022 and the expected operating cash inflow after the Listing. We may also obtain bank financing in case of any shortfall.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase by HK\$44.0 million, at the Offer Price of HK\$6.08 per H Share. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, it is our present intention that such net proceeds will be held in short-term deposits with licensed banks in Hong Kong or the PRC. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

In the event that any of our projects do not proceed as planned, including due to circumstances such as changes in economic conditions or government policies that would render any of our future plans not commercially viable, or force majeure, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering. In such case, we will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR LISTING

We believe that the Listing on the Stock Exchange will increase our competitiveness and enhance our business development, market share, financial results and business prospect. We believe that the Listing would facilitate the implementation of our business strategies as set out in the paragraph headed “Business – Our Business Strategies” in this prospectus, including (i) enhancing our sales of PNG by upgrading our pipeline network and operational facilities; (ii) expanding our business to other geographical areas through strategic acquisition; (iii) expanding into distributed photovoltaic power generation business; and (iv) promoting the use of heat energy from vapour generated by our natural gas through natural gas boilers.

We believe that the Listing on the Stock Exchange will also enable us to increase market awareness of our brand name, maintain our competitive advantages in the PRC and to increase our level of competitiveness in the natural gas industry in Zhejiang Province, in view of the fact that Hong Kong is a gateway to mainland China.

For the reasons stated above, our Directors believe that the Listing is commercially sensible and justifiable.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

Our Company has entered into cornerstone investment agreements with four investors (“**Cornerstone Investors**”, and each a “**Cornerstone Investor**”), pursuant to which each of the Cornerstone Investors have agreed to subscribe for a fixed number of Offer Shares at the Offer Price of HK\$6.08 per Share (plus the brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%) (the “**Cornerstone Placing**”).

Our Company is of the view that the Cornerstone Placing signifies the confidence of the Cornerstone Investors in our business and prospects. It also ensures a reasonable size of solid commitment at the beginning of the marketing period of the Global Offering which helps to raise the profile of our Company and reduces the risk of undersubscription.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiry, each of the Cornerstone Investors and their respective ultimate beneficial owners is independent of our Company and our connected persons. In addition, our Company confirms that (i) save for the cornerstone investment agreements, there is no side arrangement between our Group and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in connection with the Cornerstone Placing. To the extent that the Offer Shares will be subscribed for by a qualified domestic institutional investor (the “**QDII**”) as the nominee of the relevant Cornerstone Investors, the relevant Cornerstone Investors will procure the QDII to comply with the terms of the cornerstone investment agreements in order to ensure the compliance of the relevant Cornerstone Investors with the obligations under the relevant cornerstone investment agreements; (ii) the Cornerstone Investors are not accustomed to take and have not taken any instructions from our Company, our Directors, chief executive of our Company, the Controlling Shareholders, any of our subsidiaries, or any director, chief executive or shareholder of any of our subsidiaries, or their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Shares registered in their name or otherwise held by them; and (iii) the subscription of Offer Shares by the Cornerstone Investors is not financed by our Company, our Directors, chief executive of our Company, the Controlling Shareholders, any of our subsidiaries, or any director, chief executive or shareholder of any of our subsidiaries, or their respective close associates. Each of the Cornerstone Investors confirms that all necessary approvals have been obtained with respect to the Cornerstone Placing and that no specific approval from any stock exchange (if relevant) or its shareholders is required for the relevant cornerstone investment as each of them has general authority to invest. Immediately after completion of the Global Offering, none of the Cornerstone Investors will have any representation in our Board, nor will they become Substantial Shareholders. The Cornerstone Investors do not have any preferential rights in the cornerstone investment agreements compared with other public Shareholders, other than a guaranteed allocation of the relevant Offer Shares at the Offer Price.

CORNERSTONE INVESTORS

As confirmed by each Cornerstone Investor, the subscription under the cornerstone investment agreement is funded by the internal resources of such Cornerstone Investor and/or its holding company and/or other group companies of the holding company.

Pursuant to the cornerstone investment agreements, BOCOM International Securities may in its sole discretion determine that delivery of a portion of the Offer Shares subscribed for by the Cornerstone Investors shall take place on a date later than the Listing Date (the “**Delayed Delivery Date**”) in order to facilitate the stabilisation by the Stabilising Manager as well as to cover over-allocations in the International Placing, provided that the Delayed Delivery Date shall be no later than three business days following the last day on which the Over-allotment Option may be exercised. If the Offer Shares are to be delivered to the Cornerstone Investors on the Delayed Delivery Date, the Cornerstone Investors shall nevertheless pay for the Offer Shares before the Listing Date. There will be no delay in delivery if there is no over-allocation in the International Placing.

The Cornerstone Placing forms part of the International Placing. The Offer Shares to be subscribed for by the Cornerstone Investors will, when issued and delivered, rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of our Company under Rules 8.08 and 8.24 of the Listing Rules. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to the respective cornerstone investment agreements. The total number of Offer Shares to be subscribed for by the Cornerstone Investors pursuant to the Cornerstone Placing will not be affected by reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offer nor by any exercise of the Over-allotment Option as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus. Details of the actual number of Offer Shares to be subscribed for by and allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company.

CORNERSTONE INVESTORS

CORNERSTONE INVESTORS

The Cornerstone Investors in respect of the Cornerstone Placing are set out below:

Cornerstone Investor	Offer Price	Number of Offer Shares to be subscribed for	Total subscription amount (Note) HK\$'000	Approximate percentages of the total number of the Offer Shares (assuming that the Over-allotment Option is not exercised)	Approximate percentages of the total number of the Offer Shares (assuming that the Over-allotment Option is exercised in full)	Approximate percentage of shareholding in the total share capital of our Company (assuming that the Over-allotment Option is not exercised)	Approximate percentage of shareholding in the total share capital of our Company (assuming that the Over-allotment Option is exercised in full)
Zhejiang Jiening Equity Investment Co., Ltd.* (浙江捷寧股權投資有限公司)	HK\$6.08	8,500,000	51,680	17.00%	14.78%	4.25%	4.10%
Zhejiang Lichen Equity Investment Co., Ltd.* (浙江麗宸股權投資有限公司)	HK\$6.08	8,400,000	51,072	16.80%	14.61%	4.20%	4.05%
Huzhou Erqing Asset Operation Co., Ltd.* (湖州市二輕資產經營有限公司)	HK\$6.08	8,000,000	48,640	16.00%	13.91%	4.00%	3.86%
Zhejiang Caixu Equity Investment Co., Ltd.* (浙江彩旭股權投資有限公司)	HK\$6.08	6,600,000	40,128	13.20%	11.48%	3.30%	3.18%

Note: The investment amount is exclusive of brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015% which the Cornerstone Investors will pay in respect of such H Shares.

CORNERSTONE INVESTORS

The information about our Cornerstone Investors is set out below:

1. Zhejiang Jiening Equity Investment Co., Ltd.* (浙江捷寧股權投資有限公司)

Zhejiang Jiening Equity Investment Co., Ltd. is a limited company established in the PRC. It is principally engaged in investment holding. As at the Latest Practicable Date, it was held as to 71% by Zhejiang Lijie Enterprise Services Co., Ltd.* (浙江利捷企業服務有限公司), a limited company established in the PRC and principally engaged in the provision of office services, which was wholly owned by Changxing Heli Industrial Co., Ltd.* (長興和利實業有限公司), a limited company incorporated in the PRC, principally engaged in manufacturing of tea leave products, construction works, development and operation of real property, operation services in relation to urban household waste and accommodation services and in turn owned by eight joint-equity economic cooperatives (股份經濟合作社)^(Note) located in Heping Town, Changxing County, Zhejiang Province as to 12.5% each. The joint-equity economic cooperatives are 長興縣和平鎮長城村股份經濟合作社 (Changxing County Heping Town Changcheng Village Joint-equity Economic Cooperative*) with approximately 3,000 members, 長興縣和平鎮周塢山村股份經濟合作社 (Changxing County Heping Town Zhouwushan Village Joint-equity Economic Cooperative*) with approximately 1,600 members, 長興縣和平鎮和平村股份經濟合作社 (Changxing County Heping Town Heping Village Joint-equity Economic Cooperative*) with approximately 2,300 members, 長興縣和平鎮紅山村股份經濟合作社 (Changxing County Heping Town Hongshan Village Joint-equity Economic Cooperative*) with approximately 1,800 members, 長興縣和平鎮方家莊村股份經濟合作社 (Changxing County Heping Town Fangjiazhuang Village Joint-equity Economic Cooperative*) with approximately 600 members, 長興縣和平鎮長安村股份經濟合作社 (Changxing County Heping Town Chang'an Village Joint-equity Economic Cooperative*) with approximately 4,100 members, 長興縣和平鎮灘龍橋村股份經濟合作社 (Changxing County Heping Town Tanlongqiao Village Joint-equity Economic Cooperative*) with approximately 900 members and 長興縣和平鎮橫澗村股份經濟合作社 (Changxing County Heping Town Hengjian Village Joint-equity Economic Cooperative*) with approximately 1,200 members. The remaining 29% of equity interests in Zhejiang Jiening Equity Investment Co., Ltd. was held by Zhejiang Binhe Industrial Co., Ltd.* (浙江濱河實業有限公司) (“**Zhejiang Binhe**”), a limited company established in the PRC and principally engaged in the sales of construction materials, coal and related products, metallic parts for construction purposes and metallic materials, which was wholly owned by Changxing City Development & Investment Group Co., Ltd.* (長興城市建設投資集團有限公司), a state-owned enterprise principally engaged in construction of and investment in public infrastructure of Changxing County, Zhejiang Province, and which was in turn ultimately owned as to approximately 95.65% and 4.35% by the Finance Bureau of Changxing County* (長興縣財政局) and the Zhejiang Provincial Department of Finance* (浙江省財政廳), respectively. Our Company became acquainted with Zhejiang Jiening Equity Investment Co., Ltd. when it noticed our application for the Listing and approached us for investment opportunities.

2. Zhejiang Lichen Equity Investment Co., Ltd.* (浙江麗宸股權投資有限公司)

Zhejiang Lichen Equity Investment Co., Ltd. is a limited company established in the PRC. It is principally engaged in investment holding. As at the Latest Practicable Date, it was held as to 70.5% by Zhejiang Huili Enterprise Services Co., Ltd.* (浙江惠麗企業服務有限公司), a limited company established in the PRC and principally engaged in the provision of office services, which was wholly owned by Changxing Hehui Industrial Co., Ltd.* (長興和惠實業有限公司), a limited company established in the PRC, principally engaged in manufacturing of tea leave products, construction works, development and operation of real property, operation services in relation to urban household waste and accommodation services and in turn owned by eight joint-equity economic cooperatives (股份經濟合作社) ^(Note) located in Heping Town, Changxing County, Zhejiang Province as to 12.5% each. The joint-equity economic cooperatives are 長興縣和平鎮小溪口村股份經濟合作社 (Changxing County Heping Town Xiaoxikou Village Joint-equity Economic Cooperative*) with approximately 4,600 members, 長興縣和平鎮雷溪村股份經濟合作社 (Changxing County Heping Town Xiaxi Village Joint-equity Economic Cooperative*) with approximately 3,900 members, 長興縣和平鎮回車嶺村股份經濟合作社 (Changxing County Heping Town Huicheling Village Shareholding Economic Cooperative*) with approximately 2,700 members, 長興縣和平鎮城山村股份經濟合作社 (Changxing County Heping Town Chengshan Village Joint-equity Economic Cooperative*) with approximately 2,000 members, 長興縣和平鎮長崗村股份經濟合作社 (Changxing County Heping Town Changgang Village Joint-equity Economic Cooperative*) with approximately 1,800 members, 長興縣和平鎮東山村股份經濟合作社 (Changxing County Heping Town Dongshan Village Joint-equity Economic Cooperative*) with approximately 2,700 members, 長興縣和平鎮便民橋村股份經濟合作社 (Changxing County Heping Town Convenience Bridge Village Joint-equity Economic Cooperative*) with approximately 4,300 members and 長興縣和平鎮橫山村股份經濟合作社 (Changxing County Heping Town Hengshan Village Joint-equity Economic Cooperative*) with approximately 1,900 members. The remaining 29.5% of equity interests in Zhejiang Lichen Equity Investment Co., Ltd. was held by Zhejiang Binhe. Our Company became acquainted with Zhejiang Lichen Equity Investment Co., Ltd. through the introduction of members of joint-equity economic cooperatives, being its ultimate shareholders.

3. Huzhou Erqing Asset Operation Co., Ltd.* (湖州市二輕資產經營有限公司)

Huzhou Erqing Asset Operation Co., Ltd. is a limited company established in the PRC. It is principally engaged in collective asset management and investment management. As at the Latest Practicable Date, it was wholly owned by Huzhou Handicraft Industry Cooperative Association* (湖州市手工業合作社聯合社) (“**Huzhou HIC**”). According to its business licence, the nature of Huzhou HIC is a collectively-owned enterprise. In accordance with Articles 6 to 8 of the Constitution of the People’s Republic of China (2018 Revision) (《中華人民共和國憲法(2018年修正)》), the Regulation of the People’s Republic of China on Urban Collectively-Owned Enterprises (2016 Revision) (《中華人民共和國城鎮集體所有制企業條例(2016修訂)》) and the Implementation Rules of Light Industry for the Regulation of the People’s Republic of China on Urban Collectively-Owned Enterprises (《〈中華人民共和國城鎮集體所有制企業條例〉輕工業實施細則》), (i) Huzhou HIC is a socialist economic organisation, the assets of which are collectively owned by the working masses, subject to joint work, with distribution according to work as the principal distribution method, and has the right to own, use, profit from or dispose of such assets under the law including for investment purpose; (ii) the beneficial ownership of Huzhou HIC lies in all of its members collectively; (iii) the ultimate decision-making power, including the power to appoint or remove factory managers, lies with the staff representative meeting; (iv) staff representatives are elected by all staff members of Huzhou HIC; and (v) any individual who agree to be bound by the articles of association may apply to be a member and will qualify for membership upon acceptance by Huzhou HIC. In accordance with Articles 96 and 99 of the Civil Code of the People’s Republic of China (《中華人民共和國民法典》), Huzhou HIC was established as a special legal person by law to exercise the rights to collectively-owned assets on behalf of its members and enjoy the autonomy to conduct economic activities independently.

According to its articles of association and as advised by our PRC Legal Advisers, (i) Huzhou HIC was established as an association for the development of specified light industry services (二輕工業服務); (ii) it is funded by various funds, management fees and other income contributed by its members as well as profits and other income from enterprises and joint ventures which it invested in and/or operated; and (iii) the daily operations of Huzhou HIC are primarily conducted through various departments such as the manager’s office, operations section and finance section. Pursuant to the Regulation of the People’s Republic of China on Urban Collectively-Owned Enterprises (2016 Revision) (《中華人民共和國城鎮集體所有制企業條例(2016修訂)》), and to the best knowledge, information and belief of our Directors after making reasonable enquiries, such departments in turn report to the administrative committee, which comprises members elected by staff representatives in the staff representative meeting and reports directly to the staff representative meeting. According to our PRC Legal Advisers, Huzhou HIC is not a governmental body, no key members of the management of Huzhou HIC are appointed by local government bodies, and no PRC government body may control or have the right to give direction or instructions to Huzhou HIC with respect to its daily operations and investment decisions in accordance with the law. Our Company became acquainted with Huzhou Erqing Asset Operation Co., Ltd. in our ordinary course of business of supplying fuel gas and related services in Huzhou. Based on the above, our Directors consider, and the Sole Sponsor concurs that, Huzhou HIC is not an associate of any PRC government body.

4. Zhejiang Caixu Equity Investment Co., Ltd.* (浙江彩旭股權投資有限公司)

Zhejiang Caixu Equity Investment Co., Ltd. is a limited company established in the PRC. It is principally engaged in equity investment. As at the Latest Practicable Date, it was held as to 72% by Zhejiang Huicai Enterprise Services Co., Ltd.* (浙江暉彩企業服務有限公司), a limited company established in the PRC and principally engaged in the provision of office services, which was wholly owned by Changxing Hehui Industrial Co., Ltd.* (長興和暉實業有限公司), a limited company established in the PRC, principally engaged in manufacturing of tea leave products, construction works and development and operation of real property and in turn owned by five joint-equity economic cooperatives (股份經濟合作社)^(Note) located in Heping Town, Changxing County, Zhejiang Province as to 20% each. The joint-equity economic

Note: According to the Registration Certificate for Rural Collective Economic Organisation (農村集體經濟組織登記證) of each of the relevant joint-equity economic cooperatives, the nature of such joint-equity economic cooperatives are collectively-owned enterprises. In accordance with Articles 6 to 8 of the Constitution of the People's Republic of China (2018 Revision) (《中華人民共和國憲法(2018年修正)》) and the Regulations on Association of Zhejiang Province Village Economic Cooperatives (2020 Revision) (《浙江省村經濟合作社組織條例》(2020修正)), such joint-equity economic cooperatives are socialist economic organisations, the assets of which are collectively owned by the working masses, subject to joint work, with distribution according to work as the principal distribution method. The beneficial ownership of each of the joint-equity economic cooperatives lies in all of its members collectively, and the members' meeting is their supreme authority. In accordance with Articles 96 and 99 of the Civil Code of the People's Republic of China (《中華人民共和國民法典》), joint-equity economic cooperatives are established as special legal persons by law to exercise the rights to collectively-owned assets on behalf of their members and enjoy the autonomy to conduct economic activities independently.

According to our PRC Legal Advisers, (i) the joint-equity economic cooperatives were established for the purpose of independently managing assets collectively owned by their members; (ii) the ultimate decision-making power, including the power to consider and approve asset management and investment plans, lies with the members' representative meeting; (iii) at least two thirds of the entire members' representative to form a quorum, and not less than half of all attending members of the joint-equity economic cooperatives, through voting by show of hands in the members' representative meeting determine resolutions; (iv) membership is determined as at the date specified in the respective articles of association taking into account factors such as location of household registration and contributions to the village community; (v) powers of day-to-day administration and formulation of asset management and investment plans belong to the management body, the members of which are elected in the members' representative meeting. Based on the information provided by the relevant Cornerstone Investors, (a) such management body comprises 5 to 11 individuals, including one chairman/coordinator (經濟合作社董事長); (b) the chairman/coordinator is a Secretary of the Party Committee (黨委書記) or a Party Branch Secretary (總支書記) and who is also called a Director (主任); and (c) each member of such management body, including the chairman/coordinator, are the residents of the relevant village and are elected by all the members of the joint-equity economic cooperative. The Secretary of the Party Committee (黨委書記) or Party Branch Secretary (總支書記) are not government officials appointed by the government; (vi) the joint-equity economic cooperatives are funded by the revenue generated from the collective effort of their members which is derived from collectively-owned assets, such as agricultural land owned by the government and granted to the members collectively for their use; and (vii) none of these joint-equity economic cooperatives is a government body, no key members of the management of the relevant joint-equity economic cooperatives are appointed by local government bodies, and no PRC government body may control or have the right to give direction or instructions to any of the joint-equity economic cooperatives with respect to their daily operations and investment decisions in accordance with the law.

Based on the above, and taking into account that the state-owned minority shareholder of the relevant Cornerstone Investors each held less than 30% equity interests in the respective Cornerstone Investor, our Directors consider, and the Sole Sponsor concurs, that none of the relevant Cornerstone Investors is an associate of any PRC government body.

CORNERSTONE INVESTORS

cooperatives are 長興縣和平鎮吳村村股份經濟合作社 (Changxing County Heping Town Wucun Village Joint-equity Economic Cooperative*) with approximately 1,800 members, 長興縣和平鎮吳山村股份經濟合作社 (Changxing County Heping Town Wushan Village Joint-equity Economic Cooperative*) with approximately 2,300 members, 長興縣和平鎮狄家斗村股份經濟合作社 (Changxing County Heping Town Dijiadou Village Joint-equity Economic Cooperative*) with approximately 1,600 members, 長興縣和平鎮馬家邊村股份經濟合作社 (Changxing County Heping Town Majiabian Village Joint-equity Economic Cooperative*) with approximately 1,400 members and 長興縣和平鎮東山村股份經濟合作社 (Changxing County Heping Town Dongshan Village Joint-equity Economic Cooperative*) with approximately 2,700 members. The remaining 28% of equity interests in Zhejiang Caixu Equity Investment Co., Ltd. was held by Changxing Chengnan New Town Development & Construction Co., Ltd.* (長興城南新城開發建設有限公司), a limited company established in the PRC and principally engaged in architectural construction works and supervision of water conservancy construction works, which was in turn wholly owned by Changxing County Natural Resources Collection Centre* (長興縣自然資源徵收中心), a business unit established by the local government of Changxing County principally engaged in the acquisition and development of land in the county. Our Company became acquainted with Zhejiang Caixu Equity Investment Co., Ltd. when it noticed our application for the Listing and approached us for investment opportunities.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor under the respective cornerstone investment agreements is subject to, among other things, the following conditions precedent:

- (1) the Underwriting Agreements being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Underwriting Agreements;
- (2) none of the Underwriting Agreements having been terminated;
- (3) the Listing Committee having granted the listing of, and permission to deal in, the H Shares and such approval and permission not having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;
- (4) no laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or in the respective cornerstone investment agreements and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

CORNERSTONE INVESTORS

- (5) the representations, warranties, confirmations and undertakings from each of the Cornerstone Investors given under the respective cornerstone investment agreement are (as of the date of the respective cornerstone investment agreement) and will (as of the Listing Date and the Delayed Delivery Date (if applicable)) remain accurate, true and not misleading, and that there is no breach of the respective cornerstone investment agreements on the part of the Cornerstone Investors.

RESTRICTIONS ON THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has undertaken that, unless prior written consent of each of our Company, BOCOM International Securities (for itself and on behalf of the other Underwriters) and the Sole Sponsor has been obtained, it will not, at any time during the period of six (6) months following the Listing Date, directly or indirectly, (i) sell, pledge, charge, sell or offer to sell any option, or lend or otherwise transfer or dispose of (as defined under the cornerstone investment agreements), either directly or indirectly, conditionally or unconditionally, any of the Offer Shares acquired under the respective cornerstone investment agreements or any interest in any company or entity holding any of the relevant Offer Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of these Offer Shares (or any interest in any company or entity holding any such Offer Shares); (iii) permit its change of control (as defined under the Takeovers Code); (iv) enter into any transaction with the same economic effect as any of the transactions referred to in (i), (ii) or (iii) above; (v) permit or allow any person having beneficial interest in the relevant Cornerstone Investors entering into any transaction in respect of the shares of the relevant Cornerstone Investors with similar economic effect as any of the transactions referred to in (i), (ii), (iii) or (iv) above; or (vi) agree, offer to or publicly announce any intention to enter into any of the transactions as referred to in (i) to (v) above, save for transfers of any of such Offer Shares to any of its wholly-owned subsidiaries who will be bound by the same obligations of such Cornerstone Investor.

UNDERWRITING

HONG KONG UNDERWRITERS (in alphabetical order save for the Joint Global Coordinators)

BOCOM International Securities Limited
Sigma Capital Management Limited
CEB International Capital Corporation Limited
China Everbright Securities (HK) Limited
China Industrial Securities International Capital Limited
China Tonghai Securities Limited
CMBC Securities Company Limited
Eddid Securities and Futures Limited
Essence International Securities (Hong Kong) Limited
Guotai Junan Securities (Hong Kong) Limited
Livermore Holdings Limited
Maxa Capital Limited
Zhongtai International Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering 5,000,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus.

Subject to:

- (a) the Listing Committee granting the listing of, and permission to deal in, our H Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Hong Kong Underwriting Agreement,

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer, on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

UNDERWRITING

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination by notice in writing to our Company from BOCOM International Securities (for itself and on behalf of the other Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of BOCOM International Securities:
 - (i) that any statement contained in any Offer Documents (as defined under the Hong Kong Underwriting Agreement) (the “**Offer Documents**”) and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of BOCOM International Securities (for itself and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
 - (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, our executive Directors and City Group (the “**Warrantors**”) pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or
 - (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group (“**Group Company**”); or
 - (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Hong Kong Underwriting Agreement; or

UNDERWRITING

- (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the H Shares (including any additional H Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Global Offering; or
- (ix) any person (other than the Sole Sponsor and the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
- (xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management members of our Group as set out in the section headed “Directors, Supervisors, Senior Management and Employees” in this prospectus; or
- (xii) a portion of the orders in the book-building process, which is considered by BOCOM International Securities (for itself and on behalf of the other Underwriters) in its sole and absolute opinion to be material, at the time the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and BOCOM International Securities (for itself and on behalf of the other Underwriters), in its sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
- (xiii) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by BOCOM International Securities (for itself and on behalf of the other Underwriters) in its sole and absolute opinion to be material; or

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- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome, coronavirus disease (COVID-19) or such related or mutated forms) or interruption or delay in transportation in or affecting any of Hong Kong, the PRC, the United States, the European Union (or any member thereof) or any other jurisdictions relevant to any Group Company or the Global Offering (the “**Specific Jurisdictions**”); or
 - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Specific Jurisdictions; or
 - (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
 - (iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgement(s), decree(s) or ruling(s) of any governmental authority (“**Law(s)**”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or
 - (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or

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- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the H Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (ix) any litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or
- (x) any of the Directors, Supervisors and senior management members of our Company as set out in the section headed “Directors, Supervisors, Senior Management and Employees” in this prospectus being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his or her office; or
- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Global Offering; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares (as defined under the Hong Kong Underwriting Agreement) pursuant to the terms of the Global Offering; or
- (xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other Laws applicable to the Global Offering; or

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- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of BOCOM International Securities (for itself and on behalf of the other Underwriters):

- (a) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or prospects or risks of our Company or our Group or any Group Company or on any present or prospective shareholder of our Company in his, her or its capacity as such; or
- (b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings given to the Stock Exchange pursuant to the Listing Rules

By our Company

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

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By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to us and to the Stock Exchange that except as permitted under the Listing Rules or the Global Offering (including the Over-allotment Option), it shall not and shall procure that the relevant registered Shareholder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of, any Shares in respect of which it is shown by this prospectus to be the beneficial owner (the “**Relevant Shares**”); and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan), it would then cease to be a controlling shareholder of our Company for the purposes of the Listing Rules.

Each of the Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any Shares beneficially owned by it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules for a bona fide commercial loan, immediately inform us in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged Shares beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of the Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

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Undertakings given to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and BOCOM International Securities (for itself and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) (except for the allotment and issue of shares or securities by our subsidiaries to our Company or any Group Company) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depository in connection with the issue of depository receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or;
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or

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- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

By City Group

City Group has undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, except in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and BOCOM International Securities (for itself and on behalf of the other Hong Kong Underwriters):

- (i) at any time during the First Six-Month Period, it shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it and the companies controlled by it (together, the “**Controlled Entities**”) shall not,
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it directly or indirectly through its Controlled Entities as at the Listing Date (the “**Relevant Securities**”), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or

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- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or
 - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or
 - (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, whether any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, it shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company;
 - (iii) in the event that it enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it shall take all reasonable steps to ensure that it will not create a disorderly or false market for any Shares or other securities of our Company; and
 - (iv) it shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

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City Group has further undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (i) when it pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the Relevant Securities will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Underwriters' interests in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

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The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The International Placing

International Placing

In connection with the International Placing, we expect to enter into the International Underwriting Agreement on or about 6 July 2022 with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to subscribe for or purchase the International Placing Shares or procure subscribers or purchasers for the International Placing Shares initially being offered pursuant to the International Placing. Please refer to the paragraph headed "Structure and Conditions of the Global Offering – International Placing" in this prospectus.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of BOCOM International Securities (for itself and on behalf of the other International Underwriters) from the Listing Date until 30 days from the last day for the lodging of applications under the Hong Kong Public Offer to require us to issue and allot up to an aggregate of 7,500,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Global Offering and at the Offer Price, to cover any over-allocations in the International Placing, if any.

Total Commission and Expenses

We will pay BOCOM International Securities (for itself and on behalf of the other International Underwriters) an underwriting commission of 2.5% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer (excluding any International Placing Shares reallocated to the Hong Kong Public Offer and any Hong Kong Offer Shares reallocated to the International Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to BOCOM International Securities and the relevant International Underwriters, but not the Hong Kong Underwriters. In respect of the International Placing, we expect to pay an underwriting commission of 2.5% of the aggregate Offer Price of the International Placing Shares, including any Shares which may be allotted under the exercise of the Over-allotment Option, subject to the reallocation and market condition. In addition, we may, at our discretion, pay to BOCOM International Securities an additional incentive fee of up to 1.0% of the aggregate Offer Price of the Offer Shares from the Global Offering, including proceeds from the exercise of the Over-allotment Option.

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Assuming the Over-allotment Option is not exercised and based on the Offer Price of HK\$6.08 per H Share, the aggregate commissions, incentives and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to HK\$44.2 million in total.

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters (for itself and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

ACTIVITIES BY THE UNDERWRITERS

The Underwriters and their respective affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Underwriters and their respective affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Underwriters or their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of our Company and/or persons and entities in relation with our Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with our Group's loans and other debt.

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In relation to the H Shares, the activities of the Underwriters or their respective affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (the financing of which may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Underwriters or their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Underwriters or their respective affiliates of any listed securities having the H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilising period as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Underwriters or their respective affiliates will be subject to certain restrictions, including the following:

- (a) the Underwriters or their respective affiliates (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Underwriters or their respective affiliates must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO which includes the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Underwriters or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking, derivative and other services to us, our affiliates or our Shareholders including cornerstone investors, for which the Underwriters or their respective affiliates have received or will receive customary fees and commissions.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offer of initially 5,000,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the paragraph headed “The Hong Kong Public Offer”; and
- the International Placing of initially 45,000,000 Offer Shares (subject to reallocation and the Over-allotment Option as described below) outside the United States (including to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offer; or
- apply for or indicate an interest for the International Placing Shares under the International Placing,

but may not do both.

The 50,000,000 Offer Shares in the Global Offering will represent 25% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of our enlarged share capital immediately following the completion of the Global Offering.

References to applications, application monies or procedure for applications relate solely to the Hong Kong Public Offer.

THE HONG KONG PUBLIC OFFER

Number of Offer Shares initially offered

We are initially offering for subscription by the public in Hong Kong 5,000,000 Offer Shares, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, the number of Offer Shares offered under the Hong Kong Public Offer will represent 2.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Completion of the Hong Kong Public Offer is subject to the conditions as set forth below in the paragraph headed “Conditions of the Global Offering” in this section.

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Hong Kong Public Offer is to be divided equally into two pools (subject to the reallocation of the Offer Shares between the Hong Kong Public Offer and the International Placing referred to below):

- **Pool A:** The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy payable); and
- **Pool B:** The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for the Hong Kong Offer Shares means the price payable on application therefor. Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offer and any application for more than 2,500,000 Hong Kong Offer Shares will be rejected.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offer and the International Placing is subject to reallocation at the discretion of BOCOM International Securities, subject to the following:

- (a) where the International Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Hong Kong Offer Shares are undersubscribed, BOCOM International Securities has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as BOCOM International Securities deems appropriate;
 - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then up to 5,000,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing in accordance with the Guidance Letter HKEX-GL91-18, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 10,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering;
 - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offer, the Offer Shares will be reallocated to the Hong Kong Public Offer from the International Placing in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, so that the total number of Hong Kong Offer Shares will be increased to 15,000,000 Offer Shares (in the case of (1)), 20,000,000 Offer Shares (in the case of (2)) and 25,000,000 Offer Shares (in the case of (3)), representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively;
- (b) where the International Placing Shares are undersubscribed:
 - (i) if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this Prospectus and the Underwriting Agreements; and

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 5,000,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 10,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Global Offering.

In all cases of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offer, the additional Offer Shares reallocated to the Hong Kong Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

Applications

Each applicant under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Placing Shares under the International Placing.

Applicants under the Hong Kong Public Offer are required to pay, on application, the Offer Price of HK\$6.08 per Offer Share in addition to brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015% on each Offer Share, amounting to a total of HK\$3,070.63 for one board lot of 500 H Shares. For further details, see the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL PLACING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Placing 45,000,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, the number of Offer Shares offered under the International Placing will represent 22.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation

The International Placing Shares will conditionally be offered to selected professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the International Placing Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around the last day of lodging applications under the Hong Kong Public Offer.

Allocation of the International Placing Shares pursuant to the International Placing will be determined by BOCOM International Securities and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its H Shares, after the listing of the H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

BOCOM International Securities (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing and who has made an application under the Hong Kong Public Offer to provide sufficient information to BOCOM International Securities so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that they are excluded from any applications of Hong Kong Offer Shares under the Hong Kong Public Offer.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Placing may change as a result of the clawback arrangement as described above in the paragraph headed “The Hong Kong Public Offer – Reallocation” in this section or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offer.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by BOCOM International Securities (for itself and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offer, to require the Company to issue up to 7,500,000 H Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price under the International Placing to cover over-allocations in the International Placing, if any.

If the Over-allotment Option is exercised in full, the additional H Shares to be issued pursuant thereto will represent approximately 3.61% of our enlarged issued share capital immediately following the completion of the Global Offering. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of our H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any persons acting for it to conduct any such stabilising action. Such stabilising action, if taken, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end on the 30th day after the last day for lodging applications under the Hong Kong Public Offer.

Stabilisation action permitted in Hong Kong under the Securities and Futures (Price Stabilising) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our H Shares, (ii) selling or agreeing to sell our H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our H Shares for the sole purpose of preventing or minimising any reduction in the market price of our H Shares, (v) selling or agreeing to sell any H Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager (or any person acting for it) may, in connection with the stabilising action, maintain a long position in the H Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the H Shares;
- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on Thursday, 4 August 2022, being the 30th day after the last day for lodging applications under the Hong Kong Public Offer. After this date, when no further action may be taken to support the price of the H Shares, demand for the H Shares, and therefore the price of the H Shares, could fall;
- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price, which means that stabilising bids or transactions effected may be made at a price below the price paid by applicants for, or investors in, the Offer Shares.

In order to effect stabilisation actions, the Stabilising Manager will arrange cover of up to an aggregate of 7,500,000 H Shares, representing up to 15% of the initial Offer Shares, through delayed delivery arrangements with investors who have been allocated Offer Shares in the International Placing. The delayed delivery arrangements (if specifically agreed by an investor) relate only to the delay in the delivery of the Offer Shares to such investor and the Offer Price for the Offer Shares allocated to such investor will be paid on the Listing Date. Both the size of such cover and the extent to which the Over-allotment Option can be exercised will depend on whether arrangements can be made with investors such that a sufficient number of H Shares can be delivered on a delayed basis. If no investor in the International Placing agrees to the delayed delivery arrangements, no stabilising actions will be undertaken by the Stabilising Manager and the Over-allotment Option will not be exercised.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

OVER-ALLOCATION

Following any over-allocation of H Shares in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, using H Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

The Offer Price will be HK\$6.08 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offer.

BOCOM International Securities (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offer publish an announcement or supplemental prospectus on our website at www.hzrqgf.com and the website of the Stock Exchange at www.hkexnews.hk (the contents of the website do not form a part of this prospectus). Upon issue of such an announcement or supplemental prospectus, the revised number of Offer Shares and/or offer price will be final and conclusive.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer. Such notice will also confirm or revise, as appropriate, the working capital statement, the use of proceeds the Global Offering statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the number of offer share will not be reduced and the Offer Price shall be HK\$6.08 per H Share.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offer, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares, BOCOM International Securities may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offer and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offer shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The level of indication of interest in the International Placing, the basis of allotment of Offer Shares available under the Hong Kong Public Offer and the Hong Kong identity card/passport/Hong Kong business registration/certificate of incorporation numbers of successful applicants under the Hong Kong Public Offer are expected to be made available in a variety of channels in the manner described in the paragraph headed “How to Apply for Hong Kong Offer Shares – 11. Publication of Results” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our H Shares in issue and to be issued as described in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- the execution and delivery of the International Underwriting Agreement on or about Wednesday, 6 July 2022; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Friday, 29 July 2022, being the 30th date after the date of this prospectus.

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offer will be published by the Company on our website at www.hzrqgf.com and the website of the Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares – 13. Refund of Application Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

UNDERWRITING AGREEMENTS

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

We expect to enter into the International Underwriting Agreement relating to the International Placing on or about Wednesday, 6 July 2022.

Certain terms of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarised in the section headed “Underwriting” in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 13 July 2022, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 13 July 2022.

The Shares will be traded in board lots of 500 H Shares each.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS:

Fully Electronic Application Process

We have adopted a fully electronic application process for the Hong Kong Public Offer. We will not provide any printed copies of this Prospectus or any printed copies of any application forms for use by the public.

This Prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “HKEXnews> New Listings> New Listing Information” section, and our website at www.hzrqgf.com. If you require a printed copy of this Prospectus, you may download and print from the website addresses above.

The contents of the electronic version of this Prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this Prospectus is available online at the website addresses above.

1. HOW TO APPLY

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

- (1) apply online via the **HK eIPO White Form** service in the **IPO App** (which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) (if you are an existing CCASS Investor Participant) giving electronic application instructions through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling (852) 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, BOCOM International Securities, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older; and
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act).

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number/passport number (for individual applicant) or Hong Kong business registration number/certificate of incorporation number (for body corporate applicant), (ii) have a Hong Kong address and (iii) provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are a firm, the application must be in the individual members' names.

The number of joint applicants may not exceed four.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/ or any its subsidiaries;
- a Director or chief executive officer of the Company and/ or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this Prospectus, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/ or BOCOM International Securities (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vi) agree that none of the Company, the Joint Global Coordinators, the Underwriters, the **HK eIPO White Form** Service Provider, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to the Company, our H Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/ or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's H Share register as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/ or its agents to send any H Share certificate(s) and/ or any e-Auto Refund payment instructions and/ or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the H Share certificate(s) and/ or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

For the avoidance of doubt, the Company and all other parties involved in the preparation of this document acknowledge that each applicant and CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **HK eIPO White Form** service or the **CCASS EIPO** service must be for a minimum of 500 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
500	3,070.63	6,000	36,847.65	40,000	245,651.09	400,000	2,456,510.91
1,000	6,141.27	7,000	42,988.94	45,000	276,357.48	500,000	3,070,638.64
1,500	9,211.92	8,000	49,130.21	50,000	307,063.87	600,000	3,684,766.37
2,000	12,282.56	9,000	55,271.50	60,000	368,476.64	700,000	4,298,894.09
2,500	15,353.19	10,000	61,412.77	70,000	429,889.41	800,000	4,913,021.83
3,000	18,423.83	15,000	92,119.16	80,000	491,302.18	900,000	5,527,149.55
3,500	21,494.46	20,000	122,825.54	90,000	552,714.95	1,000,000	6,141,277.28
4,000	24,565.12	25,000	153,531.93	100,000	614,127.73	2,000,000	12,282,554.56
4,500	27,635.75	30,000	184,238.31	200,000	1,228,255.45	2,500,000 ⁽¹⁾	15,353,193.20
5,000	30,706.39	35,000	214,944.71	300,000	1,842,383.19		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. APPLYING THROUGH THE HK eIPO WHITE FORM SERVICE

General

Applicants who meet the criteria in the paragraph headed “2. Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names in the **IPO App** or at the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** and on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application through the **IPO App** or the designated website at www.hkeipo.hk under the **HK eIPO White Form** service (24 hours daily, except on the last application day) from 9:00 a.m., Wednesday, 29 June 2022 until 11:30 a.m., Tuesday, 5 July 2022 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Tuesday, 5 July 2022 or such later time under the paragraph headed “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING THROUGH THE CCASS EIPO SERVICE

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HOW TO APPLY FOR HONG KONG OFFER SHARES

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our H Share Registrar.

Applying through the CCASS EIPO Service

Where you have applied through the **CCASS EIPO** service to apply for the Hong Kong Offer Shares and an application is made by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms of this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
 - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise the Company to place HKSCC Nominees' name on the Company's H Share register as the holder of the Hong Kong Offer Shares allocated to you and to send H Share certificate(s) and/ or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/ or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our H Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/ or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable one or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person one or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application one or before the fifth day after the time of the opening of

HOW TO APPLY FOR HONG KONG OFFER SHARES

the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong;
- agree with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each shareholder of the Company, with each CCASS Participant giving electronic application instructions) to observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association of the Company;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions):
 - (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H Shares in the Company are freely transferable by their holders; and
- authorise the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.

Effect of Applying through the CCASS EIPO Service

By applying through the **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and Financial Reporting Council transaction levy by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application, refund of the application monies (including brokerage, SFC transaction levy, the Stock Exchange trading fee and Financial Reporting Council transaction levy) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/ Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- **9:00 a.m. to 8:30 p.m. on Wednesday, 29 June 2022**
- **8:00 a.m. to 8:30 p.m. on Thursday, 30 June 2022**
- **8:00 a.m. to 8:30 p.m. on Monday, 4 July 2022**
- **8:00 a.m. to 12:00 noon on Tuesday, 5 July 2022**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m., Wednesday, 29 June 2022 until 12:00 noon, Tuesday, 5 July 2022 (24 hours daily, except on Tuesday, 5 July 2022, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon, Tuesday, 5 July 2022, the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section.

Note:

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/ or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Data

The following Personal Information Collection Statement applies to any personal data held by the Company, the H Share Registrar, the receiving bank, the Joint Coordinators, the Underwriters and/or their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through the **CCASS EIPO** service or the **HK eIPO White Form** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of the Company and H Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the Collection of Your Personal Data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to the Company or its agents and the H Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the H Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of the Company or the H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of H Share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform the Company and the H Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund cheque or e-Auto Refund payment instruction, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of the Shares including, where applicable, HKSCC Nominees;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- maintaining or updating the Company's Register of Members;
- verifying identities of the holders of the Shares;
- establishing benefit entitlements of holders of the Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and profiles of the holder of the Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the H Share Registrar to discharge their obligations to holders of the H Shares and/or regulators and/or any other purposes to which the holders of the H Shares may from time to time agree.

Transfer of Personal Data

Personal data held by the Company and the H Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but the Company and the H Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- the Company's appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company or the H Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Retention of Personal Data

The Company and the H Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Access to and Correction of Personal Data

Holders of the Hong Kong Offer Shares have the right to ascertain whether the Company or the H Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. The Company and the H Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to the Company, at the Company's registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or the Company's H Share Registrar for the attention of the privacy compliance officer.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Tuesday, 5 July 2022 or such later time as described in the paragraph headed "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee and apply through the **HK eIPO White Form** service, in the box marked “For Nominees”, you must include an account number or some other identification code for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner when you fill in the application details. If you do not include this information, the application will be treated as being made for your own benefit.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an electronic application instruction under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

The H Share Registrar would record all applications into its system and identify suspected multiple applications with identical names, identification document numbers and reference numbers according to the Best Practice Note on Treatment of Multiple/Suspected Multiple Applications (the “**Best Practice Note**”) issued by the Federation of Share Registrars Limited.

With regard to the announcement of results of allocations under the section headed “Results of Applications Made by Giving Electronic Application Instructions to HKSCC via CCASS”, the list of identification document number(s) may not be a complete list of successful applicants, only successful applicants whose identification document numbers are provided to HKSCC by CCASS Participants are disclosed. Applicants who applied for the Offer Shares through their brokers can consult their brokers to enquire about their application results.

Since applications are subject to personal information collection statements, beneficial owner identification codes displayed are redacted. Applicants with beneficial names only but not identification document numbers are not disclosed due to personal privacy issue.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The Offer Price is HK\$6.08 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%. This means that for one board lot of 500 Hong Kong Offer Shares, you will pay HK\$3,070.63.

You must pay the Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and Financial Reporting Council transaction levy in full upon application for Hong Kong Offer Shares.

You may submit an application through the **HK eIPO White Form** service or the **CCASS EIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in “4. Minimum Application Amount and Permitted Numbers” in this section, or as otherwise specified in the **IPO App** and on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC), and Financial Reporting Council transaction levy will be paid to Hong Kong Exchanges and Clearing Limited who shall collect such levy on behalf of the Financial Reporting Council.

For further details on the Offer Price, see the paragraph headed “Structure and Conditions of the Global Offering – Pricing and Allocation” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning; and/or
- Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 5 July 2022. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings and/or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 5 July 2022 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 12 July 2022 on the Company’s website at www.hzrqgf.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/ passport/ Hong Kong business registration/certificate of incorporation numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.hzrqgf.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m., Tuesday, 12 July 2022;
- from the “IPO Results” function in the **IPO App** or the designated results of allocations website at www.tricor.com.hk/ipo/result or www.hkeipo.hk/IPOResult with a “search by ID” function on a 24-hour basis from 8:00 a.m., Tuesday, 12 July 2022 to 12:00 midnight, Monday, 18 July 2022; and
- from the allocation results telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 12 July 2022 to Friday, 15 July 2022.

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If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/ or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By applying through the **CCASS EIPO** service or the **HK eIPO White Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/ or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** or on the designated website;
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or BOCOM International Securities believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer.

HOW TO APPLY FOR HONG KONG OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the paragraph headed “Structure and Conditions of the Global Offering – Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, the Stock Exchange trading fee and Financial Reporting Council transaction levy, will be refunded, without interest.

Any refund of your application monies will be made on Tuesday, 12 July 2022.

14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offer (except pursuant to applications made through the **CCASS EIPO** service where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on dispatch/ collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or around Tuesday, 12 July 2022. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

H Share certificates will only become valid at 8:00 a.m., Wednesday, 13 July 2022 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from the H Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m., on Tuesday, 12 July 2022, or such other date as notified by the Company as the date of despatch/ collection of H Share certificates/e-Auto Refund payment instructions/refund cheques.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of

HOW TO APPLY FOR HONG KONG OFFER SHARES

authorization from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 12 July 2022 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) in favour of the applicant (or, in the case of joint applications, the first-named applicant) by ordinary post at your own risk.

(ii) If you apply through the CCASS EIPO service

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 12 July 2022, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in the paragraph headed "11. Publication of Results" in this section above on Tuesday, 12 July 2022. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m., Tuesday, 12 July 2022 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 12 July 2022. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications (including brokerage, SFC transaction levy, the Stock Exchange trading fee and Financial Reporting Council transaction levy but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 12 July 2022.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HUZHOU GAS CO., LTD. AND BOCOM INTERNATIONAL (ASIA) LIMITED

Introduction

We report on the historical financial information of Huzhou Gas Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-101, which comprises the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2019, 2020 and 2021 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2019, 2020 and 2021 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-101 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 June 2022 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2019, 2020 and 2021 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends proposed by the Company in respect of the Relevant Periods.

Ernst & Young

Certified Public Accountants

Hong Kong

29 June 2022

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
	<i>Notes</i>			
Revenue	5	1,630,421	1,422,038	1,858,737
Cost of sales		<u>(1,402,256)</u>	<u>(1,172,024)</u>	<u>(1,573,265)</u>
Gross profit		228,165	250,014	285,472
Other income and gains	6	8,826	61,074	19,520
Selling and distribution expenses		(22,504)	(24,049)	(35,056)
Administrative expenses		(22,215)	(28,469)	(40,210)
Impairment of financial assets, net		(419)	(551)	214
Other expenses		(582)	(539)	(4,965)
Finance costs	8	(248)	(281)	(1,235)
Share of profits and losses of:				
Joint ventures		<u>1,923</u>	<u>455</u>	<u>(2,052)</u>
PROFIT BEFORE TAX	7	192,946	257,654	221,688
Income tax expense	11	<u>(49,046)</u>	<u>(65,387)</u>	<u>(54,996)</u>
PROFIT FOR THE YEAR		<u>143,900</u>	<u>192,267</u>	<u>166,692</u>

APPENDIX I

ACCOUNTANTS' REPORT

	Notes	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
OTHER COMPREHENSIVE INCOME				
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Fair value reserve of financial assets at fair value through other comprehensive income:				
Initial recognition of bills receivable as settlement of trade receivables		(57)	(257)	(447)
Changes in fair value		–	274	479
Income tax effect		15	(4)	(8)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		(42)	13	24
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		(42)	13	24
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>143,858</u>	<u>192,280</u>	<u>166,716</u>
Profit attributable to:				
Owners of the parent		94,956	145,560	119,714
Non-controlling interests		48,944	46,707	46,978
		<u>143,900</u>	<u>192,267</u>	<u>166,692</u>
Total comprehensive income attributable to:				
Owners of the parent		94,916	145,580	119,741
Non-controlling interests		48,942	46,700	46,975
		<u>143,858</u>	<u>192,280</u>	<u>166,716</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic and diluted	13	<u>63.3 cents</u>	<u>97.0 cents</u>	<u>79.8 cents</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Lease receivables	14	–	3,644	3,607
Property, plant and equipment	15	732,826	757,408	835,650
Investment properties	16	731	704	1,947
Right-of-use assets	17	27,764	26,697	26,960
Goodwill	18	28,506	28,506	28,506
Other intangible assets	19	106,174	98,767	91,705
Investments in joint ventures	20	12,818	10,605	8,553
Deferred tax assets	31	5,687	1,719	1,365
Other non-current assets		614	–	–
Total non-current assets		915,120	928,050	998,293
CURRENT ASSETS				
Inventories	21	17,258	21,505	29,347
Lease receivables	14	–	807	807
Trade and bills receivables	22	61,900	61,532	66,357
Prepayments, other receivables and other assets	23	26,985	23,319	36,829
Due from related parties	24	45	12,394	22,569
Financial assets at fair value through profit or loss	25	–	–	150,000
Pledged deposits	26	20	24	24
Cash and cash equivalents	26	554,741	551,669	588,673
Assets classified as held for sale	27	12,478	–	–
Total current assets		673,427	671,250	894,606
CURRENT LIABILITIES				
Trade payables	28	112,107	110,396	140,407
Other payables and accruals	29	264,693	146,717	255,650
Contract liabilities	30	195,829	260,419	291,477
Due to related parties	24	563	1,817	642
Tax payables		7,784	35,469	40,521
Lease liabilities	17	298	17	535
Total current liabilities		581,274	554,835	729,232
NET CURRENT ASSETS		92,153	116,415	165,374
TOTAL ASSETS LESS CURRENT LIABILITIES		1,007,273	1,044,465	1,163,667

		As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES				
Contract liabilities	30	79,569	77,817	90,404
Deferred tax liabilities	31	37,168	39,720	38,705
Deferred income		1,133	1,067	1,000
Other non-current liabilities	32	4,000	4,000	15,239
Lease liabilities	17	10	304	570
		<u>121,880</u>	<u>122,908</u>	<u>145,918</u>
Total non-current liabilities				
		<u>885,393</u>	<u>921,557</u>	<u>1,017,749</u>
Net assets				
		<u>885,393</u>	<u>921,557</u>	<u>1,017,749</u>
EQUITY				
Equity attributable to owners of the parent				
Share capital	33	98,947	98,947	150,000
Other reserves	34	724,648	725,228	793,916
		<u>823,595</u>	<u>824,175</u>	<u>943,916</u>
Non-controlling interests		61,798	97,382	73,833
		<u>885,393</u>	<u>921,557</u>	<u>1,017,749</u>
Total equity				
		<u>885,393</u>	<u>921,557</u>	<u>1,017,749</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent										
	Share capital RMB'000 (note 33)	Share premium* RMB'000 (note 34)	Merger reserve* RMB'000	Other reserve* RMB'000 (note 34)	Special reserve-safety fund* RMB'000 (note 34)	Statutory surplus reserve* RMB'000 (note 34)	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	90,290	190,507	208,962	-	4,644	45,145	(270)	106,562	645,840	140,845	786,685
Profit for the year	-	-	-	-	-	-	-	94,956	94,956	48,944	143,900
Other comprehensive income for the year:											
Fair value reserve of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	(40)	-	(40)	(2)	(42)
Total comprehensive income for the year	-	-	-	-	-	-	(40)	94,956	94,916	48,942	143,858
Disposal of partial interests in a subsidiary without losing control	-	-	-	32,703	-	-	-	-	32,703	8,147	40,850
Capital injection and contribution from Huzhou Huaxing **	5,163	167,963	(173,126)	-	-	-	-	-	-	-	-
Capital injection and contribution from ENN (China)***	3,494	113,672	-	-	-	-	-	-	117,166	(117,166)	-
Dividend declared (Note 12)	-	-	-	-	-	-	-	(67,030)	(67,030)	(18,970)	(86,000)
Transfer from retained profits	-	-	-	-	-	4,328	-	(4,328)	-	-	-
Special reserve-safety fund	-	-	-	-	5,377	-	-	(5,377)	-	-	-
At 31 December 2019	98,947	472,142	35,836	32,703	10,021	49,473	(310)	124,783	823,595	61,798	885,393

		Attributable to owners of the parent										
		Share capital RMB'000 (note 33)	Share premium* RMB'000 (note 34)	Merger reserve* RMB'000	Other reserve* RMB'000 (note 34)	Special reserve-safety fund* RMB'000 (note 34)	Statutory surplus reserve* RMB'000 (note 34)	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020		98,947	472,142	35,836	32,703	10,021	49,473	(310)	124,783	823,595	61,798	885,393
Profit for the year		-	-	-	-	-	-	-	145,560	145,560	46,707	192,267
Other comprehensive income for the year:												
Fair value reserve of financial assets at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	20	-	20	(7)	13
Total comprehensive income for the year		-	-	-	-	-	-	20	145,560	145,580	46,700	192,280
Dividend declared (Note 12)		-	-	-	-	-	-	-	(145,000)	(145,000)	(11,116)	(156,116)
Special reserve – safety fund		-	-	-	-	5,224	-	-	(5,224)	-	-	-
At 31 December 2020		98,947	472,142	35,836	32,703	15,245	49,473	(290)	120,119	824,175	97,382	921,557

		Attributable to owners of the parent										
		Share capital	Share premium*	Merger reserve*	Other reserve*	Special reserve – safety fund*	Statutory surplus reserve*	Fair value reserve of financial assets at fair value through other comprehensive income*	Retained profits*	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 33)	(note 34)	(note 34)	(note 34)	(note 34)	(note 34)	(note 34)	(note 34)	(note 34)	(note 34)	(note 34)
At 1 January 2021		98,947	472,142	35,836	32,703	15,245	49,473	(290)	120,119	824,175	97,382	921,557
Profit for the year		-	-	-	-	-	-	-	119,714	119,714	46,978	166,692
Other comprehensive income for the year:		-	-	-	-	-	-	27	-	27	(3)	24
Fair value reserve of financial assets at fair value through other comprehensive income, net of tax		-	-	-	-	-	-	27	-	27	(3)	24
Total comprehensive income for the year		-	-	-	-	-	-	27	119,714	119,741	46,975	166,716
Statutory reserve		-	-	-	-	-	7,756	-	(7,756)	-	-	-
Dividend declared (Note 12)		-	-	-	-	-	-	-	-	-	(70,524)	(70,524)
Special reserve – safety fund		-	-	-	-	2,802	-	-	(2,802)	-	-	-
Conversion into a joint stock company upon restructuring		51,053	51,619	-	-	-	(49,473)	-	(53,199)	-	-	-
At 31 December 2021		150,000	523,761	35,836	32,703	18,047	7,756	(263)	176,076	943,916	73,833	1,017,749

* These reserve accounts comprised the consolidated reserves of RMB724,648,000, RMB725,228,000 and RMB793,916,000 in the consolidated statements of financial position as at 31 December 2019, 2020 and 2021, respectively.

** Huzhou Huaxing Urban Construction Development Co., Ltd. ("Huzhou Huaxing") is a then shareholder and a company controlled by the ultimate controlling shareholder of the Company.

*** Xinao (China) Gas Investment Co., Ltd. ("ENN (China)") is a non-controlling shareholder of the Company. ENN (China) was also the non-controlling interest owner of Xinao Development between 28 December 2018 and 27 December 2019.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
	<i>Notes</i>			
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	7	192,946	257,654	221,688
Adjustments for:				
Finance costs	8	248	281	1,235
Share of profits or losses of joint ventures	20	(1,923)	(455)	2,052
Gain on disposal of items of property, plant and equipment	6, 7	(1,103)	(46,992)	(2,018)
Depreciation of property, plant and equipment	15	42,487	45,730	50,149
Depreciation of investment properties	16	27	27	44
Depreciation of right-of-use assets	17	1,687	1,666	1,702
Amortisation of other intangible assets	19	7,425	7,428	7,437
Fair value gains on wealth management products	6	–	–	(7,443)
Finance income on the net investment in a lease		–	(127)	(763)
Write-down of inventories to net realisable value	7	(64)	1,685	(823)
Impairment of financial assets, net	7	419	551	(214)
Impairment of property, plant and equipment	15	117	–	–
		242,266	267,448	273,046
Increase in inventories		(2,141)	(5,932)	(7,019)
Decrease/(increase) in trade and bills receivables		3,456	(182)	(4,698)
Decrease/(increase) in prepayments, other receivables and other assets		1,594	(2,289)	(10,004)
Increase in pledged deposits		(20)	(4)	–
Increase/(decrease) in trade payables		5,198	(1,711)	30,011
Increase in other payables and accruals		17,910	45,972	64,750
Increase in contract liabilities		53,565	62,838	43,645
Changes in balances with related parties		44	(11,095)	(11,350)
Cash generated from operations		321,872	355,045	378,381
Income taxes paid		(59,173)	(23,427)	(50,608)
Net cash flows generated from operating activities		262,699	331,618	327,773
CASH FLOWS FROM INVESTING ACTIVITIES				
Dividend received from joint ventures	20	3,337	2,668	–
Purchases of items of property, plant and equipment		(171,262)	(91,100)	(114,959)
Proceeds from disposal of items of property, plant and equipment		2,866	57,634	5,256
Purchases of wealth management products		–	–	(1,035,000)
Proceeds from disposal of wealth management products		–	–	892,443
Purchases of other intangible assets	19	(7)	(25)	(387)
Repayment of lease receivables		–	–	800
Net cash flows used in investing activities		(165,066)	(30,823)	(251,847)

APPENDIX I

ACCOUNTANTS' REPORT

	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Notes	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Disposal of partial interests in a subsidiary without losing control	51,750	–	–
New bank and other borrowings	–	–	118,825
Repayment of bank loans	(15,000)	–	(118,825)
Dividends and interest paid	(233)	(303,257)	(37,682)
Payments of lease liabilities	(1,236)	(610)	(1,240)
	<u>35,281</u>	<u>(303,867)</u>	<u>(38,922)</u>
Net cash flows generated from/(used in) financing activities	<u>35,281</u>	<u>(303,867)</u>	<u>(38,922)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
	132,914	(3,072)	37,004
Cash and cash equivalents at beginning of year	<u>421,827</u>	<u>554,741</u>	<u>551,669</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	<u>554,741</u>	<u>551,669</u>	<u>588,673</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<u>554,741</u>	<u>551,669</u>	<u>588,673</u>
Cash and cash equivalents as stated in the statement of financial position	26 <u>554,741</u>	<u>551,669</u>	<u>588,673</u>
Cash and cash equivalents as stated in the statement of cash flows	<u>554,741</u>	<u>551,669</u>	<u>588,673</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Lease receivables	14	–	3,644	3,607
Property, plant and equipment		203,695	216,189	252,883
Investment properties		731	704	1,947
Investments in subsidiaries		380,516	380,516	380,516
Investments in joint ventures		12,818	10,605	8,553
Right-of-use assets	17	26,635	25,717	25,755
Other intangible assets		7	–	376
Other non-current assets		614	–	–
		<u>625,016</u>	<u>637,375</u>	<u>673,637</u>
CURRENT ASSETS				
Due from related parties		35,496	37,689	93,555
Inventories	21	4,619	4,227	4,147
Lease receivables	14	–	807	807
Trade and bills receivables	22	46,681	41,966	42,054
Prepayments, other receivables and other assets	23	9,035	8,502	16,607
Pledged deposits	26	20	20	20
Cash and cash equivalents	26	342,611	282,303	315,599
Assets classified as held for sale	27	12,478	–	–
		<u>450,940</u>	<u>375,514</u>	<u>472,789</u>
CURRENT LIABILITIES				
Trade payables	28	27,364	14,622	28,662
Other payables and accruals	29	127,499	90,770	134,499
Contract liabilities	30	67,948	75,591	71,665
Due to related parties		26,322	17,515	19,827
Tax payables		585	14,596	165
Lease liabilities	17	294	8	374
		<u>250,012</u>	<u>213,102</u>	<u>255,192</u>
Total current liabilities		<u>250,012</u>	<u>213,102</u>	<u>255,192</u>
NET CURRENT ASSETS		<u>200,928</u>	<u>162,412</u>	<u>217,597</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>825,944</u>	<u>799,787</u>	<u>891,234</u>

		As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
	<i>Notes</i>			
NON-CURRENT LIABILITIES				
Contract liabilities	30	–	–	4,016
Deferred tax liabilities	31	782	2,277	567
Other non-current liabilities	32	4,000	4,000	15,239
Lease liabilities	17	10	2	319
Total non-current liabilities		4,792	6,279	20,141
Net assets		821,152	793,508	871,093
EQUITY				
Share capital	33	98,947	98,947	150,000
Other reserves	34	722,205	694,561	721,093
Total equity		821,152	793,508	871,093

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a joint stock company with limited liability established in the PRC. The registered office of the Company is located at No. 227, Sizhong Road, Wuxing District, Huzhou, Zhejiang, China.

During the Relevant Periods, the Group was involved in the following principal activities:

- the sale of gas, mainly piped natural gas (“PNG”) (under the concessions), liquefied natural gas (“LNG”) and liquefied petroleum gas (“LPG”) in Huzhou
- the provision of construction and installation services
- others, including sale of household gas appliances and the leasing of properties in Mainland China

As at the end of the Relevant Periods, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies, the particulars of which are set out below:

Name	Place of incorporation	Date of incorporation	Registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Huzhou Xiniao Gas Development Company Limited (“Xiniao Development”) 湖州新奧燃氣發展有限公司*	PRC/ Mainland China	25 April 2005	RMB9,611,896.22	100	–	The provision of construction and installation services of gas pipeline network
Huzhou Xiniao Transportation Company Limited (“Xiniao Transportation”) 湖州新奧運輸有限公司*	PRC/ Mainland China	22 September 2008	RMB3,000,000	100	–	Operational dangerous goods transportation (except highly toxic chemicals)
Huzhou Nanxun Xiniao Gas Company Limited (“Nanxun Xiniao”) 湖州南潯新奧燃氣有限公司*	PRC/ Mainland China	28 September 2009	RMB35,000,000	51	–	Distribution and sale of natural gas and the provision of construction and installation services of gas pipeline network
Huzhou Nanxun Xiniao Gas Development Company Limited (“Nanxun Xiniao Development”) 湖州南潯新奧燃氣發展有限公司*	PRC/ Mainland China	28 November 2017	RMB5,000,000	51	–	Distribution and sale of natural gas and the provision of construction and installation services of gas pipeline network
Deqing Xinrui New Energy Co., Ltd. 德清新瑞新能源有限公司**	PRC/ Mainland China	26 September 2021	RMB2,000,000	–	51	Solar power generation technology services; Sale of solar thermal power generation equipment and photovoltaic equipment

* These entities are registered as private limited liability companies under PRC law.

Their statutory financial statements for the year ended 31 December 2019 prepared under PRC Generally Accepted Accounting Principles (“PRC GAAP”) were audited by Pan-China Certified Public Accountants (天健會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC. Their statutory financial statements for the year ended 31 December 2020 and 2021 prepared under PRC GAAP were audited by Ernst & Young Hua Ming LLP.

** No audited financial statements have been prepared for this entity for the years ended 31 December 2019 and 2020, as it was registered in 2021. No audited financial statements have been prepared for this entity for the period from its date of registration to 31 December 2021, as this entity was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of registration.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 January 2021, together with the relevant transitional provisions, have been early adopted and consistently applied by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ¹
Annual Improvements to IFRS Standards 2018-2020	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> ¹
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IFRS 17	<i>Insurance Contracts</i> ^{2, 4}
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ²
Amendments to IAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ²
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ²
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ²
Amendments to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i> ²

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments replace the requirement to disclose significant accounting policies with a requirement to disclose material accounting policies. In assessing the materiality of accounting policy information, both quantitative and qualitative aspects need to be considered. Entity-specific accounting policy information is more useful for users of financial statements than the standardised information. The amendments also add guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 are designed to clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amendments explain how entities use measurement techniques and inputs to develop accounting estimates and state that these can include estimation and valuation techniques. The amendments clarify that not all estimates will meet the definition of an accounting estimate, but rather may refer to inputs used in developing accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

Amendments to IAS 12 narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 "Income Taxes" so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendment to IFRS 17 adds a transition option relating to comparative information presented in the financial statements on initial application of IFRS 17 and IFRS 9. This amendment is a classification overlay for financial assets in the comparative period, in response to concerns raised by stakeholders regarding accounting mismatches that could arise between financial assets and insurance contract liabilities in the comparative information when IFRS 17 and IFRS 9 Financial Instruments are first applied in 2023. The amendment is not expected to have any significant impact on the Group's financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

Business combinations not under common control and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Business combination under common control

Acquisition of subsidiaries and businesses under common control has been accounted for using pooling-of-interests accounting.

Pooling-of-interests accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book value from the controlling shareholder's perspective. No amount is recognised in respect of goodwill or the excess of the acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are the members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset or as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	30-50 years
Gas pipelines	20 years
Plant and machinery	10-30 years
Office and other equipment	6 years
Motor vehicles	6 years
Instrument and apparatus	6 years
Leasehold improvement	3-10 years
Others	6 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or installation and testing which are stated at cost less any impairment losses and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	30-50 years
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Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software copyrights

Purchased software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 6 years. The estimated useful life of 6 years for software copyrights is determined by considering the period of the economic benefits to the Group as well as by referring to the industry practice.

Operating right

Reacquired operating right is stated at cost less any impairment loss and is amortised on the straight-line basis over its estimated useful lives of 15.5 years. The estimated useful life of 15.5 years for operating right is determined based on the remaining contractual period of the contract when it was reacquired.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Buildings	2-6 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value asset recognition exemption to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a lease receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to income on the net investment in the lease is recognised in profit or loss so as to provide a constant periodic rate of charge return over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through profit or loss (debt instruments)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each Relevant Periods, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the Relevant Periods with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 30 days past due for sale of natural gas and 180 days for service of construction. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade and bills receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

All financial liabilities are recognised initially at fair value plus in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Special reserve – safety fund

Provisions for the Group's obligations for safety operation are based on the Group's revenue arose from sales of natural gas per year in accordance with related PRC rules and regulations. The Group records a corresponding cost when such expenditure for safety operation incurs. The remaining provisions for the Group's obligations for safety operation would be recorded as special reserve – safety fund. The remaining provisions would not be recorded in profit or loss while the Group decreases its retained profits when it recognises the special reserve – safety fund.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry-forward of unused tax credits and any unused tax losses, deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect to deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) *Sales of goods*

Revenue from the sales of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the above goods.

(b) *Provision of construction and installation services*

Revenue from the provision of construction and installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the costs incurred, relative to the estimated total costs for satisfaction of the construction and installation services.

(c) *LNG services*

The Group provides services to facilitate upstream LNG providers to sell to downstream users ("LNG services"). The Group does not control the LNG prior to the purchase by the downstream users. Therefore, the Group is acting as an agent in the transactions. Revenue from the LNG services is recognised at a point in time when the LNG services are rendered.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Finance lease is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimate future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is made or the payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relates. Other contract costs are expensed as incurred.

Employee benefits***Pension scheme***

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 14% of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the note 12 to the Historical Financial Information.

Foreign currencies

The Historical Financial Information is presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional rates of exchange ruling at the end of each of the Relevant Periods. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(i) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(ii) Provision for expected credit losses on trade and bills receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and bills receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns according to sales type.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the energy industry sector, the historical default rates are adjusted. At each Relevant Period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables and prepayments, deposits and other receivables is disclosed in note 22 and note 23 to the Historical Financial Information.

(iii) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, competitor actions in response to severe industry cycles or unforeseeable change in legal enforcement rights in future. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(iv) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use and fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances result in downward revision of future cash, a material impairment loss may arise. As at 31 December 2019, 2020, and 2021, the carrying amounts of goodwill were RMB28,506,000, RMB28,506,000 and RMB28,506,000, respectively. Further details are contained in note 18 to the Historical Financial Information.

(v) Revenue recognition of construction and installation services

Revenue from construction and installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the service. The input method recognises revenue based on the proportion of the costs incurred relative to the estimated total costs for satisfaction of the construction and installation services. Accordingly, any changes to the estimated total contract cost may have material impact on the contract revenue recognised in each accounting period over the contract term.

(vi) Deferred tax

Deferred tax assets relating to certain temporary differences are recognised as management considers that it is probable that future taxable profit will be available against which the temporary tax differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets carried in the consolidated statements of financial position as at 31 December 2019, 2020 and 2021 were RMB5,687,000, RMB1,719,000 and RMB1,365,000, respectively. The carrying amounts of deferred tax liabilities carried in the consolidated statements of financial position as at 31 December 2019, 2020 and 2021 were RMB37,168,000, RMB39,720,000 and RMB38,705,000, respectively. Further details are contained in note 31 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

The Group has only one reportable operating segment which engages in (i) sale of gas, mainly PNG (under the concessions), LNG and LPG in Huzhou; (ii) provision of construction and installation services; and (iii) others, including sale of energy, household gas appliances, and leasing of properties. Since this is the only reportable operating segment of the Group, no further operating segment analysis thereof is presented.

Geographical information**(a) Revenue from external customers**

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Mainland China	1,630,421	1,422,038	1,858,737

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Mainland China	909,433	922,687	993,321

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue of approximately RMB166,336,000 (10.2% of the total sales), RMB181,638,000 (12.7% of the total sales) and RMB178,809,000 (9.6% of the total sales) for the years ended 31 December 2019, 2020 and 2021 was derived from sales by the natural gas operation segment to one Customer Group A. Customer Group A represents three customers under the control of the same shareholder.

5. REVENUE

An analysis of revenue is as follows:

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>			
Sale of goods	1,476,885	1,253,904	1,641,702
Provision of construction and installation services	152,498	165,497	213,134
Others	3,231	4,941	6,707
<i>Revenue from other sources</i>			
Gross rental income	881	878	926
Less: Government surcharges	1,633,495 (3,074)	1,425,220 (3,182)	1,862,469 (3,732)
	<u>1,630,421</u>	<u>1,422,038</u>	<u>1,858,737</u>

Revenue from contracts with customers

(i) Disaggregated revenue information

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Types of goods or services			
Sale of PNG	1,439,471	1,230,405	1,609,853
Sale of LNG	25,169	16,751	14,246
Sale of LPG	11,561	4,628	–
Sale of household gas appliances	684	2,120	5,137
Sale of energy	–	–	12,466
Provision of construction and installation services	152,498	165,497	213,134
Others	3,231	4,941	6,707
	1,632,614	1,424,342	1,861,543
Less: Government surcharges	<u>(3,074)</u>	<u>(3,182)</u>	<u>(3,732)</u>
	<u>1,629,540</u>	<u>1,421,160</u>	<u>1,857,811</u>
Timing of revenue recognition			
Goods or services transferred at a point in time	1,480,116	1,258,845	1,648,409
Services transferred over time	<u>152,498</u>	<u>165,497</u>	<u>213,134</u>
	1,632,614	1,424,342	1,861,543
Less: Government surcharges	<u>(3,074)</u>	<u>(3,182)</u>	<u>(3,732)</u>
	<u>1,629,540</u>	<u>1,421,160</u>	<u>1,857,811</u>

The following table shows the amounts of revenue recognised in each of the Relevant Periods that were included in the contract liabilities at the beginning of each of the Relevant Periods:

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Sale of goods	111,927	124,078	121,285
Construction and installation services	66,545	71,231	138,630
Fire alarm goods	<u>–</u>	<u>520</u>	<u>504</u>
	<u>178,472</u>	<u>195,829</u>	<u>260,419</u>

There was no sale of goods not previously recognised due to constraints on variable consideration at the end of each of the Relevant Periods.

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the PNG, LNG, LPG, energy and household gas appliances, and payment is generally due within 30 to 90 days from delivery. In addition, the Group received prepayments before delivery from part of its customers.

Construction and installation services

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before or during the rendering of the services. The remaining percentage of payment generally should be paid before completion of construction and installation and management.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of each of the Relevant Periods are as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Amounts expected to be recognised as revenue:			
Within one year	195,829	260,419	291,477
After one year	79,569	77,817	90,404
	<u>275,398</u>	<u>338,236</u>	<u>381,881</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised after one year relate to construction and installation services of gas pipelines and sale of fire alarm goods, of which the performance obligations are to be satisfied within two to three years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

6. OTHER INCOME AND GAINS

		Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
	Note	RMB'000	RMB'000	RMB'000
Other income				
Bank interest income	7	5,314	10,445	6,256
Finance income on the net investment in a lease		–	127	763
Government grants		892	2,308	2,807
Others		462	275	126
		<u>6,668</u>	<u>13,155</u>	<u>9,952</u>
Other gains				
Gain on disposal of property, plant and equipment	7	1,103	46,992	2,018
Recovery of written-off trade receivables		1,010	673	–
Fair value gains on wealth management products	7	–	–	7,443
Gain on disposal of materials		45	254	107
		<u>2,158</u>	<u>47,919</u>	<u>9,568</u>
		<u>8,826</u>	<u>61,074</u>	<u>19,520</u>

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
	Notes	RMB'000	RMB'000	RMB'000
Cost of inventories sold		1,241,880	988,018	1,345,306
Cost of services provided		83,306	98,654	128,394
Depreciation of property, plant and equipment		42,487	45,730	50,149
Depreciation of investment properties		27	27	44
Depreciation of right-of-use assets		1,687	1,666	1,702
Amortisation of other intangible assets		7,425	7,428	7,437
		<u>1,376,812</u>	<u>1,141,523</u>	<u>1,533,032</u>
Lease payments not included in the measurement of lease liabilities		679	872	701
Auditor's remuneration		364	1,742	2,723
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):				
Wages and salaries		46,714	57,475	71,313
Pension scheme contributions		5,381	3,556	7,017
Social security contributions and accommodation benefits		7,784	7,167	9,076
		<u>60,922</u>	<u>70,812</u>	<u>90,830</u>

		Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
	<i>Notes</i>			
Impairment of financial assets, net:				
Impairment of trade receivables		381	563	(103)
Impairment of financial assets included in prepayments, other receivables and other assets		38	(12)	(111)
		<u>419</u>	<u>551</u>	<u>(214)</u>
Bank interest income	6	(5,314)	(10,445)	(6,256)
Fair value gains on wealth management products	6	–	–	(7,443)
Interest expenses on lease liabilities	8	34	24	59
Gain on disposal of items of property, plant and equipment	6	(1,103)	(46,992)	(2,018)
Write-down of inventories to net realisable value		(64)	1,685	(823)
Impairment of property, plant and equipment		117	–	–

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Interest on interest-bearing bank borrowings wholly repayable within five years	214	–	–
Interest expenses arising from discounted bills receivable	–	257	1,176
Interest expenses on lease liabilities	34	24	59
	<u>248</u>	<u>281</u>	<u>1,235</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	<u>248</u>	<u>281</u>	<u>1,235</u>

9. DIRECTORS' REMUNERATION

Directors', supervisors' and chief executives' remuneration for the Relevant Periods is set out below:

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Fees	—	—	188
Other emoluments:			
Salaries, allowances and benefits in kind	—	—	497
Pension scheme contributions	—	—	59
	—	—	556

(a) Independent non-executive directors

	Year ended 31 December 2021 <i>RMB'000</i>
Chang Li Hsien Leslie (appointed in May 2021)	75
Lau Suet Chiu Frederic (appointed in May 2021)	75
Zhou Xin Fa (appointed in May 2021)	38
	188

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods.

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Year ended 31 December 2019					
Executive and non-executive directors:					
Pan Hai Ming	-	-	-	-	-
Su Li	-	-	-	-	-
Han Ji Shen	-	-	-	-	-
Shen Guo Qiang (resigned in November 2019)	-	-	-	-	-
Wu Zhang Huan (appointed in November 2019)	-	-	-	-	-
Cheng Xi Wen	-	-	-	-	-
Supervisors:					
Liu Fei	-	-	-	-	-
Cai Rui	-	-	-	-	-
Chief executive:					
Chen Hong Yu (resigned in December 2019)	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Year ended 31 December 2020					
Executive and non-executive directors:					
Pan Hai Ming	-	-	-	-	-
Su Li	-	-	-	-	-
Han Ji Shen (resigned in September 2020)	-	-	-	-	-
Wu Zhang Huan	-	-	-	-	-
Cheng Xi Wen	-	-	-	-	-
Zhang Yu Ying (appointed in September 2020)	-	-	-	-	-
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Supervisors:					
Liu Fei	-	-	-	-	-
Cai Rui	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Chief executive:					
Li Hai Xiao (appointed in January 2020)	-	-	-	-	-
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	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2021					
Executive and non-executive directors:					
Wang Hua (appointed in April 2021)	–	182	120	36	338
Su Li	–	–	–	–	–
Wu Zhang Huan	–	–	–	–	–
Pan Hai Ming	–	–	–	–	–
Cheng Xi Wen (resigned in April 2021)	–	–	–	–	–
Zhang Yu Ying	–	–	–	–	–
Supervisors:					
Liu Fei	–	–	–	–	–
Cai Rui	–	–	–	–	–
Xu Guo Xin (appointed in April 2021)	–	143	52	23	218
Chief executive:					
Li Hai Xiao	–	–	–	–	–
	–	325	172	59	556

10. FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration for the Relevant Periods of the five highest paid employees who are neither a Director nor chief executive of the Company are as follows:

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Salaries, allowances and benefits in kind	2,112	2,224	1,925
Pension scheme contributions	154	112	231
	<u>2,266</u>	<u>2,336</u>	<u>2,156</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

11. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008 (the "New Corporate Income Tax Law").

The major components of income tax expense are as follows:

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Current – Mainland China			
Charge for the year	42,342	58,871	55,665
Deferred tax (<i>note 31</i>)	6,704	6,516	(669)
	<u>49,046</u>	<u>65,387</u>	<u>54,996</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country in which the Company and the major operating subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Profit before tax	192,946	257,654	221,688
Tax at the statutory tax rate	48,236	64,414	55,422
Expenses not deductible for tax	257	1,149	101
Adjustments in respect of			
current tax of previous periods	–	–	20
Income tax credit for special equipment	–	–	(255)
Extra tax deduction for R & D expenses	–	–	(812)
Profit/(loss) attributable to a joint venture	(481)	(114)	513
Income from disposal of partial interests in a subsidiary without losing control	1,137	–	–
Temporary difference/ tax losses not recognised	9	(20)	7
Tax losses utilised from previous periods	(112)	(42)	–
Tax charge at the Group's effective rate	49,046	65,387	54,996

12. DIVIDENDS

The dividends declared by the Company and the Company's subsidiaries to their then shareholders during the Relevant Periods are as follows:

Group

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Dividends	86,000	156,116	70,524

Company

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Dividends	39,000	145,000	–

The dividend amounting to RMB39,000,000 for the year ended 31 December 2019 was approved by the shareholders of the Company pursuant to shareholders' resolution passed on 27 December 2019. The dividend amounting to RMB47,000,000 for the year ended 31 December 2019 was approved by the shareholders of the Company's subsidiaries pursuant to shareholders' resolution passed on 25 June 2019.

The dividend amounting to RMB145,000,000 for the year ended 31 December 2020 was approved by the shareholders of the Company pursuant to shareholders' resolution passed on 25 October 2020. The dividend amounting to RMB11,116,000 for the year ended 31 December 2020 was approved by the shareholders of the Company's subsidiaries pursuant to shareholders' resolution passed on 25 December 2020.

The dividend amounting to RMB25,390,000 for the year ended 31 December 2021 was approved by the shareholders of the Company's subsidiaries pursuant to shareholders' resolution passed on 26 April 2021. The dividend amounting to RMB45,134,000 for the year ended 31 December 2021 was approved by the shareholders of the Company's subsidiaries pursuant to shareholders' resolution passed on 28 May 2021.

Some of the Company's subsidiaries and the Company declared special dividends of RMB212.0 million to their then shareholders on 19 May 2022 and 9 June 2022, respectively, which is based on the Company and its subsidiaries' distributable profits accumulated on or before 31 December 2021.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

For purpose of computing basic and diluted earnings per share, ordinary shares were assumed to have issued and allocated on 1 January 2019 as if the Company has been converted from a limited liability company into a joint stock company by then.

The basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares during the Relevant Periods.

The Company did not have any potential dilutive ordinary shares outstanding during the Relevant Periods.

The calculation of basic and diluted earnings per share are based on:

	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Earnings			
Profit attributable to ordinary equity holders of the parent (RMB'000)	94,956	145,560	119,714
Shares			
Weighted average number of ordinary shares (in thousands)	150,000	150,000	150,000
Earnings per share			
Basic and diluted	63.3 cents	97.0 cents	79.8 cents

14. LEASE RECEIVABLES

Group and Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Lease receivables	–	15,329	14,529
Less: Unearned finance income	–	(10,878)	(10,115)
	<u>–</u>	<u>(10,878)</u>	<u>(10,115)</u>
Net lease receivables	<u>–</u>	<u>4,451</u>	<u>4,414</u>

A maturity analysis of lease receivables, based on the contractual undiscounted lease payments to be received, is as follows:

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Lease receivables			
Due within 1 year	–	927	927
Due in 1 to 2 years	–	800	800
Due in 2 to 3 years	–	800	800
Due in 3 to 4 years	–	800	800
Due in 4 to 5 years	–	800	800
Due after 5 years	–	11,202	10,402
	<u>–</u>	<u>11,202</u>	<u>10,402</u>
Total	<u>–</u>	<u>15,329</u>	<u>14,529</u>

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that need to be recorded as at the end of the reporting period.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Gas pipelines RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Instrument and apparatus RMB'000	Others RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:										
At 31 December 2018 and 1 January 2019	71,374	557,252	56,968	4,550	7,766	3,962	1,476	913	60,928	765,189
Additions	-	-	2,819	1,017	1,488	764	293	152	148,314	154,847
Transferred from construction in progress	-	160,008	14	-	-	-	45	-	(160,067)	-
Reclassified to assets held for sale	(2,757)	-	(17,536)	(342)	-	(132)	(2)	-	-	(20,769)
Disposals	-	(2,044)	(34)	(218)	(255)	(68)	-	-	(13)	(2,632)
At 31 December 2019 and 1 January 2020	68,617	715,216	42,231	5,007	8,999	4,526	1,812	1,065	49,162	896,635
Additions	-	-	10,733	446	437	1,128	14	314	59,724	72,796
Transferred from construction in progress	-	60,016	2,738	-	-	-	3	-	(62,757)	-
Disposals	(3,323)	(238)	(5,963)	(89)	(2,121)	(77)	(9)	-	(144)	(11,964)
At 31 December 2020 and 1 January 2021	65,294	774,994	49,739	5,364	7,315	5,577	1,820	1,379	45,985	957,467
Additions	-	-	4,583	530	534	1,770	-	143	125,344	132,904
Transferred from construction in progress	449	88,431	3,093	-	-	-	17	-	(91,990)	-
Transferred to investment properties	(1,587)	-	-	-	-	-	-	-	-	(1,587)
Disposals	-	(3,245)	(723)	(321)	(684)	(78)	-	-	-	(5,051)
At 31 December 2021	64,156	860,180	56,692	5,573	7,165	7,269	1,837	1,522	79,339	1,083,733

	Buildings RMB'000	Gas pipelines RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Instrument and apparatus RMB'000	Others RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation:										
At 31 December 2018 and 1 January 2019	11,469	91,706	17,996	2,189	5,367	1,010	30	368	-	130,135
Depreciation provided for the year	1,507 (797)	35,512 -	3,189 (9,050)	508 (303)	723 -	589 (103)	292 (2)	167	-	42,487 (10,255)
Reclassified to held for sale Disposals	-	(409)	(16)	(192)	(227)	(25)	-	-	-	(869)
At 31 December 2019 and 1 January 2020	12,179	126,809	12,119	2,202	5,863	1,471	320	535	-	161,498
Depreciation provided for the year	2,449 (2,351)	36,814 (72)	3,963 (3,074)	608 (73)	560 (2,015)	797 (52)	320 (5)	219	-	45,730 (7,642)
At 31 December 2020 and 1 January 2021	12,277	163,551	13,008	2,737	4,408	2,216	635	754	-	199,586
Depreciation provided for the year	1,577 (300)	43,460 -	2,346 -	646 -	657 -	862 -	318 -	283 -	-	50,149 (300)
Transferred to investment properties Disposals	-	(288)	(507)	(282)	(217)	(58)	-	-	-	(1,352)
At 31 December 2021	13,554	206,723	14,847	3,101	4,848	3,020	953	1,037	-	248,083

	Buildings RMB'000	Gas pipelines RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Instrument and apparatus RMB'000	Others RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Impairment:										
At 31 December 2018 and 1 January 2019	1,274	202	141	68	433	67	9	-	-	2,194
Impairment	-	-	-	-	117	-	-	-	-	117
At 31 December 2019 and 1 January 2020	1,274	202	141	68	550	67	9	-	-	2,311
Disposals	(1,274)	(202)	(141)	(44)	(101)	(67)	(9)	-	-	(1,838)
At 31 December 2020 and 1 January 2021	-	-	-	24	449	-	-	-	-	473
Disposals	-	-	-	(24)	(449)	-	-	-	-	(473)
At 31 December 2021	-	-	-	-	-	-	-	-	-	-
Net carrying amount:										
At 31 December 2019	55,164	588,205	29,971	2,737	2,586	2,988	1,483	530	49,162	732,826
At 31 December 2020	53,017	611,443	36,731	2,603	2,458	3,361	1,185	625	45,985	757,408
At 31 December 2021	50,602	653,457	41,845	2,472	2,317	4,249	884	485	79,339	835,650

16. INVESTMENT PROPERTIES

Group

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Cost:			
At beginning of year	1,099	1,099	1,099
Transferred from owner-occupied properties	—	—	1,287
At end of year	<u>1,099</u>	<u>1,099</u>	<u>2,386</u>
Accumulated depreciation:			
At beginning of year	341	368	395
Charge for the year	27	27	44
At end of year	<u>368</u>	<u>395</u>	<u>439</u>
Net carrying amount:			
At end of year	<u>731</u>	<u>704</u>	<u>1,947</u>
At beginning of year	<u>758</u>	<u>731</u>	<u>704</u>

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. The market values of investment properties are valued based on the investment method whereby the rents receivable during the residual periods of the existing tenancies are capitalised at an appropriate capitalisation rate with due allowance for the reversionary interests after expiry of the tenancies.

The investment properties are leased to related parties under operating leases, further summary details of which are included in note 40 to the Historical Financial Information.

As at 31 December 2019, 2020 and 2021, the carrying values of the Group's investment properties were RMB731,000, RMB704,000 and RMB1,947,000, respectively. As at 31 December 2019, 2020 and 2021, the Group's investment properties were not pledged to any parties.

The fair values of investment properties as at 31 December 2019, 2020 and 2021 were RMB1,978,000, RMB3,102,000 and RMB4,798,100, respectively.

The valuation was performed by an independent professionally qualified valuer, Jiangsu Tiansheng Real Estate Appraisal Corporate Limited Huzhou Branch (“江蘇天聖房地產土地資產評估測繪有限公司湖州分公司”). Selection criteria of the external valuer include market knowledge, reputation, independence and whether professional standards are maintained. The Group's finance manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for financial reporting. The investment property was valued using the market comparable approach due to a high volume of transactions involving comparable property in the area during the year. Under the market comparable approach, a property's fair value is estimated based on comparable transactions. The market comparable approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. The unit of comparison applied by the Group is the price per square metre (sq.m). A significant increase or decrease in the market price per sq.m. would result in a significant increase or decrease in the fair value of the investment property. The fair value measurement hierarchy of the investment property requires certain significant unobservable inputs (Level 3).

17. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and leasehold land used in its operations. Lump sum payments were made upfront to acquire the leasehold land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

The movements in right-of-use assets and lease liabilities during the Relevant Periods are as follows:

Group

	Buildings <i>RMB'000</i>	Leasehold land <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2018	1,767	28,990	30,757
Additions	658	–	658
Reclassified to assets held for sale	–	(3,458)	(3,458)
Depreciation charge	(999)	(688)	(1,687)
Depreciation transfer out	–	1,494	1,494
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2019	1,426	26,338	27,764
Additions	599	–	599
Depreciation charge	(1,035)	(631)	(1,666)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2020	990	25,707	26,697
Additions	1,965	–	1,965
Depreciation charge	(1,070)	(632)	(1,702)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2021	<u>1,885</u>	<u>25,075</u>	<u>26,960</u>

As at 31 December 2019, 2020 and 2021, the carrying values of the Group's leased land were RMB26,338,000, RMB25,707,000 and RMB25,075,000, respectively.

Company

	Buildings <i>RMB'000</i>	Leasehold land <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2018	574	28,990	29,564
Additions	10	–	10
Reclassified to assets held for sale	–	(3,458)	(3,458)
Depreciation charge	(287)	(688)	(975)
Depreciation transfer out	–	1,494	1,494
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2019	297	26,338	26,635
Depreciation charge	(287)	(631)	(918)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2020	10	25,707	25,717
Additions	1,016	–	1,016
Depreciation charge	(346)	(632)	(978)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2021	<u>680</u>	<u>25,075</u>	<u>25,755</u>

As at 31 December 2019, 2020 and 2021, the carrying values of the Company's leased land were RMB26,338,000, RMB25,707,000 and RMB25,075,000, respectively.

Group

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Lease liabilities			
Carrying amount at the beginning of the year	852	308	321
New leases	658	599	1,965
Interest during the year	34	24	59
Payments during the year	<u>(1,236)</u>	<u>(610)</u>	<u>(1,240)</u>
Carrying amount at the end of the year	<u>308</u>	<u>321</u>	<u>1,105</u>
Analysed into:			
Current portion	<u>298</u>	<u>17</u>	<u>535</u>
Non-current portion			
1 year to 2 years	8	129	447
2 years to 5 years	<u>2</u>	<u>175</u>	<u>123</u>
	<u>10</u>	<u>304</u>	<u>570</u>
	<u>308</u>	<u>321</u>	<u>1,105</u>

The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Interest on lease liabilities	34	24	59
Depreciation charge on right-of-use assets	1,687	1,666	1,070
Expense relating to short-term leases (included in selling and distribution expenses and administrative expenses)	<u>679</u>	<u>872</u>	<u>701</u>
Total amount recognised in profit or loss	<u>2,400</u>	<u>2,562</u>	<u>1,830</u>

The total cash outflow for leases is disclosed in note 37(c) to the Historical Financial Information.

Company

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Lease liabilities			
Carrying amount at the beginning of the year	577	304	10
New leases	10	–	1,016
Interest during the year	18	8	37
Payments during the year	(301)	(302)	(370)
	<u>304</u>	<u>10</u>	<u>693</u>
Carrying amount at the end of the year	<u>304</u>	<u>10</u>	<u>693</u>
Analysed into:			
Current portion	<u>294</u>	<u>8</u>	<u>374</u>
Non-current portion			
1 year to 2 years	<u>10</u>	<u>2</u>	<u>319</u>
	<u>304</u>	<u>10</u>	<u>693</u>

The amounts recognised in profit or loss in relation to leases are as follows:

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Interest on lease liabilities	18	8	37
Depreciation charge on right-of-use assets	975	918	346
Expense relating to short-term leases (included in selling and distribution expenses and administrative expenses)	<u>123</u>	<u>119</u>	<u>252</u>
Total amount recognised in profit or loss	<u>1,116</u>	<u>1,045</u>	<u>635</u>

The Group as a lessor

Operating leases

The Group leases its investment properties (note 16) consisting of commercial properties and industrial properties in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group for the years ended 31 December 2019, 2020 and 2021 amounted to RMB881,000, RMB878,000 and RMB926,000, details of which are included in note 5 the Historical Financial Information.

As at 31 December 2019, 2020 and 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	933	767	978
After one year but within two years	767	746	902
After two years but within three years	746	700	722
After three years but within four years	700	700	700
After four years but within five years	700	700	700
After five years	5,600	4,900	4,200
	<u>9,446</u>	<u>8,513</u>	<u>8,202</u>

Finance leases

On 25 December 2019, the Company entered into a heat energy system construction and supply agreement with Shushan Sanatorium, under which the Company agreed to construct a water boiler powered by PNG and electricity in Shushan Sanatorium at the Company's costs, and from the date of completion of the construction of the water boiler, the Company shall supply to Shushan Sanatorium heat energy generated from the water boiler and Shushan Sanatorium shall pay the Company a monthly service fee for the heat energy supplied and a fixed yearly usage fee for a term of 20 years. The proprietary title of the water boiler shall be transferred to Shushan Sanatorium at the end of the 20-year term. As the Company transferred substantially all the risks and rewards incidental to the ownership of the underlying asset to Shushan Sanatorium, the transaction is accounted for as a finance lease, which is disclosed in note 14 the Historical Financial Information.

18. GOODWILL

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost at 1 January	28,506	28,506	28,506
Acquisition of subsidiary (note 36)	<u>—</u>	<u>—</u>	<u>—</u>
Cost and net carrying amount	<u>28,506</u>	<u>28,506</u>	<u>28,506</u>

Impairment testing of goodwill

Goodwill acquired in a business combination is allocated to cash-generating units ("CGUs") that are expected to benefit from that business combination. The management considers that each subsidiary represents a separate CGU for the purpose of goodwill impairment testing.

The carrying amount of goodwill allocated to a cash-generating unit which is the subsidiary of the Company is as follows:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xinao Development	<u>28,506</u>	<u>28,506</u>	<u>28,506</u>

The recoverable amount of Xinao Development was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by Xinao Development's management. The discount rate applied to the cash flow projections was 11.8% and cash flows beyond the five-year period were extrapolated using a growth rate of 3.0%. Xinao Development's management does not believe that there should be a material change in the discount rate during the Relevant Periods given that there was no significant change and no significant change is expected in the market in which Xinao Development operates thus the risks specific to Xinao Development remains stable. Xinao Development's management believes that this growth rate is conservative and reliable for the purpose of impairment testing.

Assumptions were used in the value-in-use calculation of the cash-generating units for 31 December 2019, 2020 and 2021. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill:

Revenue:	The bases used to determine the future earnings potential are historical sales and average and expected growth rates of the market in the PRC.
Gross margins:	The gross margins are based on the average gross margin achieved in the past five years and expected trend in the future.
Expenses:	The value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level.
Discount rates:	The discount rates used are before tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group during the Relevant Periods.

The values assigned to the key assumptions on market development of industrial products and infrastructure industries, discount rates and raw materials price inflation are consistent with external information sources.

According to the results of the impairment testing on CGU, the amounts (i.e., the headroom) by which the estimated recoverable amounts of the CGU exceed its carrying amounts are set out as below:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Xinao Development	56,606	70,674	87,616

The directors of the Company also performed a sensitivity analysis of the headroom to changes in the expected revenue or the pre-tax discount rate for the years ended 31 December 2019, 2020 and 2021. Had the following estimated key assumptions been changed as below, the headroom would have decreased to the amounts as follows:

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– Pre-tax discount rate increased by 1%	25,760	26,180	26,920
– Expected revenue decreased by 2%	13,450	8,840	9,960

Based on the above assessment and the historical results, in the opinion of the directors of the Company, the reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amounts of the CGU to exceed its respective recoverable amounts as of 31 December 2019, 2020 and 2021.

No impairment of goodwill was recognised for the years ended 31 December 2019, 2020 and 2021.

19. OTHER INTANGIBLE ASSETS

	Operating right <i>RMB'000</i>	Software copyrights <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 31 December 2018 and 1 January 2019	113,870	492	114,362
Additions	–	7	7
At 31 December 2019 and 1 January 2020	113,870	499	114,369
Additions	–	25	25
Disposal	–	(13)	(13)
At 31 December 2020 and 1 January 2021	113,870	511	114,381
Additions	–	387	387
Disposal	–	(30)	(30)
At 31 December 2021	<u>113,870</u>	<u>868</u>	<u>114,738</u>
Accumulated amortisation:			
At 31 December 2018 and 1 January 2019	612	158	770
Amortisation during the year	7,346	79	7,425
At 31 December 2019 and 1 January 2020	7,958	237	8,195
Amortisation during the year	7,346	82	7,428
Disposal	–	(9)	(9)
At 31 December 2020 and 1 January 2021	15,304	310	15,614
Amortisation during the year	7,346	91	7,437
Disposal	–	(18)	(18)
At 31 December 2021	<u>22,650</u>	<u>383</u>	<u>23,033</u>
Net carrying amount:			
At 31 December 2019	<u>105,912</u>	<u>262</u>	<u>106,174</u>
At 31 December 2020	<u>98,566</u>	<u>201</u>	<u>98,767</u>
At 31 December 2021	<u>91,220</u>	<u>485</u>	<u>91,705</u>

20. INVESTMENTS IN JOINT VENTURES

Group and Company

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Share of net assets	12,818	10,605	8,553

(a) Particulars of the joint ventures are as follows:

Name of company	Nominal value of paid-up/ registered capital	Place of registration and operations	Percentage of ownership interest	Voting power	Profit sharing	Principal activities
Huzhou Zhongshihua Xiniao Natural Gas Co., Ltd. ^{*/**} ("Zhongshihua Xiniao") (湖州中石化新奥天然气有限公司)	RMB10,000,000	PRC/ Mainland China	50%	50%	50%	Operation of natural gas refuelling stations
Huzhou Xiniao Energy Development Company Limited ^{*/**} ("Xiniao Energy Development") (湖州新奥能源发展有限公司)	RMB50,000,000	PRC/ Mainland China	51%	51%	51%	Production and sale of vapour; investment, construction and operation of electricity, heating projects; business information consultation

* The English translations of these company names are for reference only. The official names of these companies are in Chinese.

** The Group owned 50% interests in Zhongshihua Xiniao. According to the articles of association, the Group owned 50% of the voting rights and could make a material impact on the financial and operating policy decisions of Zhongshihua Xiniao. Thus, Zhongshihua Xiniao was considered as a joint venture from the date of establishment.

*** Xiniao Energy Development did not carry out any business operation, did not receive the registered capital and did not prepare financial statements during the Relevant Periods.

Xiniao Energy Development was established on 26 April 2019 and is 51% held by the Group and 49% held by ENN Group Co., Ltd. It was accounted for as a joint venture as all of the strategic financial and operating decisions must be approved by two-thirds of shareholders with voting rights in the shareholders' meeting of Xiniao Energy Development whereby the Group alone did not meet this requirement.

(b) The joint ventures had no contingent liabilities as at the end of each of the Relevant Periods.

(c) The Group's outstanding balances and transactions with the joint ventures during the Relevant Periods are disclosed in note 24 and note 40, respectively.

(d) The Group's investments in joint ventures are considered individually material to the Group.

The following tables illustrate the summarised financial information of Zhongshihua Xinao:

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Zhongshihua Xinao			
Current assets	23,271	19,012	14,340
Non-current assets	4,622	4,221	3,933
Current liabilities	(2,258)	(2,023)	(1,167)
Net assets	<u>25,635</u>	<u>21,210</u>	<u>17,106</u>
Reconciliation to the Group's interest in Zhongshihua Xinao:			
	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Proportion of the Group's ownership	50%	50%	50%
Group's share of net assets of the joint venture	<u>12,818</u>	<u>10,605</u>	<u>8,553</u>
Carrying amount of the investment	<u>12,818</u>	<u>10,605</u>	<u>8,553</u>
Revenue	<u>16,498</u>	<u>10,919</u>	<u>4,853</u>
Other income	<u>317</u>	<u>265</u>	<u>255</u>
Total expense	<u>12,969</u>	<u>10,274</u>	<u>9,212</u>
Profit/(loss) and total comprehensive income/(expense) for the year	<u>3,846</u>	<u>910</u>	<u>(4,104)</u>
Ownership interest	50%	50%	50%
Share of result	<u>1,923</u>	<u>455</u>	<u>(2,052)</u>
Dividend received	<u>3,337</u>	<u>2,668</u>	<u>–</u>

The Group believes that the loss of the joint venture is temporary and will not continue in the future years, and does not identify any objective evidence of impairment for the investment in joint ventures.

21. INVENTORIES

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Construction materials	15,456	22,056	29,208
PNG	813	784	1,265
LNG	954	614	–
LPG	299	–	–
	<u>17,522</u>	<u>23,454</u>	<u>30,473</u>
Impairment	(264)	(1,949)	(1,126)
	<u>17,258</u>	<u>21,505</u>	<u>29,347</u>

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Construction materials	2,886	3,582	3,621
PNG	578	552	872
LNG	954	614	–
LPG	299	–	–
	<u>4,717</u>	<u>4,748</u>	<u>4,493</u>
Impairment	(98)	(521)	(346)
	<u>4,619</u>	<u>4,227</u>	<u>4,147</u>

22. TRADE AND BILLS RECEIVABLES

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Trade receivables	11,633	14,706	20,030
Impairment	(1,156)	(1,203)	(956)
	<u>10,477</u>	<u>13,503</u>	<u>19,074</u>
Bills receivable	51,423	48,029	47,283
	<u>61,900</u>	<u>61,532</u>	<u>66,357</u>

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Trade receivables	1,860	709	2,638
Impairment	(772)	(269)	(113)
	<u>1,088</u>	<u>440</u>	<u>2,525</u>
Bills receivable	45,593	41,526	39,529
	<u>46,681</u>	<u>41,966</u>	<u>42,054</u>

The Group's trading terms with its customers are mainly on credit except for certain new customers where payment in advance is required. The average credit period range for trade receivables is within 30 to 90 days. The average maturity period of bills receivables is 6 to 12 months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly and actively monitored by senior management to minimise credit risk. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

Trade and bills receivables are unsecured and non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Within 3 months	31,222	34,126	39,912
3 months to 6 months	28,791	8,627	23,902
6 months to 1 year	1,887	18,779	2,543
	<u>61,900</u>	<u>61,532</u>	<u>66,357</u>

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Within 3 months	19,394	18,142	19,963
3 months to 6 months	25,622	5,910	19,548
6 months to 1 year	1,665	17,914	2,543
	<u>46,681</u>	<u>41,966</u>	<u>42,054</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

Group

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	775	1,156	1,203
Impairment losses, net (<i>note 7</i>)	381	563	(103)
Write-off of trade receivables	–	(516)	(144)
	<u>1,156</u>	<u>1,203</u>	<u>956</u>

Company

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	773	772	269
Impairment losses, net	(1)	(503)	(12)
Write-off of trade receivables	–	–	(144)
	<u>772</u>	<u>269</u>	<u>113</u>

An impairment analysis is performed at the end of each of the reporting period using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e., by revenue type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each of the Relevant Periods about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on trade receivables using a provision matrix:

Group**At 31 December 2019**

	Current	Past due			Total
		Less than 6 months	6 to 12 months	Over 1 year	
Expected credit loss rate	2.71%	0.00%	100%	100%	9.94%
Gross carrying amount (RMB'000)	10,769	–	64	800	11,633
Expected credit losses (RMB'000)	292	–	64	800	1,156

At 31 December 2020

	Current	Past due			Total
		Less than 6 months	6 to 12 months	Over 1 year	
Expected credit loss rate	1.72%	0.00%	100%	100%	8.18%
Gross carrying amount (RMB'000)	13,738	1	2	965	14,706
Expected credit losses (RMB'000)	236	–	2	965	1,203

At 31 December 2021

	Current	Past due			Total
		Less than 6 months	6 to 12 months	Over 1 year	
Expected credit loss rate	1.01%	0.00%	100%	100%	4.77%
Gross carrying amount (RMB'000)	19,268	–	1	761	20,030
Expected credit losses (RMB'000)	194	–	1	761	956

Company**At 31 December 2019**

	Current	Past due			Total
		Less than 6 months	6 to 12 months	Over 1 year	
Expected credit loss rate	2.07%	0.00%	100.00%	100.00%	41.51%
Gross carrying amount (RMB'000)	1,111	–	64	685	1,860
Expected credit losses (RMB'000)	23	–	64	685	772

At 31 December 2020

	Current	Past due			Total
		Less than 6 months	6 to 12 months	Over 1 year	
Expected credit loss rate	0.90%	0.00%	100.00%	100.00%	37.94%
Gross carrying amount (RMB'000)	443	1	2	263	709
Expected credit losses (RMB'000)	4	–	2	263	269

At 31 December 2021

	Current	Past due			Total
		Less than 6 months	6 to 12 months	Over 1 year	
Expected credit loss rate	0.08%	0.00%	100.00%	100.00%	4.28%
Gross carrying amount (RMB'000)	2,527	–	–	111	2,638
Expected credit losses (RMB'000)	2	–	–	111	113

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

Group

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Prepayment	132	2,417	13,830
Other receivables	1,550	2,158	1,225
Deposits	879	4,713	4,643
Other current assets	24,774	14,369	17,358
	27,335	23,657	37,056
Impairment	(350)	(338)	(227)
	<u>26,985</u>	<u>23,319</u>	<u>36,829</u>

Note:

Since 1 January 2019, the Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9 and considered the historical loss rate adjusted for forward-looking macroeconomic data in calculating the expected credit loss rate.

Deposits and other receivables mainly represent rental deposits, deposits with suppliers and other receivables from related parties and third parties. Where applicable, an impairment analysis is performed at the end of each of the Relevant Periods by considering the probability of default. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. None of the above prepayments and deposits is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019, 2020 and 2021, the loss allowance was assessed to be minimal.

Group (continued)

As at 31 December 2019

	Deposit	Other receivables
Expected credit loss rate	24.91%	8.45%
Gross carrying amount (RMB'000)	879	1,550
Expected credit losses (RMB'000)	219	131

As at 31 December 2020

	Deposit	Other receivables
Expected credit loss rate	4.94%	4.87%
Gross carrying amount (RMB'000)	4,713	2,158
Expected credit losses (RMB'000)	233	105

As at 31 December 2021

	Deposit	Other receivables
Expected credit loss rate	3.92%	3.67%
Gross carrying amount (RMB'000)	4,643	1,225
Expected credit losses (RMB'000)	182	45

The movements in provision for impairment of other receivables are as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
At beginning of year	312	350	338
Impairment losses, net (note 7)	38	(12)	(111)
At end of year	<u>350</u>	<u>338</u>	<u>227</u>

Except for certain other receivables with carrying amounts of RMB312,000, RMB350,000 and RMB338,000, respectively, as at 31 December 2019, 2020 and 2021, of which a full provision for impairment has been made, none of the above assets were either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019, 2020 and 2021, the loss allowance was assessed to be minimal.

Company

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment	118	2,404	12,125
Other receivables	1,027	2,059	364
Deposits	294	4,214	4,333
Other current assets	7,751	–	–
	<u>9,190</u>	<u>8,677</u>	<u>16,822</u>
Impairment	(155)	(175)	(215)
	<u><u>9,035</u></u>	<u><u>8,502</u></u>	<u><u>16,607</u></u>

Note:

Since 1 January 2019, the Company has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9 and considered the historical loss rate adjusted for forward-looking macroeconomic data in calculating the expected credit loss rate.

Deposits and other receivables mainly represent rental deposits, deposits with suppliers and other receivables from related parties and third parties. Where applicable, an impairment analysis is performed at the end of each of the Relevant Periods by considering the probability of default. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. None of the above prepayments and deposits is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019, 2020 and 2021, the loss allowance was assessed to be minimal.

As at 31 December 2019

	Deposit	Other receivables
Expected credit loss rate	11.56%	11.78%
Gross carrying amount (RMB'000)	294	1,027
Expected credit losses (RMB'000)	34	121

As at 31 December 2020

	Deposit	Other receivables
Expected credit loss rate	2.78%	2.82%
Gross carrying amount (RMB'000)	4,214	2,059
Expected credit losses (RMB'000)	117	58

As at 31 December 2021

	Deposit	Other receivables
Expected credit loss rate	4.59%	4.40%
Gross carrying amount (RMB'000)	4,333	364
Expected credit losses (RMB'000)	199	16

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
At beginning of year	159	155	175
Impairment losses, net	(4)	20	40
At end of year	<u>155</u>	<u>175</u>	<u>215</u>

Except for certain other receivables with carrying amounts of RMB159,000, RMB155,000 and RMB175,000, respectively, as at 31 December 2019, 2020 and 2021, of which a full provision for impairment has been made, none of the above assets were either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019, 2020 and 2021, the loss allowance was assessed to be minimal.

24. BALANCES WITH RELATED PARTIES

Group

		As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
	<i>Notes</i>			
Amounts due from related parties:				
Ningbo Chengji Energy Trading Co., Ltd.	<i>(i)</i>	–	12,075	19,167
Zhoushan ENN Energy Trading Co., Ltd.	<i>(ii)</i>	–	–	2,488
Huzhou Shushan Sanatorium Co., Ltd.	<i>(iv)</i>	–	–	594
Xinao Insurance Brokers Co., Ltd.	<i>(iv)</i>	–	–	320
Zhongshihua Xinao	<i>(iv)</i>	–	173	–
Hangzhou Xiaoshan Pipeline Gas	<i>(iv)</i>	–	101	–
Huzhou Huaxing	<i>(iii)</i>	45	45	–
		<u>45</u>	<u>12,394</u>	<u>22,569</u>
Amounts due to related parties:				
Nanjing Xinao Intelligent Technology Co., Ltd.	<i>(v)</i>	–	53	344
Ningbo Chengji Energy Trading Co., Ltd.	<i>(v)</i>	–	770	294
New Wisdom Cloud Data Service Co., Ltd.	<i>(v)</i>	–	448	4
ENN (China)	<i>(v)</i>	506	506	–
Xinao Fanneng Network Technology Co., Ltd.	<i>(v)</i>	57	–	–
Xindi Energy Engineering Technology Co., Ltd. Design Branch	<i>(v)</i>	–	20	–
Langfang Branch of Xinao New Energy Engineering Technology Co., Ltd.	<i>(v)</i>	–	20	–
		<u>563</u>	<u>1,817</u>	<u>642</u>

		As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Amounts due to related parties included in contract liabilities:				
Huzhou Fangzong Real Estate Group Co., Ltd.	(vi)	1,446	15,564	4,043
Huzhou Jinglong Real Estate Development Co., Ltd.	(vi)	–	3,330	1,547
Huzhou Licheng Investment Development Co., Ltd.	(vi)	190	1,466	951
Huzhou Weineng Environment Co., Ltd.	(vi)	–	3,892	782
Huzhou Northern City Construction Investment Co., Ltd.	(vi)	66	487	756
Huzhou Huaxing	(vi)	144	2,164	714
Huzhou City Urban Investment Yuhua Producing Management Co., Ltd.	(vi)	96	145	140
Huzhou Urban Construction Investment Group Co., Ltd.	(vi)	13	11	8
Huzhou Zhongfang Zhiye Co., Ltd.	(vi)	6	6	7
Huzhou City Water Group Co., Ltd.	(vi)	–	9	4
Huzhou City Investment Assets Management Co., Ltd.	(vi)	4	6	1
Huzhou City Minsheng Construction Co., Ltd.	(vi)	901	1,437	–
Huzhou Shushan Sanatorium Co., Ltd.	(vi)	–	2,447	–
Huzhou Tongcheng Investment Development Co., Ltd.	(vi)	119	476	–
Huzhou City Historical Civilisation Community Protection Reconstruction Co., Ltd.	(vi)	–	96	–
		<u>2,985</u>	<u>31,536</u>	<u>8,953</u>
Amount due from related party included in other receivables				
Huzhou Northern City Construction Investment Co., Ltd.	(vii)	<u>–</u>	<u>1,883</u>	<u>–</u>
Amount due to related party included in lease liabilities				
Huzhou Huaxing	(viii)	<u>264</u>	<u>–</u>	<u>–</u>
Amount due from related party included in lease receivables				
Huzhou Shushan Sanatorium Co., Ltd.	(ix)	<u>–</u>	<u>4,451</u>	<u>4,414</u>

(i) The amounts due from related parties of nil, RMB12,075,000 and RMB19,167,000 as at 31 December 2019, 2020 and 2021, respectively, were arising from purchase of PNG and LNG, and were trade in nature, unsecured and interest free.

(ii) The amounts due from related parties of nil, nil and RMB2,488,000 as at 31 December 2019, 2020 and 2021, respectively, were arising from purchase of natural gas reserve service and were trade in nature, unsecured and interest-free.

- (iii) The amounts due from related parties of RMB45,000, RMB45,000 and nil, respectively, as at 31 December 2019, 2020 and 2021, were fire security deposits and were non-trade in nature.
- (iv) The amounts due from related parties of nil, RMB274,000 and RMB914,000, as at 31 December 2019, 2020 and 2021, respectively, were arising from sale of materials, PNG, rental services and insurance services, and were trade in nature, unsecured and interest-free.
- (v) The amounts due to related parties of RMB563,000, RMB1,817,000 and RMB642,000, respectively, as at 31 December 2019, 2020 and 2021, were trade in nature, unsecured, interest-free and repayable on demand.
- (vi) The amounts due to related parties included in the contract liabilities were arising from sales contracts of PNG or sales contracts of construction and installation services, and were trade in nature, unsecured, interest-free.
- (vii) The amounts due from related parties included in other receivables were arising from a fixed asset construction contract, and were trade in nature, unsecured and interest-free.
- (viii) The amounts due to related parties included in lease liabilities were arising from a customer service centre leasing contract and were trade in nature, unsecured.
- (ix) The amounts due from related parties included in lease receivables were arising from finance lease, which is disclosed in note 14 and note 17 to the Historical Financial Information, and were trade in nature, unsecured.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Other unlisted investments, at fair value	—	—	150,000

As at 31 December 2021, the breakdown of unlisted investments were wealth management products as below:

Issuer	Amount <i>RMB'000</i>	Date of expiry
China Construction Bank	100,000	17 May 2022
China Construction Bank	50,000	13 January 2022

The above unlisted investments were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Cash on hand	38	27	5
Cash at banks	554,723	551,666	588,692
	554,761	551,693	588,697
Less: Pledged for ETC equipment	20	24	24
	<u>554,741</u>	<u>551,669</u>	<u>588,673</u>

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Cash at banks	342,631	282,323	315,619
Less: Pledged for ETC equipment	20	20	20
	<u>342,611</u>	<u>282,303</u>	<u>315,599</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

27. ASSETS CLASSIFIED AS HELD FOR SALE

On 27 December 2019, the Group announced the decision of its board of directors to dispose of the gas station located in Xi Sai Road. The details of the assets held for sale is as the following:

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Property, plant and equipment	10,514	–	–
Right-of-use asset	1,964	–	–
	<u>12,478</u>	<u>–</u>	<u>–</u>

28. TRADE PAYABLES

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Trade payables	112,107	110,396	140,407

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Within 90 days	84,917	77,064	119,995
91 to 180 days	9,695	13,308	7,306
181 to 365 days	12,351	8,000	6,942
More than 1 year	5,144	12,024	6,164
	<u>112,107</u>	<u>110,396</u>	<u>140,407</u>

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Trade payables	27,364	14,622	28,662

An ageing analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Within 90 days	22,805	8,461	27,044
91 to 180 days	1,116	1,959	228
181 to 365 days	2,415	440	223
More than 1 year	1,028	3,762	1,167
	<u>27,364</u>	<u>14,622</u>	<u>28,662</u>

Trade payables are non-interest-bearing and are normally settled within 90 days.

29. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Security deposits	1,375	54,777	86,549
Purchase of fixed assets	20,893	4,636	26,259
Payroll and welfare	44,705	44,462	56,625
Dividend payable	158,000	11,116	45,134
Other tax payables	12,905	19,632	20,683
Prepayment from the government for the long-term assets disposal	26,000	9,395	10,671
Deferred income	–	–	918
Others	815	2,699	8,811
	<u>264,693</u>	<u>146,717</u>	<u>255,650</u>

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Security deposit	248	53,976	85,355
Purchase of fixed assets	–	2,189	140
Payroll and welfare	25,041	24,277	31,883
Dividend payable	70,000	–	–
Other tax payables	5,994	9,298	8,559
Prepayment from the government for the long-term assets disposal	26,000	–	–
Deferred income	–	–	918
Others	216	1,030	7,644
	<u>127,499</u>	<u>90,770</u>	<u>134,499</u>

Other payables are non-interest-bearing and have an average term of 1 year.

30. CONTRACT LIABILITIES

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
<i>Short-term advances received from customers:</i>			
Sale of natural gas	124,078	121,285	124,332
Construction and installation services	71,231	138,630	162,919
Fire alarm goods	520	504	3,076
Steam generator	—	—	1,150
	<u>195,829</u>	<u>260,419</u>	<u>291,477</u>
<i>Long-term advances received from customers:</i>			
Construction and installation services	79,569	77,817	86,388
Fire alarm goods	—	—	4,016
	<u>79,569</u>	<u>77,817</u>	<u>90,404</u>

Contract liabilities include advances received from customers to sale of natural gas, construction and installation services, sale of fire alarm goods and steam generator. The increase in contract liabilities was mainly due to the increase in advances received from customers in relation to the construction and installation services for the years ended 31 December 2019, 2020 and 2021.

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
<i>Short-term advances received from customers:</i>			
Sale of natural gas	67,428	75,087	68,589
Fire alarm goods	520	504	3,076
	<u>67,948</u>	<u>75,591</u>	<u>71,665</u>
<i>Long-term advances received from customers:</i>			
Fire alarm goods	—	—	4,016
	<u>—</u>	<u>—</u>	<u>4,016</u>

31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the Relevant Periods are as follows:

Group

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation <i>RMB'000</i>	Fair value adjustments arising from acquisition of a subsidiary <i>RMB'000</i>	Total <i>RMB'000</i>
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	2,467	34,438	36,905
Deferred tax charged/(credited) to profit or loss during the year (<i>note 11</i>)	<u>6,247</u>	<u>(2,914)</u>	<u>3,333</u>
Gross deferred tax liabilities at 31 December 2019 and 1 January 2020	8,714	31,524	40,238
Deferred tax charged/(credited) to profit or loss during the year (<i>note 11</i>)	<u>4,523</u>	<u>(2,309)</u>	<u>2,214</u>
Gross deferred tax liabilities at 31 December 2020 and 1 January 2021	13,237	29,215	42,452
Deferred tax charged/(credited) to profit or loss during the year (<i>note 11</i>)	<u>4,133</u>	<u>(2,297)</u>	<u>1,836</u>
Gross deferred tax liabilities at 31 December 2021	<u><u>17,370</u></u>	<u><u>26,918</u></u>	<u><u>44,288</u></u>

Deferred tax assets

	Impairment of financial assets RMB'000	Provision for inventories RMB'000	Impairment of fixed assets RMB'000	Government grants RMB'000	Provision for contract liabilities RMB'000	Accrued expenses RMB'000	Total RMB'000
Gross deferred tax assets at 31 December 2018 and 1 January 2019	786	82	328	-	10,917	-	12,113
Deferred tax credited/(charged) to profit or loss during the year (note 11)	(148)	(16)	(24)	283	(3,466)	-	(3,371)
Deferred tax credited to other comprehensive income during the year	15	-	-	-	-	-	15
Gross deferred tax assets at 31 December 2019 and 1 January 2020	653	66	304	283	7,451	-	8,757
Deferred tax credited/(charged) to profit or loss during the year (note 11)	(160)	421	(304)	(16)	(4,243)	-	(4,302)
Deferred tax charged to other comprehensive income during the year	(4)	-	-	-	-	-	(4)
Gross deferred tax assets at 31 December 2020 and 1 January 2021	489	487	-	267	3,208	-	4,451
Deferred tax credited/(charged) to profit or loss during the year (note 11)	(90)	(206)	-	4,023	(1,252)	30	2,505
Deferred tax charged to other comprehensive income during the year	(8)	-	-	-	-	-	(8)
Gross deferred tax assets at 31 December 2021	<u>391</u>	<u>281</u>	<u>-</u>	<u>4,290</u>	<u>1,956</u>	<u>30</u>	<u>6,948</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Net deferred tax assets recognised in the consolidated statements of financial position	<u>5,687</u>	<u>1,719</u>	<u>1,365</u>
Net deferred tax liabilities recognised in the consolidated statements of financial position	<u>37,168</u>	<u>39,720</u>	<u>38,705</u>

Company

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	1,500
Deferred tax charged to profit or loss during the year	<u>1,776</u>
Gross deferred tax liabilities at 31 December 2019 and 1 January 2020	3,276
Deferred tax charged to profit or loss during the year	<u>879</u>
Gross deferred tax liabilities at 31 December 2020 and 1 January 2021	4,155
Deferred tax charged to profit or loss during the year	<u>1,345</u>
Gross deferred tax liabilities at 31 December 2021	<u><u>5,500</u></u>

Deferred tax assets

	Impairment of financial assets RMB'000	Provision for inventories RMB'000	Provision for contract liabilities RMB'000	Impairment of fixed assets RMB'000	Government grants RMB'000	Total RMB'000
Gross deferred tax assets at 31 December 2018 and 1 January 2019	317	52	2,821	328	–	3,518
Deferred tax charged to profit or loss during the year	(1)	(27)	(985)	(24)	–	(1,037)
Deferred tax credited to other comprehensive income during the year	<u>13</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>13</u>
Gross deferred tax assets at 31 December 2019 and 1 January 2020	329	25	1,836	304	–	2,494
Deferred tax credited/(charged) to profit or loss during the year	(121)	105	(286)	(304)	–	(606)
Deferred tax charged to other comprehensive income during the year	<u>(10)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(10)</u>
Gross deferred tax assets at 31 December 2020 and 1 January 2021	198	130	1,550	–	–	1,878
Deferred tax credited/(charged) to profit or loss during the year	(29)	(44)	(901)	–	4,039	3,065
Deferred tax charged to other comprehensive income during the year	<u>(10)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(10)</u>
Gross deferred tax assets at 31 December 2021	<u><u>159</u></u>	<u><u>86</u></u>	<u><u>649</u></u>	<u><u>–</u></u>	<u><u>4,039</u></u>	<u><u>4,933</u></u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statements of financial position. The following is an analysis of the deferred tax balances of the Company for financial reporting purposes:

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Net deferred tax assets recognised in the statements of financial position	<u>–</u>	<u>–</u>	<u>–</u>
Net deferred tax liabilities recognised in the statements of financial position	<u>782</u>	<u>2,277</u>	<u>567</u>

The Group has tax losses arising in Mainland China of RMB1,847,000, and RMB1,680,000 and RMB1,031,000 as at 31 December 2019, 2020 and 2021 that are available till 2026 for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of impairment loss of investment in a subsidiary as the Company does not intend to dispose of the subsidiary in the foreseeable future.

The Group's investment in joint venture amounted to RMB12,818,000, RMB10,605,000 and RMB8,553,000, respectively, as at 31 December 2019, 2020 and 2021. The difference between the net book value and the original investment of RMB5,000,000 is the temporary difference that deferred tax liabilities has not been recognised.

Deferred tax liabilities have not been recognised as the Company does not intend to dispose the joint venture in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

32. OTHER NON-CURRENT LIABILITIES

Group

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
The government grants related to assets construction and operation of new gas station	<u>4,000</u>	<u>4,000</u>	<u>15,239</u>

Company

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
The government grants related to assets construction and operation of new gas station	4,000	4,000	15,239

33. SHARE CAPITAL

Group and Company

	As at 31 December 2019 Nominal value <i>RMB'000</i>	As at 31 December 2020 Nominal value <i>RMB'000</i>	As at 31 December 2021 Nominal value <i>RMB'000</i>
Ordinary shares at end of year	98,947	98,947	150,000

A summary of movements in the Group's share capital is as follows:

	Number of shares '000	Nominal value <i>RMB'000</i>
At 31 December 2018 and 1 January 2019	–	90,290
Contribution from Huzhou Huaxing	–	5,163
Capital contribution from a non-controlling shareholder	–	3,494
At 31 December 2019 and 1 January 2020	–	98,947
At 31 December 2020 and 1 January 2021	–	98,947
Conversion into a joint stock company upon restructuring	150,000	51,053
At 31 December 2021	150,000	150,000

Note: At 1 January 2019, the Company was a limited liability company with a paid-up capital of USD12,511,880.

On 2 April 2021, the Company was converted from a limited liability company into a joint stock company with limited liability. By reference to the Company's net asset value at 31 August 2020, the Company issued 150,000,000 shares with a per value of RMB1.00 each to the shareholders.

34. OTHER RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity.

Other reserve

On 17 July 2019, the Group disposed of partial interests in a subsidiary without losing control. The difference between the consideration and the proportionate share of net assets disposed of and net with the proportionate of tax was recorded in other reserve.

Statutory surplus reserve (the "SSR")

In accordance with the Company Law of the PRC and the respective articles of association of the subsidiaries established in Mainland China (the "PRC Subsidiaries"), each PRC Subsidiary is required to allocate 10% of its profits after tax, as determined in accordance with the applicable PRC accounting standards and regulations, to the SSR until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR can be reorganised as paid-up capital, provided that the remaining balance after the reorganisation is not less than 25% of the registered capital.

The SSR is non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as issued capital.

In accordance with relevant regulations and the articles of association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its net profit (after offsetting accumulated losses from prior years) to the statutory surplus reserve. After the balance of such reserve reaches 50% of the entity's capital, any further appropriation is at the discretion of the company. The statutory surplus reserve can be utilised to offset accumulated losses or increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

In accordance with the Company Law of the PRC, profits after tax of the PRC companies can be distributed as dividends after the appropriation to the SSR as set out above.

Distributable reserve

For dividend purposes, the amounts which the PRC companies can legally distribute by way of a dividend are determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in the Historical Financial Information which is prepared in accordance with IFRSs.

Special reserve – safety fund

Provisions for the Group's obligations for safety operation are based on the Group's revenue arose from sales of natural gas per year in accordance with related PRC rules and regulations. The Group records a corresponding cost when such expenditure for safety operation incurs. The remaining provisions for the Group's obligations for safety operation would be recorded as special reserve – safety fund. The remaining provisions would not be recorded in profit or loss while the Group decreases its retained profits when it recognises the special reserve – safety fund.

Company

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2019	90,290	188,709	45,145	(255)	109,485	433,374
Profit for the year	–	–	–	–	66,701	66,701
Fair value reserve of financial assets at fair value through other comprehensive income, net of tax	–	–	–	(39)	–	(39)
Total comprehensive income for the year	–	–	–	(39)	66,701	66,662
Capital injection and contribution from shareholders	8,657	351,459	–	–	–	360,116
Transfer from retained profits	–	–	4,328	–	(4,328)	–
Dividend declared	–	–	–	–	(39,000)	(39,000)
At 31 December 2019	<u>98,947</u>	<u>540,168</u>	<u>49,473</u>	<u>(294)</u>	<u>132,858</u>	<u>821,152</u>

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020	98,947	540,168	49,473	(294)	132,858	821,152
Profit for the year	-	-	-	-	117,327	117,327
Fair value reserve of financial assets at fair value through other comprehensive income, net of tax	-	-	-	29	-	29
Total comprehensive income for the year	-	-	-	29	117,327	117,356
Dividend declared	-	-	-	-	(145,000)	(145,000)
At 31 December 2020	<u>98,947</u>	<u>540,168</u>	<u>49,473</u>	<u>(265)</u>	<u>105,185</u>	<u>793,508</u>
At 1 January 2021	98,947	540,168	49,473	(265)	105,185	793,508
Profit for the year	-	-	-	-	77,555	77,555
Fair value reserve of financial assets at fair value through other comprehensive income, net of tax	-	-	-	30	-	30
Total comprehensive income for the year	-	-	-	30	77,555	77,585
Statutory reserve	-	-	7,756	-	(7,756)	-
Conversion into a joint stock company upon restructuring	51,053	51,619	(49,473)	-	(53,199)	-
At 31 December 2021	<u>150,000</u>	<u>591,787</u>	<u>7,756</u>	<u>(235)</u>	<u>121,785</u>	<u>871,093</u>

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Groups' subsidiaries that have material non-controlling interests are set out below:

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Percentage of equity interest held by non-controlling interests:			
Nanxun Xinao	49%	49%	49%
Nanxun Xinao Development	49%	49%	49%
Xinao Development	–	–	–

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Profit for the year allocated to non-controlling interests:			
Nanxun Xinao	24,805	33,775	36,712
Nanxun Xinao Development	9,945	12,932	10,266
Xinao Development	14,194	–	–
	<u> </u>	<u> </u>	<u> </u>
Dividend paid to non-controlling interest of Nanxun Xinao	–	–	57,874
Dividend paid to non-controlling interest of Nanxun Xinao Development	–	11,116	12,650
	<u> </u>	<u> </u>	<u> </u>
Accumulated balances of non-controlling interests at each reporting period:			
Nanxun Xinao	43,587	77,354	56,190
Nanxun Xinao Development	18,211	20,028	17,643
Xinao Development	–	–	–
	<u> </u>	<u> </u>	<u> </u>

Nanxun Xinao

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Revenue	789,052	679,197	898,423
Cost	(701,418)	(572,357)	(777,030)
Total expenses	(35,911)	(37,912)	(46,470)
Profit for the year	51,723	68,928	74,923
Total comprehensive income for the year	<u>51,719</u>	<u>68,912</u>	<u>74,919</u>
Current assets	62,815	59,445	112,081
Non-current assets	206,835	217,366	249,627
Current liabilities	(174,998)	(116,702)	(244,844)
Non-current liabilities	<u>(5,700)</u>	<u>(2,245)</u>	<u>(2,191)</u>
Net cash flows from operating activities	116,327	22,840	117,320
Net cash flows used in investing activities	(16,802)	(27,477)	(25,787)
Net cash flows used in financing activities	<u>(76,675)</u>	<u>(577)</u>	<u>(53,018)</u>
Net increase/(decrease) in cash and cash equivalents	<u>22,850</u>	<u>(5,214)</u>	<u>38,515</u>

Nanxun Xinao Development

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Revenue	47,157	60,564	99,101
Cost	(18,286)	(27,879)	(74,637)
Total expenses	(7,441)	(6,293)	(3,512)
Profit for the year	21,430	26,392	20,952
Total comprehensive income for the year	<u>21,429</u>	<u>26,393</u>	<u>20,950</u>
Current assets	99,510	144,259	178,610
Non-current assets	98	111	2,102
Current liabilities	(25,921)	(73,179)	(103,670)
Non-current liabilities	<u>(36,522)</u>	<u>(30,318)</u>	<u>(41,035)</u>
Net cash flows from operating activities	10,473	115,571	44,384
Net cash flows from/(used in) investing activities	502	1,665	(149,380)
Net cash flows used in financing activities	<u>–</u>	<u>–</u>	<u>(22,685)</u>
Net increase/(decrease) in cash and cash equivalents	<u>10,975</u>	<u>117,236</u>	<u>(127,681)</u>

Xinao Development

	Year ended 31 December 2019 RMB'000
Revenue	59,903
Total expenses	(24,735)
Profit for the year	35,168
Total comprehensive income for the year	<u>35,168</u>
Current assets	197,738
Non-current assets	435,187
Current liabilities	(265,969)
Non-current liabilities	<u>(74,865)</u>
Net cash flows from operating activities	87,703
Net cash flows used in investing activities	<u>(99,793)</u>
Net decrease in cash and cash equivalents	<u>(12,090)</u>

Xinao Development became a wholly-owned subsidiary of the Company on 28 December 2019.

36. ACQUISITION OF SUBSIDIARY ACCOUNTED FOR AS BUSINESS COMBINATION

Xinao Development was established on 25 April 2005, jointly invested by Huzhou Huaxing, a company controlled by Huzhou City Investment and Development Group Co., Ltd. ("the Controlling Shareholder"), and ENN (China), where each investor holds 50% equity interest. Xinao Development engages in design, construction, installation and maintenance of gas facilities and pipelines. It was accounted for as a joint venture by both Huzhou Huaxing and ENN (China) under IAS 28 *Investments in Associates and Joint Ventures* as all of the strategic financial and operating decisions must be approved by three-fourths of the members of the board of directors of Xinao Development, whereby the number of members nominated by the board of directors of each side of shareholders did not meet the threshold. On 18 December 2018, Xinao Development revised the articles of association. As stipulated in Xinao Development's articles of association, Xinao Development has a board of directors, consisting of five persons. Resolution of board of directors requires the approval of more than half of all directors. Meanwhile, three-fifth of member of the board of directors' members were the representatives of Huzhou Huaxing. On 28 December 2018, Huzhou Huaxing increased the paid in capital of Xinao Development by a cash contribution of RMB78,070,000 and therefore owned 59.6384% of the equity interest in Xinao Development. Since then, Huzhou Huaxing is able to control the relevant activities of the strategic operating, investing and financial decisions, and Xinao Development became a subsidiary of the Huzhou Huaxing.

On 27 December 2019, the Company, Xinao Development, Huzhou Huaxing and ENN (China) entered into an equity transfer arrangement. Huzhou Huaxing and ENN (China) transferred their total equity in Xinao Development as capital injection to the Company. On 28 December 2019, the Company completed the above transaction and holds 100% of shares of Xinao Development.

The Group has elected to measure the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. The acquiree's identifiable net assets are combined using the existing book value from Huzhou Huaxing's perspective, which is based on its acquisition accounting as at 28 December 2018 as follows:

	Fair value recognised on acquisition <i>RMB'000</i>
Cash and cash equivalents	79,830
Trade and bills receivables	8,031
Prepayments, other receivables and other assets	32,110
Inventories	7,861
Property, plant and equipment (<i>note 15</i>)	225,386
Other intangible assets (<i>note 19</i>)	113,870
Deferred tax liabilities (<i>note 31</i>)	(35,108)
Trade payables	(57,743)
Other payables and accruals	(149,724)
Total identifiable net assets at fair value	224,513
Non-controlling interests	(90,617)
	<hr/>
Total assets acquired	133,896
Total consideration:	162,402
	<hr/>
– Fair value of initial 50% interest at acquisition date	130,892
– Increase in non-controlling interests	31,510
	<hr/>
Goodwill on acquisition (<i>note 18</i>)	28,506
	<hr/> <hr/>

The fair value of initial 50% interest at acquisition date was RMB130,892,000, and increase in non-controlling interests was RMB31,510,000, therefore, the total acquisition cost of the 59.6384% shares of Xinao Development was RMB162,402,000.

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB7,587,000 and RMB22,367,000, respectively. The gross amounts of trade receivables and other receivables were RMB7,587,000 and RMB22,367,000, respectively.

37. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

The Group had non-cash additions to right-of-use assets and lease liabilities of RMB658,000, RMB599,000 and RMB1,965,000 at 31 December 2019, 2020 and 2021, respectively, in respect of lease arrangements for property, plant and equipment.

On 27 December 2019, the Company, Huzhou Huaxing, ENN (China), and Xinao Gas Development entered into an equity exchange agreement. Huaxing agreed to transfer its 59.6384% interests in Xinao Development equivalent to RMB173,126,000 to the Company as capital injection to the Company. An amount of which of RMB167,963,000 was recorded as share premium. ENN (China) agreed to transfer its 40.3616% interests in Xinao Development, equivalent to RMB117,166,000, to the Company as capital injection to the Company, RMB113,672,000 of which was recorded as share premium. The Company holds 100% of shares of Xinao Development after the transaction.

(b) Changes in liabilities arising from financing activities

	Bank and other loans <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Dividends <i>RMB'000</i>
At 1 January 2019	15,019	852	72,000
Changes from financing cash flows	(15,233)	(1,236)	–
Interest expenses	214	34	–
New leases	–	658	–
Dividend declared during the year	–	–	86,000
	<u>–</u>	<u>308</u>	<u>158,000</u>
At 31 December 2019	<u>–</u>	<u>308</u>	<u>158,000</u>
	Bank and other loans <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Dividends <i>RMB'000</i>
At 1 January 2020	–	308	158,000
Changes from financing cash flows	(257)	(610)	(303,000)
Interest expenses	257	24	–
New leases	–	599	–
Dividend declared during the year	–	–	156,116
	<u>–</u>	<u>321</u>	<u>11,116</u>
At 31 December 2020	<u>–</u>	<u>321</u>	<u>11,116</u>
	Bank and other loans <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Dividends <i>RMB'000</i>
At 1 January 2021	–	321	11,116
Changes from financing cash flows	(1,176)	(1,240)	(36,506)
Interest expenses	1,176	59	–
New leases	–	1,965	–
Dividend declared during the year	–	–	70,524
	<u>–</u>	<u>1,105</u>	<u>45,134</u>
At 31 December 2021	<u>–</u>	<u>1,105</u>	<u>45,134</u>

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Year ended 31 December 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>
Within operating activities	89	248	211
Within financing activities	1,236	610	1,240
	<u>1,325</u>	<u>858</u>	<u>1,451</u>

38. PLEDGE OF ASSETS

Details of the Group's assets pledged for ETC equipment are included in note 26.

39. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Contracted, but not provided for: Plant and machinery	<u>95,000</u>	<u>10,000</u>	<u>12,500</u>

40. RELATED PARTY TRANSACTIONS

(a) Name and relationship:

Name of related party	Relationship with the Group
ENN (China)	Shareholder of the Company
Zhongshihua Xiniao	Joint venture
Huzhou Huaxing	Company controlled by the controlling shareholder of the Company
Huzhou Fangzong Real Estate Group Co., Ltd. ("Huzhou Fangzong") (湖州房總地產開發集團有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Zhongfang Zhiye Co., Ltd. ("Huzhou Zhongfang Zhiye") (湖州中房置業有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou City Minsheng Construction Co., Ltd. ("Huzhou Minsheng") (湖州市民生建設有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Urban Construction Investment Group Co., Ltd. ("Huzhou Urban Construction") (湖州市城建投資集團有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Shushan Sanatorium Co., Ltd. ("Shushan Sanatorium") (湖州蜀山老年醫院有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Zhongcheng Construction Development Co., Ltd. ("Huzhou Zhongcheng") (湖州中城建設發展股份有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Weineng Environment Co., Ltd. ("Weineng Environment") (湖州威能環境服務有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Northern City Construction Investment Co., Ltd. ("Huzhou Northern City") (湖州市北建設投資有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou City Investment Assets Management Co., Ltd. ("Huzhou Assets Management") (湖州市城投資產管理有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Licheng Investment Development Co., Ltd. ("Huzhou Licheng") (湖州立城投資建設有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou City Historical Civilisation Community Protection Reconstruction Co., Ltd. ("Huzhou Historical Reconstruction") (湖州市歷史文化街區保護改造有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou City Water Group Co., Ltd. ("Huzhou Water") (湖州市水務集團有限公司)	Company controlled by the controlling shareholder of the Company

Name of related party	Relationship with the Group
Huzhou Tongcheng Investment Development Co., Ltd. ("Huzhou Tongcheng") (浙江童城投資發展有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou City Urban Investment Yuhua Producing Management Co., Ltd. ("Yuhua Producing Management") (湖州市城投育華物產管理有限公司)	Company controlled by the controlling shareholder of the Company
Huzhou Jinglong Real Estate Development Co., Ltd. ("Jinglong Real Estate") (湖州瓊瓏房地產開發有限公司)	Company controlled by the controlling shareholder of the Company
Hangzhou Xiaoshan Pipeline Gas Development Co., Ltd. ("Hangzhou Xiaoshan Pipeline Gas") (杭州蕭山管道燃氣發展有限公司)	Company controlled by the controlling shareholder of the Company
ENN Group Co., Ltd. (新奧集團股份有限公司)	Company controlled by shareholders of the Company
Ningbo Chengji Energy Trading Co., Ltd. ("Ningbo Intercity") (寧波城際能源貿易有限公司)	Company controlled by shareholders of the Company
Nanjing Xinao Intelligent Technology Co., Ltd. ("Nanjing Xinao Technology") (南京新奧智能科技有限公司)	Company controlled by shareholders of the Company
Xindi Energy Engineering Technology Co., Ltd. Design Branch ("Xindi Energy") (新地能源工程技術有限公司設計分公司)	Branch controlled by shareholders of the Company
New Wisdom Cloud Data Service Co., Ltd. ("New Wisdom") (新智雲數據服務有限公司)	Company controlled by shareholders of the Company
Xinao Insurance Brokers Co., Ltd. ("Xinao Brokers") (新奧保險經紀有限公司)	Company controlled by shareholders of the Company
ENN Hengxin Investment Co., Ltd. ("Hengxin Investment") (新奧恒新投資有限公司)	Company controlled by shareholders of the Company
Xinao Xinneng (Zhejiang) Energy Trading Co., Ltd. ("Xinao Xinneng") (新奧新能(浙江)能源貿易有限公司)	Company controlled by shareholders of the Company
Langfang Yitongcheng Business Service Co., Ltd. ("Langfang Yitongcheng") (廊坊易通程商務服務有限公司)	Company controlled by shareholders of the Company
Zhoushan ENN Energy Trading Co., Ltd. (舟山新奧能源貿易有限公司)	Company controlled by shareholders of the Company
Xinao Fanneng Network Technology Co., Ltd. (新奧泛能網絡科技有限公司)	Company controlled by shareholder of the Company

Name of related party	Relationship with the Group
Wenzhou Xiniao Gas Co., Ltd. ("Wenzhou Xiniao") (温州新奥燃气有限公司)	Company controlled by shareholder of the Company
Langfang Branch of Xiniao New Energy Engineering Technology Co., Ltd. (新奥新能源工程技术有限公司廊坊分公司)	Branch controlled by shareholder of the Company

(b) The Group had the following transactions with related parties during the Relevant Periods:

Notes	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Shareholder:			
Personnel expense charged from ENN (China)	(i) 20	34	–
Joint venture:			
Purchase of LNG from Zhongshihua Xiniao	(ii) –	–	189
Rental income from Zhongshihua Xiniao	(iii) 743	758	747
Others:			
Purchase of materials from Nanjing Xiniao Technology	(ii) 430	1,026	1,594
Purchase of LNG from Ningbo Intercity	(ii) 37,213	72,919	13,188
Purchase of PNG from Ningbo Intercity	(ii) –	295,989	1,091,532
Purchase of services from Xiniao Xinneng and a subsidiary of the shareholder of the Company	(xiii) –	–	20,390
Hengxin Investment	(xi) –	–	1,120
Langfang Yitongcheng	(ii) –	–	2
	–	–	21,512

		Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
	Notes			
Others:(continued)				
Administrative and selling expenses to				
New Wisdom	(iv)	–	79	4
Insurance referral service provided to				
Xinao Brokers	(v)	2,321	4,571	5,515
Sale of natural gas to				
Weineng Environment	(vi)	–	978	3,006
Huzhou Huaxing	(vi)	–	–	176
Huzhou Licheng	(vi)	4	12	24
Huzhou Zhongcheng	(vi)	–	–	21
Huzhou Assets Management	(vi)	4	3	4
Huzhou Water	(vi)	–	–	4
Yuhua Producing Management	(vi)	–	–	4
Huzhou Urban Construction	(vi)	27	23	3
Huzhou Zhongfang Zhiye	(vi)	9	8	–
Huzhou Fangzong	(vi)	8	7	–
		52	1,031	3,242
Sale of goods to				
Huzhou Fangzong	(v)	–	–	264
Hangzhou Xiaoshan Pipeline Gas	(v)	–	–	6
		–	–	270
Provision of construction and installation services provided to				
Huzhou Fangzong	(vii)	1,560	2,994	11,256
Weineng Environment	(vii)	–	–	3,225
Huzhou Northern City	(vii)	214	361	2,789
Shushan Sanatorium	(vii)	–	–	2,435
Jinglong Real Estate	(vii)	–	–	1,785
Huzhou Huaxing	(vii)	72	421	1,658
Huzhou Minsheng	(vii)	1,407	639	1,437
Huzhou Licheng	(vii)	59	165	541
Huzhou Tongcheng	(vii)	–	–	479
Huzhou Zhongcheng	(vii)	–	–	282
Yuhua Producing Management	(vii)	–	–	100
Huzhou Historical Reconstruction	(vii)	93	–	96
Huzhou Urban Construction	(vii)	357	–	–
Huzhou Water	(vii)	–	76	–
		3,762	4,656	26,083

	Notes	Year ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000
Other income from Shushan Sanatorium	(viii)	–	1,903	–
Finance income on the net investment in a lease from Shushan Sanatorium	(viii)	–	127	763
Sale of energy to Shushan Sanatorium	(ix)	–	–	2,050
Sale of service to Hangzhou Xiaoshan Pipeline Gas	(v)	–	–	38
Wenzhou Xinao	(v)	–	–	11
		–	–	49
Rent expense to Huzhou Huaxing	(xii)	258	258	266

Notes:

- (i) Personnel expense charged from ENN (China) were expenses for dispatched employees.
- (ii) Transaction prices of purchases from related parties were determined based on contracts offered by the related parties.
- (iii) Rental income represents considerations received for the rental of investment properties to the Group's related party. Annual rentals were determined with reference to transaction prices of similar properties in open market.
- (iv) Administrative and selling expenses were mainly IT consulting and construction consulting services provided by the related parties.
- (v) Service and goods income from the related party was determined based on prices and conditions transact with the Group's major independent third-party customers.
- (vi) The sales price of natural gas to related parties were made according to the published prices and conditions offered to the major customers of the Group.
- (vii) Transaction prices of provision of construction and installation services rendered to related parties were determined based on prices and conditions offered by the Group to the major independent third-party customers.
- (viii) Finance income on the net investment in a lease was determined based on terms of the contract offered by the Group.
- (ix) The sale to the related party was made according to the price mutually agreed after taking into account the prevailing market prices.
- (x) The Group is authorised by ENN (China) to use the SAP system free of charge, which is bought by ENN (China).

- (xi) During 1 January 2019 to 31 December 2020, no fee had been charged by Hengxin Investment in respect of the Group's use of the Call Centre System Service. During 1 January 2021 to 31 December 2021, Hengxin Investment started to charge the Call Centre System Service fee as well as a start-up fee which represents the consideration of design, implementation and services rendered by Hengxin Investment during the past years.
- (xii) The fee for the leasing services paid to the related party was determined with reference to transaction prices of similar properties in open market.
- (xiii) The Group entered into an agreement with Xinao Xinneng (Zhejiang) Energy Trading Co., Ltd. and a subsidiary of the shareholder of the Company, pursuant to which Xinao Xinneng (Zhejiang) Energy Trading Co., Ltd and a subsidiary of the shareholder of the Company shall provide to the Group the capacity of storing natural gas of not less than 5% of the Group's annual natural consumption volume ("Natural Gas Reserve Service") for a term from 1 January 2021 to 31 December 2024.

(c) Balances with related parties:

Details of the Group's balances with related parties at the end of each of the Relevant Periods are disclosed in note 24 to the Historical Financial Information.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets at amortised cost

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Lease receivable	–	4,451	4,414
Trade receivables	10,477	13,503	19,074
Financial assets included in prepayments, other receivables and other assets	2,079	6,533	5,641
Due from related parties	45	319	914
Pledged deposits	20	24	24
Cash and cash equivalents	554,741	551,669	588,673
	<u>567,362</u>	<u>576,499</u>	<u>618,740</u>

Financial assets at fair value through profit or loss

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Financial assets at fair value through profit or loss	–	–	150,000

Financial assets at fair value through other comprehensive income

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Bills receivable	<u>51,423</u>	<u>48,029</u>	<u>47,283</u>

Financial liabilities at amortised cost

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Trade payables	112,107	110,396	140,407
Financial liabilities included in other payables and accruals	181,083	73,228	166,535
Due to related parties	563	1,817	642
Lease liabilities	<u>308</u>	<u>321</u>	<u>1,105</u>
	<u>294,061</u>	<u>185,762</u>	<u>308,689</u>

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, pledged deposits, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, trade receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, trade payables, financial liabilities included in other payables and accruals, amounts due to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of lease liabilities has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at the end of each of the Relevant Periods were assessed to be insignificant.

Bills receivable held both to collect cash flows and to sell in financial assets at fair value through other comprehensive income are measured using the discounted cash flow method.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required by fair value measurement are observable, the instruments are included in Level 2. If one or more of the significant inputs is not based on observable market data, the instruments are included in Level 3.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

2019

	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Bills receivable	–	51,423	–	51,423

2020

	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Bills receivable	–	48,029	–	48,029

2021

	Quoted prices in active markets (Level 1) <i>RMB'000</i>	Significant observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>	Total <i>RMB'000</i>
Bills receivable	–	47,283	–	47,283
Financial assets at fair value through profit or loss	–	150,000	–	150,000
	–	197,283	–	197,283

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and cash equivalents and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board of directors reviews and agrees policies for managing each of the risks which are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As at 31 December 2019, 2020 and 2021, the total interest-bearing bank borrowings of nil, nil and nil of the Group were with floating interest rates denominated in RMB. As the amount of the long-term debts are small, changes in interest rate will have little impact on profit after tax and the interest rate risk of the Group is small.

The Group does not use derivative financial instruments to hedge its interest rate risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, therefore, the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2019, 2020 and 2021

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end-end staging classification as at the end of each of the Relevant Periods. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade and bills receivables*	–	–	–	63,056	63,056
Financial assets included in prepayments, other receivables and other assets – normal**	2,079	–	–	–	2,079
Due from related parties – normal**	45	–	–	–	45
Pledged deposits – not yet past due	20	–	–	–	20
Cash and cash equivalents – not yet past due	554,741	–	–	–	554,741
	<u>556,885</u>	<u>–</u>	<u>–</u>	<u>63,056</u>	<u>619,941</u>

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Lease receivables – normal**	4,451	–	–	–	4,451
Trade and bills receivables*	–	–	–	62,735	62,735
Financial assets included in prepayments, other receivables and other assets – normal**	6,533	–	–	–	6,533
Due from related parties – normal**	319	–	–	–	319
Pledged deposits – not yet past due	24	–	–	–	24
Cash and cash equivalents – not yet past due	551,669	–	–	–	551,669
	<u>562,996</u>	<u>–</u>	<u>–</u>	<u>62,735</u>	<u>625,731</u>

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Lease receivables – normal**	4,414	–	–	–	4,414
Trade and bills receivables*	–	–	–	67,313	67,313
Financial assets included in prepayments, other receivables and other assets – normal**	5,641	–	–	–	5,641
Due from related parties – normal**	914	–	–	–	914
Pledged deposits – not yet past due	24	–	–	–	24
Cash and cash equivalents – not yet past due	588,673	–	–	–	588,673
	<u>599,666</u>	<u>–</u>	<u>–</u>	<u>67,313</u>	<u>666,979</u>

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, other receivables and other assets, lease receivables and amounts due from related parties is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and amounts due to other related parties.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at 31 December 2019

	On demand RMB'000	Less than 1 year RMB'000	1 years to 2 years RMB'000	2 years to 5 years RMB'000	Total RMB'000
Trade payables	–	112,107	–	–	112,107
Financial liabilities included in other payables and accruals	–	181,083	–	–	181,083
Due to related parties	–	563	–	–	563
Lease liabilities	–	310	8	3	321
	<u>–</u>	<u>294,063</u>	<u>8</u>	<u>3</u>	<u>294,074</u>

As at 31 December 2020

	On demand RMB'000	Less than 1 year RMB'000	1 years to 2 years RMB'000	2 years to 5 years RMB'000	Total RMB'000
Trade payables	–	110,396	–	–	110,396
Financial liabilities included in other payables and accruals	–	73,228	–	–	73,228
Due to related parties	–	1,817	–	–	1,817
Lease liabilities	–	21	139	186	346
	<u>–</u>	<u>185,462</u>	<u>139</u>	<u>186</u>	<u>185,787</u>

As at 31 December 2021

	On demand RMB'000	Less than 1 year RMB'000	1 years to 2 years RMB'000	2 years to 5 years RMB'000	Total RMB'000
Trade payables	–	140,407	–	–	140,407
Financial liabilities included in other payables and accruals	–	166,535	–	–	166,535
Due to related parties	–	642	–	–	642
Lease liabilities	–	545	459	128	1,132
	<u>–</u>	<u>308,129</u>	<u>459</u>	<u>128</u>	<u>308,716</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using net debt ratio, which is net debt divided by the capital plus net debt. The Group's net debt includes interest-bearing bank borrowings and lease liabilities, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent. The gearing ratios at the end of each of the Relevant Periods are as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000
Trade payables	112,107	110,396	140,407
Other payables and accruals	264,693	146,717	255,650
Contract liabilities	275,398	338,236	381,881
Due to related parties	563	1,817	642
Lease liabilities	308	321	1,105
Other non-current liabilities	4,000	4,000	15,239
Less: Cash and cash equivalents	(554,741)	(551,669)	(588,673)
Pledged deposits	(20)	(24)	(24)
Net debt	102,308	49,794	206,227
Equity attributable to owners of the parent	823,595	824,175	943,916
Capital and net debt	925,903	873,969	1,150,143
Net debt ratio	11%	6%	18%

44. EVENTS AFTER THE RELEVANT PERIODS

Assessment on the effects of the Covid-19* pandemic

Since the outbreak of the Covid-19* pandemic in China, ongoing prevention and control measures have been carried out throughout the whole country. The epidemic has impacted business operations of certain industries as well as the overall economy.

The Covid-19* pandemic did not have a material adverse impact on the Group's continuing business operations and sustainability in the first half of 2020. With the effective measures to contain the pandemic and the recovery of downstream industries in Mainland China, the Covid-19 situation had no material impact on the operations of the Group in 2021.

Special Dividends

Some of the Company's subsidiaries and the Company declared special dividends to their then shareholders on 19 May 2022 and 9 June 2022, respectively, details are set out in note 12 to the Historical Financial Information.

45. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2021.

* Covid-19: Corona Virus Disease 2019

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the parent as if the Global Offering had taken place on 31 December 2021.

This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 31 December 2021 or any future dates.

	Consolidated net tangible assets attributable to owners of the parent as at 31 December 2021 RMB'000 Note 1	Estimated net proceeds from the Global Offering RMB'000 Note 2	Unaudited pro forma adjusted consolidated net tangible assets RMB'000	Unaudited pro forma adjusted consolidated net tangible assets per Share RMB Note 3	Unaudited pro forma adjusted consolidated net tangible assets per Share HKD equivalent Note 4
Based on the Offer Price of HK\$6.08 per Share	823,705	222,106	1,045,811	5.23	6.12

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- 1) The consolidated net tangible assets attributable to owners of the parent as at 31 December 2021 was equal to the audited net assets attributable to owners of the parent as at 31 December 2021 of RMB943,916,000 after deducting goodwill of RMB28,506,000 and other intangible assets of RMB91,705,000 as at 31 December 2021 set out in the Accountants' Report in Appendix I to this prospectus.
- 2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$6.08 per Offering Share after deduction of the underwriting fees and other related expenses payable by the Company and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds are converted into RMB at the rate of RMB1.00 to HK\$1.17, which is set forth on page 39 of this prospectus. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at the rate or at any other rates at all.
- 3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 200,000,000 Shares are in issue assuming that the Global Offering has been completed on 31 December 2021, taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- 4) For the purpose of this statement of unaudited pro forma adjusted consolidated net tangible assets, the balances stated in RMB are converted into HK\$ at the rate of RMB1.00 to HK\$1.17.
- 5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2021. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2021 does not take into account of the special dividends of RMB212.0 million declared by some of the Company's subsidiaries and the Company on 19 May 2022 and on 9 June 2022, respectively.

Had the special dividends of RMB212.0 million been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share after completion of the Global Offering would have been HK\$5.09 per Share based on the Offer Price of HK\$6.08 per Offer Share, assuming that the Global Offering has been completed on 31 December 2021 but takes no account of any Share which may be issued upon the exercise of the Over-allotment Option.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION



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To the Directors of Huzhou Gas Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Huzhou Gas Co., Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma adjusted consolidated net tangible assets as at 31 December 2021, and related notes as set out on pages II-1 and II-2 of the prospectus dated 29 June 2022 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on pages II-1 and II-2 of the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 31 December 2021, as if the transaction had taken place at 31 December 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 31 December 2021, on which an accountants' report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Ernst & Young
Certified Public Accountants
Hong Kong

29 June 2022

TAXATION IN THE PRC

PRC Taxation of Investors in the H Shares

The following is a summary of certain PRC tax consequences to investors relating to their subscription of H Shares under the Global Offering and the holding of H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions. This summary is based on the taxation laws of the PRC in effect as at the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This appendix does not address any aspect of the PRC taxation other than income tax, capital tax, business tax, stamp duty and estate duty. Prospective investors are advised to consult their tax advisors regarding the PRC and other tax consequences of investment in H Shares.

Taxation of dividends

Individual Investors

Pursuant to the Individual Income Tax Law of PRC (《中華人民共和國個人所得稅法》) (the “**IIT Law**”) which was newly amended on 31 August 2018 and implemented on 1 January 2019, and the Regulations on Implementation of the Law of PRC on Individual Income Tax (Order No. 707 of the State Council) (《中華人民共和國個人所得稅法實施條例》(國務院令 第707號)) (the “**Implementation Rules on the IIT Law**”) (hereinafter referred to as the “**IIT Law and its implementation rules**”) newly revised on 18 December 2018 respectively and the latest revision of which was implemented on 1 January 2019, income from interest, dividends, bonus shall be taxed at a flat rate of 20%. The taxable income amount for income from interest, dividends and bonuses, contingent income and other income shall be the amount of each income item.

On 28 June 2011, SAT issued the Notice of the State Administration of Taxation on Issues Concerning the Levy of Individual Income Tax Following the Abolishment of the Document Numbered Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》國稅函[2011]348號) (the “**No. 348 Document**”). Pursuant to the No. 348 Document, dividends paid by a PRC company listed in Hong Kong to foreign individuals are subject to PRC withholding tax according to the IIT Law and its implementation rules, and such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty. Generally, a convenient tax rate of 10% shall apply to the dividends paid by the company listed in Hong Kong to foreign individuals without application according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall: (i) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%, (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, and (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

Enterprise Investors

Pursuant to the Enterprise Income Tax Law of PRC (《中華人民共和國企業所得稅法》) which was newly amended and implemented on 29 December 2018 (the “**EIT Law**”) and the Regulation on the Implementation of the Enterprise Income Tax Law of PRC (Decree No. 512 of the State Council) (《中華人民共和國企業所得稅法實施條例》國務院令第512號) (the “**Implementation Rules on the EIT Law**”) which was newly amended and enforced on 23 April 2019, the enterprise income tax shall be 25%. A non-resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposal of shares in a PRC resident enterprise, if such non-PRC resident enterprise does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

According to the Notice on the Issues Concerning Withholding Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise H Share Holders (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》國稅函[2008]897號) (the “**No. 897 Document**”) issued by the SAT on 6 November 2008, a PRC resident enterprise must withhold enterprise income tax at a unified rate of 10% on dividends paid to overseas non-PRC resident enterprise holders of H Shares for 2008 and afterwards. In addition, the Response to Issues on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) (Guo Shui Han [2009] No. 394) which was issued by the SAT and came into effect on 24 July 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006, PRC Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the SAT (《國家稅務總局關於〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) effective on 6 December 2019 states that such provisions shall not apply to those arrangements or transactions, of which the main purpose includes gaining such tax

benefit. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the SAT on the Issues Concerning the Implementation of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

Taxation of Capital Gains

In accordance with the IIT Law and its implementation rules issued, individuals are subject to individual income tax at the rate of 20% on gains realised on the transfer of properties, incidental gains or gains from other sources, including gains realised on the sale of equity interests in PRC resident enterprises. The Implementation Rules on the IIT Law also provide that measures related to the individual income tax on gains from share transfers shall be formulated by the financial department under the State Council and their implementation shall be subject to the approval of the State Council. However, such measures have not yet been implemented.

Under the Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares (Cai Shui Zi [1998] No. 61) (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》財稅字[1998]61號) issued by the MOF and the SAT on 30 March 1998, from 1 January 1997 onwards, gains of individuals from the transfer of shares of listed enterprises continues to be exempted from individual income tax. The Notice of the MOF, the SAT and the CSRC on Relevant Issues Concerning the Levy of Individual Income Tax on Income from Individual Transfer of Non-tradable Shares of Listed Companies (Cai Shui [2009] No. 167) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知》財稅[2009]167號) on 31 December 2009, which provides that individuals income from transferring listed shares of certain domestic stock exchanges shall continue to be exempted from the individual income tax, except for certain shares which are subject to sales limitations as defined in the Supplementary Notice of the MOF, the SAT and the CSRC on Relevant Issues Concerning the Levy of Individual Income Tax on Income from Individual Transfer of Non-tradable Shares of Listed Companies (Cai Shui [2010] No. 70) (《關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的補充通知》財稅[2010]70號). As the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges.

Estate Tax

Currently, no estate tax is imposed by the PRC Government.

Stamp duty

Under the Interim Regulations of the PRC on Stamp Tax (Decree No. 11 of the State Council) (《中華人民共和國印花稅暫行條例》國務院令[1988]第011號) effective as of 1 October 1988 and amended on 8 January 2011 and the Detailed Rules for Implementation of Provisional Regulations of the PRC on Stamp Tax (Cai Shui [1988] No. 255) (《中華人民共和國印花稅暫行條例施行細則》財稅字[1988]第255號) effective as of 1 October 1988, entities established within the PRC and individuals resident within the PRC are subject to stamp duty on certain taxable documents that are legally binding in the PRC and governed by PRC laws. The following categories of documents shall be taxable documents: (i) contracts or documents in the nature of a contract with regard to: purchases and sales, the undertaking of processing, contracting for construction projects, property leasing, commodity transport, warehousing, loans, property insurance, technology, (ii) documents for transfer of property rights, (iii) business account books, (iv) certificates evidencing rights or licences, and (v) other documents that are taxable as determined by the Ministry of Finance. Taxpayers must calculate taxes payable based on the proportional tax rate or the fixed amount according to the nature of the taxable documents. Therefore, PRC stamp duty does not apply to acquisitions or dispositions of H Shares outside the PRC.

PRC Taxation of the Company**Enterprise Income Tax**

In accordance with the EIT Law, a resident enterprise refers to an enterprise that is established within the PRC, or which is established under the law of a foreign country (region) but whose de facto management body is within the PRC. A resident enterprise must pay the enterprise income tax on its incomes derived from both within and outside the PRC at the rate of 25%.

Replacing Business Tax with Value-added Tax

Pursuant to Provisional Regulations of the People's Republic of China on Value-added Tax (《增值稅暫行條例》) (“**VAT Regulations**”) and Implementation Rules for the Provisional Regulations the People's Republic of China on Value-added Tax (《增值稅暫行條例實施細則》) (“**VAT Implementation Rules**”), entities and individuals that sell goods or labour services of processing, repair or replacement, sales, intangible assets, real estates, or import goods within the territory of the PRC are taxpayers of value-added tax (“**VAT**”), and shall pay VAT in accordance with these Regulations. Unless otherwise provided for by law, the VAT rate is: 17%, for taxpayers selling goods, labour services, or tangible movable property leasing services or importing goods; 11%, for taxpayers selling transportation, postal, basic telecommunications, construction, or real estates leasing services, selling real estates, transferring the rights to use land, or selling or importing specific goods; 6%, for taxpayers selling services or intangible assets; zero, for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders; and zero, for export, (except as otherwise specified by the State Council).

Pursuant to the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》), the pilot programme of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot programme with regard to payment of value-added tax instead of business tax.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《關於調整增值稅稅率的通知》) (“cai shui [2018] No.32”), promulgated on 4 April 2018 and came into effect on 1 May 2018, by the MOF and the SAT), where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are lowered to 16% and 10% respectively.

Pursuant to the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) (promulgated by the MOF, the SAT and the General Administration of Customs of the PRC on 20 March 2019 and came into effect on 1 April 2019) (“**Circular 39**”), tax rates of the VAT on sales and imported goods that were previously subject to 16% and 10% were adjusted to 13% and 9% respectively.

FOREIGN EXCHANGE CONTROLS OF THE PRC

RMB is the lawful currency of the PRC, which is subject to foreign exchange controls and is not freely exchangeable. The SAFE, under the authorization of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

A strict foreign exchange control system has been adopted in the PRC and such system has undergone various major reforms. The Regulations of the PRC on Foreign Exchange Control (Decree No. 532 of the State Council) (《中華人民共和國外匯管理條例》國務院令第532號) (the “**Foreign Exchange Control Regulations**”), issued by the State Council on 29 January 1996, effective on 1 April 1996 and amended on 14 January 1997 and 5 August 2008 respectively, are the existing major regulations on foreign exchange control, and are applicable to the foreign exchange income and expense or foreign exchange activities of domestic and overseas institutions and individuals. Domestic institutions engaging in the issuance or trading of negotiable securities or derivative products shall complete registration in accordance with the requirements of the foreign exchange administrative department of the State Council. Foreign exchange administrative authorities have the right to exercise inspection and examination on foreign exchange settlement under capital accounts as well as the use of funds from and account changes in respect of such settlement. However, the international payments in foreign exchange and the transfer of foreign exchange under current account shall not be subject to any state control or restriction.

In addition, the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (Hui Fa [2014] No. 54) (《國家外匯管理局關於境外上市外匯管理有關問題的通知》匯發[2014]54) issued and implemented by the SAFE on 26 December 2014, pursuant to which a domestic company shall, within 15 business days of the end of its offering overseas, present with certain materials and register the overseas listing with the SAFE's local branch at the place of its incorporation. Upon verification that the aforesaid materials are free of error, the SAFE's local branch shall process registration for the domestic company in the capital project information system, then the domestic company shall present this registration certificate to complete account opening and the relevant formalities for its overseas listing. The proceeds from an overseas listing may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the document and other disclosure documents.

Pursuant to the Notice of the SAFE on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (Hui Fa [2015] No. 13) (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》匯發[2015]13號) (the “**Document No. 13**”) issued on 13 February 2015 and became effective on 1 June 2015, the foreign exchange registration approval under the PRC direct investment and the foreign exchange registration approval under the overseas direct investment were abolished and replaced by direct approval by the bank on such foreign exchange registrations. Such registrations were indirectly supervised by the SAFE and its branches through the banks. According to the Document No. 13, overseas enterprises established or controlled by domestic investment bodies are not subject to foreign exchange filing procedures for the overseas investment on establishments or control of new overseas enterprises.

According to the Notice of the SAFE on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement (Hui Fa [2016] No. 16) (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》匯發[2016]16號) issued and enforced by the SAFE on 9 June 2016, the policies on voluntary settlement of the foreign exchange earnings of domestic institutions under capital account shall be unified. Voluntary settlement of the foreign exchange earnings under capital account shall mean that the foreign exchange earnings under capital account to which the application of voluntary settlement has been specified by relevant policies (including funds repatriated from overseas listing) may be settled by banks based on the actual operating needs of domestic institutions. Domestic institutions are allowed to settle 100% of their foreign exchange earnings under capital account on a voluntary basis. The SAFE may adjust the foregoing percentage as appropriate according to balance of payments situations. Hui Fa [2016] No. 16 also stipulates that the foreign exchange incomes under the capital account of a domestic institution shall be used under the principles of authenticity and for itself. Domestic institutions shall comply with the following provisions in using their foreign exchange incomes under the capital account and Renminbi funds obtained from foreign exchange settlement:

- Such incomes and funds shall not, directly or indirectly, be used for the expenditures beyond the business scope of domestic institutions or the expenditures prohibited by laws and regulations of the State;
- Unless otherwise provided, such incomes and funds shall not, directly or indirectly, be used for investment in securities or other investments than banks' principal secured products;

- Such incomes and funds shall not be used for the granting of loans to non-affiliated enterprises, with the exception that such granting is expressly permitted in the business licence; and
- Such incomes and funds shall not be used for construction or purchase of real estate for purpose other than self-use (exception applies for real estate enterprises).

Moreover, domestic institutions applying for payment with the incomes under the capital account shall truthfully provide the bank concerned with materials proving transaction authenticity relating to their use of funds. For a domestic institution that applies for (i) the payment-based settlement of its all foreign exchange incomes under the capital account, or (ii) the payment with the entire Renminbi funds in its account pending for foreign exchange settlement and payment on a lump-sum basis, the bank concerned shall not process foreign exchange settlement or payment for it if it is unable to provide relevant materials to prove transaction authenticity.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

This Appendix sets forth summaries of certain aspects of PRC laws and regulations which are relevant to the Company's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III – Taxation and Foreign Exchange". This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》) (the "**Constitution**") and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, international treaties of which the PRC government is a signatory, and other regulatory documents. Court verdicts may be used as judicial reference and guidance. However, they do not constitute binding precedents.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the "**Legislation Law**"), the NPC and the Standing Committee of the National People's Congress are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of National People's Congress is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws.

The People's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, PBOC, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate rules.

In light of the specific circumstances and actual needs of a city with districts, the People's congress of the city with districts and its standing committee may formulate local regulations concerning matters of urban and rural construction and management, environmental protection, historical and cultural protection, etc., provided that such local regulations are not in conflict with the Constitution, laws,

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administrative regulations and the local regulations of the province or autonomous region in which the city with districts is located. The provisions otherwise prescribed by law on the matters for which cities with districts may formulate local regulations shall prevail. The local regulations of a city with districts shall be implemented after being reported to the standing committee of the People's congress of the province or autonomous region in which the said city is located for approval. The standing committee of the People's congress of the said province or autonomous region shall review the legality of the local regulations submitted thereto for approval, and grant approval within four months as long as such local regulations are not in conflict with the Constitution, laws, administrative regulations and the local regulations of the province or autonomous region.

The People's governments of the provinces, autonomous regions, and municipalities directly under the central government and a city with districts may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the People's governments of the provinces or autonomous regions is greater than that of the rules enacted by the People's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of National People's Congress has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the People's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The People's congresses of provinces, autonomous regions or municipalities directly under the central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The People's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the People's governments at a lower level.

According to the Constitution and the Legislation Law, the power to interpret laws is vested in the The Standing Committee of National People's Congress. According to the Decision of the The Standing Committee of National People's Congress Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, the Supreme People's Court of the PRC (the "**Supreme People's Court**") has the power to give general interpretation on questions involving the specific application of laws and decrees in court trials. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

PRC JUDICIAL SYSTEM

Under the Constitution and the PRC Law on the Organisation of the People's Courts (《中華人民共和國法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local People's courts, military courts and other special People's courts.

Local people's courts at all levels are composed of primary people's courts, intermediate people's courts and higher people's courts. The primary people's courts may set up civil, criminal and economic tribunals. The intermediate people's court has similar structure with the primary people's court, and can set up other tribunals, such as intellectual property tribunal when necessary. Special people's courts include military courts, maritime courts, intellectual property courts, financial courts, etc.

The higher level of people's court supervises the trial work of the people's court at a lower level. The people's Procuratorate also has the right to exercise legal supervision over the proceedings of the people's court at the same level or at a lower level. The Supreme People's Court is the highest judicial organ in China and supervises the trial work of local people's courts at all levels and special people's courts.

The People's courts apply a two-tier appellate system. A party may appeal against a judgement or order of a local People's court to the People's court at the next higher level. Second judgements or orders given at the next higher level are final. First judgements or orders of the Supreme People's Court are also final. However, if the Supreme People's Court or a People's court at a higher level finds an error in a judgement which has been given in any People's court at a lower level, or the presiding judge of a People's court finds an error in a judgement which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The PRC Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "**Civil Procedure Law**"), which was adopted on 9 April 1991 and amended on 28 October 2007, 31 August 2012 and 27 June 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the People's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a judicial court where civil actions may be brought, provided that the judicial court is either the plaintiff's or the defendant's domicile, the place of execution or implementation of the contract or the place of the object of the action, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgement or ruling made by a People's court or an award made by an arbitration panel in the PRC, the other party may apply to the People's court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgement made by the court within the stipulated time, the court will, upon application by either party, enforce the judgement in accordance with the law.

A party seeking to enforce a judgement or ruling of a People's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgement or ruling. A foreign judgement or ruling may also be recognised and enforced by the People's court according to PRC enforcement procedures if the PRC has entered into or acceded to an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgement or ruling satisfies the court's examination according to the principle of reciprocity, unless the People's court finds that the recognition or enforcement of such judgement or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security or against social and public interest.

THE COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

The Company Law was passed by the Standing Committee of the Eighth NPC on 29 December 1993 and came into effect on 1 July 1994. It was successively amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. The revised Company Law came into effect on 26 October 2018.

Special Regulations of the State Council Concerning the Floatation and Listing Abroad of Stocks by Limited Stock Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the "**Special Regulations**") were passed at the 22nd Standing Committee Meeting of the State Council on 4 July 1994 and were promulgated and implemented on 4 August 1994. The Special Regulations were formulated according to the then applicable Article 85 and Article 155 of the Company Law and should be applicable to the overseas share issue and listing of joint stock limited companies. According to the Official Reply of the State Council on the Proposed Adjustment to the Provisions Concerning Matters Including the Notice Period for Convention of Shareholders' Meetings by Overseas Listed Companies (Guo Han [2019] No. 97) (the "**Circular 97**") issued on 17 October 2019, the notice period for a shareholders'

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meeting, the shareholder proposal right, and the procedures for convening a shareholders' meeting, for those joint stock companies established within the territory of China but listed outside the territory of China should be governed by the relevant provisions of the Company Law, and the provisions laid down in Article 20 through Article 22 of the Special Regulations will no longer apply to the aforesaid matters.

The Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be Listed Overseas (the "**Mandatory Provisions**") were promulgated and implemented by the former Securities Commission of the State Council and the former State Economic System Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association. Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations, the Mandatory Provisions and the Circular 97 applicable to the Company.

General

A joint stock limited company refers to an enterprise legal person incorporated under the Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to the total value of its assets.

A joint stock limited company shall conduct its business in accordance with laws and administrative regulations. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. Unless otherwise provided by law, the joint stock limited company may not be a contributor that undertakes joint and several liabilities for the debts of the invested companies.

Incorporation

A joint stock limited company may be incorporated by promotion or public subscription.

A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC. Companies incorporated by promotion are companies with the total number of shares entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for part of the total number of shares of a company, and the remaining shares can be offered to the public or specific persons. If companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and administrative regulations. According to the Special Regulations, state-owned enterprises or enterprises with the majority of their assets owned by the PRC Government may be restructured into joint stock limited companies which may issue shares to overseas investors in accordance with the relevant regulations. These companies, if incorporated by promotion, may have less than five promoters and may issue new shares once incorporated.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing at least half of the shares in the company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the board of supervisors of the company will be dealt with.

Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established, and has the status of a legal person, after the business licence has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated, (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated, and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) promulgated by the State Council on 22 April 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters of such company are required to sign on this document to ensure that this document does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint and several responsibility for it.

Share capital

The promoters of a company can make capital contributions in cash or in kind, which can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

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Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the CSRC. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by laws or administrative regulations. Bearer shares are transferred by delivery of the H share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Allotment and issue of shares

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value.

A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as "overseas listed and foreign invested shares". Shares issued to investors within the PRC by joint stock limited companies, which also issues overseas listed and foreign shares, are known

as “domestic shares”. Upon approval of the securities regulatory authority of the State Council, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance programme may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered shares

Under the Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary term and may be transferred in accordance with the law. Pursuant to the Special Regulations, overseas listed and foreign invested shares issued shall be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall also be in registered form.

Under the Company Law, when the company issues shares in registered form, it shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder obtained the shares.

Increase of share capital

According to the Company Law, when the joint stock limited company issues new shares, resolutions shall be passed by a shareholders’ general meeting, approving the type and number of the new shares, the issuing price of the new shares, the commencement and ending dates for the new shares and the class and number of new shares to be issued to existing shareholders. When the company launches a public issuance of new shares with the approval of the securities regulatory authorities of the State Council, it shall publish a document and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of share capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by a shareholders’ general meeting;

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- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors may within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received, require the company to pay its debts or provide guarantees covering the debts; and
- it shall apply to the relevant administration of industry and commerce for the registration of the reduction in registered capital.

Repurchase of shares

According to the PRC Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes: (i) to reduce its registered capital, (ii) to merge with another company that holds its shares, (iii) to acquire its shares for employee stock ownership plans or equity incentives, (iv) to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' general meeting and require the company to acquire its shares, (v) to use shares for conversion of convertible corporate bonds issued by a listed company, (vi) to maintain corporate value and protect shareholders' equity of a listed company when necessary, and (vii) such other purposes permitted by law and administrative regulations.

The purchase of shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution passed by the shareholders' general meeting. Following the purchase of shares in accordance with the foregoing, such shares shall be cancelled within 10 days from the date of purchase in the case of (i) above and transferred or cancelled within six months in the case of (ii) or (iv) above. Shares acquired in accordance with (iii), (v) and (vi) above shall not exceed 10% of the total number of the company's issued shares, and the shares so acquired shall be transferred or deregistered within three years.

Transfer of shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the PRC Company Law, transfer of shares by shareholders shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No modifications of registration in the share register caused by transfer of registered shares shall be carried out within 20 days prior to the convening of shareholder's general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on alternation of registration in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within 30 days prior to convening of shareholder's general meeting or five days prior to any base date for determination of dividend distributions.

Under the PRC Company law, shares issued prior to the public issuance of shares shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Directors, supervisors and the senior management shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from their positions with the company.

Shareholders

Under the PRC Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of shareholder's general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquiries on the company's operations;
- the right to bring an action in the People's court to rescind resolutions passed by shareholder's general meetings and board of directors where the articles of association is violated by the above resolutions;
- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of residual properties of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholders' obligation specified in the company's articles of association.

Shareholders' general meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

Under the PRC Company Law, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove the directors and supervisors (other than the supervisor representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the board of supervisors;
- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and loss recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- to amend the company's articles of association; and
- other powers as provided for in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the PRC Company Law, an extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid-in share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- whenever the board of directors deems necessary;

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- when the board of supervisors so requests; or
- other circumstances as provided for in the articles of associations.

Under the PRC Company Law, shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the PRC Company Law, notice of shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of extraordinary shareholder's general meetings shall be given to all shareholders 15 days prior to the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by special resolution of shareholders' general meeting and by class meeting convened respectively by shareholders of the affected.

Under the PRC Company Law, shareholders present at shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the PRC Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' general meeting regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association, (ii) the increase or decrease of registered capital, (iii) the issue of any types of shares, warrants or other similar securities, (iv) the issue of debentures, (v) the merger, division, dissolution, liquidation or change in the form of the company, (vi) other matters considered by the

shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the PRC Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board

Under the PRC Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors mainly exercises the following powers:

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed in shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- to decide on the company's internal management structure;

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- to decide the appointment or dismissal and the remuneration of the company's general manager and based on the general manager's nomination, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- to exercise any other power under the articles of association.

Board meetings

Under the Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the board of supervisors. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Chairman of the board

Under the Company Law, the board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Qualification of directors

The Company Law provides that the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offence of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order, or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;
- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or an enterprise that has had its business licence revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; or
- a person who is liable for a relatively large amount of debts that are overdue.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Board of supervisors

A joint stock limited company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the board of supervisors shall be democratically elected by the employees at the employees' representative assembly, employees' general meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the chairman of the board of supervisors is incapable of performing or not performing his duties, the vice chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the vice

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chairman of the board of supervisors is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the board of supervisors.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The board of supervisors exercises the following powers:

- to review the company's financial position;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of shareholders' meeting;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' general meeting under this law;
- to initiate proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against directors and senior management;
- other powers specified in the articles of association; and
- Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The board of supervisors may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

Manager and senior management

Under the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- to supervise the business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- to arrange for the implementation of the company's annual business plans and investment proposals;

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- to formulate the general administration system of the company;
- to formulate the company's detailed rules;
- to recommend the appointment and dismissal of deputy managers and person in charge of finance;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- to other powers conferred by the board of directors or the articles of association.

The manager shall comply with other provisions of the articles of association concerning his/her powers. The manager shall attend board meetings.

According to the PRC Company Law, senior management shall mean the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

Duties of directors, supervisors and senior management

Directors, supervisors and senior management of the company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and have fiduciary and diligent duties to the company. Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties. Directors and senior management are prohibited from:

- misappropriation of the company's capital;
- depositing the company's capital into accounts under his own name or the name of other individuals;
- loaning company funds to others or providing guarantees in favour of others supported by the company's assets in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;
- using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;

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- accept and possess commissions paid by a third party for transactions conducted with the company;
- unauthorised divulgence of confidential business information of the company;
- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or senior management person of a company is required to attend a shareholders' meeting or a general meeting as a non-voting participant, the director, supervisor or senior management person shall do so and accept the inquiries from shareholders.

The directors and senior management personnel shall truthfully provide relevant information and materials to the board of supervisors, and shall not hinder the board of supervisors or the supervisors from exercising their powers.

Finance and accounting

Under the PRC Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each financial year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the PRC Company Law, the company shall deliver its financial and accounting reports to all shareholders within the time limit stipulated in the articles of association and make its financial and accounting reports available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. It must also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits.

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The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The company's reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and retirement of accounting firms

Pursuant to the PRC Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it employs without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall employ an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from their appointment at a shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

Distribution of profits

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve is drawn. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed and foreign invested shares.

Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set out in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the company's approval department authorised by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following: (i) the term of its operations set down in the articles of association has expired or other events of dissolution specified in the articles of association have occurred, (ii) the shareholders' general meeting have resolved to dissolve the company, (iii) the company is dissolved by reason of merger or division, (iv) the business licence is revoked, the company is ordered to close down or be dissolved, or (v) the company is dissolved by the People's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all its shareholders, on the grounds that the company suffers significant hardship in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, it may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved in the circumstances described in subparagraphs (i), (ii), (iv), or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors may apply to the People's court and request the court to appoint relevant personnel to form the liquidation group. The People's court should accept such application and form a liquidation group to conduct liquidation in a timely manner.

The liquidation group shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notice or public announcement;
- to deal with the company's outstanding businesses related to liquidation;

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- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the company's remaining assets after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' general meeting or People's court for confirmation.

The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debts shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the People's court for a declaration for bankruptcy.

Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the People's court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' general meeting or the People's court for verification. Thereafter, the report shall be submitted to the registration authority of the company in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties.

A member of the liquidation group is liable to indemnify the company and its creditors in respect of any loss arising from his intentional or gross negligence.

Overseas listing

According to the Special Regulations, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed and foreign invested shares and domestic shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issue within 15 months after approval is obtained from the CSRC.

Loss of H share certificates

If a registered H share certificate is lost, stolen or destroyed, the relevant shareholder may apply, in accordance with the relevant provisions set out in the Civil Procedure Law, to a People's court to declare such certificate invalid. After the People's court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement H share certificate. A separate procedure regarding the loss of overseas listed and foreign invested H share certificates is provided for in the Mandatory Provisions.

Suspension and termination of listing

The PRC Company Law has deleted provisions governing suspension and termination of listing. The PRC Securities Law has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances: (i) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company; (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors; (iii) the company has committed a major breach of the law; (iv) the company has incurred losses for three consecutive years; or (v) other circumstances as required by the listing rules of the relevant stock exchange(s). Under the PRC Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in above, or the company has refused to rectify the situation in the case described in above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

Merger and demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the two departments and reformed the CSRC.

The Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) deals with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation, penalties and dispute settlement.

On 25 December 1995, the State Council promulgated and implemented the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

The PRC Securities Law took effect on 1 July 1999 and was revised on 28 August 2004, 27 October 2005, 29 June 2013, 31 August 2014 and December 28, 2019, respectively. This is the first national securities law in the PRC, which is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises shall obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Currently, the issue and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the “**Arbitration Law**”) was passed by the The Standing Committee of National People’s Congress on 31 August 1994, became effective on 1 September 1995 and was amended on 27 August 2009 and 1 September 2017, respectively and the latest revision of which was implemented on 1 January 2018. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the People’s court will refuse to handle the case except when the arbitration agreement is declared invalid.

The Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer. Matters in arbitration include any disputes or claims in relation to the issuer’s affairs or as a result of any rights or obligations arising under its articles of association, the Company Law or other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer’s register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) (“**CIETAC**”) in accordance with its rules or the Hong Kong International Arbitration Centre (“**HKIAC**”) in accordance with its Securities Arbitration Rules (the “**Securities Arbitration Rules**”).

Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules. In accordance with the Arbitration Regulations of CIETAC (《中國國際經濟貿易仲裁委員會仲裁規則》) which was amended on 4 November 2014 and will be implemented on 1 January 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. The arbitration commission is established in Beijing and its branches and centres have been set up in Shenzhen, Shanghai, Tianjin and Chongqing.

Under the Arbitration Law and the Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the People’s court for enforcement. A People’s court may refuse to enforce an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitrators specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) adopted on 10 June 1958 pursuant to a resolution of The Standing Committee of National People’s Congress passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by The Standing Committee of National People’s Congress simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under the PRC laws to arise from contractual and non-contractual mercantile legal relations.

An arrangement was reached between Hong Kong and the Supreme People’s Court for the mutual enforcement of arbitral awards. On 18 June 1999, the Supreme People’s Court adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on 1 February 2000. In accordance with this arrangement, awards made by PRC arbitral authorities under the Arbitration Law can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in the PRC.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share capital

The Hong Kong company law does not provide for authorised share capital. The share capital of a Hong Kong company would be its issued share capital. The full proceeds of a share issue will be credited to share capital and becomes a company's share capital. The directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The PRC Company Law does not provide for authorised share capital, either. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the PRC Securities Law, a company which is authorised by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or undervaluation of the assets. There is no such restriction on a Hong Kong company under Hong Kong Law.

Restrictions on shareholding and transfer of shares

Under the PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

APPENDIX IV SUMMARY OF PRINCIPAL LEGAL AND REGULATORY PROVISIONS

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on Controlling Shareholders' disposal of shares, as illustrated by the undertakings given by the Company to the Stock Exchange.

Financial assistance for acquisition of shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

Variation of class rights

The PRC Company Law has no special provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in the section headed "Summary of Articles of Association" in Appendix V to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except: (i) If there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions; (ii) If there are not relevant provisions in the articles of associations, then (1) with the consent in writing of at least three fourth of the total voting rights of holders of the shares in the class in question or (2) with the approval of a special resolution of the holders of the relevant class at a separate meeting.

Directors, senior management and supervisors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respects of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Board of supervisors

Under the PRC Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisors committee. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative action by minority shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the People's court. In the event that the board of supervisors violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the People's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Minority Shareholder Protection

Under Hong Kong law, a shareholder who alleges that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. Alternatively, pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, a shareholder may seek to wind up the company on the just and equitable ground. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated or registered in Hong Kong. The Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a People's Court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties.

The Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority Shareholder protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, may not relieve a director or supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a director or supervisor of our assets or the individual rights of other shareholders.

Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. For a company incorporated in Hong Kong, the notice period for an annual general meeting is at least 21 days and in any other case, at least 14 days for a limited company and at least 7 days for an unlimited company.

Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial disclosure

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. According to the PRC laws, a company shall prepare its financial accounting reports as at the end of each accounting year, and submit the same to accounting firms for auditing as required by law. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the CAS, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the CAS.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is three years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

Statements in share certificates

Our Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder of our Company that the Shares are freely transferable by the holder thereof; and
- authorises our Company to enter into a contract on his/her behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his/her obligation to Shareholders as stipulated in the Articles of Association.

Corporate reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Section 674 of the Companies Ordinance, which requires the sanction of the court. Under the PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory deductions

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles of association to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of declared dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Special Regulations, directors, supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year. Unless otherwise stipulated by laws, share transfers shall not be registered within 20 days prior to convening a shareholders' general meeting or 5 days before the base date of distribution of dividends.

Set out below is a summary of certain provisions of the Articles of Association of the Company.

The Company was incorporated in the PRC as a joint stock limited liability company on 2 April 2021 under the PRC Company Law. The Articles of Association comprises its constitution.

This Appendix contains a summary of the principal provisions of the Articles of Association, which was adopted on 11 May 2021 and will become effective on the Listing Date. The principal objective of this Appendix is to provide potential investors with an overview of the Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important to potential investors. A copy of the full Chinese text of the Articles of Association is available for display as mentioned in the section headed “Documents Delivered to the Registrar of Companies in Hong Kong and Available on Display” in Appendix VII to this prospectus.

1. DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allot and issue Shares

The Articles of Association does not contain any clauses that authorise the Board of Directors to allocate or issue shares. In order to allot or issue shares, the Board of Directors shall prepare a proposal for approval by Shareholders in general meeting by way of special resolution. Any such allotment or issue must be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

(b) Power to dispose of the Company’s or any of its subsidiaries’ assets

The Board shall not, without the approval of Shareholders in general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of: (i) the expected value of the fixed assets of the company proposed to be disposed of; and (ii) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the amount or value of the consideration for any such disposition, exceeds 33% of the value of the Company’s fixed assets as shown in the last balance sheet tabled before the Shareholders in general meeting.

For the purposes of this provision, disposition includes an act involving a transfer of an interest in property other than providing security by fixed assets.

The validity of a transaction for the disposition of fixed assets by the Company shall not be affected by a breach of the above-mentioned restriction contained in the Articles of Association.

(c) Indemnification or Compensation for loss of office

In the contract for emoluments entered into by the Company with a Director or Supervisor: when the Company is being acquired, provisions shall be made for the right of the Director or Supervisor to receive, after obtaining the prior consent of Shareholders in general meeting, payments or other amounts by way of compensation for loss of office or for his retirement from office. A takeover of the Company means:

- (i) an offer made to all shareholders of the company; or
- (ii) an offer is made such that the offeror will become the controlling shareholder of the Company (as defined in the Articles of Association).

If the relevant Director or Supervisor does not comply with the above provisions, any sum received by the Director or Supervisor on account of the payment shall belong to those persons who have sold their Shares as a result of accepting the offer, and the expenses incurred by the Director or Supervisor in distributing that sum pro rata among those persons shall be borne by him and shall not be deducted from the sum distributed.

(d) Loans to Directors, Supervisors and other senior officers

The Company is prohibited from directly or indirectly making any loan or guarantee for a loan to its Directors, Supervisors, or other senior officers or the Directors, Supervisors, or other senior officers of its holding company. The Company is also prohibited from, providing any loan or guarantee for a loan in connection with a loan made by any related party to such a Director, Supervisor, or other senior officers.

A loan made by the Company in breach of the prohibition described above shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan. A guarantee for a loan provided by the Company in breach of the prohibition referred to above shall be unenforceable against the Company unless:

- (i) the guarantee was provided in connection with a loan to a related party to a Director, Supervisor, or other senior officers of the Company or its holding company and at the time the loan was advanced the lender did not know of the relevant circumstances; or
- (ii) the collateral provided by the Company has been lawfully disposed of by the lender to the purchaser in good faith.

The following transactions are not subject to the foregoing prohibition:

- (i) the provision of a loan or a guarantee for a loan by the Company to a company which is a subsidiary of the company;

- (ii) the provision in accordance with the terms of an employment contract approved by the Shareholders at general meetings of a loan or a guarantee for a loan or any other funds by the Company to any of its Directors, Supervisors, or other senior officers to meet expenditure incurred by him for the purposes of the Company or for the purpose of enabling him to perform properly his duties; and
- (iii) the Company may make a loan to or provide a guarantee for a loan to its relevant Directors, Supervisors, or other senior officers or other related parties where the ordinary course of its business is expanded to include the making of loans or the giving of guarantees for loans and provided that the making of such loans or the giving of such guarantees is on normal commercial terms.

For these purposes, guarantee includes an act of undertaking or property provided to secure the performance of obligations by the obligor.

(e) Financial assistance provided to purchase the Shares of the Company

Subject to certain exceptions in the Articles of Association:

- (i) neither the Company nor any of its subsidiaries shall at any time and in any manner provide financial assistance to a person who acquires or is proposing to acquire the Shares. The said person includes any person who has directly or indirectly incurred a liability as a result of the acquisition of the Shares; and
- (ii) neither the Company nor any of its subsidiaries shall at any time and in any manner provide financial assistance to the person mentioned in the foregoing paragraph for the purposes of reducing or discharging his liabilities.

For these purposes, “financial assistance” includes, without limitation to:

- (i) assistance given by way of gift;
- (ii) assistance given by way of guarantee (including the provision of any undertaking or property to secure the performance of obligations by the obligor) or indemnity (other than an indemnity in respect of the Company’s own default), or by way of release or waiver;
- (iii) assistance given by way of a loan or entering into an agreement under which the company needs to perform its obligations ahead of the other contracting parties or a change in the parties to, or the assignment of rights arising under such loan or such agreement; or
- (iv) assistance given by the Company in any other manner when the Company is insolvent or has no net assets or where its net assets would thereby be reduced to a material extent.

“Incurring a liability” includes incurring a liability by making an agreement or arrangement (whether enforceable or unenforceable, and whether made on one’s own account or with any other person) or by changing one’s financial position by any other means.

The following transactions are not prohibited:

- (i) the provision of financial assistance where the Company’s principal purpose for giving that assistance is genuinely for the Company’s interests and not for the purpose of acquiring the Shares, or the provision of such assistance is incidental to some broader objective of the company;
- (ii) a lawful distribution of the Company’s asset as dividend;
- (iii) a distribution of dividends by way of Shares;
- (iv) a reduction of registered share capital, repurchase of the Shares or a reorganisation of the share capital effected in compliance with the Articles of Association;
- (v) the provision of loans by the Company within its scope of business and in the ordinary course of its business, provided that the Company’s net assets are not thereby reduced or, to the extent that those assets are reduced, the assistance is provided out of distributable profits; and
- (vi) the Company’s contribution to employees’ share schemes provided that the Company’s net assets are not thereby reduced or, to the extent that those assets are thereby reduced, the assistance is provided out of distributable profits.

(f) Disclosure of interests in and voting on contracts with the Company or any its subsidiaries

Where a Director, Supervisor, or other senior officer is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (except for employment contracts that our Company has entered into with the Directors, Supervisors, and other senior officer), he shall declare the nature and extent of his interest to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal is otherwise subject to the approval of the Board.

Unless the interested Director, Supervisor, or other senior officer has disclosed his interest in accordance with the preceding paragraph and the contract, transaction or arrangement has been approved by the Board at a meeting in which the interested Director is not counted in the quorum and has refrained from voting, the contract, transaction or arrangement in which a Director, Supervisor, or other senior officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the Director, Supervisor, or other senior officer concerned. A Director, Supervisor, and other senior officer of the Company is deemed to be interested in a contract, transaction or arrangement in which his related parties have interest.

Where a Director, Supervisor, or other senior officer of the Company gives the Board a general notice in writing stating that, by reason of the facts stated in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be entered into by the Company, then he shall be deemed to have made a disclosure for the purposes of the relevant provisions in the Articles of Association so far as the content stated in such notice is concerned, if such notice shall have been given to the Board before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(g) Remuneration

The Company shall enter into written agreements with its Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general Shareholder's meeting. The remuneration shall include:

- (i) remuneration as the Directors, Supervisors or senior officer of our Company;
- (ii) remuneration as the directors, supervisors or senior officer of the subsidiaries of our Company;
- (iii) remuneration for providing other services for management of our Company and our subsidiaries;
- (iv) compensation received by the Directors or Supervisors as a result of loss of office or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for the above contracts.

(h) Retirement, appointment and removal

The following persons may not serve as a Director, Supervisor, general manager, or other senior officer of the Company:

- (i) an individual who has no civil capacity or has restricted civil capacity;
- (ii) persons who have committed the offences of corruption, bribery, trespass of property, misappropriation of property or damaging the social economic order, and have been penalised due to the above offences, where less than five years have elapsed since the date of the completion of implementation of the penalty or persons who have committed crimes and have been deprived of their political rights due to such crimes, where less than five years have elapsed since the date of the completion of the implementation of such deprivation;
- (iii) persons who were former directors, factory chiefs or managers of a company or enterprise which has become insolvent and has been liquidated and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;

- (iv) persons who were legal representatives of a company or enterprise, which had its business licence revoked due to a violation of the law and were ordered to close down, and who were personally liable for the revocation of business licence of such company or enterprise, where less than three years have elapsed since the date of the revocation of business licence of such company or enterprise;
- (v) persons with a comparatively large amount of personal debts due and unsettled;
- (vi) persons who have committed criminal offences and are still under investigation by law administration authorities;
- (vii) persons who were not allowed to be heads of enterprises as stipulated by laws and administrative regulations;
- (viii) persons who are not natural persons;
- (ix) persons who have been convicted of offences of violating provisions of the relevant securities laws and regulations or offences of fraud or acting in bad faith by the relevant authorities, where less than five years have lapsed since the date of conviction; and
- (x) other persons stipulated by the laws and regulations of where the Shares are listed.

The validity of the conduct of Directors, general manager, or other senior officers who have acted on behalf of the Company with respect to third parties who have acted in good faith shall not be affected due to any irregularity in the employment, election or qualification of such Directors, general manager, or other senior officers.

The Board shall consist of eight Directors. A Director is not required to hold any Shares. The chairman of the Board shall be elected or removed by more than one half of all of the Directors. A Director may be removed by ordinary resolution at a Shareholders' general meeting.

The term of office of the chairman shall be three years and is renewable upon re-election.

The list of Directors' and Supervisors' candidates shall be proposed in form of a motion to the Shareholders' general meeting for resolution.

(i) Borrowing power

The Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any special provision in respect of the manner in which such power may be raised, other than: (a) provisions which give the Board the power to formulate proposals for the issuance of debentures by the Company; and (b) provisions which provide that the issuance of debentures must be approved by the Shareholders in general meeting by way of a special resolution.

(j) Liability

The Directors, Supervisors, and other senior officers of the Company owe fiduciary duties and duties of diligence to the Company. In addition to any rights and remedies provided for in relevant laws and administrative regulations, the Company is entitled to adopt the following measures where a Director, Supervisor, or other senior officer is in breach of his duties owed to the company:

- (i) to claim against such a Director, Supervisor, or other senior officer for losses incurred by the company as a result of his breach;
- (ii) to rescind any contract or transaction entered into between the Company and the Director, Supervisor, or other senior officer, or between the Company and a third party where such third party has knowledge or should have had knowledge of the breach of duty;
- (iii) to account for the profits made by the Director, Supervisor, or other senior officer as a result of his breach;
- (iv) to recover any monies received by the Director, Supervisor, or other senior officer which should have been received by the Company, including, without limitation, commissions;
- (v) to demand the return of the interest earned or which may have been earned on any monies referred to in (iv) above by the Director, Supervisor, or other senior officer which should have been received by the Company; and
- (vi) to execute legal procedures judgement that the interest of a Director, Supervisor, or other senior officer obtained through his breach of duty should belong to the Company.

The Board shall carry out its duties in compliance with the laws and administrative regulations, the Articles of Association and resolutions passed at general meetings. Each Director, Supervisor, and other senior officer of the Company should abide by his fiduciary principles in the discharge of his duties, and not to place himself in a position where his duty and his own interests may conflict. Such principles include (but are not limited to) the performance of the following:

- (i) to act honestly in what he considers to be in the best interest of the Company;

- (ii) to exercise his powers within the scope specified and not to act ultra vires;
- (iii) to exercise the discretion vested in him personally and not allow himself to act under the direction of another unless and to the extent permitted by law, administrative regulations or by the Shareholders, having been informed of the relevant facts, at a general meeting, not to delegate the exercise of his discretion;
- (iv) to treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;
- (v) except in accordance with the Articles of Association or with the informed consent of Shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (vi) not without the approval of the Shareholders, having been informed of the relevant facts, at general meeting, to use the Company's assets for his personal benefit in any manner;
- (vii) not to use his position to accept bribes or other illegal income and not to misappropriate the Company's fund or expropriate the Company's assets in any manner including (without limitation) opportunities beneficial to the Company;
- (viii) not without the informed consent of Shareholders in general meeting, to accept commissions in connection with the Company's transactions;
- (ix) to abide by the Articles of Association, faithfully perform his duties and protect the interests of the Company, and not to use his position and powers in the Company to seek personal gain;
- (x) not to compete with the Company in any way except with the informed consent of Shareholders given in general meeting;
- (xi) not to misappropriate the Company's funds, not to open any bank account in his own name or other name for the deposit of the Company's assets or funds, and not to violate the provision of the Articles of Association to lend the Company's funds to others or provide security of the Company's assets for debts of Shareholders or other individuals without the approval of Shareholders general meeting or the board; and
- (xii) without the informed consent of Shareholders in general meeting, not to disclose confidential information of the Company acquired while in office and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of information to a court or a relevant governmental authority is permitted where (i) the disclosure is made under compulsion of law, (ii) there is a duty to the public to disclose, or (iii) the personal interests of the Director Supervisor, the president or other senior officer require disclosure.

A Director, Supervisor, or other senior officer of the Company shall not direct parties related to him to do what he is not permitted to do. A party is related to a Director, Supervisor, or other senior officer if he is:

- (i) the spouse or minor child of such a Director, Supervisor, or other senior officer;
- (ii) a trustee for such a Director, Supervisor, or other senior officer or any person referred to in (i) above;
- (iii) a partner of such a Director, Supervisor, or other senior officer or of any person referred to in (i) and (ii);
- (iv) a company in which that a Director, Supervisor, or other senior officer, alone or jointly with one or more persons referred to in above (i), (ii) and (iii) or with any of other Directors, Supervisors, or other senior officers of the Company have de facto control; or
- (v) a Director, Supervisor, or other senior officer of a company referred to in (iv) above.

The fiduciary duties of a Director, Supervisor, and other senior officer of the Company do not necessarily cease with the termination of his tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of his term of office. Other duties may continue for such period as fairness may require depending on the time lapse between the termination of his term of office and the occurrence of the matter in question and the circumstances and the terms under which the relationships between him and the Company are terminated.

Except in circumstances referred to in the Articles of Association, liabilities of a Director, Supervisor, or other senior officer arising from the violation of a specified duty may be released by informed Shareholders in general meeting.

In addition to obligations imposed by relevant laws, administrative regulations or the listing rules of the securities exchange on which the Shares are listed, Directors, Supervisors, and other senior officers in the exercise of their powers and the discharge of their duties shall owe the following obligations to the Shareholders:

- (i) not to cause the Company to go beyond the business scope specified in its business licence;
- (ii) to act honestly in what they consider to be the best interest of the company;
- (iii) not to deprive in any way the Company of its assets, including (but not limited to) opportunities beneficial to the Company; and
- (iv) not to deprive Shareholders of their personal rights and interests, including (but not limited to) rights to distributions and to vote, except in a Company reorganisation submitted in accordance with the provisions of the Articles of Association and adopted at a Shareholders' general meeting.

Each of the Directors, Supervisors, and other senior officers of the Company owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise under the similar circumstances.

2. MODIFICATION OF THE ARTICLES OF ASSOCIATION

The Company may, in accordance with provisions contained in relevant laws, administrative regulations and the Articles of Association, amend its Articles of Association.

The amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the approval authorities of the State Council and the securities regulatory authority of the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

3. VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

The Company may not vary or abrogate rights attached to any class of Shares unless approved by a special resolution of Shareholders in general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) to increase or decrease the number of Shares of such class, or increase or decrease the number of Shares of a class having voting or distribution rights or other privileges equal or superior to the Shares of such class;
- (ii) to effect an exchange of all or part of the Shares of such class into those of another class or to affect an exchange or create a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends of such class;
- (iv) to reduce or remove a dividend preference or a liquidation preference attached to Shares of such class;
- (v) to add, remove or reduce conversion, options, voting, transfer or pre-emptive rights or rights to acquire securities of the company of such class;
- (vi) to remove or reduce rights of such class of Shares to receive payments from the company in any particular currency;
- (vii) to create a new class of Shares having voting or distribution rights or privileges equal or superior to the Shares of such class;
- (viii) to restrict the transfer or ownership of the Shares of such class or to increase any such restrictions;

- (ix) to issue rights to subscribe for, or convert into, Shares in the Company of such class or another class;
- (x) to increase the rights or privileges of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of Shareholders bearing a disproportionate burden of such restructuring; and
- (xii) to vary or abrogate the provisions in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of Shareholders shall require the approval of Shareholders present representing more than two thirds of the voting rights of that class voting in favour of such resolutions.

The time limit for the Company to convene a Class Shareholders' meeting and issue a written notice shall be the same as the written notice period of non-class general meeting to be convened on the same day of the convening of the class meeting. Written notice shall be given to notify all the registered Shareholders holding Shares of that class of the matters to be considered at the meeting and the date and the place of the meeting. The Company shall not include the date of the meeting when calculating the above- mentioned starting date.

If there are special provisions in the listing rules for the Company's stock listing, the provisions shall prevail.

Notice of class meetings need only be served on Shareholders entitled to vote thereat.

Meetings of any class of Shareholders shall be conducted in a similar way as closely as possible to the provisions for general meetings of Shareholders set out in the Articles of Association. The provisions of the Articles of Association relating to the conduct of any general meeting of Shareholders shall apply to any class meeting.

In addition to holders of other class of Shares, holders of Domestic Shares and overseas listed foreign Shares are deemed to be Shareholders of different classes. Voting by holders of different classes of Shares is not applicable in the following situations:

- (i) where the Company issues, upon the approval by special resolution of its Shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued Domestic Shares or overseas listed foreign Shares;

- (ii) where the Company completes, within 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, its plan (made at the time of its establishment) to issue Domestic Shares and overseas listed foreign Shares.

For the purposes of the class rights provisions of the Articles of Association, an “Interested Shareholder” is:

- (i) in the case of a repurchase of Shares by offers to all Shareholders in the same proportion or public dealing on the Hong Kong Stock Exchange, a controlling Shareholder within the meaning of the Articles of Association;
- (ii) in the case of a repurchase of Shares by an off-market contract other than on Hong Kong Stock Exchange under the Articles of Association, a Shareholder to whom the proposed contract is related;
- (iii) in the proposal of a restructure of the Company, a Shareholder within a class who bears less than a proportionate amount of obligations imposed on the Shareholders of that class or who has an interest different from the interest of the other Shareholders of that class.

4. SPECIAL RESOLUTIONS – MAJORITY REQUIRED

Resolutions of general meetings are divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, more than one half of the votes represented by Shareholders (including proxies) present at the Shareholders’ general meeting must be exercised in favour of the resolution.

To adopt a special resolution, more than two thirds of the votes represented by the Shareholders (including proxies) present at the Shareholders’ general meeting must be exercised in favour of the resolution.

5. VOTING RIGHTS (GENERALLY RELATING TO RIGHT ON POLL OR RIGHTS TO DEMAND A POLL)

The Shareholders have the right to attend or appoint a proxy to attend Shareholders’ general meetings and to vote thereat. Shareholders (including proxies) when voting at a Shareholders’ general meeting may exercise voting rights in accordance with the number of Shares carrying the right to vote and each Share shall have one vote.

At any Shareholders' meeting, voting shall be on a poll (except where the chairman decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands). On a poll taken at a meeting, a Shareholder (including his proxy) entitled to two or more votes needs not cast all his votes in the same way.

In the case of an equality of votes, the chairman of the meeting shall be entitled to an additional vote.

6. REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

A Shareholders' general meeting shall either be an annual general meeting or an extraordinary general meeting. Annual general meetings are held once every year within six months after the financial year end.

7. ACCOUNT AND AUDIT

(a) Financial and accounting system

The Company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and rules formulated by relevant state authorities.

The Board of the Company shall place before the Shareholders at every annual general meeting such financial reports as are required by laws, administrative regulations or directives promulgated by local governments and supervisory authorities.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or accounting standards of the place outside China where the Shares are listed. For the purposes of distribution of the Company's after-tax profits in a financial year, the lower of the after-tax profits as shown in the different sets of financial statements shall be adopted.

The financial reports of the Company shall be made available at the Company for inspection by Shareholders 21 days before the annual general meeting. Every Shareholder of the Company is entitled to a copy of the financial reports.

A copy of the above financial report shall, at least 21 days before the date of the general meeting, be delivered or sent by pre-paid post to the registered address of every holders of overseas listed foreign Shares as shown on the register of Shareholders.

The Company shall disclose its financial reports prepared in accordance with either international accounting standards or accounting standards of the place outside China where the Shares are listed two times in each financial year, that is, its interim financial reports within 60 days of the end of the first six months of a financial year and its annual financial reports within 120 days of its financial year end.

The Company shall not keep any other books of accounts other than those provided by law.

(b) Appointment and removal of auditor

The Company shall appoint an independent accounting firm which is qualified under the relevant regulations of the State to audit the Company's annual financial statements and review the Company's other financial reports.

The first accounting firm of the Company may be appointed by the inaugural meeting prior to the first annual general meeting and the accounting firm so appointed shall hold office until the conclusion of the first annual general meeting.

The accounting firm appointed by the Company shall hold office from the conclusion of the annual general meeting of Shareholder until the conclusion of the next annual general meeting of Shareholders.

The Shareholders in general meeting may by ordinary resolution remove an accounting firm before the expiry of its term of office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of an accounting firm or the manner in which such remuneration is determined shall be decided by the Shareholders in general meeting.

The Company's appointment of, removal of and non-renewal of an accounting firm shall be resolved upon by the Shareholders in general meeting. The remuneration of the accounting firm appointed by the Board shall be confirmed by the Board.

Prior to the removal or the non-renewal of the appointment of the accounting firm, an advance notice of such removal or non-renewal shall be given to the accounting firm and such firm shall have the right to attend and to make representation to the Shareholders' general meeting.

Where the accounting firm resigns its post, it shall make clear to the Shareholders' general meeting whether there is any impropriety on the part of the Company.

The accounting firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the Shareholders or creditors of the company; or
- (ii) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within fourteen days send a copy of the notice to the relevant governing authority. If the notice contains a statement under circumstance (ii) of the preceding paragraph, a copy of such statement shall be placed at the Company for Shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every holder of overseas listed foreign Shares at the address registered in the register of Shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the Shareholders or creditors of the Company, it may require the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

8. NOTICE AND SCHEDULE OF THE GENERAL MEETING

The Shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

The Company shall not enter into any contract with any person other than a Director, Supervisor, or other senior officer whereby such person is entrusted with the management of the whole or a material part of any business of the Company without the prior approval of Shareholders in general meeting.

Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) when the number of Directors is less than the number of Directors required by the PRC Company Law or two-thirds of the number of Directors specified in the Articles of Association;
- (ii) when the unaccounted losses of the Company amount to one third of the total amount of its paid in share capital;
- (iii) when Shareholder(s) individually or collectively holding 10% or more of the Shares requests in writing the convening of an extraordinary general meeting;
- (iv) when the board considers necessary or upon the request of the board of Supervisors;
- (v) when two or more independent directors so request; and
- (vi) other situations stipulated by laws, administrative regulations, departmental rules, the listing rules of the stock exchange on which the Shares are listed or the Articles of Association.

To convene a general meeting, each Shareholder of the Company shall be notified, 21 days before the meeting is held, of the time and the venue of the meeting and the matters to be deliberated. To convene an extraordinary general meeting, each Shareholder shall be notified 15 days before the meeting is held.

At least 10 days before the Company is to convene a general meeting, Shareholders individually or collectively holding 3% or more of Shares carrying voting rights shall have the right to put forward new resolutions in writing to the Company.

The Shareholders' general meeting shall not make a resolution on matters not specified in the notice of the general meeting.

A notice of meeting of Shareholders shall:

- (i) be in writing;
- (ii) specify the time, place and the date of the meeting;
- (iii) state the matters and proposals to be discussed at the meeting;
- (iv) provide such information and explanation as are necessary for the Shareholders to exercise an informed judgement on the proposals before them, including (but not limited to) where a proposal is made to amalgamate the Company with another company, to repurchase the Shares, to reorganise the share capital or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the reasons for and consequences of such proposal must be properly explained;
- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, or other senior officer in the matter proposed and the effect of the proposed matter on them in their capacity as Shareholders in so far as it is different from the effect on the interests of other Shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be passed at the meeting;
- (vii) contain conspicuously a statement that a Shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on behalf of him and that a proxy need not be a Shareholder; and
- (viii) specify the time and place for lodging proxy forms for the relevant meeting.

Public announcement of notices of Shareholders' general meetings shall be published in one or more than one newspaper designated by the security authorities of the State Council during 20 days to 25 days prior to the date of the meeting. Upon the publication of announcement, all holders of Domestic Shares shall be deemed to have received notice of the relevant Shareholders' meeting. The accidental omission to give notice of a meeting to, or the non receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

Shareholders requisitioning an extraordinary general meeting of Shareholders or class meeting shall abide by the following procedures:

- (i) Shareholder(s) individually or collectively holding more than 10% of the Shares carrying voting rights at the meeting to be convened may, by signing one or more counterpart written requisition(s) stating the object of the meeting, require the Board to convene an extraordinary general meeting or a class Shareholders' meeting. The Board shall as soon as possible after receipt of such written requisition(s) proceed to so convene the extraordinary general meeting or class Shareholders' meeting. The shareholdings referred to above shall be calculated as at the date of the delivery of the written requisition(s).
- (ii) Where the Board fails to issue notice of convening meeting within 10 days upon receipt of the above written request, Shareholder(s) individually or collectively holding more than 10% of the Shares carrying voting rights at the meeting to be convened may request by written requisition(s) the board of Supervisors to convene the extraordinary general meeting or class Shareholders' meeting.
- (iii) Where the board of Supervisors fails to issue notice of convening meeting within 5 days upon receipt of the above written request, Shareholder(s), for more than 90 consecutive days, individually or collectively holding more than 10% of the Shares carrying voting rights at the meeting to be convened may convene the meeting on their own accord. The convening procedures shall, to the extent possible, be identical to procedures according to which general meetings are to be convened by the Board.

The matters which require the sanction of an ordinary resolution at a Shareholders' general meeting shall include:

- (i) work reports of the board and the board of Supervisors;
- (ii) plans for the distribution of profits and for making up losses proposed by the Board;
- (iii) the annual budget and final account report, balance sheet, profit and loss statement and other financial statement of the company; and
- (iv) all other matters except those required to be adopted by special resolution as required by the laws and regulations or the Articles of Association.

The matters which require the sanction of a special resolution at a Shareholders' general meeting include:

- (i) the increase in or reduction of share capital, issue of any class of Shares, warrants and other similar securities of the Company;

- (ii) the issue of corporate debentures;
- (iii) the division, merger, spinoffs, dissolution or liquidation of the Company;
- (iv) the change of the form of the Company;
- (v) the matters where the amount of the Company's purchasing or selling of material assets or warranting in one year exceeds 30% of the recently audited total assets;
- (vi) amendments to the articles of association;
- (vii) Consider and implement equity incentive plan;
- (viii) the election and removal of the members of the Board and Supervisors, (except for staff representative Supervisors) their remuneration and method of payment;
- (ix) other matters which were required by the laws, administrative regulations or by the Articles of Association, or matters adopted by passing ordinary resolutions at general meetings as having material impact on the Company that are required to be adopted by special resolutions; and
- (x) other matters required by the Listing Rules to be adopted by special resolution.

9. TRANSFER OF SHARES

Subject to the approval of the securities regulatory authorities of the State Council, holders of our Domestic Shares may transfer their Shares to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

Shares of the Company held by the Promoters are not transferable within one year commencing from the date of establishment of the Company.

The Directors, Supervisors and senior officers of the Company shall report to the Company the number of Shares held by them in the Company and the subsequent changes in their shareholdings. The number of Shares which a Director, Supervisor or senior officer may transfer every year during his term of office shall not exceed 25% of the total number of the Shares in his or her possession. Such personnel shall not transfer the Shares in their possession within six months after they have terminated their employment with the Company.

All fully paid up Overseas Listed Foreign Shares listed in Hong Kong may be transferred freely pursuant to the Articles of Association. However, unless the Overseas Listed Foreign Shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognise any transfer document without giving any reason:

- (i) any transfer documents and files related to stock ownership or may affect stock ownership are required registration;
- (ii) the instrument of transfer relates only to Overseas Listed Foreign Shares listed in Hong Kong;
- (iii) payment in full of any stamp duty due on the instrument of transfer;
- (iv) provision of the relevant share certificates and any other evidence reasonably required by the Board to prove the transferor's right to make the transfer.

If the Company refuses to register a transfer of any share, it shall, within two months after the date on which the formal application for transfer was lodged with the Company, send to the transferor and the transferee a notice of refusal to register the transfer of such share.

Any change or correction in each part of the register of Shareholders, shall, according to the laws and regulations of the city where the part of the register of Shareholders is kept.

10. POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

The Company may, according to provisions of laws, administrative regulations, Listing Rules, departmental rules and the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its Shares under the following circumstances:

- (i) where the Company reduces its registered capital;
- (ii) where the Company merges with other companies that hold its shares;
- (iii) where the Company acquires its own shares for employee stock ownership plans or equity incentives;
- (iv) where a shareholder of the Company has objections to the resolution on the merger or division of the Company as adopted at the general meeting and requires the Company to acquire its shares;
- (v) where the Company acquires its own shares to convert the corporate bonds issued thereby that are convertible to shares;

- (vi) where the Company needs to acquire its own shares to maintain its value and the rights and interests of shareholders; or
- (vii) the relevant Shares of the Company are free from all liens.

Where the Company acquires its own shares under Item (i) or Item (ii) of the preceding Paragraph, a resolution thereon shall be adopted by the general meeting. Where the Company acquires its own shares under Item (iii), Item (v) or Item (vi) of the preceding Paragraph, the Company may, pursuant to its articles of association or according to the authorization granted by the general meeting, proceed with such acquisition upon a resolution adopted at a meeting of the board of directors that is attended by at least two-thirds of all directors.

After acquiring its own shares under Item (i) of Paragraph 1 of this Article, the Company shall deregister the acquired shares within ten days from the date of acquisition; after acquiring its own shares under Item (i) or Item (iv) of Paragraph 1 of this Article, the Company shall transfer or deregister the acquired shares within six months; and, after acquiring its own shares under Item (iii), Item (v) or Item (vi) of Paragraph 1 of this Article, the company shall ensure that the total number of its own shares held thereby is not in excess of 10% of its total outstanding shares and shall transfer or deregister the acquired shares within three years.

A listed company that acquires its own shares shall perform information disclosure obligations in accordance with the Securities Law of the PRC. A listed company that acquires its own shares under Item (iii), Item (v) or Item (vi) of Paragraph 1 of this Article shall conduct such acquisition by way of open centralised trading.

The Company shall not accept its own shares as the subject matter for pledges.

After cancelling the repurchased Shares lawfully, the Company shall apply to the original companies registration authority for registration of the change of its registered capital and issue a relevant announcement.

The Company may, upon the approval of the relevant state governing authorities, repurchase its Shares in one of the following ways:

- (i) making a pro rata general offer of repurchase to all the Shareholders;
- (ii) repurchasing Shares through public dealing on a stock exchange;
- (iii) repurchasing by an off market agreement outside a stock exchange; and
- (iv) other circumstances permitted by the laws and administrative regulations and approved by the governing authority.

The Company may, with the prior approval of Shareholders obtained at a Shareholder's meeting in accordance with the Articles of Association, repurchase its Shares by an off-market contract but the Company may rescind or vary such contract or waive any of its rights under a contract so entered into by the Company with the prior approval of Shareholders obtained at a Shareholder's meeting in the same manner. A contract to repurchase Shares as mentioned above includes but is not limited to an agreement to become obliged to repurchase and acquire rights to repurchase Shares.

The Company shall not assign a contract to repurchase its Shares or any of its rights thereunder. Unless the Company is in the course of liquidation, it shall comply with the following provisions in relation to repurchase of its issued Shares:

- (i) where the Company repurchases its Shares at par value, payment shall be made out of the book surplus distributable profits of the Company and out of the proceeds from any issue of new Shares made for the purpose of the repurchase;
- (ii) where the Company repurchases its Shares at a premium to the par value, payment up to their par value may be made out of the book surplus distributable profits of the Company and the proceeds from any issue of new Shares made for the purpose of the repurchase. Payment of the portion in excess of the par value shall be effected as follows:
 - (a) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the company;
 - (b) if the Shares being repurchased were issued at a premium to the par value, payment shall be made out of the book surplus distributable profits of the Company and the proceeds from any issue of new Shares made for the purpose of the repurchase, provided that the amount paid out of such proceeds shall neither exceed the aggregate of the premiums received by the Company on the issue of the Shares repurchased nor the current amount of the share premium account or the capital reserve fund account of the Company (including the premiums on the new issues at the time of the repurchase);
- (iii) payment by the Company for the following purposes shall be made out of the Company's distributable profits:
 - (a) acquisition of rights to repurchase Shares;
 - (b) variation of any contract to repurchase Shares;
 - (c) release of the company's obligations under a contract to repurchase Shares; and

- (iv) After the Company's registered capital has been reduced by the aggregate par value of the cancelled Shares in accordance with the relevant regulations, the amount deducted from the distributable profits for paying up the par value portion of the repurchased Shares shall be transferred to the Company's share premium account (or capital reserve fund account).

11. POWER OF ANY SUBSIDIARY OF THE COMPANY TO OWN SHARES IN ITS PARENT COMPANY

The Articles of Association contains no restrictions preventing any subsidiary of the Company from holding Shares.

12. DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

The Company may distribute dividends by way of cash and/or Shares.

Any amount paid up in advance of calls on any Share may carry interest but shall not entitle the holder of the Share to participate in respect thereof in a dividend subsequently declared.

The Company shall appoint on behalf of holders of overseas listed foreign Shares receiving agents to receive on behalf of such Shareholders dividends and other monies payable by the Company in respect of their Shares.

The receiving agent appointed by the Company on behalf of holders of overseas listed foreign Shares listed on the Stock Exchange shall be a registered trust company under the Hong Kong Trustee Ordinance.

13. PROXIES OF SHAREHOLDERS

Any Shareholder entitled to attend and vote at a Shareholders' general meeting shall be entitled to appoint one or more persons (whether or not a Shareholder) as his proxy to attend and vote on his behalf. A proxy so appointed shall be entitled to exercise the following rights in accordance with the authorization from that Shareholder:

- (i) the Shareholder's right to speak at the meeting;
- (ii) the right to demand whether on his own or together with others a poll; and
- (iii) the right to vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a legal person either under seal or under the hand of a director or attorney duly authorised. The instrument appointing a voting proxy shall be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting not less than 24 hours prior to the time for holding the meeting at which the proxy proposes to vote. If such instrument is signed by another person under a power of attorney or other authorization documents given by the appointor, such power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents shall, together with the instrument appointing the voting proxy, be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting.

If the appointor is a legal person, its legal representative or any person authorised by resolutions of its board of directors or other governing body shall attend the Shareholders' general meeting as the appointor's representative.

Any form issued to a Shareholder by the Board for the purpose of appointing a proxy shall be in such form which enables the Shareholder, according to his free will, to instruct his proxy to vote in favour of or against the motions proposed and in respect of each individual matters to be voted on at the meeting. Such a form shall contain a statement that in the absence of instructions from the appointor, the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which the proxy is used.

14. CALLS ON SHARES AND FORFEITURE OF SHARES

Subject to compliance with the relevant laws and administrative regulations of the PRC, the Company may exercise its right to confiscate the dividends which are not claimed by anyone but such right can only be exercised after the expiry of the relevant time frame.

15. INSPECTION OF REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

The Company shall keep a register of Shareholders.

The Company may, in accordance with the understanding or agreements between the securities regulatory authority of the State Council and the overseas securities regulatory organisations, keep its original register of holders of overseas listed foreign Shares overseas and appoint overseas agent(s) to manage such share register.

Duplicates of the share register for holders of overseas listed foreign Shares shall be maintained at the Company's place of domicile. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the share register. The original register of overseas listed foreign Shares listed in Hong Kong shall be maintained in Hong Kong.

If there is any inconsistency between the original and the duplicate of share register for holders of foreign Shares, the original shall prevail.

The Company shall keep a complete register of Shareholders.

The register of Shareholders shall comprise of the following parts:

- (i) register(s) of Shareholders other than those specified in items (ii) and (iii) below kept at the domicile of the company;
- (ii) register(s) of holders of the Company's overseas listed foreign Shares kept in the place of the stock exchange(s) where those foreign Shares are traded; and
- (iii) register(s) of Shareholders kept at other places as the Board thinks necessary for the purpose of listing.

Different parts of the register of Shareholders shall not overlap. No transfer of Shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

The alteration or rectification of any part of the register of Shareholders shall be carried out in accordance with the laws of the place where such part of the register is maintained.

When the Company decides to convene a Shareholders' general meeting, distribute dividends, liquidate or carry out other activities which require the determination of shareholdings, the Board shall fix a record date for the purpose of determining the shareholding. A person who is registered in the register as a Shareholder at the end of the record date shall be a Shareholder.

Any person who objects to the register of Shareholders and requests to register his name on, or delete his name from the register may apply to the court with jurisdiction to amend the register.

The right of the Shareholders to information includes, but without limitation, the following:

- (i) the right to a copy of the articles of association after payment of a reasonable fee;

- (ii) the right to inspect and, subject to payment of a reasonable fee, copy:
 - (a) all parts of the register of members;
 - (b) personal particulars of each of the Company's Directors, Supervisors, the president and other senior officers;
- (iii) status of the Company's issued share capital;
- (iv) the latest audited financial statements, report of Board, report of auditors and report of board of Supervisors;
- (v) special resolutions of the company;
- (vi) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of Shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the company for this purpose;
- (vii) Minutes of Shareholders' general meeting (which only Shareholders are entitled to inspect); and
- (viii) bonds stub of the Company.

16. RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

In addition to the obligations imposed by laws and administrative regulations or the listing rules of the stock exchange on which the Shares are listed, a controlling Shareholder, when exercising his rights as a Shareholder, shall not exercise his voting rights to make a decision which is prejudicial to the interests of the Shareholders generally or of some of the Shareholders in respect of the following matters:

- (i) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the company;
- (ii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including without limitation opportunities beneficial to the company; or
- (iii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other Shareholders, including (without limitation) rights to distributions and voting rights, but not including a restructuring of the Company submitted to and approved by Shareholders' general meeting in accordance with the Articles of Association.

17. PROCEDURE ON DISSOLUTION AND LIQUIDATION

The Company shall be dissolved in accordance with law upon occurrence of any of the following events:

- (i) special resolution on dissolution is passed by Shareholders at a general meeting;
- (ii) dissolution is necessary due to a merger or division of the company;
- (iii) the Company's business licence is revoked or it is ordered to close down or it is cancelled according to law;
- (iv) the Company is ordered to close down according to laws due to its violation of the laws and administrative regulations;
- (v) where the Company's operations and management encounter serious difficulty, and its continuation will cause substantial loss to the interests of the Shareholders and no solution can be found through any other channel, Shareholders holding more than 10% of the voting rights of the Company may make requisition to the people's court to dissolve the Company.

Where the Company is dissolved by virtue of the reasons set out in items (i), (iii) and (v) in the preceding paragraph, the Company shall establish a liquidation committee within 15 days, and the members of the liquidation committee shall be selected by Directors or decided at Shareholders' general meeting.

Where the Board proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice convening the Shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay all its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the Shareholders in general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the Shareholders' general meeting to make a report at least once every year to the Shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation, and to present a final report to the Shareholders' general meeting on completion of the liquidation.

The liquidation committee shall within 10 days of its establishment send a notice to creditors, and within 60 days of its establishment make a public announcement on a newspaper.

The liquidation committee shall register creditors' claims so reported.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (i) to sort out the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (ii) to notify all creditors by notice or public announcements;
- (iii) to dispose of and liquidate any relevant unfinished business matters of the Company;
- (iv) to pay all outstanding taxes and taxes incurred during the liquidation process;
- (v) to settle claims and debts;
- (vi) to deal with remaining assets after the company's debts having been paid in full; and
- (vii) to represent the Company in any civil proceedings.

The liquidation committee shall, after examining the Company's assets, preparing the balance sheets and an inventory of assets, formulate a liquidation plan and present it to the Shareholders' general meeting or the relevant governing authority for confirmation.

If the liquidation committee, having thoroughly examined the Company's assets and having prepared a balance sheet and assets list, discovers that the Company's assets are insufficient to pay its debts in full, it shall immediately apply to the people's court for a declaration of insolvency. After the people's court has declared the Company insolvent, the company's liquidation committee shall turn over any matters regarding the liquidation to the people's court.

Following the completion of liquidation, the liquidation committee shall prepare a report on liquidation and a statement of the receipts and payments and financial books during the period of liquidation, which shall be examined and verified by the PRC certified public accountants and submitted to the Shareholders' general meeting or the people's court for confirmation. The liquidation committee shall also within 30 days after such confirmation, submit the preceding documents to the company registration authority and apply for cancellation of registration of the Company, and publish an announcement relating to the termination of the Company.

18. OTHER PROVISIONS MATERIAL TO THE COMPANY OR ITS SHAREHOLDERS**(a) General provisions**

The Company is a joint stock limited liability company of perpetual existence.

The Company may invest in other limited liability companies, joint stock limited companies and other entities, unless otherwise stipulated by the law, the Company making such investment shall not bear joint and several liability for the debts of the enterprise in which the company invests.

The Article of Association constitute a legal binding document against the Company, its Shareholders, Directors, Supervisors and other senior officers. Pursuant to the Articles of Association Shareholders may institute legal proceedings against the Company, the Company may institute legal proceedings against Shareholders. Shareholders may institute legal proceedings against Shareholders and Shareholders may institute legal proceedings against Directors, Supervisors and senior management members of the Company. For the purposes of the Articles of Association, actions include court proceedings and arbitration proceedings.

(b) Shares and transfers

Overseas investors referred to in the Articles of Association mean those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for Shares issued by the Company domestic investors referred to in the Articles of Association mean those investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for Shares issued by the Company.

The Company may increase its capital in the following ways:

- (i) offering new Shares to none designated investors for subscription;
- (ii) placing new Shares to its existing Shareholders;
- (iii) allotting bonus Shares to its existing Shareholders;
- (iv) issuing new Shares to designated investors;
- (v) conversion of capital reserve into capital; and
- (vi) any other means permitted by laws, administrative regulations and relevant regulatory authorities.

The Company's increase of capital by issuing new Shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

The Company may reduce its registered capital in accordance with the procedures stipulated by the PRC Company Law and other regulations and the provisions of the Articles of Association.

When the Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets.

(c) Independent Directors

The Company shall establish a Board. The Board shall comprise eight Directors, including three independent Directors. Independent directors may report the relevant state of affairs directly to the Shareholders' general meeting, the securities regulatory authorities of the State Council and other relevant departments.

(d) Secretary of the Board of Directors

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board.

(e) Board of Supervisors

The Company shall have a board of Supervisors.

The board of Supervisors shall be composed of three members, one of whom shall be the chairman of the board of Supervisors.

The election or removal of the chairman of the board of Supervisors shall be decided by two-thirds or more of the Supervisors. Decisions of the board of Supervisors shall be made by the affirmative vote of two-thirds or more of the Supervisors.

The terms of office of Supervisors shall be three years, renewable upon re-election.

The Directors and the senior officers of the Company shall not act concurrently as Supervisors. The board of Supervisors shall be accountable to the Shareholders' general meeting and exercise the following functions and powers in accordance with law:

- (i) to supervise the Directors, the president and senior officers in their performance of duties and to propose the removal of Directors and senior officers who have contravened any law, administrative regulations, the Articles of Association or Shareholders resolutions;
- (ii) to demand any Director and other senior officer of the Company who acts in a manner which is harmful to the company's interests to rectify such behaviour;
- (iii) to examine the company's financial affairs;

- (iv) to review the financial reports, operation reports and profit distribution schemes to be submitted by the board to the Shareholders general meetings if there is any doubt, to engage certified public accountants and practising auditors in the name of the company to assist their review;
- (v) to propose to convene a Shareholders extraordinary general meeting and to convene and chair general meeting in case the Board fails to fulfill the obligations of the PRC company Law to convene and chair the general meeting;
- (vi) to propose resolutions at a Shareholders general meeting;
- (vii) to propose to convene an extraordinary meeting of the Board;
- (viii) to institute a suit to the Directors or senior officers of the Company according to article 151 of the PRC company Law; and
- (ix) other functions and powers conferred by laws and regulations and the Articles of Association.

Supervisors shall be present at meetings of the Board.

(f) General manager

The Company shall have one general manager. The general manager shall be accountable to the Board and exercise the following functions and powers:

- (i) to be in charge of the Company's production, operation and management and report to the Board;
- (ii) to organise the implementation of the resolutions of the Board, the Company's annual business plans and investment plans;
- (iii) to draft the Company's annual financial budget plans and final accounts, and to put forward the proposal to the Board;
- (iv) to draft the Company's basic management system and the plan for establishment of the Company's internal management organisation;
- (v) to formulate the specific rules and regulations of the Company;
- (vi) to propose the employment and dismissal of the general vice president, senior vice president chief financial officer and other senior officers;
- (vii) to employ and dismiss the responsible management personnel and general employees other than those to be employed and dismissed by the Board;
- (viii) to propose to convene extraordinary board meetings;

- (ix) to decide the company's other issues within the scope of the Board's authority;
- (x) to decide on projects such as investment, acquisition or disposal and financing which do not need to be decided by the board or the Shareholders' general meeting; and
- (xi) other functions and powers granted by the Company's Articles of Association and the Board.

(g) Common reserve fund

When distributing the after-tax profits of the current year, the Company shall allocate 10% of its profits into its statutory common reserve fund. When the cumulated amount of the statutory common reserve fund of the Company has reached 50% or more of its registered capital, no further allocations is required.

Where the statutory common reserve fund of the Company is insufficient to make up for the losses of the Company incurred during the previous years, before making allocation to the statutory common reserve fund in accordance with the preceding paragraph, the profits generated during the current year shall be used to make up for such losses.

After making allocation to the statutory common reserve fund of the Company from its after-tax profits, the Company may, subject to resolutions adopted at a general meeting, also allocate funds from the after-tax profits to the discretionary common reserve fund.

After making up for the losses and making contributions to the common reserve fund, any remaining profits shall be distributed by the Company to the Shareholders in proportion to their respective shareholdings according to the resolutions adopted at general meeting.

If the Shareholders' general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the Shareholders before the Company has made up for its losses and made allocations to the statutory common reserve fund, the Shareholders must return the profits distributed in violation of the provision to the company.

No profits shall be distributed in respect of the Shares held by the Company.

(h) Settlement of disputes

The Company shall act according to the following principles to settle disputes:

- (i) For any disputes or claims between Shareholders of overseas listed foreign Shares and the company between Shareholders of overseas listed foreign Shares and the Directors, Supervisors, the president or other senior management officers of the company between Shareholders of overseas listed foreign Shares and Shareholders of domestic invested Shares, that arise based on the rights and obligations stipulated in the Articles of Association, the PRC Company Law and the relevant laws and administrative regulations, any such disputes or claims relevant to the Company shall be referred by the relevant parties to arbitration. Where the abovementioned dispute or claim is referred to arbitration, it shall be the entire claim or dispute, and all persons (being the Company or Shareholders, Directors, Supervisors, other senior management officers of the Company), who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by arbitration. Disputes regarding definition of Shareholders and registration of members may be resolved other than by way of arbitration.
- (ii) The claimant may refer the arbitration to either the China International Economic Centre in accordance with its arbitration rules, and may also refer the arbitration to the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If the claimant refers the arbitration to the Hong Kong International Arbitration Centre, either party may request the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

- (i) Unless otherwise provided in the laws and administrative regulations, any disputes or claims arising out of item (i) above shall be resolved in accordance with the laws of the PRC.
- (ii) The decision made by the arbitral body shall be final and conclusive, and shall be binding on the parties.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Establishment of our Company**

Our Company was established in the PRC as a limited liability company on 16 June 2004 and was converted into a joint stock company with limited liability on 2 April 2021. We established a place of business in Hong Kong at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, and was registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on 28 July 2021. Ms. Mak Sze Man, one of the joint company secretaries of our Company, has been appointed as our agent for the acceptance of service of process in Hong Kong.

As we are established in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix IV to this prospectus.

2. Changes in registered capital of our Company

Pursuant to the shareholders' resolutions passed by the then shareholders of our Company on 1 April 2021, our Company was converted from a limited liability company into a joint stock company with limited liability with a registered capital of RMB150,000,000 divided into 150,000,000 Shares of nominal value of RMB1 each, all of which were fully paid up. All the then shareholders of our Company were allotted and issued such number of shares corresponding to the proportion of the respective equity interest in our Company prior to the conversion. The subscription price for these initial shares was based on the net asset value of our Company as at 31 August 2020.

As at the Latest Practicable Date, the share capital of our Company was RMB150,000,000 divided into 150,000,000 Shares of nominal value of RMB1 each, all of which were fully paid up and were held as to in aggregate approximately 59.64% by City Group and approximately 40.36% by ENN (China). Please refer to the paragraph headed "History and Corporate Structure – Our Group" of this prospectus for more information relating to the shareholding and corporate structure of our Group immediately prior to the Global Offering.

Assuming the Over-allotment Option is not exercised, immediately upon completion of the Global Offering, the registered capital of our Company will be RMB200,000,000, made up of 150,000,000 Domestic Shares and 50,000,000 H Shares, with a nominal value of RMB1 each.

Assuming the Over-allotment Option is exercised in full and immediately upon completion of the Global Offering, the registered capital of our Company will be RMB207,500,000, made up of 150,000,000 Domestic Shares and 57,500,000 H Shares, with nominal value of RMB1 each.

Save as disclosed in this paragraph and in the paragraph headed “History and Corporate Structure – Establishment and Major Shareholding Changes Concerning Our Company, our Subsidiaries and our Joint Ventures” of this prospectus, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this prospectus.

3. Resolutions of all Shareholders passed on 11 May 2021

At our Shareholders’ meeting held on 11 May 2021, among other things, the following resolutions were passed by our Shareholders:

- (a) approving the issue of the H Shares by our Company and the Listing;
- (b) subject to completion of the Global Offering, the Articles of Association have been approved and adopted, which shall become effective on the Listing Date; and
- (c) approving the Board to handle all matters relating to, among other things, the issue of the H Shares and the Listing.

4. Changes in share capital of our subsidiaries and joint ventures

As at the Latest Practicable Date, our Group comprised our Company, six subsidiaries, namely Xinao Development, Xinao Transportation, Huran New Energy, Nanxun Xinao, Nanxun Xinao Development and Deqing Xinrui, and two joint ventures, namely Xinao Energy Development^(Note) and Zhongshihua Xinao. The following alteration in the share or registered capital of our subsidiaries and joint ventures has taken place within two years immediately preceding the date of this prospectus.

Deqing Xinrui

On 26 September 2021, Deqing Xinrui was established in the PRC as a limited liability company and commenced business, with an initial registered capital of RMB2,000,000 and was wholly owned by Nanxun Xinao Development.

Huran New Energy

On 24 April 2022, Huran New Energy was established in the PRC as a limited liability company, with an initial registered capital of RMB150,000,000 and was owned as to 95% by our Company and 5% by Huzhou Zhongran Enterprise Management Partnership (Limited Partnership)* (湖州眾燃企業管理合夥企業(有限合夥)).

Note:

Xinao Energy Development is a subsidiary under the definition of the Listing Rules, but accounted for as a joint venture to our Group pursuant to the relevant applicable accounting standards with the use of equity accounting method. Please refer to note 20(a) to Section II of the Accountants’ Report in Appendix I to this prospectus for the basis of regarding Xinao Energy Development as our joint venture.

Save for the alterations described in this paragraph, and in the paragraph headed “History and Corporate Structure – Establishment and Major Shareholding Changes Concerning our Company, our Subsidiaries and our Joint Ventures” of this prospectus, there is no alteration in the share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

5. Further information of our subsidiaries and joint ventures

Our Company had interest in the registered capital of the following subsidiaries and joint ventures in the PRC as at the Latest Practicable Date. A summary of the corporate information of each of these subsidiaries as at the Latest Practicable Date is set out as follows:

(A) Xinao Development

- | | | |
|-------|-------------------------------------|---|
| (i) | Name of the enterprise: | Huzhou Xinao Gas Development Company Limited* (湖州新奧燃氣發展有限公司) |
| (ii) | Economic nature: | Limited liability company |
| (iii) | Registered owner: | Our Company (100%) |
| (iv) | Registered capital: | RMB9,611,896.22 (fully paid up) |
| (v) | Attributable interest to our Group: | 100% |
| (vi) | Term of operation: | 25 April 2005 to 24 April 2035 |
| (vii) | Scope of business: | Design, construction, installation and maintenance of gas facilities and equipment; distribution of pipeline gas. (Where subject to permit or specific approval, relevant permit or approval must be obtained prior to operation) |

(B) Xinao Transportation

- | | | |
|-------|-------------------------------------|---|
| (i) | Name of the enterprise: | Huzhou Xinao Transportation Company Limited* (湖州新奧運輸有限公司) |
| (ii) | Economic nature: | Limited liability company |
| (iii) | Registered owner: | Our Company (100%) |
| (iv) | Registered capital: | RMB3,000,000 (fully paid up) |
| (v) | Attributable interest to our Group: | 100% |
| (vi) | Term of operation: | 22 September 2008 to 21 September 2028 |

- (vii) Scope of business: Freight: operational transportation of dangerous goods (item 2.1) (except highly toxic chemicals).

(C) Huran New Energy

- (i) Name of the enterprise: Huzhou Huran New Energy Development Co., Ltd.* (湖州湖燃新能源開發有限公司)
- (ii) Economic nature: Limited liability company
- (iii) Registered owner: Our Company (95%), Huzhou Zhongran Enterprise Management Partnership (Limited Partnership)* (湖州眾燃企業管理合夥企業(有限合夥)) (5%)
- (iv) Registered capital: RMB150,000,000 (nil paid as at the Latest Practicable Date)
- (v) Attributable interest to our Group: 95%
- (vi) Term of operation: from 24 April 2022 and no fixed duration

- (vii) Scope of business: Ordinary projects: solar power generation technical services; leasing of photovoltaic power generation equipment; sale of photovoltaic equipment and components; manufacturing of photovoltaic equipment and components; sale of solar thermal power generation equipment; sale of electric power electronic components; sale of charging point; sale of intelligent power transmission and distribution and control equipment; sale of electric power facilities and equipment; cooling services; heat production and supply; technology research and development of waste heat, pressure and waste gas utilisation; technological services, development, consultancy, exchange, transfer and promotion of technology; sale of generator and generator sets; sale of equipment utilising solar thermal power; sale of products utilising solar thermal power; energy conservation management services; contractual energy management; sale of batteries; information system integration services; information system operation and maintenance services (other than items required to be approved by law, operational activities may commence according to business licence in compliance of the law). Authorised projects: electricity generation, transmission and supply (distribution) business; installation, maintenance and testing of equipment for transmission, supply and receiving of electricity; engineering construction activities (for items required to be approved by law, operation may be conducted only with the approval of relevant departments, specific operational projects are subject to approval results)

(D) Xinao Energy Development (Note)

- | | | |
|-------|-------------------------------------|---|
| (i) | Name of the enterprise: | Huzhou Xinao Energy Development Company Limited* (湖州新奧能源發展有限公司) |
| (ii) | Economic nature: | Limited liability company |
| (iii) | Registered owner: | Our Company (51%), ENN Group (49%) |
| (iv) | Registered capital: | RMB50,000,000 (nil paid as at the Latest Practicable Date) |
| (v) | Attributable interest to our Group: | 51% |
| (vi) | Term of operation: | 26 April 2019 to 25 April 2049 |
| (vii) | Scope of business: | Production, supply and transportation of electricity; production and sale of air conditioning, cold water, heat, hot water and vapour; investment, construction and operation of heat supply projects and power distribution network; business consulting, data centre technical services and energy trading brokerage services; new energy technology development, consultancy, transfer and services; contractual energy management; energy saving technology consultancy; development and sale of solar battery, components and related accessories; design of solar power plant; distributed photovoltaic power generation; operation of internet of things platform; sale and maintenance of gas equipment and appliances, design and construction of gas works; leasing of gas equipment, facilities, pipeline and related equipment; sale and installation services of pressure vessel; sale, installation, delivery and maintenance of kitchenware, heating equipment, household appliances, water purification equipment and air purification equipment. (For items required to be approved by law, operation may be conducted only with the approval of relevant departments) |

Note: Xinao Energy Development is a subsidiary under the definition of the Listing Rules, but accounted for as a joint venture to our Group pursuant to the relevant applicable accounting standards with the use of equity accounting method. Please refer to note 20(a) to the Accountants' Report in Appendix I to this prospectus for the basis of regarding Xinao Energy Development as our joint venture.

(E) Nanxun Xinao

- | | | |
|-------|--|--|
| (i) | Name of the enterprise: | Huzhou Nanxun Xinao Gas Company Limited*
(湖州南潯新奧燃氣有限公司), formerly known as
Huzhou Xinao Wanfeng Gas Company Limited*
(湖州新奧萬豐燃氣有限公司) |
| (ii) | Economic nature: | Limited liability company |
| (iii) | Registered owners: | Our Company (51%), ENN Group (49%) |
| (iv) | Registered capital: | RMB35,000,000 (fully paid up) |
| (v) | Attributable interest to our
Group: | 51% |
| (vi) | Term of operation: | 28 September 2009 to 27 September 2039 |

- (vii) Scope of business: Authorised projects: Fuel gas operation; installation and repair of fuel gas burning equipment; electricity generation, transmission and supply (distribution) business; installation, repair and testing of equipment for transmission, supply and receiving of electricity; inspection and testing services; civilian nuclear safety equipment installation; transportation of dangerous road cargo; installation, transformation and repair of special equipment; various engineering construction activities; sale of foodstuff (for items required to be approved by law, operation may be conducted only with the approval of relevant departments, specific operational projects are subject to approval results). Ordinary projects: heating services; technological services, development, consultancy, exchange, transfer and promotion of technology; sale of special equipment; sale of photovoltaic equipment and components; sale of non-electrical home appliances; heat production and supply; information consultancy services (excluding authorised information consultancy services); big data services; wholesale of kitchenware, sanitary ware and daily sundries; sale of home electrical appliances; installation of home electrical appliances; repair of daily electrical appliances; sale of special equipment for environmental protection; installation of ordinary machinery and equipment; repair of special equipment; repair of general equipment; repair of electrical equipment; rental of machinery equipment; real estate registration agent services; technological services for solar power generation; sale of solar thermal power generation equipment; sale of electric power electronic components; cooling services; contractual energy management; sale of flooring (other than items required to be approved by law, operational activities may commence according to business licence in compliance of the law).

(F) Nanxun Xinao Development

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|-------|-------------------------------------|---|
| (i) | Name of the enterprise: | Huzhou Nanxun Xinao Gas Development Company Limited* (湖州南潯新奧燃氣發展有限公司), formerly known as Huzhou Xinao Wanfeng Gas Development Company Limited* (湖州新奧萬豐燃氣發展有限公司) |
| (ii) | Economic nature: | Limited liability company |
| (iii) | Registered owners: | Our Company (51%), ENN Group (49%) |
| (iv) | Registered capital: | RMB5,000,000 (fully paid up) |
| (v) | Attributable interest to our Group: | 51% |
| (vi) | Term of operation: | 28 November 2017 to 27 November 2047 |

- (vii) Scope of business: Authorised projects: engineering construction activities; heating services; gas operation; installation and maintenance of gas burning appliances; installation, maintenance and testing of equipment for transmission, supply and receiving of electricity; electricity generation, transmission and supply (distribution) business; inspection and testing services; installation, transformation and repair of special equipment (for items required to be approved by law, operation may be conducted only with the approval of relevant departments, specific operational projects are subject to approval results). Ordinary projects: technological services, development, consultancy, exchange, transfer and promotion of technology; sale of special equipment; sale of photovoltaic equipment and components; sale of non-electric household appliances; heat production and supply; information consultancy services (excluding authorised information consultancy services); big data services; sales of household appliances; installation services of household appliances; repair of household appliances; sale of special equipment for environmental protection; installation services of general mechanical equipment; repair of special equipment; repair of general equipment; repair of electrical equipment; leasing of mechanical equipment; real estate registration agency services; solar power generation technical services; sale of solar thermal power generation equipment; sale of electric power electronic components; cooling services; contractual energy management; sale of flooring; energy conservation management services; sales agency; leasing of photovoltaic power generation equipment; sale of products utilising solar thermal power; sale of solar thermal power generation products; sale of new energy prime mover equipment; sale of equipment utilising solar thermal power (other than items required to be approved by law, operational activities may commence according to business licence in compliance of the law)

(G) Deqing Xinrui

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|-------|-------------------------------------|--|
| (i) | Name of the enterprise: | Deqing Xinrui New Energy Co., Ltd.* (德清新瑞新能源有限公司) |
| (ii) | Economic nature: | Limited liability company |
| (iii) | Registered owner: | Nanxun Xinao Development (100%) |
| (iv) | Registered capital: | RMB2,000,000 (fully paid up) |
| (v) | Attributable interest to our Group: | 51% |
| (vi) | Term of operation: | 26 September 2021 to 25 September 2041 |
| (vii) | Scope of business: | Solar power technology services; solar thermal power generation equipment sales; photovoltaic equipment and components sales; power electronic components sales; cooling services; environmental protection equipment sales; contract energy management; technical services, technology development, technical consultation, technical exchanges, technology transfer and technology promotion (other than items required to be approved by law, operational activities may commence according to business licence in compliance of the law). Licensed items: power generation business, power transmission business, power supply (distribution) business; gas operation; installation, maintenance and testing of power transmission, power supply, and power receiving facilities (for items required to be approved by law, operation may be conducted only with the approval of relevant departments, specific operational projects are subject to approval results). |

(H) Zhongshihua Xinao

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|-------|-------------------------------------|---|
| (i) | Name of the enterprise: | Huzhou Zhongshihua Xinao Natural Gas Co., Ltd.* (湖州中石化新奧天然氣有限公司) |
| (ii) | Economic nature: | Limited liability company |
| (iii) | Registered owners: | Our Company (50%), Sinopec Sales Co., Ltd.* (中國石化銷售股份有限公司) (50%) |
| (iv) | Registered capital: | RMB10,000,000 (fully paid up) |
| (v) | Attributable interest to our Group: | 50% |
| (vi) | Term of operation: | 15 August 2012 to 14 August 2032 |
| (vii) | Scope of business: | Gas vehicle refuelling station (natural gas); natural gas refuelling station construction; sale of lubricating oil; retail sale of pre-packed and bulk-packed food; sale of natural gas (not involving construction and operation of urban gas pipeline network). (For items required to be approved by law, operation may be conducted only with the approval of relevant departments) |

6. Registration under Part 16 of the Companies Ordinance

Our Company has established a place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company has been registered as non-Hong Kong company under Part 16 of the Companies Ordinance. Ms. Mak Sze Man, the joint company secretary of our Company, has been appointed as agent of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

7. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a supplemental agreement dated 3 December 2020 entered into between Huzhou Urban and Rural Construction Bureau* (湖州市住房和城鄉建設局) and our Company in relation to amendment and supplement of terms of the Wuxing Operating Area Concession Agreement;
- (b) a supplemental agreement dated 8 February 2021 entered into between Huzhou Nanxun District Housing and Urban-Rural Development Bureau* (湖州市南潯區住房和城鄉建設局) and Nanxun Xinao in relation to amendment and supplement of terms of the Nanxun Concession Agreement;
- (c) a supplemental agreement dated 26 October 2021 entered into between Huzhou Urban and Rural Construction Bureau* (湖州市住房和城鄉建設局) and our Company in relation to amendment and supplement of terms of the Wuxing Operating Area Concession Agreement;
- (d) a supplemental agreement dated 28 October 2021 entered into between Huzhou Nanxun District Housing and Urban-Rural Development Bureau* (湖州市南潯區住房和城鄉建設局) and Nanxun Xinao in relation to amendment and supplement of terms of the Nanxun Concession Agreement;
- (e) the articles of association of Huran New Energy dated 1 April 2022 adopted by our Company and Huzhou Zhongran Enterprise Management Partnership (Limited Partnership)* (湖州眾燃企業管理合夥企業(有限合夥)) governing the investment in, and management of, Huran New Energy;
- (f) the cornerstone investment agreement dated 23 June 2022 entered into between our Company, Zhejiang Jiening Equity Investment Co., Ltd.* (浙江捷寧股權投資有限公司) (“**Zhejiang Jiening**”), BOCOM International Securities and the Sole Sponsor, pursuant to which Zhejiang Jiening agreed to subscribe for 8,500,000 H Shares at the Offer Price per Share (plus brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy);
- (g) the cornerstone investment agreement dated 23 June 2022 entered into between our Company, Zhejiang Lichen Equity Investment Co., Ltd.* (浙江麗宸股權投資有限公司) (“**Zhejiang Lichen**”), BOCOM International Securities and the Sole Sponsor, pursuant to which Zhejiang Lichen agreed to subscribe for 8,400,000 H Shares at the Offer Price per Share (plus brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy);

- (h) the cornerstone investment agreement dated 23 June 2022 entered into between our Company, Huzhou Erqing Asset Operation Co., Ltd.* (湖州市二輕資產經營有限公司) (“**Huzhou Erqing**”), BOCOM International Securities and the Sole Sponsor, pursuant to which Huzhou Erqing agreed to subscribe for 8,000,000 H Shares at the Offer Price per Share (plus brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy);
- (i) the cornerstone investment agreement dated 23 June 2022 entered into between our Company, Zhejiang Caixu Equity Investment Co., Ltd.* (浙江彩旭股權投資有限公司) (“**Zhejiang Caixu**”), BOCOM International Securities and the Sole Sponsor, pursuant to which Zhejiang Caixu agreed to subscribe for 6,600,000 H Shares at the Offer Price per Share (plus brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy);
- (j) the Deed of Indemnity; and
- (k) the Hong Kong Underwriting Agreement.

8. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademark which we consider to be material to our business:

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
1.	 湖州燃气 HUZHOU GAS	Company	Hong Kong	9 (Note 1), 11 (Note 3), 37 (Note 5) and 39 (Note 6)	305547745AB	1 March 2021 to 28 February 2031
2.		Company	PRC	9 (Note 2) and 11 (Note 4)	55303750	28 January 2022 to 27 January 2032

Notes:

- The specific goods and/or services under class 9 in respect of which the trademark was applied for are quantitative display; electric regulating apparatus; apparatus for facsimile; rescue apparatus and equipment; internet communication apparatus; capacitor; computer software (recorded); measuring instrument; electric device for industrial remote operations; fire-extinguishing apparatus.

2. The specific goods and/or services under class 9 in respect of which the trademark was applied for are electric regulating apparatus; capacitor; electric device for industrial remote operations; fire-extinguishing apparatus.
3. The specific goods and/or services under class 11 in respect of which the trademark was applied for are radiator; friction lighters for gas ignition; electric heater; adjustment apparatus for water or gas equipment; disinfection apparatus; gas stove; air conditioner; burner; gas-based boiler; adjustment and safety apparatus for gas equipment.
4. The specific goods and/or services under class 11 in respect of which the trademark was applied for are friction lighters for gas ignition.
5. The specific goods and/or services under class 37 in respect of which the trademark was applied for is supervision of construction operations; pipe laying and repair; drilling; anti-corrosive treatment; vehicle service station (refuelling and maintenance); installation of kitchen equipment; installation and repair of air conditioner; installation and repair of fire alarm; installation and repair of heating equipment; installation, maintenance and repair of machinery.
6. The specific goods and/or services under class 39 in respect of which the trademark was applied for are transportation; automobile rental; courier service (letters or commodities); carpark service; storage; gas station; liquefied gas station; travel agency (excluding hotel reservation); pipeline transportation; energy distribution.

(b) Domain names

As at the Latest Practicable Date, our Group has registered the following domain names:

No.	Domain name	Registered owner	Registration date	Expiry date
1.	http://www.hzrqgf.com	Company	17 April 2022	17 April 2023
2.	http://www.hzrqgf.cn	Company	17 April 2022	17 April 2023
3.	http://www.hzrqgf.net	Company	17 April 2022	17 April 2023

9. Related party transactions

Save as disclosed in Notes 24 and 40 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

10. Directors

(a) Disclosure of interests of Directors and Supervisors

None of our Directors and Supervisors or their associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) Particulars of Directors' and Supervisors' service contracts*Directors*

Our Company entered into a service contract with each of our Directors on 3 June 2021. Each of the service contracts is for a fixed term ending on 2 June 2024, unless terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein, and provisions on removal and retirement by rotation of our Directors as set forth in the Articles of Association.

Supervisors

Our Company entered into a service contract with each of our Supervisors on 3 June 2021. Each of the service contracts is for a fixed term ending on 2 June 2024, and is subject to termination provisions therein, and provisions on removal and retirement by rotation as set forth in the Articles of Association.

Pursuant to the respective service contracts, our executive Directors and Supervisors are not entitled to any service fee but are each entitled to a discretionary management bonus in such sum as our Board may in its absolute discretion determine based on the review and advice of the remuneration committee of our Board and the financial performance of our Group in that financial year, provided that the aggregate amount of bonuses payable to all executive Directors and Supervisors for any financial year of our Company shall not exceed 10% of the audited consolidated net profit of our Group (after taxation, minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. Our non-executive Directors are not entitled to any service fee. Each of Mr. Chang Li Hsien Leslie, Dr. Lau Suet Chiu Frederic and Mr. Zhou Xinfa, our independent non-executive Directors, is entitled to an annual service fee of HK\$180,000, HK\$180,000 and RMB100,000, respectively, with effect from the Listing Date.

Mr. Wang Hua, an executive Director and the chairman of our Board, and Mr. Xu Guoxin, one of our Supervisors, have also entered into employment contracts with our Company and are entitled to salary, allowance and benefits in kind and pension scheme contributions.

Save for the aforesaid, none of our Directors or Supervisors is expected to receive any other remuneration for holding their office as a Director or Supervisor, respectively.

Save as disclosed aforesaid, none of our Directors or Supervisors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by our Company within one year without the payment of compensation (other than statutory compensation).

(c) Remuneration of Directors and Supervisors

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors and Supervisors in respect of FY2019, FY2020 and FY2021 were nil, nil and RMB0.7 million, respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) and Supervisors for the year ending 31 December 2022, are expected to be approximately RMB1.0 million and RMB0.3 million, respectively.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2021 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2021.

(d) Interests and short positions of our Directors and Supervisors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering

Immediately following completion of the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, none of our Directors or Supervisors had any interests or short positions in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

11. Interest discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following completion of the Global Offering (but without taking into account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value

of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

(i) Interests in our Company

Name	Class of Shares held after the Global Offering	Capacity/ Nature of interest	As at the Latest Practicable Date		Immediately following completion of the Global Offering	
			Number of Shares held/ interested	Approximate percentage of shareholding in our Company	Approximate percentage of shareholding in the relevant class (Note 1)	Approximate percentage of shareholding in the total share capital of our Company (Note 2)
City Group (Note 3)	Domestic Shares	Beneficial owner	89,457,540	59.64%	59.64%	44.73%
Huzhou SASAC (Note 3)	Domestic Shares	Interest in a controlled corporation	89,457,540	59.64%	59.64%	44.73%
ENN (China) (Note 4)	Domestic Shares	Beneficial owner	60,542,460	40.36%	40.36%	30.27%
ENN Energy (Note 4)	Domestic Shares	Interest in a controlled corporation	60,542,460	40.36%	40.36%	30.27%

Notes:

- (1) The calculation is based on the total number of 150,000,000 Domestic Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.
- (2) The calculation is based on the total number of 200,000,000 Shares in issue immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised at all.
- (3) City Group is wholly-owned by Huzhou SASAC. Under the SFO, Huzhou SASAC is deemed to be interested in the same number of Shares in which City Group is interested.
- (4) ENN (China) is wholly-owned by ENN Energy, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2688). As at the Latest Practicable Date, based on disclosure of interest notices filed to the Stock Exchange in respect of the interests of ENN Energy, no shareholders controlled, directly or indirectly, one-third or more of the voting power at the general meetings of ENN Energy. Under the SFO, ENN Energy is deemed to be interested in the Shares held by ENN (China).

(ii) Interests in other members of our Group

Name of members of our Group	Registered capital	Name of parties with 10% or more equity interest	Capacity/ Nature of interest	Amount of registered capital held	Percentage of equity interest held
Nanxun Xinao	RMB35,000,000	ENN Group (Note)	Beneficial owner	RMB17,150,000	49%
Nanxun Xinao Development	RMB5,000,000	ENN Group (Note)	Beneficial owner	RMB2,450,000	49%
Xinao Energy Development	RMB50,000,000	ENN Group (Note)	Beneficial owner	RMB24,500,000	49%

Note: As at the Latest Practicable Date, ENN Group was owned as to 89.48% by Langfang, which was in turn owned as to 90% by Mr. Wang Yusuo (王玉鎖) and 10% by Ms. Zhao Baoju (趙寶菊). As at the Latest Practicable Date, Langfang was a controlling shareholder of ENN Energy, a Controlling Shareholder of our Company.

12. Disclaimers

Save as disclosed in paragraphs 10 and 11 above in this section:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option, our Directors are not aware of any person (not being a Director, Supervisor or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of us;
- (b) none of our Directors or Supervisors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

- (c) none of our Directors nor any of the parties listed in paragraph 19 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the H Shares either in his/her own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in paragraph 19 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of us; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in paragraph 19 below:
 - (i) is interested legally or beneficially in any securities of any member of us; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

OTHER INFORMATION

13. Tax and other indemnities

City Group (the “**Indemnifier**”) has entered into the Deed of Indemnity with and in favour of our Company (for itself and on behalf of our present subsidiaries) to provide indemnities in respect of, among other things, the following matters:

Tax liabilities

The Indemnifier undertakes to fully indemnify our Company (for itself and on behalf of our present subsidiaries) against tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation, and whether or not such tax liabilities shall be paid or payable before or after the Listing Date.

The Indemnifier is under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 31 December 2021;
- (b) to the extent that such taxation liability is incurred in the ordinary course of business of any member of our Group after 31 December 2021 or relates thereto;
- (c) to the extent that such taxation liability is incurred in any transaction which any member of our Group engages in after the Listing Date or relates thereto;
- (d) to the extent that such taxation liability is incurred as a consequence of or in connection with any legally binding agreement or commitment entered into or created by any member of our Group on or before 31 December 2021;
- (e) to the extent that such taxation liability is incurred solely because of or in connection with any act or omission by any member of our Group after the Listing Date; or
- (f) to the extent that such taxation liability is incurred solely as a consequence of any retrospective amendment or change in the applicable laws, rules or regulations or the interpretations thereof by any relevant taxation authority coming into force after the Listing Date or as a consequence of any increase in the applicable taxation rates after the Listing Date with retrospective effect.

Non-compliance

The Indemnifier undertakes to fully indemnify our Company (for itself and on behalf of our present subsidiaries) against all claims, losses, demands, proceedings, damages, costs, expenses, fees, penalties or other liabilities which any member of our Group may incur or suffer arising from or in connection with the failure of our Group to observe relevant laws, regulations or rules concerning the non-compliance incidents of our Group as more particularly set out in the paragraph headed “Business – Legal and Compliance Matters – Legal compliance” in this prospectus.

14. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

15. Litigation

As at the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Group.

16. Preliminary expenses

We have not incurred any material preliminary expenses.

17. Promoter

The promoters of our Company (the “**Promoters**”) are City Group and ENN (China).

Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any Promoters in connection with the Global Offering.

18. Agency fees or commissions received

Pursuant to the terms and conditions of the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive a commission of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer, out of which they will pay any sub-underwriting commissions. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to BOCOM International Securities and the relevant Underwriters (but not the Hong Kong Underwriters). We may, at our discretion, pay to BOCOM International Securities an additional incentive fee of up to 1.0% of the aggregate Offer Price of the Offer Shares from the Global Offering, including proceeds from the exercise of the Over-allotment Option.

The aggregate commissions and fees payable by us in relation to the Global Offering together with the Stock Exchange listing fees, SFC transaction levy, the Stock Exchange trading fee, Financial Reporting Council transaction levy, legal and other professional fees and printing and other expenses relating to the Global Offering at the Offer Price of HK\$6.08 per H Share, are estimated to amount to approximately HK\$44.2 million in total (assuming that the Over-allotment Option is not exercised).

19. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus and any H Shares which may be issued upon the exercise of the Over-allotment Option on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules. The sponsor's fees are estimated to amount to RMB3.6 million.

20. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
BOCOM International (Asia)	Licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Grandall Law Firm (Hangzhou)	Qualified PRC lawyers
Ernst & Young	Certified Public Accountants and Registered Public Interest Entity Auditor
Frost & Sullivan	Industry consultant

21. Consents of experts

Each of BOCOM International (Asia), Grandall Law Firm (Hangzhou), Ernst & Young and Frost & Sullivan has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or legal opinion and/or opinion (as the case may be) and the references to their names, addresses, qualifications or summaries of opinions included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interests in the Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of our subsidiaries.

22. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

23. Taxation of holders of H Shares

Dealings in H Shares registered on our Company's H Shares register of members will be subject to Hong Kong stamp duty. Intending holders of H Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in H Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in H Shares.

Profits from dealings in H Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty, the current rate of which is 0.26% of the consideration or, if higher, the value of the H Shares being sold or transferred. Information in relation to taxation is set out in Appendix III to this prospectus.

24. Miscellaneous

- (a) Save as disclosed in the paragraph headed "History and Corporate Structure — Establishment and Major Shareholding Changes Concerning our Company, our Subsidiaries and our Joint Ventures" and the sections headed "Share Capital" and "Structure and Conditions of the Global Offering" in this prospectus:
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (cc) no commission (except commission to the Underwriters) has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) there are no arrangements under which future dividends are waived or agreed to be waived;
 - (iv) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
 - (v) our Company has no outstanding convertible debt securities or debentures;
 - (vi) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (b) our Company is a foreign investment joint stock limited company and is subject to the Foreign Investment Law of the People's Republic of China;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2021 (being the date to which the latest audited combined financial statements of our Group were made up);
- (d) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus; and
- (e) no part of the equity and debt securities of our Company, if any, is currently listed on or dealt in on any other stock exchange or trading system nor is any listing or permission to list on any stock exchange other than the Stock Exchange is currently being or agreed to be sought.

25. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE ON DISPLAY**

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

- (a) a copy of the **GREEN** Application Form;
- (b) the written consents referred to in the paragraph headed “Other Information – 21. Consents of experts” in Appendix VI to this prospectus; and
- (c) copies of the material contracts referred to in the paragraph headed “Further Information about the Business of our Company – 7. Summary of material contracts” in Appendix VI to this prospectus.

B. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the websites of the Stock Exchange (www.hkexnews.hk) and our Company (www.hzrqgf.com) for a period of 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the consolidated audited financial statements of our Group for each of FY2019, FY2020 and FY2021;
- (d) the report prepared by Ernst & Young on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation;
- (f) the legal opinions prepared by our PRC legal advisers, Grandall Law Firm (Hangzhou), in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (g) the material contracts referred to in the paragraph headed “Further Information about the Business of our Company – 7. Summary of material contracts” in Appendix VI to this prospectus;

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
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- (h) the service contracts referred to in the paragraph headed “Further Information about our Directors and Supervisors – 10. Directors – (b) Particulars of Directors’ and Supervisors’ service contracts” in Appendix VI to this prospectus;
- (i) the written consents referred to in the paragraph headed “Other Information – 21. Consents of experts” in Appendix VI to this prospectus; and
- (j) the industry report prepared by Frost & Sullivan, the extracts of which is set out in the section headed “Industry Overview” in this prospectus.



湖州燃气股份有限公司
HUZHOU GAS CO., LTD.*