THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares **Beijing Gas Blue Sky Holdings Limited,** you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

BEIJING GAS BLUE SKY HOLDINGS LIMITED
北京燃氣藍天控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6828)

(1) CAPITAL AND ASSET INJECTION PLAN INVOLVING (A) FINANCIAL ASSISTANCE FROM BEIJING GAS HK; (B) SUBSCRIPTION OF NEW SHARES BY BEIJING GAS HK UNDER SPECIFIC MANDATE; (C) ACQUISITION OF THE TARGET COMPANY; AND (D) CONDITIONAL APPOINTMENT OF A NON-EXECUTIVE DIRECTOR (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) NOTICE OF THE SGM

Financial Adviser to the Company

ASIAN CAPITAL 卓亞

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

八方金融有限公司 OCTAL Capital Limited

A letter from the Board is set out on pages 7 to 40 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on pages 41 to 42 of this circular. A letter from Octal Capital, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-55 of this circular.

A notice convening the SGM to be held at Room 3402-4, 34/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Tuesday, 15 November 2022 at 11:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

31 October 2022

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To safeguard the health and safety of the Shareholders and to prevent the spread of the novel coronavirus (COVID-19), the Company will implement the following precautionary measures at the SGM:

- compulsory body temperature check
- mandatory wearing of surgical face mask
- no provision of refreshments or drinks

Any person who does not comply with the aforementioned precautionary measures or is subject to any health quarantine prescribed by the HKSAR Government may be denied entry into the meeting venue, at the absolute discretion of the Company to the extent as permitted by law. However, those being denied entry at the meeting venue would still be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the venue. Shareholders are encouraged to appoint the chairman of the SGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the SGM in person. Due to the constantly evolving COVID-19 pandemic situation, the Company may be required to change the arrangements for the SGM when appropriate. Shareholders should check the Company's website and/or the Stock Exchange's website for future announcements and updates on the arrangements for the SGM.

In this Circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition of the Target Group by the Company pursuant to the Acquisition Agreement
"Acquisition Agreement"	the acquisition agreement entered into between Beijing Gas Group and the Company on 26 September 2022, in relation to the Acquisition
"Announcement"	the announcement dated 26 September 2022 published by the Company in relation to the Capital and Asset Injection Plan and the application for the Whitewash Waiver
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Gas Group"	Beijing Gas Group Company Limited* (北京市燃氣集團有限責任公司), a company established in the PRC with limited liability, and is wholly-owned by Beijing Enterprises Holdings Limited (stock code: 392), which is in turn ultimately controlled by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality as to approximately 62.31%
"Beijing Gas HK"	Beijing Gas Company Limited* (北京燃氣有限公司), a company incorporated in Hong Kong with limited liability, is indirectly wholly-owned by Beijing Gas Group and a shareholder of the Company directly interested in approximately 41.13% of the Shares
"BNP Paribas"	BNP Paribas Securities (Asia) Limited, the financial adviser to Beijing Gas Group in respect of the Capital and Asset Injection Plan. BNP Paribas is a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Board"	the board of Directors
"Capital and Asset Injection Plan"	a financing and asset injection plan to be implemented involving the Facility, the Convertible Bond Subscription, the Share Subscription and the Acquisition

"Company"	Beijing Gas Blue Sky Holdings Limited (stock code: 6828), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Financial Assistance (including the Facility and the Convertible Bond Subscription), the Share Subscription and the Acquisition
"Consideration Shares"	an aggregate of 3,500,000,000 new Shares to be allotted and issued by the Company to Beijing Gas Group (or its nominee in accordance with the Acquisition Agreement) at the issue price of HK$0.08 per Share for full settlement of the consideration for the Acquisition
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Conversion Price"	the price per Share at which the Conversion Shares will be issued upon conversion of the Convertible Bond, with the initial conversion price being HK$0.118 per Conversion Share (subject to adjustments)
"Conversion Shares"	the Shares to be allotted and issued by the Company upon conversion of the Convertible Bond
"Convertible Bond"	the convertible bond in the principal amount of HK$300 million due on the third anniversary of the date of issue of the Convertible Bond (as may be agreed to further extend for three months) issued by the Company to Beijing Gas HK pursuant to the Convertible Bond Subscription Agreement
"Convertible Bond Subscription"	the subscription of the Convertible Bond by Beijing Gas HK pursuant to terms and conditions of the Convertible Bond Subscription Agreement
"Convertible Bond Subscription Agreement"	the convertible bond subscription agreement entered into between the Company and Beijing Gas HK dated 26 September 2022 in respect of the Convertible Bond Subscription
"Deeds of Share Mortgage"	pursuant to the Facility Agreement and the Convertible Bond Subscription Agreement, the Company as the borrower and as convertible bond issuer is required to provide the equity interest of Beijing Gas Jingtang Company Limited*（北燃京唐有限公司）as security in favor of Beijing Gas HK, who is the lender and convertible bond subscriber under respective deeds of share mortgage
"Directors"	the director(s) of the Company

"Enlarged Group"	the Group as enlarged by the Acquisition
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Facility"	the term loan facility in an aggregate amount of HK$700,000,000 made available under the Facility Agreement
"Facility Agreement"	the facility agreement dated 26 September 2022 entered into between the Company and Beijing Gas HK in respect of provision of the Facility
"Financial Assistance"	the Facility and the Convertible Bond Subscription
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	a Board committee comprising all independent non-executive Directors, namely Mr. Cui Yulei, Ms. Hsu Wai Man Helen and Mr. Xu Jianwen, established to make recommendation to the Independent Shareholders in relation to the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver. As Mr. Zhi Xiaoye, being the non-executive Director, also holds directorship position in Beijing Gas Group, he was not eligible for membership on the independent board committee to avoid conflict of interests for compliance of Rule 2.8 of the Takeovers Code
"Independent Financial Adviser"	Octal Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver
"Independent Shareholders"	the Shareholders other than (i) Beijing Gas Group, Beijing Gas HK, Beijing Enterprises Holding Limited and Beijing Enterprises Group Company Limited and any of their concert parties and associates, and (ii) the Shareholders who are involved in or interested in the Financial Assistance, the Share Subscription, the Acquisition, and/or the Whitewash Waiver

"Independent Third Party(ies)"	third party(ies) independent of the Company and its connected persons as defined under the Listing Rules
"Last Trading Day"	26 September 2022, being the last full trading day of the Shares prior to the date of the release of the Announcement on 26 September 2022
"Latest Practicable Date"	28 October 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	six months after the date of the Facility Agreement, the Convertible Bond Subscription Agreement, the Share Subscription Agreement and the Acquisition Agreement, respectively
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC Project Holding Company"	Shenzhen Huaran Natural Resources Limited*（深圳華然能源公司）, a wholly-owned subsidiary of the Target Company as at the Latest Practicable Date
"Project Company"	Beijing Gas Group (Teng County) Co., Ltd*（北京燃氣集團藤縣有限公司）, which as at the Latest Practicable Date is owned as to 51% by Beijing Gas Group and as to 49% by Guangxi Heyuxiang New Energy Investment Co., Ltd,*（廣西和裕祥新能源投資有限公司）, in which is ultimately and beneficially owned by independent third parties
"Reorganization"	a reorganization exercise for formation of the Target Group for the purpose of the Acquisition
"Relevant Period"	the period commencing on 26 March 2022, being the date falling six months prior to the date of the Announcement, and ending on and including the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"SGM"	the special general meeting of the Company to be convened and held on Tuesday, 15 November 2022 for the purpose of considering and, if thought fit, approving, among other things, the Financial Assistance, the Share Subscription, the Acquisition, the conditional appointment of a non-executive Director nominated by Beijing Gas HK and the Whitewash Waiver
"Share Subscription"	subscription of 6,250,000,000 new Shares by Beijing Gas Group at the Subscription Price pursuant to the Share Subscription Agreement
"Share Subscription Agreement"	the share subscription agreement entered into between the Company and Beijing Gas HK dated 26 September 2022 in respect of the Share Subscription
"Share(s)"	the issued share(s) of the Company
"Shareholders"	holder(s) of the Shares
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders at the SGM to grant the authority to the Board for the allotment and issue of the Subscription Shares, the Consideration Shares and the Conversion Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	HK$0.08 per Subscription Share
"Subscription Shares"	the new Shares to be allotted and issued pursuant to the Share Subscription Agreement
"Syndicated Facility"	a term loan facility in an aggregate amount of HK$1,013,023,665 to be made available by the Syndication Lenders to the Company for a 12 month period from the date of utilisation (as may be agreed to further extend for 24 months)
"Syndicated Facility Agreement"	the facility agreement entered into between the Company and the Syndication Lenders on 17 October 2022 in respect of the Syndicated Facility
"Syndication Lenders"	a group of banks which have agreed to provide the Syndicated Facility to the Company under the Syndicated Facility Agreement, of which none of the banks are a shareholder of the Company

"Takeovers Code"	the Code on Takeovers and Mergers published by the SFC
"Target Company"	Sapphire Gas Company Limited, a wholly owned subsidiary of Beijing Gas HK as at the Latest Practicable Date
"Target Group"	comprising the Target Company, the PRC Project Holding Company and the Project Company upon the completion of the Reorganization
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code of the obligation on the part of Beijing Gas Group to make a general offer for all Shares and other equity share capital of the Company (other than those already owned or agreed to be acquired by Beijing Gas Group and its concert parties) as a result of the allotment and issue of Shares pursuant to (a) the Share Subscription Agreement and (b) the Acquisition Agreement
"Whitewash Waiver Resolutions"	resolutions approving (A) the Whitewash Waiver by at least 75% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the SGM, and (B) each of the Facility Agreement, the Convertible Bond Subscription Agreement, the Share Subscription Agreement and the Acquisition Agreement by more than 50% of the independent votes that are cast either in person or by proxy by the Independent Shareholders at the SGM as required under the Takeovers Code
"%"	per cent

* *For identification purposes only*

BEIJING GAS BLUE SKY HOLDINGS LIMITED
北京燃氣藍天控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 6828)

Executive Directors:
Mr. Li Weiqi
Mr. Chen Ning
Mr. Yeung Shek Hin

Non-executive Directors:
Mr. Zhi Xiaoye

Independent Non-executive Directors:
Mr. Cui Yulei
Ms. Hsu Wai Man Helen
Mr. Xu Jianwen

Registered Office:
Conyers Corporate Services
(Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Headquarters and Principal Place of Business in Hong Kong:
Room 3402-4, 34/F, West Tower,
Shun Tak Centre
200 Connaught Road Central
Hong Kong

31 October 2022

To the Shareholders

Dear Sir or Madam,

(1) CAPITAL AND ASSET INJECTION PLAN INVOLVING
(A) FINANCIAL ASSISTANCE FROM BEIJING GAS HK;
(B) SUBSCRIPTION OF NEW SHARES BY BEIJING GAS HK UNDER SPECIFIC MANDATE;
(C) ACQUISITION OF THE TARGET COMPANY; AND
(D) CONDITIONAL APPOINTMENT OF A NON-EXECUTIVE DIRECTOR
AND
(2) APPLICATION FOR WHITEWASH WAIVER

BACKGROUND

Reference is made to the Company's announcements dated 19 January 2021, 29 September 2021 and 19 April 2022. Mr. Cheng Ming Kit ("**Mr. Cheng**"), a former executive Director who was appointed in May 2014 and subsequently removed in November 2021, was believed to be involved in a number of suspicious transactions (the "**Incident**") after the Company's then management commissioned a comprehensive internal review of the Group's assets and past transactions in late 2020. In January 2021, the Board (excluding Mr. Cheng) resolved to suspend the duties and powers of Mr. Cheng as a Director, and subsequently resolved to establish a special committee to investigate into the Incident.

Based on findings of the forensic investigations, Mr. Cheng was found to be involved in most of the 54 suspicious transactions identified (i.e. Reviewed Transactions (as defined therein) as reported in the Company's announcements dated 29 September 2021 and 19 April 2022). This has caused significant adverse effects on the business operations, financial performance, cash flows of the Group for the two years ended 31 December 2020 and 2021. As a result, the Group incurred one-off impairment charges of approximately HK$3.7 billion and HK$297 million, for the years ended 31 December 2020 and 2021 respectively. The net current liabilities of the Group as of 31 December 2021 was HK$2.9 billion, with total bank and other borrowings amounted to HK$3.6 billion, of which HK$2.2 billion were due for repayment in 2022. The Company's auditors issued a disclaimer of opinion in the auditors' report for the years ended 31 December 2020 and 2021, with audit qualifications relating to the going concern of the Company in both years. As at 30 June 2022, the Group's net current liabilities position still stood at HK$2.6 billion.

The trading in shares of the Company had been suspended since 17 January 2021 and resumption took place on 25 July 2022. During the trading suspension, certain creditors demanded immediate repayment of loans due by the Group. In light of the then situation, the Company began to explore with Beijing Gas Group, the Company's Controlling Shareholder, for potential assistance in different aspects such as strategic synergy, business support, investment and financing arrangements, talent recruitment and management enhancement to improve the Group's financial position and business performance in the interest of the Shareholders as a whole.

On 26 September 2022, the Company and Beijing Gas Group, conditionally agreed to the proposed Capital and Asset Injection Plan, involving the Facility, the Convertible Bond Subscription, the Share Subscription and the Acquisition, which are inter-conditional with each other, details of which are set out in this circular.

The purpose of this circular is to provide the Shareholders with, among other things, (i) details of proposed Capital and Asset Injection Plan including the Financial Assistance, the Share Subscription, the Acquisition, the conditional appointment of a non-executive Director nominated by Beijing Gas HK, and the Whitewash Waiver, (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) financial information of the Target Group and the Group; (v) the valuation report in respect of the Target Group; and (vi) a notice convening the SGM as well as other information required to be disclosed under the Listing Rules.

(1) FINANCIAL ASSISTANCE FROM BEIJING GAS HK

On 26 September 2022 (after trading hours), the Company and Beijing Gas HK entered into the (i) Facility Agreement, pursuant to which Beijing Gas HK has agreed to provide the Company the Facility of HK$700 million; and (ii) Convertible Bond Subscription Agreement pursuant to which the Company has conditionally agreed to issue and Beijing Gas HK has conditionally agreed to subscribe for, the Convertible Bond in the aggregate principal amount of HK$300 million both secured by issued shares of Beijing Gas Jingtang Company Limited*（北燃京唐有限公司）, a wholly-owned subsidiary of the Company.

(i) The Facility Agreement

Parties:	(i) the Company, as the borrower; and (ii) Beijing Gas HK, as the lender.
Amount of Loan Facility:	HK$700 million
Maturity date:	31 December 2025
Conditions precedent and long stop date:	Completion is conditional upon the fulfillment or satisfaction of the following conditions within six months after the date of the Facility Agreement: (i) the Company having received all the necessary approval or consents from (a) the Stock Exchange and the SFC and (b) Independent Shareholders at the SGM in respect of the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver; (ii) the Syndicated Facility Agreement between the Company and the Syndication Lenders having been signed and entered into force in accordance with its terms; and (iii) each of (a) the Convertible Bond Subscription; (b) the Share Subscription; and (c) the Acquisition and the issuance of the Consideration Shares having become unconditional pursuant to their respective terms thereunder. So far as the Beijing Gas Group and the Company are aware, other than the Whitewash Waiver, there are no other approvals or consent that would be required from the SFC in respect of the Financial Assistance, the Share Subscription and the Acquisition. None of the condition precedent above can be waived. As of the Latest Practicable Date, save for condition (ii), none of the conditions as set forth above has been satisfied.

Interest rate and payment of interest:	Hong Kong Interbank Offered Rate (HIBOR) plus 2% per annum All interest accrued shall be payable in arrears in full on the maturity date.
Default interest:	2% per annum higher than the rate which would have been payable on the overdue amount
Repayment:	The Company shall repay the loan in full on the maturity date, unless in the event that the Syndicated Facility is fully repaid before the maturity date (i.e. 31 December 2025) where the Company can opt to repay the loan in full early.
Security:	The Facility shall be secured by approximately 20.92% of issued shares of Beijing Gas Jingtang Company Limited* （北燃京唐有限公司）, a wholly-owned subsidiary of the Company, as collateral in favour of the lender.

(ii) The Convertible Bond Subscription Agreement

Parties:	(i) the Company, as the issuer; and (ii) Beijing Gas HK, as the subscriber.
Principal amount:	HK$300 million
Interest rate and payment of interest:	Hong Kong Interbank Offered Rate (HIBOR) plus 1.8% per annum All interest accrued shall be payable in arrears in full on the maturity date.
Default interest:	1.5% per annum higher than the interest rate in respect of such time period (i.e. the applicable HIBOR plus 1.8% per annum)
Maturity date:	The third anniversary of the date of issue of the Convertible Bond, which may be further extended for 3 months by agreement in writing between the issuer and the bondholder.
Conversion Price:	HK$0.118 per Conversion Share
Conversion rights:	The bondholder shall have the right to convert all or part of the Convertible Bond.

Conversion Shares:	Based on the Conversion Price of HK$0.118 per Conversion Share and assuming full conversion of the Convertible Bond at the Conversion Price, the Convertible Bond will be convertible into 2,542,372,881 Conversion Shares.
Conversion period:	Any time after the issue date of the Convertible Bond up to its maturity date as described above.
Conditions precedent and long stop date:	Completion is conditional upon the fulfillment, waiver or satisfaction of the following conditions within six months after the date of the Convertible Bond Subscription Agreement:

(i) the Company having obtained any and all approvals, consents and waivers necessary for consummation of the transactions contemplated by the Convertible Bond Subscription Agreement and other documents, including the approval from the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares;

(ii) the passing of the SGM by the Independent Shareholders approving (a) the Financial Assistance; (b) the Share Subscription, (c) the Acquisition and (d) the Whitewash Waiver;

(iii) the Syndicated Facility Agreement between the Company and Syndication Lenders having been duly signed and entered into force in accordance with its terms;

(iv) each of (a) the Facility; (b) the Share Subscription; and (c) the Acquisition and the issuance of the Consideration Shares having become unconditional pursuant to their respective terms thereunder;

(v) the warranties made by the Company being true and correct in all material respects;

(vi) the Company having performed and complied with in all material respects of all agreements, obligations and conditions contained in the Convertible Bond Subscription Agreement and the other transaction documents that are required to be performed or complied with by it; and

	(vii) there having not occurred any material adverse change in the context of the issue of the Convertible Bond. The above conditions cannot be waived, except for the conditions under paragraph (v), (vi) and (vii) which can be waived by Beijing Gas HK. As of the Latest Practicable Date, save for condition (iii), none of the conditions as set forth above has been satisfied.
Redemption:	The bondholder may require the Company to redeem all, but not part, of such Convertible Bond at a price equal to the principal plus accrued interest upon maturity or the occurrence of (i) the delisting of the Shares or suspension of trading in the Shares on the Stock Exchange for a period equal to or exceeding ten consecutive trading days; or (ii) a change of control of the Company.
Transferability:	The Convertible Bond is not transferable unless with the consent from the Company at its sole discretion.
Security:	The Convertible Bond shall be secured by 8.37% of issued shares of Beijing Gas Jingtang Company Limited* (北燃京唐有限公司), a wholly-owned subsidiary of the Company, as collateral in favour of Beijing Gas HK.
Listing:	The Convertible Bond will not be listed. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

Beijing Gas Jingtang Company Limited* (北燃京唐有限公司), a wholly owned subsidiary of the Company, indirectly owns 29% equity interest in PetroChina Jingtang LNG Co., Limited* (中石油京唐液化天然氣有限公司). PetroChina Jingtang LNG Co., Limited* is an associate of the Company and is principally engaged in provision of port facilities for vessels, receiving, storage and re-gasification of liquefied natural gas.

Conversion Price

The Conversion Price of HK$0.118 per Conversion Share represents:

(i) a premium of approximately 12.38% over the closing price of HK$0.105 per Share as quoted on the Stock Exchange on 26 September 2022, being the Last Trading Day;

(ii) a premium of approximately 5.92% over the average of the closing prices of HK$0.1114 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 0.34% to the average of the closing prices of HK$0.1184 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 21.78% over the average of the closing prices of HK$0.0969 per Share as quoted on the Stock Exchange for the last 45 consecutive trading days counting from the first trading day since trading resumption on 25 July 2022 up to and including the Last Trading Day;

(v) a premium of 71.01% over the closing price of HK$0.069 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a premium of approximately 187.80% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022, with reference to the interim report for the six months ended 30 June 2022; and

(vii) a premium of approximately 151.06% over the audited net asset value attributable to shareholders of the Company per Share of approximately HK$0.047 per Share as at 31 December 2021, with reference to the annual report for the year ended 31 December 2021.

The Conversion Price is subject to adjustment in the event of consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, capital distributions, rights issues of Shares or options over Shares, rights issues of other securities, issues of new Shares at less than the then market price, modification of rights of conversion and other dilutive events as described in the terms and conditions of the Convertible Bond.

The net Conversion Price, after deduction of relevant expenses, is approximately HK$0.117 per Conversion Share.

The Conversion Price was arrived at after arm's length negotiations between the Company and Beijing Gas HK after taking into account: (i) the recent trading performance of the Shares; (ii) the current equity capital market conditions; (iii) the conversion rights conferred to the holder of the Convertible Bond (i.e. the holder of the Convertible Bond will have the right, during the Conversion Period, to convert the Convertible Bond into Conversion Shares, or otherwise, the Convertible Bond will be redeemed by the Company by repaying the holder of the Convertible Bond all outstanding principal amount and accrued interest upon the maturity date of the Convertible Bond); and (iv) the Convertible Bond being secured by 8.37% of issued shares of Beijing Gas Jingtang Company Limited and carries an interest that is payable in arrears in full on the maturity date of the Convertible Bond.

Taking into consideration of the specific features of the Convertible Bond as mentioned above, the Directors consider the initial Conversion Price to be fair and reasonable.

Conversion Shares

2,542,372,881 Conversion Shares, representing approximately:

(i) 19.58% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) 16.37% of the issued share capital of the Company, as enlarged upon conversion in full of the Convertible Bond (assuming that there is no other change to the total number of Shares from the Latest Practicable Date to the date of Completion); and

(iii) 10.06% of the issued share capital of the Company as enlarged upon conversion in full of the Convertible Bond, issue of Subscription Shares and Consideration Shares (assuming that there is no other change to the total number of Shares from the Latest Practicable Date to the date of Completion).

The Conversion Shares to be allotted and issued upon conversion of the Convertible Bond will in all respects rank *pari passu* with the Shares (including the rights as to dividends, voting and return of capital). The Conversion Shares will be allotted and issued under the Specific Mandate to be sought for approval at the SGM. Holder(s) of the Conversion Shares will be entitled to receive all future dividends and distributions which are declared, made or paid with reference to a record date falling on or after the date of the allotment and issue of the Conversion Shares.

(2) SUBSCRIPTION OF NEW SHARES BY BEIJING GAS HK UNDER THE SPECIFIC MANDATE

On 26 September 2022 (after trading hours), the Company has entered into the Share Subscription Agreement with Beijing Gas HK, pursuant to which the Company has conditionally agreed to allot and issue, and Beijing Gas HK has conditionally agreed to subscribe for, 6,250,000,000 Subscription Shares at the Subscription Price of HK$0.08 per Subscription Share for a total subscription amount of HK$500 million.

Principal terms of the Share Subscription Agreement

The principal terms of the Share Subscription Agreement are set out as follows:

Parties:	(i) the Company, as the issuer; and (ii) Beijing Gas HK, as the subscriber.
Subscription Price:	HK$0.08 per Share
Ranking of the Subscription Shares:	The Subscription Shares will rank *pari passu* in all respects with the Shares.

Conditions precedent and long stop date: Completion is conditional upon the fulfillment or satisfaction of the following conditions within six months after the date of the Share Subscription Agreement:

(i) the Stock Exchange granting or agreeing to grant the listing of and permission to deal in all of the Subscription Shares, and such permission not having been subsequently revoked or withdrawn;

(ii) the passing of resolutions by the Independent Shareholders at the SGM approving (a) the Financial Assistance; (b) the Share Subscription, (c) the Acquisition and the issuance of the Consideration Shares; and (d) the Whitewash Waiver;

(iii) the Executive granting the Whitewash Waiver and the Whitewash Waiver remains in full force and effect;

(iv) the passing of resolutions by the Independent Shareholders at the SGM approving the appointment of a non-executive Director as nominated by Beijing Gas HK and such appointment shall take effect from the completion of the Share Subscription;

(v) each of the (a) Facility; (b) Convertible Bond Subscription; and (c) Acquisition and the issuance of Consideration Shares having become unconditional pursuant to their respective terms thereunder;

(vi) all necessary approvals, consents and filings having been obtained from regulatory institutions (namely, the approval of Beijing state-owned assets supervision and administration authority and the filings with the Beijing Commerce Bureau, Beijing Municipal Commission of Development and Reform and the relevant foreign-exchange authority) by Beijing Gas HK, and such approvals, consents and filings subsequently remain in full force and effect;

(vii) there having been no material breach by the Company of the Share Subscription Agreement;

(viii) the warranties made by the Company being true and correct in all material respects;

(ix) there having not occurred any material adverse change to the Company since the date of the Share Subscription Agreement;

(x) no regulatory authorisation implementing or enacting decrees, legislations or regulations to prohibit the completion of the matter of the Share Subscription, and no courts with competent jurisdiction issuing a decree or injunction to stop or prohibit completion of the Share Subscription; and

(xi) the Syndicated Facility Agreement between the Company and Syndication Lenders having been duly signed and entered into force in accordance with its terms.

The above conditions cannot be waived, except for the conditions under paragraph (vii), (viii) and (ix) which can be waived by Beijing Gas HK. As of the Latest Practicable Date, save for condition (xi), none of the conditions as set forth above has been satisfied.

Application for listing: An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

Subscription Price

The Subscription Price of HK$0.08 is the same as the issue price under the Acquisition Agreement and represents:

(i) a discount of approximately 23.81% to the closing price of HK$0.105 per Share as quoted on the Stock Exchange on 26 September 2022, being the Last Trading Day;

(ii) a discount of approximately 28.19% to the average of the closing prices of HK$0.1114 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 32.43% to the average of the closing prices of HK$0.1184 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 17.44% to the average of the closing prices of HK$0.0969 per Share as quoted on the Stock Exchange for the last 45 consecutive trading days counting from the first trading day since trading resumption on 25 July 2022 up to and including the Last Trading Day;

(v) a premium of approximately 15.94% over the closing price of HK$0.069 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vi) a premium of approximately 95.12% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022, with reference to the interim report for the six months ended 30 June 2022; and

(vii) a premium of approximately 70.21% over the audited net asset value attributable to shareholders of the Company per Share of approximately HK$0.047 per Share as at 31 December 2021, with reference to the annual report for the year ended 31 December 2021.

The net Subscription Price, after deduction of relevant expenses, is estimated to be approximately HK$0.0796 per Subscription Share.

The Subscription Price was arrived at an arm's length negotiation between the Company and Beijing Gas HK after taking into account: (i) the recent trading performance of the Shares; (ii) the unaudited net asset value attributable to shareholders of the Company which was at approximately HK$0.041 per Share as at 30 June 2022; (iii) the business prospects and financial position of the Group, including the significant adverse effects on the business operations, financial performance and cash flows of the Group attributable to the Incident; and (iv) the current equity capital market conditions.

The Directors, after taking into account of the above factors, consider that the Subscription Price is fair and reasonable.

Subscription Shares

As at the Latest Practicable Date, Beijing Gas HK is the Controlling Shareholder of the Company, who directly holds 5,341,042,131 Shares, representing approximately 41.13% of the issued share capital of the Company. Thus, Beijing Gas HK is a connected person and the Controlling Shareholders of the Company.

The total number of 6,250,000,000 Subscription Shares to be allotted and issued represent approximately:

(i) 48.13% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) 32.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion);

(iii) 27.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Consideration Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion); and

(iv) 24.72% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, Consideration Shares and Conversion Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion).

The Subscription Shares shall rank *pari passu* in all respects with the Shares in issue (including the rights as to dividends, voting and return of capital) and will be allotted and issued under the Specific Mandate to be sought for approval at the SGM. Holder(s) of the Subscription Shares will be entitled to receive all future dividends and distributions which are declared, made or paid with reference to a record date falling on or after the date of the allotment and issue of the Subscription Shares.

Proposal for the conditional appointment of non-executive Director

It is a condition precedent to the Completion of the Share Subscription that, subject to approval of the Independent Shareholders, a person nominated by Beijing Gas HK be appointed as a non-executive Director, which appointment shall take effect from completion of the Subscription Agreement. Shao Dan ("**Mr. Shao**") has been nominated by Beijing Gas HK to be appointed as a non-executive Director. Such nomination was considered and approved by the Board in accordance with the nomination policy of the Company and board diversity policy of the Company having regard to, including but not limited to, the professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy. Mr. Shao will enter into a letter of appointment with the Company in his capacity as a non-executive Director for a term of three years. Mr. Shao will not receive any director's remuneration and/or annual performance bonus from the Company.

The Board proposed the conditional appointment of Mr. Shao as a non-executive Director be approved at the SGM, the granting of authorization to the Board to arrange for the entering into an appointment letter by the Company with such non-executive Director upon such terms and conditions as the Board shall think fit, and to do all such acts and things to effect such matters. Mr. Shao's appointment will be subject to the Listing Rules and the provisions of the bye-laws of the Company in force from time to time, including but not limited to, the requirements for retirement, rotation, re-election and vacation of office of Directors as set forth in the bye-laws of the Company.

Biographical details of proposed director nominated for election

Mr. Shao, aged 45, joined Beijing Gas Group in 2000 and has held various positions within Beijing Gas Group and its subsidiaries and joint ventures, including positions in the corporate management department, legal and audit department, financial controller, the deputy general manager of asset management department and the deputy general manager of the capital management department. Mr. Shao is currently a director of Beijing Gas Yanqing Co., Ltd.*（北京燃氣延慶有限公司）and Beijing Gas Fangshan Co., Ltd.*（北京燃氣房山有限責任公司）, which are subsidiaries of Beijing Gas Group, and serves on the supervisory board of China Oil and Gas Pipeline Network Corporation Northern China Natural Gas Pipeline Co., Ltd.*（國家管網集團華北天然氣管道有限公司）, an affiliated company of Beijing Gas Group.

Mr. Shao obtained a bachelor degree in economics from the University of International Business and Economics in 2000 and a master degree in international economics from Université Paris I - Panthéon-Sorbonne, France in 2007.

Save as disclosed above, Mr. Shao has not held any directorship in public companies the securities of which are listed on any securities exchange in Hong Kong or overseas in the past three years.

Save as disclosed above, Mr. Shao does not have any relationship with any Directors, senior management or substantial or Controlling Shareholders of the Company. As at the Latest Practicable Date, Mr. Shao did not have any interest or short position in the Shares or underlying Shares in the Company within the meaning of Part XV of the SFO.

Save as disclosed above, the Board is not aware of any other matters that need to be brought to the attention of the Shareholders or any other information that is required to be disclosed pursuant to Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

(3) ACQUISITION OF THE TARGET COMPANY

On 26 September 2022 (after trading hours), the Company entered into the Acquisition Agreement with Beijing Gas Group, pursuant to which, Beijing Gas Group has conditionally agreed to sell and the Company has conditionally agreed to purchase, 100% equity interest in the Target Company, at a consideration of HK$280 million to be settled by the issue and allotment of 3,500,000,000 Consideration Shares to Beijing Gas Group or its designated wholly-owned subsidiary. It is expected that the Consideration Shares will be issued and allotted to Beijing Gas HK. Upon the Completion, the Target Company will become an indirect wholly owned subsidiary of the Company.

Principal terms of the Acquisition Agreement

The principal terms of the Acquisition Agreement are set out as follows:

Parties:	(i) the Company, as the purchaser; and
	(ii) Beijing Gas Group, as the vendor.

Target:	100% issued share capital of the Target Company, which will indirectly own 51% equity interest in the Project Company upon completion of Reorganization of the Target Group.
Acquisition consideration:	HK$280 million, which is to be satisfied by the issuance of 3,500,000,000 Consideration Shares.
Consideration Shares issue price:	HK$0.08 per Consideration Share
Conditions precedent and long stop date:	The completion of the Acquisition is subject to the following conditions being satisfied within six months after the date of the Acquisition Agreement: (i) the Reorganization having been completed; (ii) Beijing Gas Group and the Company or its affiliates having obtained all necessary approvals, consents, filings (namely, the approval of Beijing state-owned assets supervision and administration authority, the consent of the provincial level government and the filings with the Beijing Commerce Bureau, Beijing Municipal Commission of Development and Reform and the relevant foreign-exchange authority), and completed all necessary registrations with the relevant local counterparts of State Administration for Market Regulation in respect of the Acquisition Agreement and the transactions contemplated thereunder; (iii) warranties made by Beijing Gas Group and the Company being true and correct in all material respects; (iv) the Stock Exchange having granted the listing approvals of, and permission to deal in, the Consideration Shares and such approval not subsequently being revoked or withdrawn; (v) the passing of resolutions by the Independent Shareholders at the SGM approving (a) the Financial Assistance; (b) the Share Subscription; (c) the Acquisition and the issuance of the Consideration Shares; and (d) the Whitewash Waiver;

(vi) the Executive granting the Whitewash Waiver and the Whitewash Waiver remains in full force and effect;

(vii) each of the (a) Facility; (b) Convertible Bond Subscription; and (c) Share Subscription having become unconditional pursuant to their respective terms thereunder;

(viii) Beijing Gas Group having obtained or procured to obtain a confirmation from Guangxi Heyuxiang New Energy Investment Co., Ltd *（廣西和裕祥新能源投資）, being the 49% shareholder of the Project Company, for the waiver of the right of first refusal (or similar right) exercisable under the PRC Company Law (which can be legally waived) for the acquisition of 51% equity interest held by Beijing Gas Group in the Project Company;

(ix) the Syndicated Facility Agreement between the Company and the Syndication Lenders having duly signed and entered into force in accordance with its terms;

(x) there having not the occurred any material adverse change to the Group or Beijing Gas Group since the date of the Acquisition Agreement; and

(xi) there having been no material breach by the Company or Beijing Gas Group of the Acquisition Agreement.

The above conditions cannot be waived, except for the conditions under paragraph (iii), (x) and (xi) which can be waived by any party to the Acquisition Agreement. As of the Latest Practicable Date, save for condition (ix), none of the conditions as set forth above has been satisfied.

Application for listing: An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

CONSIDERATION SHARES ISSUE PRICE

The issue price of HK$0.08 per Consideration Share represents:

(i) a discount of approximately 23.81% to the closing price of HK$0.105 per Share as quoted on the Stock Exchange on 26 September 2022, being the Last Trading Day;

(ii) a discount of approximately 28.19% to the average of the closing prices of HK$0.1114 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 32.43% to the average of the closing prices of HK$0.1184 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 17.44% to the average of the closing prices of HK$0.0969 per Share as quoted on the Stock Exchange for the last 45 consecutive trading days counting from the first trading day since trading resumption on 25 July 2022 up to and including the Last Trading Day;

(v) a premium of approximately 15.94% over the closing price of HK$0.069 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a premium of approximately 95.12% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022, with reference to the interim report for the six months ended 30 June 2022; and

(vii) a premium of approximately 70.21% over the audited net asset value attributable to shareholders of the Company per Share of approximately HK$0.047 per Share as at 31 December 2021, with reference to the annual report for the year ended 31 December 2021.

The Consideration was determined after arm's length negotiations between the Company and Beijing Gas Group, having regard to the (i) prime opportunities for the Company to expand its city gas business into the Guangxi market, in which the Company currently has limited presence in the region; (ii) financial position, prospects and potential of the business of the Target Group in light of PRC government's continuous efforts in reducing pollution and carbon emissions by transiting from coal to clean energy (such as LNG); and (iii) the then preliminary valuation in respect of 51% equity interest in the Project Company. The valuation report indicating a market value of approximately HK$334 million in respect of 51% equity interest of the Project Company prepared by Jones Lang LaSalle, an independent valuer, as at 31 July 2022 based on the market approach taking into account the appropriate trading multiples of selected comparable listed companies, with adjustment made to multiples to reflect the features of the Target Group relative to the comparable listed companies, is set out in Appendix IV to this circular.

The issue price per Consideration Share is determined after taking into account the following: (i) the recent trading performance of the Shares; (ii) the unaudited net asset value attributable to the Shareholders of the Company which was at approximately HK$0.041 per Share as at 30 June 2022; (iii) the business prospects and financial position of the Group, including the significant adverse effects on the business operations, financial performance and cash flows of the Group brought along by the Incident; and (iv) the current market equity capital conditions.

The Directors, after taking into account of the above factors, consider that the Consideration and Consideration Share issue price is fair and reasonable.

CONSIDERATION SHARES

The total number of 3,500,000,000 Consideration Shares to be allotted and issued represent approximately:

(i) 26.95% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) 21.23% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion);

(iii) 15.39% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and Subscription Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion); and

(iv) 13.85% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, Subscription Shares and Conversion Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion).

The Consideration Shares shall rank *pari passu* in all respects with the Shares in issue (including the rights as to dividends, voting and return of capital) and will be allotted and issued under the Specific Mandate to be sought for approval at the SGM. Holder(s) of the Consideration Shares will be entitled to receive all future dividends and distributions which are declared, made or paid with reference to a record date falling on or after the date of the allotment and issue of the Consideration Shares.

INFORMATION OF THE TARGET GROUP

Basic information of the Target Group

The Target Group upon the completion of Reorganization will consist of three companies, namely, the Target Company, the PRC Project Holding Company and the Project Company. The Target Company is a wholly owned subsidiary of Beijing Gas HK that was incorporated in Hong Kong on 19 September 2022. The issued share capital of the Target Company as at the Latest Practicable Date is HK$110,000. The Target Company is an investment holding company that does not engage in any business activities.

The PRC Project Holding Company was established in the PRC on 18 September 2015 with a registered capital of HK$100,000 which is required to be paid up by 21 September 2026 pursuant to the articles of association of the PRC Project Holding Company. As at the Latest Practicable Date, the registered capital of the PRC Project Holding Company was not yet paid up. It is an investment holding company that does not engage in business activities. Since the incorporation of the PRC Holding Company and up to 25 October 2022, the PRC Project Holding Company was an indirectly wholly owned subsidiary of the Company. As part of the Reorganization, the Target Company acquired the entire interest in the PRC Holding Company from the Group on 26 October 2022. Upon completion of the Reorganization, the PRC Project Holding Company shall hold 51% equity interest of the Project Company.

The Project Company was established in the PRC in August 2014 with a registered share capital of RMB30,000,000. It is a city gas business operator located at Teng County of Guangxi Province in the PRC. It supplies gas and provide ancillary services to residential, commercial and industrial users in its administrative region under an operating concession right of 30 years commencing from year 2016 in the region. As at the Latest Practicable Date, Beijing Gas Group directly holds 51% equity interest in the Project Company with a total investment cost of RMB15.3 million, being 51% of the paid-up capital in the Project Company. The remaining 49% equity interest in the Project Company are owned by Guangxi Heyuxiang New Energy Investment Co., Ltd*（廣西和裕祥新能源投資有限公司）, a company which is ultimately beneficially owned as to 95% by Xu Lingling*（許玲玲）and as to 5% by Wang Liwei*（王立委）, which and who is an Independent Third Party(ies) to the Company. As confirmed by Beijing Gas Group, neither Guangxi Heyuxiang New Energy Investment Co., Ltd* nor its beneficial owner (including Xu Lingling and Wang Liwei*) is a party acting in concert with Beijing Gas Group and Beijing Gas HK.

As at 30 April 2022, the customer network of the Project Company comprises 10,111 residential users, 75 commercial users and 13 industrial users. The volume of gas sales for the year ended 31 December 2021 and the four months ended 30 April 2022 was approximately 127.1 million cubic meters and 39.8 million cubic meters, respectively.

By leveraging the geographic location of Teng County being adjacent to Xijiang River, the Project Company also intends to develop other natural gas supply business such as CNG/ LNG refueling stations for vehicles and LNG refueling for vessels when opportunities arise in the future according to market demand.

Save as the issued or paid-up registered capital in the Target Group disclosed above, no other acquisition cost was incurred by Beijing Gas Group in respect of the Target Company, the PRC Project Holding Company and the Project Company.

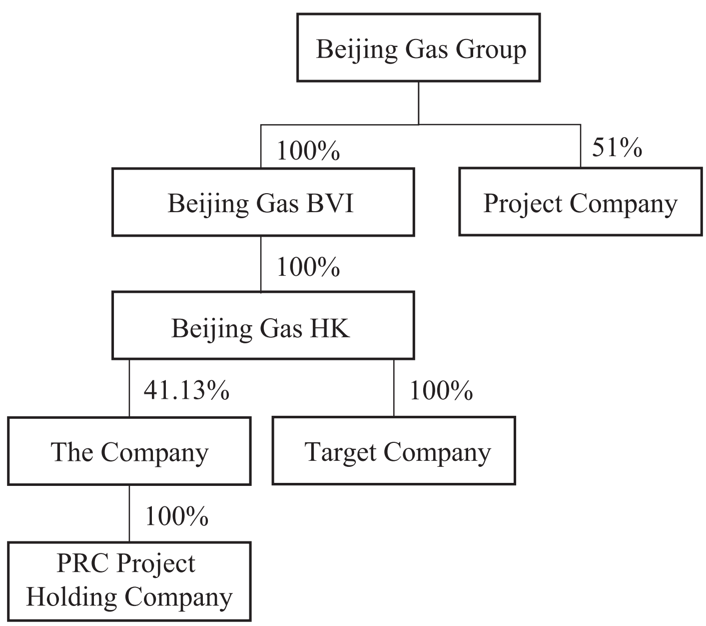
Reorganization of the Target Group

In order for the Acquisition to be structured via an existing foreign invested entity with a track record of no less than three years with the view to complying with the Circular of the State Council Concerning Further Strengthening the Administration of Share Issuance and Listing Overseas (《國務院關於進一步加強在境外發行股票和上市管理的通知》)國發[1997] 21 號)), the Target Group is undergoing the Reorganization which shall comprise the following steps: (i) the Target Company has first acquired 100% of the equity interest of the PRC Project Holding Company; (ii) the PRC Project Holding Company, being such existing foreign invested entity that meets the relevant requirement, will then acquire the 51% equity interest of the Project Company held by Beijing Gas Group and consequently form the offshore holding structure of the Target Group.

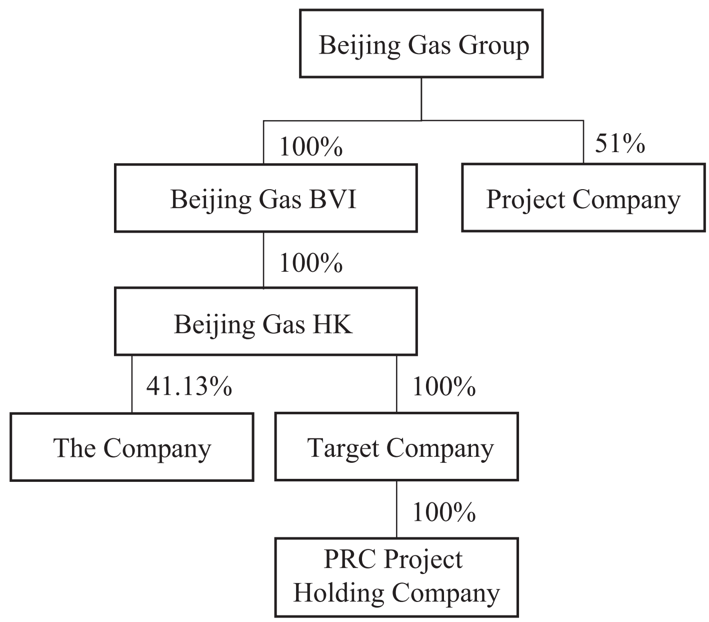
The Reorganization is expected to be completed no later than mid-December 2022. Upon completion of the Reorganization, the Target Company will hold 51% equity interest of the Project Company through the PRC Project Holding Company. The completion of the Reorganization is one of the conditions precedents under the Acquisition Agreement.

The following charts set forth the group structures of the Target Group as at the Latest Practicable Date prior to the completion of the Reorganization, subsequent to the completion of the Reorganization and the completion of the Acquisition and the Share Subscription:

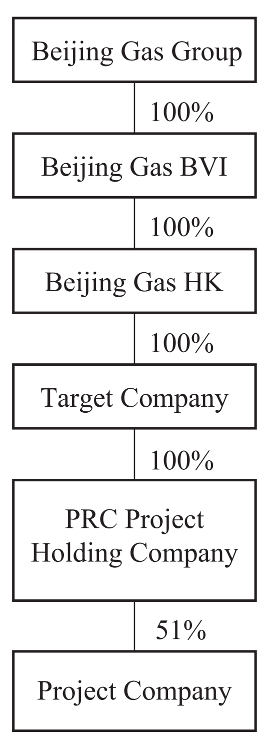
Shareholding structure of the Target Group immediately before the Reorganization



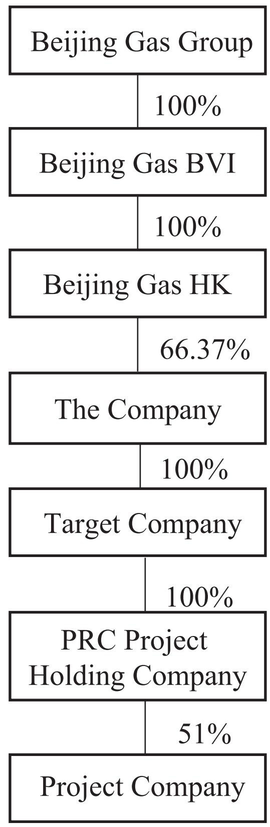
Shareholding structure of the Target Group as at the Latest Practicable Date prior to the completion of the Reorganization



Shareholding structure of the Target Group immediately after the completion of the Reorganization



Shareholding structure of the Target Group immediately after the completion of the Acquisition and the Share Subscription



Financial information

The audited financial statements of the Target Company, the PRC Project Holding Company and the Project Company prepared in accordance with the Hong Kong Financial Reporting Standards are set out in Appendices IIA, IIB and IIC to this circular, a summary of which is set out below:

The Target Company

	For the period from 19 September 2022 (the date of incorporation) to 30 September 2022 *(HK\$'000)*
Profit before taxation	Nil
Profit after taxation	Nil

	As at 30 September 2022 *(HK\$'000)*
Net asset	110

PRC Project Holding Company

	For the year ended 31 December		
	2019	**2020**	**2021**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Profit before taxation	Nil	Nil	Nil
Profit after taxation	Nil	Nil	Nil

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net liability	(5)	(5)	(5)	(0.2)

The Project Company

	For the year ended 31 December		
	2019	**2020**	**2021**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Profit before taxation	4,731	30,424	51,531
Profit after taxation	4,002	25,849	43,749

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net assets	21,053	44,492	66,210	89,373

COMPLETION OF THE FINANCIAL ASSISTANCE, THE SHARE SUBSCRIPTION AND THE ACQUISITION

The completions of the Facility, the Convertible Bond Subscription, the Share Subscription and the Acquisition are inter-conditional on each other. If any of the conditions precedent in the Facility Agreement, the Convertible Bond Subscription Agreement, the Share Subscription Agreement and the Acquisition Agreement is not fulfilled or waived on or before the Long Stop Date, these agreements shall lapse and the Financial Assistance, the Share Subscription and Acquisition will not proceed.

THE SYNDICATED FACILITY

To refinance part of the existing bank and other borrowings that are due for repayment in 2022, the Company (as borrower) has entered into the Syndicated Facility Agreement with the Syndication Lenders on 17 October 2022. Salient terms of the Syndicated Facility Agreement are as follows:

The borrower	the Company
The Syndication Lenders	The Syndication Lenders involved in the Syndicated Facility which is led by Mizuho Bank, Ltd. as the coordinator, the mandated lead arranger and the bookrunner. Other Syndication Lenders include China CITIC Bank International Limited, Hang Seng Bank Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, Fubon Bank (Hong Kong) Limited, KGI Bank Co., Ltd., Natixis, Hong Kong Branch, The Bank of East Asia, Limited, Korea Development Bank Beijing Branch, Nanyang Commercial Bank, Limited, Shanghai Commercial Bank Limited, Postal Savings Bank of China and Bank of Shanghai (Hong Kong) Limited.
Amount of the Syndicated Facility	An aggregate amount of HK$1,013,023,665
Availability period	The Syndicated Facility is available for utilization within 90 days from and including 17 October 2022
Maturity date	The Syndicated Facility is due on the first anniversary of the date of Syndicated Facility being made available to the Company (as maybe agreed to further extend for 24 months).

Interest rate and payment of interest	Hong Kong Interbank Offered Rate (HIBOR) plus margin rate. The margin rate is initially fixed at 1.90% at the inception of the Syndicated Facility, subject to a potential adjustment to 2.40% depending on the ratio of consolidated total net debt to consolidated net worth of the Group at all times. All interest accrued shall be payable on the last day of each interest period, being one, three or six months on the selection of the Company, or any other period agreed between the Company and the Syndicated Lenders.
Default interest	2% per annum higher than the rate which would have been payable on the overdue amount
Conditions precedent to drawdown of the Syndicated Facility	The utilization of the Syndicated Facility is conditional upon: (i) completion of the Acquisition; (ii) completion of the Share Subscription; and (iii) The proceeds of the Financial Assistance having been credited to an account of the Company opened with Mizuho Bank, Ltd., and a remittance instruction having been provided by the Company to repay its existing loans (the **"Existing Facility"**) following completion of the Convertible Bond Subscription and Facility Agreement.
Purpose of the Syndicated Facility	The Company will apply the amount borrowed towards financing or refinancing the repayment of the Existing Facility. The amount borrowed from the Syndicated Facility will be paid into an account designated by the facility agent of the Existing Facility for repayment of the Existing Facility.

Other major term	Upon Completion of the Acquisition and the Share Subscription: (i) the State-owned Assets Supervision and Administration Commission of the State Council of the People's Government of Beijing Municipality shall remain the single largest shareholder of each of Beijing Enterprises Holding Limited and Beijing Gas Group; (ii) Beijing Enterprises Holding Limited shall maintain control, directly or indirectly, of Beijing Gas Group; and (iii) Beijing Gas Group shall maintain control, directly or indirectly, of the Company.

REASONS FOR AND BENEFITS OF THE CAPITAL AND ASSET INJECTION PLAN (INVOLVING THE FINANCIAL ASSISTANCE, THE SHARE SUBSCRIPTION AND THE ACQUISITION)

As mentioned in the paragraph headed "BACKGROUND" above, the Group recorded net current liabilities of HK$2.9 billion, with total bank and other borrowings amounted to HK$3.6 billion as at 31 December 2021, of which HK$2.2 billion are due for repayment in 2022. In addition, a further HK$1.3 billion of bank and other borrowings were classified as current liabilities as events of defaults due to, among others, the suspension of trading of the Company's shares since 18 January 2021, had occurred. Certain creditors had also demanded immediate repayment of loans due by the Group.

The Directors have since taken various measures to mitigate the liquidity pressure and to improve the financial position of the Group as mentioned in the Company's annual report for the year ended 31 December 2021, including but not limited to the following:

(a) In January 2022, the Group appointed Mizuho Bank, Ltd. as facility agent to negotiate with potentials lenders on behalf of the Group for a refinancing plan, which is conditional upon, among others, the successful resumption of trading of the Shares and the provision of certain financial assistance from Beijing Gas Group; and

(b) The Board has been in active discussion with Beijing Gas Group on possible capital and/or asset injections plans.

As at 30 June 2022, the Group's net current liabilities position stood at HK$2.6 billion. Trading of Shares has resumed on 25 July 2022, and the Capital and Asset Injection Plan is formulated to address the Group's pressing liquidity issues, strengthen asset base and earning capability taking into account the needs of the Group in term of its current financial position as well as its long-term development goals.

The implementation of the Capital and Asset Injection Plan will strengthen the Group's working capital position and provide an immediate cash inflow of HK$1.5 billion. Moreover, the terms in the Facility Agreement and the Convertible Bond Agreement would allow the Company to accrue all its interest payments by paying them in full and one lump sum on the maturity dates. As a result, the Group is able to repay part of its existing borrowings due for immediate repayment as mentioned above as well as to retain more cash resources to service other external borrowings, and it is expected that the Group will improve its net current asset position and have a much reduced gearing.

Beijing Gas Group, the Controlling Shareholder of the Company, shows their support by increasing its shareholding in the Company as part of the Capital and Asset Injection Plan and it is committed to the long-term continued growth of the Group.

During the six months ended 30 June 2022, the Group has 8 city gas projects located in Shanxi Province, Jilin Province, Liaoning Province and Hubei Province. In addition, the Group is engaged in the trading and distribution of natural gas, including CNG, LNG, fuel oil and other related oil by-products to industrial and commercial users. The Group intends to actively explore industry opportunities and continues to focus on developing LNG whole industry chain business and city gas business by fully leveraging the management expertise and resources of Beijing Gas Group.

In February 2022, the National Development and Reform Commission and the National Energy Administration published the Opinions to Improve the Energy Green Low Carbon Transition Systems, Mechanisms, Policies and Measures (《關於完善能源綠色低碳轉型體制機制和政策措施的意見》) emphasizing the importance of advancing green transformation. Echoing the new PRC governmental's environmental policy, the Group will actively seize the market opportunities by way of organic growth or by acquisition where appropriate to accelerate development of its integrated energy distribution business, enhance comprehensive competitiveness in the natural gas market and create social values through strengthening risk and compliance control.

As disclosed in the section "Information of the Target Group", the Project Company is granted with an operating concession right in the region for 30 years commencing from 2016 for natural gas supply business. The natural gas source supply of the Project Company is backed by two major natural gas supply pipelines of the PipeChina (國家管網) namely West-to-East Gas Pipeline #2* (西氣東輸二線) and China-Myanmar Natural Gas Pipeline* (中緬天然氣管線). The Project Company directly sources natural gas from the PipeChina network covering the natural gas consumption in the Teng County and its neighboring rural townships under the operating concession right. This natural gas supply model promotes a clean energy solution that is in line with the country's environmental goal. The Project Company is expected to benefit from the increasing industrial activities in the Teng County, most notably the development of a ceramic industrial park in the region which is expected to lead to rising energy demand from clean energy sources as the Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region* (廣西壯族自治區工業和信息化廳) has implemented a new guidance in 2021 which requires local ceramic producers to complete conversion of the use of energy source in production from coal to gas by end of 2025. As such, the Acquisition will not only enhance the Group's city gas business portfolio but also fits in the Group's natural gas expansion and development strategy.

The Directors also expect that the Acquisition will enhance the Group's natural gas business portfolio and asset base and represents an excellent opportunity for the Company to expand its city gas business into the Guangxi market, in which the Company currently has limited presence in this region.

Before agreeing to the Capital and Asset Injection Plan and the Syndicated Facility, the Company has considered various means of financing and the feasibilities of each option. However, due to the Group's net current liabilities position since 2019 and sluggish market sentiment, the Group was unable to materialise any alternative financing plan. In addition, as of the Latest Practicable Date, the Company has not received other viable proposal which may address the Group's pressing liquidity issue taking into account the needs of the Group other than the transaction contemplated herein. As set out in the section headed "THE SYNDICATED FACILITY, the utilisation of the Syndicated Facility is conditional upon, inter alia, the successful completion of the Share Subscription and the Acquisition, and the proceeds from the Financial Assistance having been used to repay part of the existing bank and other borrowings of the Company. In the event the Capital and Asset Injection Plan does not materialise, the Company might be unable to reach another agreement with the Syndicated Lenders on re-financing terms similar to the Syndicated Facility Agreement, and may therefore increase the liquidity and credit risk of the Group.

Taking into account of the above factors, the Directors, are of the view that the Capital and Asset Injection Plan, involving the Facility, the Convertible Bond Subscription, the Share Subscription and the Acquisition were agreed upon after arm's length negotiations between the parties, and the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTENTION OF BEIJING GAS GROUP WITH RESPECT TO THE COMPANY

Beijing Gas Group intends to continue the existing business of the Company. In connection with the Capital and Asset Injection Plan, Beijing Gas Group and the Company intend to review the Company and its assets, operations, capitalisation, properties, policies and management to consider and determine what actions, if any, would be appropriate or desirable following the Capital and Asset Injection Plan in order to best organise and optimise the operations of the Company. Such actions may include, amongst other things, redeployment of fixed assets of the Company or operations, streamline of cost and organization structure, disposal of non core assets, capitalisation and reorganization of management or the board composition of the Company. Nevertheless, Beijing Gas Group intends to continue the employment of the employees of the Group (other than any discontinuation of employment in the ordinary course of business of the Group).

It is the intention of Beijing Gas Group to continue the business operations and staff employment of the Group. As such, the Directors considers that it is in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The gross proceeds from the Facility, the Convertible Bond Subscription and the Share Subscription amount to HK$700 million, HK$300 million and HK$500 million respectively and the net proceeds, after deduction of all relevant expenses, amount to approximately HK$698.9 million, HK$297.8 million and HK$497.8 million respectively. The total net proceeds of the Facility, the Convertible Bond Subscription and the Share Subscription of HK$1,494.5 million are intended to be utilized in the following manner:

(i) approximately 67.78% of the net proceeds, which is equivalent to approximately HK$1,013 million, will be used for repaying some of the existing bank borrowings;

(ii) approximately 22.55% of the net proceeds, which is equivalent to approximately HK$337 million, will be used for repaying the outstanding amount and interest associated with the corporate bonds issued by the Company and other borrowings of the Group;

(iii) approximately 6.31% of the net proceeds, which is equivalent to approximately HK$94.5 million, will be used for business development; and

(iv) approximately 3.36% of the net proceeds, which is equivalent to approximately HK$50 million, will be used for general working capital purposes.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not raised any other funds by equity issue in the past 12 months immediately preceding the Latest Practicable Date.

INFORMATION OF THE COMPANY

The Company is a company incorporated in Bermuda with limited liability and principally engaged in investment holding. The Group is an integrated natural gas provider and distributor that offers innovative and diversified clean energy solution in the PRC. The Group focuses on the downstream natural gas distribution business which encompasses (i) construction and operation of compressed natural gas and LNG refueling stations for vehicles; and (ii) construction of natural gas connection pipelines and supply of piped gas to industrial parks, commercial complex and residential communities.

INFORMATION ABOUT BEIJING GAS GROUP AND BEIJING GAS HK

Beijing Gas Group is the Controlling Shareholder of the Company and is indirectly interested in approximately 41.13% of the issued share capital of the Company as at the Latest Practicable Date. It was established in the PRC with limited liability and is principally engaged in supplying and selling piped natural gas and related businesses in Beijing. Beijing Gas Group is an indirect wholly owned subsidiary of Beijing Enterprises Holding Limited, an integrated public utilities operator with principal activities focusing on gas, water and environment, solid waste treatment and beer business. Beijing Enterprises Holding Limited is a company incorporated in Hong Kong and listed on the Main Board of the Stock Exchange (stock code: 392) and controlled as to 62.31% by Beijing Enterprises Group Company Limited* （北京控股集團有限公司） (the "**BE Group**"), which is in turn ultimately and beneficially owned as to 100% by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality（北京市人民政府）. The remaining issued shares of Beijing Enterprises Holding Limited are held by the public shareholders.

Beijing Gas HK is a company incorporated in Hong Kong with limited liability, the Controlling Shareholder of the Company and is indirectly wholly-owned by Beijing Gas Group. Its principal business is investment holding.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The table below illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after allotment and issue of the Subscription Shares and the Consideration Shares, before conversion of any of the Convertible Bond; and (iii) immediately after allotment and issue completion of the Subscription Shares, the Consideration Shares and the Conversion Shares after full conversion of the Convertible Bond immediately after its issue date.

	As at the Latest Practicable Date		Immediately after allotment and issue of the Subscription Shares and the Consideration Shares, before conversion of any of the Convertible Bond		Immediately after allotment and issue of the Subscription Shares, the Consideration Shares and the Conversion Shares after full conversion of the Convertible Bond immediately after its issue date	
	No. of Shares	*Approximately %*	*No. of Shares*	*Approximately %*	*No. of Shares*	*Approximately %*
Beijing Gas HK	5,341,042,131	41.13%	15,091,042,131	66.37%	17,633,415,012	69.76%
Parties acting in concert with Beijing Gas Group and Beijing Gas HK	–	–	–	–	–	–
	5,341,042,131	41.13%	15,091,042,131	66.37%	17,633,415,012	69.76%
Public Shareholders	7,645,072,584	58.87%	7,645,072,584	33.63%	7,645,072,584	30.24%
	12,986,114,715	100%	22,736,114,715	100%	25,278,487,596	100%

Notes:

(1) The percentages in the table above are expressed as percentages of the total issued Shares of the Company at the relevant time and are subject to rounding adjustments.

(2) BNP Paribas is the financial adviser to Beijing Gas Group in respect of the Capital and Asset Injection Plan. Accordingly, BNP Paribas and the relevant members of the BNP Paribas Group which hold the Shares are presumed to be acting in concert with Beijing Gas Group in accordance with class (5) of the definition of "acting in concert" under the Takeovers Code (except in respect of Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code. As at the Latest Practicable Date, other than holdings by exempt principal traders or exempt fund manager within the BNP Paribas Group, members of BNP Paribas Group do not hold any Shares.

(3) The Acquisition and the Share Subscription are inter-conditional to each other and the issue and allotment of the Subscription Shares and the Consideration Shares will take place on the same day.

Upon Completion, Beijing Gas Group will hold 66.37% before conversion of any of the Convertible Bond and 69.76% upon full conversion of the Convertible Bond. No less than 25% of the shares of the Company will be held by Independent Third Parties. As such, the Company will be able to comply with the public float requirement under Rule 8.08 of the Listing Rules.

Theoretical dilution effect

The Share Subscription and the Convertible Bond Subscription (assuming full conversion of the Convertible Bond) would result in a theoretical dilution effect pursuant to Rule 7.27B of the Listing Rules as follows:

	Share Subscription	**Convertible Bond Subscription**	**Share Subscription and Convertible Bond Subscription**
Theoretical dilution effect	10.11%	Nil *(Note)*	8.60%

Note: The Convertible Bond Subscription is anti-dilutive.

FINANCIAL EFFECT OF THE CAPITAL AND ASSET INJECTION PLAN

The Group has prepared the pro forma financial information based on the current knowledge, historical performance and best available information to date of the Enlarged Group.

The financial impact of the Capital and Asset Injection Plan on the Group (including its effect on the assets and liabilities of the Group) is illustrated by way of the unaudited pro forma financial information of the Enlarged Group set out in Appendix III to this circular. This pro forma financial information is prepared on the basis set out in the notes in Appendix III to this circular and is prepared for illustrative purposes only.

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group, assuming the Completion had taken place on 30 June 2022, the pro forma total assets and total liabilities of the Enlarged Group as at 30 June 2022 would have been HK$6,599 million and HK$5,147 million, respectively; resulting in a net assets position of approximately HK$1,452 million. For details, please refer to Appendix III to this circular.

Moreover, immediately upon the Completion, the Target Group will become a non-wholly-owned subsidiary of the Company. The Target Group and its results will be consolidated into the financial statements of the Group. The Acquisition will not affect the earnings of the Group for the year ended 31 December 2021.

LISTING RULES IMPLICATIONS

Beijing Gas Group is the Controlling Shareholder of the Company holding approximately 41.13% of the issued share capital of the Company and thus is a connected person of the Company under the Listing Rules.

No Director has material interest in the Capital and Asset Injection Plan involving the Facility, the Convertible Bond Subscription, the Share Subscription, the Acquisition and the transactions contemplated thereunder, but as Mr. Zhi Xiaoye is also a director of certain members of the Beijing Gas Group, he has voluntarily abstained from voting on the relevant Board resolution(s) in approving the Capital and Asset Injection Plan involving the Facility, the Convertible Bond Subscription, the Share Subscription, the Acquisition and the transactions contemplated thereunder.

Financial Assistance

The Financial Assistance, comprising (i) the Facility and (ii) the Convertible Bond Subscription, constitute a non-exempt connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Share Subscription

The Share Subscription and the transactions contemplated thereunder constitute a non-exempt connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Acquisition

As the highest applicable percentage ratio in respect of the Acquisition Agreement and the transactions contemplated thereunder exceeds 25% but is less than 100%, the Acquisition constitutes a major and connected transaction of the Company and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14 and 14A of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS

As at the Latest Practicable Date, Beijing Gas Group and its concert parties hold 5,341,042,131 Shares, representing approximately 41.13% of the total issued Shares. As illustrated in the section headed "Effect on the Shareholding Structure of the Company" above, upon completion of the Share Subscription and the Acquisition, Beijing Gas Group and its concert parties' voting right will increase to approximately 66.37% before conversion of any of the Conversion Bond, and will further increase to approximately 69.76% upon full conversion of the Conversion Bond.

Accordingly, in the absence of the Whitewash Waiver, completion of the Share Subscription and the Acquisition will give rise to an obligation on the part of Beijing Gas Group to make a mandatory offer for all the Shares (other than those already owned or acquired by Beijing Gas Group and parties acting in concert with it) under Rule 26.1 of the Takeovers Code.

Beijing Gas Group has applied to the Executive for the Whitewash Waiver from compliance with the obligation to make a mandatory general offer under Rule 26.1 of the Takeovers Code as a result of the issue of the Subscription Shares and Consideration Shares. The Executive has indicated that it is minded to grant the Whitewash Waiver subject to, amongst others, the passing of the Whitewash Waiver Resolutions. Beijing Gas Group and its concert parties, and those who are involved in or interested in the Financial Assistance, the Share Subscription and the Acquisition will be required to abstain from voting in respect of the Whitewash Waiver Resolutions. The Financial Assistance, the Acquisition and the Share Subscription will not proceed if the Whitewash Waiver is not granted by the Executive, or not approved by the Independent Shareholders.

As at the Latest Practicable Date, the Company does not believe that the Financial Assistance, the Acquisition and the Share Subscription give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Financial Assistance, the Acquisition and the Share Subscription do not comply with other applicable rules and regulations.

The maximum potential holding of voting rights of Beijing Gas Group and parties acting in concert with them resulting from the Financial Assistance, the Acquisition and the Subscription Agreement may exceed 50% of the voting rights of the Company, and Beijing Gas Group and parties acting in concert with them may increase their holding without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer thereafter.

SGM AND INDEPENDENT BOARD COMMITTEE

Set out on pages SGM-1 to SGM-3 of this circular is a notice of the SGM to be held at Room 3402, 34/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong on Tuesday, 15 November 2022 for the purpose of considering and, if thought fit, passing the resolutions to approve the Financial Assistance, the Share Subscription, the Acquisition, the conditional appointment of Mr. Shao as a non-executive Director, and the Whitewash Waiver.

Any Shareholders who are interested in or involved in the above matters shall abstain from voting on the resolution(s) in relation thereto to be proposed at the SGM. In addition, Beijing Gas Group and its concert parties and associates and those who are involved in or interested in the Financial Assistance, the Share Subscription and the Acquisition will be required to abstain from voting in respect of the Whitewash Waiver Resolutions. As at the Latest Practicable Date, other than the 5,341,042,131 Shares (representing approximately 41.13% of the issued Shares of the Company) held by Beijing Gas Group and its concert parties as set out in the section headed "Effect on the Shareholding Structure of the Company" above, no Shareholders were required to abstain from voting at the SGM in respect of the Whitewash Waiver Resolutions and the resolution on the conditional appointment of Mr. Shao as a non-executive Director.

Pursuant to Rule 2.8 of the Takeovers Code, an independent board committee of the Company, comprising all non-executive Directors who have no direct or indirect interest in the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver, should be established to advise the Independent Shareholders on the terms of the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver. As Mr. Zhi Xiaoye, being the non-executive Director, also holds directorship position in Beijing Gas Group, he shall be absent from the appointment as member of the independent board committee to avoid conflict of interests for compliance of Rule 2.8 of the Takeovers Code.

Accordingly, an Independent Board Committee, comprising only all independent non-executive Directors, namely Mr. Cui Yulei, Ms. Hsu Wai Man Helen and Mr. Xu Jianwen, has been established. None of the members of the Independent Board Committee has any interest or involvement in the Financial Assistance, the Subscription, the Acquisition and the Whitewash Waiver.

With the approval of the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code, Octal Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver are fair and reasonable and to advise the Independent Shareholders on how to vote.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 41 to 42 in this circular which contains its recommendation to the Independent Shareholders (i) as to whether the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver are fair and reasonable; and (ii) as to voting at the SGM in relation to the Financial Assistance, the Share Subscription, the Acquisition, and the conditional appointment of a non-executive Director and the Whitewash Waiver.

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages IFA-1 to IFA-55 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders (i) as to whether the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver are fair and reasonable; and (ii) as to voting at the SGM in relation to the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver, and the principal factors and reasons considered by it in arriving at its opinion.

The Directors (including the independent non-executive Directors who have taken into consideration the advice from the Independent Financial Adviser) consider that Financial Assistance, Share Subscription, Acquisition and the Whitewash Waiver are on normal commercial terms, fair and reasonable and are in the best interest of the Company and the Independent Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders should vote in favour of the resolutions, which will be proposed at the SGM, relating to Financial Assistance, Share Subscription, Acquisition and the Whitewash Waiver.

You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Adviser mentioned above before deciding how to vote on the resolution(s) to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
BEIJING GAS BLUE SKY HOLDINGS LIMITED
Zhi Xiaoye
Chairman

BEIJING GAS BLUE SKY HOLDINGS LIMITED
北京燃氣藍天控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6828)

31 October 2022

To the Independent Shareholders

Dear Sir or Madam,

(1) CAPITAL AND ASSET INJECTION PLAN INVOLVING (A) FINANCIAL ASSISTANCE FROM BEIJING GAS HK; (B) SUBSCRIPTION OF NEW SHARES BY BEIJING GAS HK UNDER SPECIFIC MANDATE; AND (C) ACQUISITION OF THE TARGET COMPANY; AND (2) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular issued by the Company to the Shareholders dated 31 October 2022 (the **"Circular"**) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed as members of the Independent Board Committee to advise you as to whether the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole. Octal Capital has been appointed as the Independent Financial Adviser in this regard.

We wish to draw your attention to the "Letter from the Board" and the "Letter from the Independent Financial Adviser" set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that the Financial Assistance and the Share Subscription are both one-off financing solutions with a view to improving the Group's liquidity, whilst the Acquisition will allow the Group to further expand its natural gas supply business, which is in the ordinary and usual course of business of the Group, nevertheless, the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver are on normal commercial terms which are, fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the relevant resolution approving the Financial Assistance, the Share Subscription, the Acquisition and Whitewash Waiver at the SGM.

Yours faithfully
For and on behalf of the Independent Board Committee of

Mr. Cui Yulei	**Ms. Hsu Wai Man Helen**	**Mr. Xu Jianwen**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

金融有限公司
OCTAL Capital Limited

Octal Capital Limited
801-805, 8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

31 October 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(1) CAPITAL AND ASSET INJECTION PLAN INVOLVING
(A) FINANCIAL ASSISTANCE FROM BEIJING GAS HK;
(B) SUBSCRIPTION OF NEW SHARES BY BEIJING GAS HK
UNDER SPECIFIC MANDATE; AND
(C) ACQUISITION OF THE TARGET COMPANY;
AND
(2) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Share Subscription, (ii) the Financial Assistance (including the Facility and the Convertible Bond Subscription), (iii) the Acquisition and (iv) the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 31 October 2022 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under section headed "DEFINITIONS" in the Circular.

On 26 September 2022, the Company and Beijing Gas Group conditionally agreed to the proposed Capital and Asset Injection Plan involving the Share Subscription, the Financial Assistance and the Acquisition. The Share Subscription, the Financial Assistance (including the Facility and the Convertible Bond Subscription) and the Acquisition are inter-conditional with each other, and the Completion is expected to take place simultaneously:

(i) Subscription of new Shares by Beijing Gas HK under Specific Mandate

The Company has conditionally agreed to allot and issue, and Beijing Gas HK has conditionally agreed to subscribe for, 6,250,000,000 Subscription Shares at the Subscription Price of HK$0.08 per Subscription Share for a total subscription amount of HK$500 million.

(ii) Financial assistance from Controlling Shareholder

Beijing Gas HK has conditionally agreed (i) to provide a term loan facility to the Company of HK$700 million; and (ii) to subscribe for the Convertible Bond to be issued by the Company in the aggregate principal amount of HK$300 million, both secured by the issued shares of Beijing Gas Jingtang Company Limited* （北燃京唐有限公司）, a wholly-owned subsidiary of the Company.

(iii) Acquisition of the Target Company

Beijing Gas Group has conditionally agreed to sell and the Company has conditionally agreed to purchase the 100% equity interests in the Target Company at a share consideration of HK$280 million to be settled by the issue and allotment of 3,500,000,000 Consideration Shares.

Listing Rule Implications

Beijing Gas Group is the Controlling Shareholder of the Company, holding approximately 41.13% of the issued share capital of the Company, and thus is a connected person of the Company under the Listing Rules. The Financial Assistance, the Share Subscription and the Acquisition constitute non-exempt connected transactions of the Company whilst the Acquisition also constitutes a major and connected transaction of the Company.

Takeovers Code implications and application for Whitewash Waiver

As at the Latest Practicable Date, Beijing Gas Group and its concert parties hold 5,341,042,131 Shares, representing approximately 41.13% of the total issued Shares. Upon completion of the Share Subscription and the Acquisition, Beijing Gas Group and its concert parties' voting rights in the Company will increase to approximately 66.37% before conversion of any of the Convertible Bond, and will further increase to approximately 69.76% upon full conversion of the Convertible Bond. Accordingly, in the absence of the Whitewash Waiver, completion of the Share Subscription and the Acquisition will give rise to an obligation on the part of Beijing Gas Group to make a mandatory offer for all the Shares (other than those already owned or acquired by Beijing Gas Group and parties acting in concert with it) under Rule 26.1 of the Takeovers Code. Beijing Gas Group has applied to the Executive for the Whitewash Waiver from compliance with the obligation to make a mandatory general offer under Rule 26.1 of the Takeovers Code as a result of the issue of the Subscription Shares and the Consideration Shares.

Independent Board Committee

In accordance with the relevant requirements under the Listing Rules and the Takeovers Code, the Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Cui Yulei, Ms. Hsu Wai Man Helen and Mr. Xu Jianwen, has been formed to advise the Independent Shareholders on the terms of (i) the Share Subscription, (ii) the Financial Assistance, (iii) the Acquisition and (iv) the Whitewash Waiver. As Mr. Zhi Xiaoye, being the non-executive Director, also holds directorship position in the Beijing Gas Group, he shall be absent from the appointment as member of the Independent Board Committee to avoid conflict of interests for compliance of Rule 2.8 of the Takeovers Code.

In this connection, we, Octal Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of (i) the Share

Subscription, (ii) the Financial Assistance, (iii) the Acquisition and (iv) the Whitewash Waiver and to make recommendations as to, among others, whether the terms of (i) the Share Subscription, (ii) the Financial Assistance, (iii) the Acquisition and (iv) the Whitewash Waiver are fair and reasonable and as to the voting thereon. Our appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

Our Independence

During the last two years, there was no engagement between us and the Company, the Group, the Directors, the chief executive, Beijing Gas Group, Beijing Gas HK, Beijing Enterprises Group Company Limited*（北京控股集團有限公司）(“**BE Group**”), the Target Group or any of their subsidiaries or their respective associates, and any parties acting in concert with them. Apart from normal professional fee payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Group, the Directors, the chief executive, Beijing Gas Group, Beijing Gas HK, BE Group, the Target Group or any of their subsidiaries or their respective associates, and any parties acting in concert with them. Therefore, we consider ourselves eligible to act as the independent financial adviser to the Company under the requirements of the Listing Rules. As at the Latest Practicable Date, there is no financial and business relationship between us and the Company, the Group, the Directors, the chief executive, Beijing Gas Group, Beijing Gas HK, BE Group, the Target Group or any of their subsidiaries or their respective associates, and any parties acting in concert with them, and are therefore considered independent and suitable to give independent advice to the Independent Board Committee and the Independent Shareholders pursuant to Rule 2.6 of the Takeovers Code.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussions with the management of the Company regarding the Group, Beijing Gas Group, Beijing Gas HK, BE Group, the Target Group in relation to the Share Subscription, the Financial Assistance, the Acquisition, and the Whitewash Waiver, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Beijing Gas Group, Beijing Gas HK, BE Group, the Target Group and their respective associates nor have we carried out any independent verification of the information supplied.

As set out in the responsibility statement in Appendix VI to the Circular, the Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular 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 any statement herein or the Circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

Should there be any material changes of our opinion after the Latest Practicable Date, we will notify the Independent Board Committee and the Independent Shareholders as soon as possible.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving our opinion with regard to the terms of (i) the Share Subscription; (ii) the Financial Assistance; (iii) the Acquisition; and (iv) the Whitewash Waiver, we have considered the following principal factors and reasons:

A. BACKGROUND INFORMATION

Reference is made to the Company's announcements dated 19 January 2021, 29 September 2021 and 19 April 2022. Mr. Cheng Ming Kit ("**Mr. Cheng**"), a former executive Director who was appointed in 2014 and subsequently removed in November 2021, was believed to be involved in a number of suspicious transactions (the "**Incident**") after the Company's then management commissioned a comprehensive internal review of the Group's assets and past transactions in late 2020. In January 2021, the Board (excluding Mr. Cheng) resolved to suspend the duties and powers of Mr. Cheng as a Director, and subsequently resolved to establish a special committee to investigate into the Incident.

Based on findings of the forensic investigations, Mr. Cheng was found to be involved in most of 54 suspicious transactions identified (i.e. Reviewed Transactions (as defined therein) as reported in the Company's announcements dated 29 September 2021 and 19 April 2022), which has caused significant adverse effect on the business operations, financial performance, cash flows of the Group for the two years ended 31 December 2020 and 2021. As a result, the Group incurred one-off impairment charges of approximately HK$3.7 billion and HK$297 million, for the years ended 31 December 2020 and 2021 respectively. The net current liabilities of the Group as of 31 December 2021 was HK$2.9 billion, with total bank and other borrowings amounted to HK$3.6 billion, of which HK$2.2 billion were due for repayment in 2022. The Company's auditors gave a disclaimer of opinion in the auditors' report for the years ended 31 December 2020 and 2021, and there were audit qualifications relating to the going concern of the Company in both years. As at 30 June 2022, the Group's net current liabilities position still stood at HK$2.6 billion.

The trading in the Shares had been suspended since 18 January 2021 and the resumption took place on 25 July 2022. During the trading suspension, certain creditors demanded immediate repayment of loans due by the Group. In light of this, the Company began to explore with Beijing Gas Group, the Company's Controlling Shareholder, for potential assistance in different aspects, such as strategic synergy, business support, investment and financing arrangements, talent recruitment and management enhancement which can improve the Group's financial position and business performance and are in the interest of the Company and the Shareholders as a whole.

On 26 September 2022, the Company and Beijing Gas Group, conditionally agreed to the proposed Capital and Asset Injection Plan, involving the Share Subscription, the Facility, the Convertible Bond Subscription, and the Acquisition, which are inter-conditional with each other, details of which are set out in the Circular.

1. Background of the Group and its parent Company

(a) Background of the Group

The Company is a company incorporated in Bermuda with limited liability and is principally engaged in investment holding. The Group is an integrated natural gas provider and distributor that offers innovative and diversified clean energy solution in the PRC. The Group focuses on the downstream natural gas distribution business which encompasses (i) construction and operation of compressed natural gas and LNG refuelling stations for vehicles; and (ii) construction of natural gas connection pipelines and supply of piped gas to industrial parks, commercial complex and residential communities.

The Group has been actively exploring suitable opportunities and focusing on developing LNG whole industry chain business and city gas business. As mentioned in the annual report for year ended 31 December 2021 ("**FY2021**"), the Group has 8 city gas projects located in Shanxi Province, Jilin Province, Liaoning Province and Hubei Province during FY2021. 2021 marks the start of China's 14th Five-Year Plan. The goal of "peak carbon dioxide emissions and carbon neutrality" has attracted wide attention. As a clean, efficient and safe energy with stable supply, natural gas plays an important role in the domestic transformation of energy structure. The Group actively responded to national policies. During FY2021, for the development and operation of city gas business, the Group connected gas pipelines for 33,087 new users and the accumulated number of residential users reached 420,000, of which 32,865 were new residential users. The volume of natural gas sold by the Group to residential users amounted to 67.6 million cubic meters. The Group secured 212 new industrial and commercial users and the accumulated industrial and commercial users reached 1,897, and the natural gas sold to industrial and commercial users reached 65.4 million cubic meters.

As mentioned in the interim report for the six months ended 30 June 2022 ("**2022 Interim Report**"), as the overseas listed investment and financing platform of Beijing Gas Group, the Group will actively seize the market opportunities under the dual carbon target to accelerate the development of renewable energy and clean energy.

(b) Beijing Gas HK and Beijing Gas Group

Beijing Gas HK is a company incorporated in Hong Kong with limited liability, the Controlling Shareholder of the Company and is indirectly wholly-owned by Beijing Gas Group. Its principal business is investment holding.

Beijing Gas Group is the Controlling Shareholder of the Company and is indirectly interested in approximately 41.13% of the issued share capital of the Company as at the Latest Practicable Date. It is established in the PRC with limited liability and is principally engaged in supplying and selling piped natural gas and related businesses in Beijing. Beijing Gas Group is an indirect wholly-owned subsidiary of Beijing Enterprises Holding Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 392) and which is an integrated public utilities operator with principal activities focusing on gas, water and environment, solid waste treatment and beer businesses. Beijing Enterprises Holding Limited is ultimately controlled as to 62.31% by BE Group, which is in turn ultimately and beneficially owned as to 100% by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality (北京市人民政府). The remaining issued shares of Beijing Enterprises Holding Limited are held by public shareholders.

According to the official website (www.begcl.com) of BE Group, established in 2005, BE Group has become a state-owned holding group comprising domestic and cross-border industrial and capital operation business. It has owned 11 listed companies, 9 of which are listed on the Main Board of the Stock Exchange, including the Company. Being one of the two pilot companies invested and operated by the State-owned Assets Supervision and Administration Commission, BE Group has maintained broad range of resources and stable profitability. BE Group recorded total asset of approximately RMB388.3 billion, total revenue of approximately RMB101.2 billion and net profit of approximately RMB9 billion for the financial year ended 31 December 2020. It was ranked the 216th among "China Top 500 Companies" by Fortune Magazine.

2. Financial information of the Group

(a) Financial Performance of the Group

Set out below is a summary of the consolidated financial information of the Group for three financial years ended 31 December 2019, 2020 and 2021 ("**FY2019**", "**FY2020**" and "**FY2021**", respectively), as extracted from the annual reports of the Company for FY2020 and FY2021 (the "**Annual Reports**"), and for six months period ended 30 June 2021 and 30 June 2022 ("**HY2021**" and "**HY2022**", respectively) as extracted from 2022 Interim Report.

HK$ '000	**FY2019** *(audited)*	**FY2020** *(audited)*	**FY2021** *(audited)*	**HY2021** *(unaudited)*	**HY2022** *(unaudited)*
Revenue	2,676,129	1,463,102	1,728,019	1,205,336	919,261
Cost of sales and services	(2,451,619)	(1,307,855)	(1,608,675)	(1,158,211)	(878,622)
Gross profit	224,510	155,247	119,344	47,125	40,639
Gross profit margin	8.4%	10.6%	6.9%	3.9%	4.4%
(Loss)/profit for the year/ period	73,870	(3,806,402)	(278,557)	39,056	18,308

Comparison between FY2019 and FY2020

The Group recorded revenue of approximately HK$2,676.1 million and approximately HK$1,463.1 million for FY2019 and FY2020 respectively, representing a decrease of approximately 45.3%, which was mainly due to (i) the adjusted revenue recognition presentation on trading revenue in FY2021 by adjusting the trading revenue of natural gas in the amount of approximately HK$874.1 million to a net income basis of approximately HK$6 million; and (ii) the impact of COVID-19 during FY2021, during which a large number of enterprises have suspended production, resulting in a significant decrease in demand from industrial and commercial users. Although the gross profit of the Group decreased from approximately HK$224.5 million for FY2019 to approximately HK$155.2 million for FY2020, the gross profit margin increased from approximately 8.4% for FY2019 to 10.6% for FY2020 which was mainly due to the adjusted revenue recognition presentation on trading revenue in FY2020 by adjusting the trading revenue of natural gas in the amount of approximately HK$874.1 million to a net income basis amounted approximately HK$6 million which decreased the revenue in the segment of the trading and distribution of natural gas, resulting in an enhancement of gross profit ratio.

The Group recorded a loss of approximately HK$3,806.4 million for FY2020 as compared to profit of approximately HK$73.9 million for FY2019 which was mainly due to significant one-off impairment charges of approximately HK$3.7 billion on financial assets and other assets during FY2020 as a result of the Incident and the respective forensic investigations as mentioned in the section headed "A.1.(a) Background of the Group" of this letter.

Comparison between FY2020 and FY2021

The Group recorded revenue of approximately HK$1,463.1 million and approximately HK$1,728.0 million for FY2020 and FY2021 respectively, representing an increase of approximately 18.1%, which was mainly attributable to (i) the increase in the trading and distribution of natural gas by approximately HK$181.1 million; (ii) the recovery of the global economy and commodity market from the historic collapse in demand caused by the impact of COVID-19; and (iii) increase in realised sales price and total sales volume. The gross profit of the Group for FY2021 decreased by 23.1% from approximately HK$155.2 million for FY2020 to approximately HK$119.3 million. The gross profit margin also decreased from approximately 10.6% to approximately 6.9%, which was mainly due to (i) decrease in connection projects; and (ii) the continuing high natural gas price for FY2021, resulting in a squeeze of profit.

The loss for the year reduced from approximately HK$3,806.4 million for FY2020 to approximately HK$278.6 million for FY2021 which was mainly due to comparatively less significant one-off impairment charges of approximately HK$297 million on financial assets and other assets during FY2021 as a result of the Incident and the respective forensic investigations as mentioned in the above section headed "A.1.(a) Background of the Group" of this letter.

Comparison between HY2021 and HY2022

The Group reported revenue of approximately HK$919.3 million for HY2022 as compared to approximately HK$1,205.3 million for HY2021, representing a decrease of 23.7%, which was primarily due to the decreases in revenue from (i) the natural gas trading and distribution business and (ii) the direct supply to industrial customers business as a result of the impact of COVID-19 and decrease in revenue due to the rising trading costs for trading and distribution of natural gas during HY2022. The total gross profit of the Group was approximately HK$40.6 million for HY2022 as compared to approximately HK$47.1 million for HY2021, representing a decrease of 13.8% which is in line with the decrease in the revenue. Nonetheless, the Group's gross profit margin increased from 3.9% for HY2021 to 4.4% for HY2022, as the Group continued to improve operational efficiency and reallocate the business resources.

The profit for HY2022 of the Group was approximately HK$18.3 million as compared to approximately HK$39.1 million for HY2021, representing a decrease of 53.2%, which was mainly due to (i) the decrease in the revenue as mentioned above; and (ii) the increase in legal and professional expenses arising from the professional services for the resumption of trading in the Shares during HY2022.

(b) Financial Position of the Group

Set out below is the summary of the assets and liabilities of the Group as at 31 December 2020, 31 December 2021 and 30 June 2022, as extracted from the Annual Reports and 2022 Interim Report respectively.

HK$'000	**As at 31 December 2020** *(audited)*	**As at 31 December 2021** *(audited)*	**As at 30 June 2022** *(unaudited)*
Non-current assets	3,785,668	3,688,218	3,256,016
Current assets	1,687,623	1,547,919	1,316,870
Total assets	**5,473,291**	**5,236,137**	**4,572,886**
Non-current liabilities	283,965	121,750	77,508
Current liabilities	4,379,165	4,413,404	3,866,927
Total liabilities	**4,663,130**	**4,535,154**	**3,944,435**
Net current liabilities	(2,691,542)	(2,865,485)	(2,550,057)
Net assets	810,161	700,983	628,451
Equity attributable to owners of the Company	749,902	604,844	535,150
Cash and bank balances	705,408	230,945	332,475
Borrowings:			
Current portion	3,364,798	3,486,413	3,058,366
Non-current portion	153,651	93,324	53,762
Total borrowings	**3,518,449**	**3,579,737**	**3,112,128**
Current ratio [1]	0.39	0.35	0.34
Gearing ratio[2]	434.3%	510.7%	495.2%

Source: Annual Reports and 2022 Interim Report

Notes:

1. Being current assets divided by current liabilities

2. Being the total borrowings divided by total equity

As at 31 December 2021

The Group had current assets of approximately HK$1,547.9 million, and current liabilities of approximately HK$4,413.4 million, resulting in net current liabilities of approximately HK$2,865.5 million, which represented an increase of approximately 6.5% from approximately HK$2,691.5 million as at 31 December 2020. This was mainly attributable to that the current portion of borrowings increased from approximately HK$3,364.8 million as at 31 December 2020 to approximately HK$3,486.4 million as at 31 December 2021. On the other hand, the non-current portion of borrowings decreased from approximately HK$153.7 million as at 31 December 2020 to approximately HK$93.3 million as at 31 December 2021.

The current ratio of approximately 0.35 time as at 31 December 2021, which remained at a similar level as compared to that as at 31 December 2020, indicated that the Group was facing difficulty in meeting its short-term repayment obligations. The Group's total borrowings amounted to approximately HK$3,579.7 million as at 31 December 2021, which maintained at a similar level compared to that as at 31 December 2020. The net assets of the Company amounted to approximately HK$701.0 million as at 31 December 2021, representing a decrease of approximately 13.5%. Therefore, the Group's gearing ratio increased from approximately 434.3% as at 31 December 2020 to 510.7% as at 31 December 2021. The high gearing ratio led to going concern issue for the Group due to heavy reliance on debt to support its operation.

As at 31 December 2021, the Group had cash and bank balances of approximately HK$230.9 million, representing a decline of approximately 67.3% as compared to that as at 31 December 2020. In this regard, we consider the Company has been facing a tight liquidity position to meet its current portion of borrowings amounting to approximately HK$3,364.8 million and HK$3,486.4 million as at 31 December 2020 and 31 December 2021, respectively.

In light of the above, the Company's auditors issued a disclaimer of opinion in the auditors' reports for FY2020 and FY2021 which contain audit qualifications relating to the going concern of the Company in both years.

As at 30 June 2022

The Group had current assets of approximately HK$1,316.9 million and current liabilities of approximately HK$3,866.9 million, resulting in net current liabilities of approximately HK$2,550.1 million, which represented a decrease of approximately 11.0% from approximately HK$2,865.5 million as at 31 December 2021. This was mainly attributable to repayment of a portion of short-term bank borrowings. The current portion of borrowings decreased from approximately HK$3,486.4 million as at 31 December 2021 to approximately HK$3,058.4 million as at 30 June 2022. On the other hand, the non-current portion of borrowings decreased from approximately HK$93.3 million as at 31 December 2021 to approximately HK$53.8 million as at 30 June 2022.

As at 30 June 2022, the Group had cash and bank balances of approximately HK$332.5 million, representing an increase of approximately 44.0% as compared to that as at 31 December 2021. The current ratio of approximately 0.34 time, which remained at a similar level as compared to the current ratio of 0.35 time as at 31 December 2021, indicated that the Company was still in a tight liquidity position for meeting its short-term liabilities. The net assets of the Company amounted to approximately HK$628.5 million as at 30 June 2022, representing a further decrease of approximately 10.3%. The Group's gearing ratio remained high at approximately 495.2% as at 30 June 2022, indicating the Group's going concern due to heavy reliance on debt to support its operation.

The Group's total bank and other borrowings as at 30 June 2022 amounted to HK$3,112.1 million. As mentioned in 2022 Interim Report, HK$980.0 million of bank and other borrowings due after 30 June 2023 were classified as current liabilities as at 30 June 2022 as certain debt covenants were breached which was mainly attributable to (i) the prolonged trading suspension of the Company; and (ii) the breach of debt ratios under the financial covenants. As at 30 June 2022, the Group had cash and bank balances of approximately HK$332.5 million, representing an increase of approximately 44.0% as compared to that as at 31 December 2021. In comparison to the net current liabilities position of approximately HK$2,550.1 million and its current portion of borrowings amounting to approximately HK$3,058.4 million as at 30 June 2022, such cash and bank balances level indicated that the Company was not able to meet its short-term liabilities without any capital injection or financial assistance.

In January 2022, a mandate letter was entered into between the Group and Mizuho Bank, Ltd., as the facility agent, pursuant to which the facility agent was appointed by the Group to arrange for the Syndicated Facility with the Syndication Lenders. According to the terms of the Syndicated Facility Agreement, the conditions precedent to the availability of the refinancing plan included, among others, the successful asset injections from the major shareholder and the facilities from the major shareholder. On 26 September 2022, the Company and Beijing Gas Group conditionally agreed to the proposed Capital and Asset Injection Plan, involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition, which are inter-conditional with each other. On 17 October 2022, the Company (as borrower), Mizuho Bank, Ltd. (as the coordinator, mandated lead arranger, bookrunner, and a lender) and Mizuho Bank, Ltd., Hong Kong Branch (as agent and security agent) entered into the Syndicated Facility Agreement, pursuant to which the Syndication Lenders shall provide to the Company the Syndicated Facility with an aggregate amount of HK$1,013,023,665.

3. Business Prospect of the Group

According to the statistics published in the National Bureau of Statistics of the PRC (data.stats.gov.cn), the nominal Gross Domestic Product ("**GDP**") of the PRC reached approximately RMB114.4 trillion in 2021, representing an annual economic growth of 8.1%. Despite economic development of China is under pressure due to the impact of COVID-19 in 2022, the fundamental of long-term growth of China's economy remains unchanged.

According to the data of the National Bureau of Statistics and the Customs of the PRC (data.stats.gov.cn), natural gas production in China in 2021 was 205.3 billion cubic meters, increased by 8.2% on a year-on-year basis; the apparent consumption of natural gas was 372.6 billion cubic meters, increased by 12.7% on a year-on-year basis; the import volume of natural gas was 167.5 billion cubic meters (121.36 million tons), increased by 19.9% on a year-on-year basis, of which the import volume of LNG was 108.9 billion cubic meters (78.93 million tons), accounting for 65% of the total import volume of natural gas.

2022 is a crucial year for the "Outline of the 14th Five-Year Plan for National Economic and Social Development of the PRC"（中國國民經濟和社會發展第十四個五年規劃綱要）("**14th Five-Year Plan**"). In the context of the guidance under the "the goal of Peak Carbon Dioxide Emissions and Carbon Neutrality" ("碳達峰碳中和"雙碳目標) and "14th Five-Year Plan"（十四五規劃）on the development of natural gas industry, natural gas is one of the clean energy industries whose development has been heavily supported by China in recent years, which makes such market having huge potentials and opportunities. The interconnection of natural gas pipeline networks as well as improvement in LNG storage and transportation systems mentioned therein will strongly support the construction of natural gas industry chain in China. According to the statistics from scientific survey of National Energy Administration （國家能源局）, it is estimated that China's natural gas consumption will exceed 430 billion cubic meters in 2025 and total consumption will be over 550 billion cubic meters in 2030. The natural gas plays an increasingly prominent role as a "bridge" in green and low-carbon energy transformation of China. In China, domestic demand for natural gas also grew rapidly in the context of "carbon neutrality" （碳中和） and "coal-to-gas conversion"（煤改氣）goals. Therefore, it is expected that domestic natural gas business in the PRC will still be in the growth stage in long term.

As mentioned in 2022 Interim Report, although the pandemic has eased in various regions of China and the economy has gradually recovered, according to statistics, after the end of the heating season in the beginning of 2022, the demand for city gas has weakened, coupled with the impact of the domestic pandemic and high gas prices, and the fact that downstream users have a lower operating rate, and the demand for gas refuelling stations and industry has not recovered, all of which led to a decline in the apparent consumption of domestic gas.

In June 2022, the Ministry of Ecology and Environment and seven other departments jointly issued the "Implementation Plan for Synergistic Effectiveness in Reducing Pollution and Reducing Carbon"《減污降碳協同增效實施方案》, which makes systematic arrangements for promoting synergistic effectiveness in reducing pollution and reducing carbon. The program puts forward work targets including the basic formation of the work pattern of carbon reduction synergy by 2025, and significantly enhancing carbon reduction synergy by 2030, etc..

The Group intends to comply with the general direction of national development and contribute to the Group's comprehensive competitiveness in the natural gas market through the deployment of the entire LNG industry chain. In addition, the resumption of trading in the Shares in July 2022 facilitates the Group's efforts in the capital market and builds up strength for the Group's sustainable development. As the overseas listed investment and financing platform of Beijing Gas Group, the Group will actively seize the market opportunities under the dual carbon target to accelerate the development of renewable energy and clean energy. In the future, with the support of the controlling shareholder, the Group will consider developing an integrated distributed energy business in the future, with a view to developing the Group into a future-oriented integrated clean energy operator with a focus on quality city gas projects and LNG industry chain, and creating greater returns for the shareholders. If the Share Subscription, the Financial Assistance, the Acquisition and the Whitewash Waiver are approved by the Independent Shareholders at the SGM, the immediate cash inflow of approximately HK$1.5 billion from the Financial Assistance and the Share Subscription, and the fulfilment of utilisation prerequisites for the Syndicated Facility of approximately HK$1.0 billion will address the Group's pressing liquidity issues, strengthen asset base and earning capability which enable the Group to continue its natural gas business development in the PRC. The Acquisition is in line with the Group's expansion plan and the positive market prospect of natural gas business and national policies in the PRC, which will expand the Group's city gas business into Guangxi market and enhance its LNG business portfolio and asset base. Given the positive market prospect of natural gas business and national policies in the PRC and the support by the Controlling Shareholder of the Company through the Capital and Asset Injection Plan, we consider that the business prospect of the Group is positive.

4. Fund-raising alternatives available to the Group

(a) Debt financing

In January 2022, the Group appointed Mizuho Bank, Ltd. as facility agent to negotiate with potential lenders on behalf of the Group for a refinancing plan. We are given to understand that the management had approached more than 10 multinational banks through the facility agent for the Syndicated Facility arrangement to resolve its going concern. We have reviewed the Syndicated Facility Agreement and note that the refinancing is conditional upon the Capital and Asset Injection Plan to be executed by Beijing Gas Group.

(b) Equity fund-raising exercises

As regards to other equity fund-raising exercises other than the Share Subscription by Beijing Gas HK, such as placing, subscription by independent investors, rights issue and/or open offer, the Company is required to undergo a relatively lengthy process to (i) identify suitable placing agent(s) and/or underwriter(s) and negotiate terms agreeable to the Company; and (ii) prepare the requisite compliance and legal documentation (including but not limited to underwriting agreement(s), announcement(s), circulars(s) and prospectus(es)), and thus the Group may not be able to complete the whole process of fund-raising exercise in short term, and therefore, may fail to meet the Group's imminent funding needs for meeting its current liabilities. The audited net current liabilities of the Group as of 31 December 2021 were approximately HK$2.9 billion, with total bank and other borrowings amounting to approximately HK$3.6 billion, of which approximately HK$2.2 billion were due for repayment within 2022. Furthermore, the ultimate fund-raising amounts from potential investors and/or subscription level by existing Shareholders may be uncertain due to the prevailing sluggish market atmosphere.

After preliminary attempts to approach certain potential investors and financial institutions and given (i) the going concern of the Group's operation as raised by the auditors in the annual reports for FY2020 and FY2021; (ii) the Group's pressing liquidity issues and its net current liabilities position since FY2019 as mentioned in the section headed "A.2.(b) Financial Position of the Group" of this letter; and (iii) the prevailing sluggish equity capital market atmosphere as indicated by the downtrend of Hang Seng Index, the management is of the view that it is difficult to attract independent investors and/or Shareholders to participate in its equity fund-raising exercises.

As mentioned in the Letter from the Board, as at the Latest Practicable Date, the Company has not received other viable proposal which may address the Group's pressing liquidity issue taking into account the needs of the Group other than the transaction completed herein. As set out in the section headed "THE SYNDICATED FACILITY AGREEMENT" in the Letter from the Board, the utilisation of the Syndicated Facility is conditional upon, inter alia, the successful completion of the Share Subscription and the Acquisition, and the proceeds from the Financial Assistance having been used to repay part of the existing bank and other borrowings of the Company. In the event the Capital and Asset Injection Plan does not materialise, the Company might be unable to reach another agreement with the Syndication Lenders on re-financing terms similar to the Syndicated Facility Agreement, and may therefore increase the liquidity and default risk of the Group. Given the current net liabilities position of the Group and the going concern of its operation as mentioned above, there were very limited fund-raising alternatives available to the Group.

On the contrary, the Share Subscription and the Financial Assistance from Beijing Gas HK under the Capital and Asset Injection Plan will (i) offer a good opportunity for the Group to relieve its short-term liquidity pressure; (ii) demonstrate the continuous financial support from Beijing Gas Group and BE Group; and (iii) fulfil the prerequisites of the Syndicated Facility for additional financing. In view of the above, the Directors consider, and we concur, that the Capital and Asset Injection Plan is the most feasible and suitable fund-raising method to the Company.

5. Reasons for and Benefits of the Capital and Asset Injection Plan (involving the Financial Assistance, the Share Subscription and the Acquisition)

(a) The Financial Assistance and the Share Subscription of the Beijing Gas Group in response to the Group's current financial performance and position

The Group recorded net current liabilities of HK$2.9 billion while total bank and other borrowings amounted to HK$3.6 billion as at 31 December 2021, of which HK$2.2 billion are due for repayment in 2022. In addition, further HK$1.3 billion of bank and other borrowings were classified as current liabilities as events of defaults due to, among others, the suspension of trading in the Shares since 18 January 2021, had occurred. Certain creditors had also demanded immediate repayment of loans due by the Group.

The Directors have since taken various measures to mitigate the liquidity pressure and to improve the financial position of the Group as mentioned in the annual report of the Company for FY2021, including but not limited to the following:

(i) In January 2022, the Group appointed Mizuho Bank, Ltd. as facility agent to negotiate with potential lenders on behalf of the Group for a refinancing plan. According to the then negotiation, the refinancing is conditional upon, among others, the successful resumption of trading in the Shares and the implementation of certain financial assistance from the major shareholder; and

(ii) The Board was in active discussion with Beijing Gas Group on possible capital and/or asset injections plan.

As at 30 June 2022, the Group's net current liabilities position stood at HK$2.6 billion. Trading of the Shares has since resumed on 25 July 2022, the Capital and Asset Injection Plan is formulated to address the Group's pressing liquidity issues, strengthen asset base and earning capability taking into account the needs of Group in terms of its current financial position as well as its long-term development goals.

The implementation of the Capital and Asset Injection Plan will strengthen the Group's working capital position and provide an immediate cash inflow of HK$1.5 billion. Moreover, the terms of the Facility Agreement and the Convertible Bond Agreement allow the Company to accrue all its interest payments by paying them in full and one lump sum on the maturity dates. Such repayment arrangement allows the Group to repay part of its existing borrowings due for immediate repayment as mentioned above as well as to retain more cash resources to service other external borrowings. With reference to the "APPENDIX III – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP" of the Circular, after the implementation of the Capital and Asset Injection Plan, it is expected that the Group will achieve a much lower gearing level with the gearing ratio decreased from approximately 495.5% as at 30 June 2022 to approximately 289.0%. Having considered the respective cash inflows of approximately HK$1,500 million and HK$1,013 million to be provided through (i) the implementation of the Capital and Asset Injection Plan and (ii) the utilisation of the Syndicated Facility, it is expected that the net current liabilities position of the Group will decrease from approximately HK$2,550 million as at 30 June 2022 to approximately HK$83 million. Further to the implementation of refinancing plan of certain current bank borrowings as a results of the improved gearing position of the Group, it will achieve a net current assets position.

Beijing Gas Group, the major Shareholder, shows its support by increasing its shareholding in the Company as part of the Capital and Asset Injection Plan and it is committed to the long-term continued growth of the Group.

As mentioned in the section headed "A.2.(b) Financial Position of the Group" of this letter, as at 30 June 2022, the Group had cash and bank balances of approximately HK$332.5 million, representing an increase of approximately 44.0% as compared to that as at 31 December 2021. In comparison to the net current liabilities position of approximately HK$2,550.1 million and its current portion of borrowings amounting to approximately HK$3,058.4 million as at 30 June 2021, such cash and bank balances level indicated that the Company is not able to meet its short-term liabilities without the capital injection or financial assistance. We consider that the Share Subscription and the Financial Assistance under the Capital and Asset Injection Plan can provide an immediate cash inflow of approximately HK$1.5 billion which will (i) address the Group's pressing liquidity issues, strengthen asset base and earning capability taking into account the needs of Group in terms of its current financial position as well as its long-term development goals; and (ii) represent the support from Beijing Gas Group to facilitate the arrangement of the Syndicated Facility with those third-party Syndication Lenders.

(b) The Acquisition

Currently, the Group has 8 city gas projects located in Shanxi Province, Jilin Province, Liaoning Province and Hubei Province. In addition, the Group is actively engaged in the trading and distribution of natural gas, including CNG, LNG, fuel oil and other related oil by-products to industrial and commercial users. The Group intends to actively explore industry opportunities and continues to focus on developing LNG whole industry chain business and city gas business by fully leveraging the management expertise and resources of Beijing Gas Group.

In February 2022, the National Development and Reform Commission and the National Energy Administration published the Opinions to Improve the Energy Green Low Carbon Transition Systems, Mechanisms, Policies and Measures（《關於完善能源綠色低碳轉型體制機制和政策措施的意見》）emphasizing the importance of advancing green transformation. Echoing the new PRC governmental's environmental policy, the Group will actively seize the market opportunities by way of organic growth or by acquisition where appropriate to accelerate development of its integrated energy distribution business, enhance comprehensive competitiveness in the natural gas market and create social values through strengthening risk and compliance control.

As disclosed in the section headed "INFORMATION OF THE TARGET GROUP" in the Letter from the Board, the Project Company is granted with an operating concession right in the region for 30 years commencing from 2016 for natural gas supply business. The natural gas source supply of the Project Company is backed by two major natural gas supply pipelines of the PipeChina network (國家管網), namely West-to-East Gas Pipeline #2* (西氣東輸二線) and China-Myanmar Natural Gas Pipeline* (中緬天然氣管線). The Project Company directly sources natural gas from the PipeChina network covering the natural gas consumption in the Teng County and its neighbouring rural townships under the operating concession right. This natural gas supply model promotes a clean energy solution that is in line with the PRC's environmental goal. The Project Company is expected to benefit from the increasing industrial activities in the Teng County, most notably the development of a ceramic industrial park in the region which is expected to lead to rising energy demand from clean energy sources as the Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region* (廣西壯族自治區工業和信息化廳) has implemented a new guidance in 2021 which requires local ceramic producers to complete conversion of the use of energy source in production from coal to gas by end of 2025. As such, not only will the Acquisition enhance the Group's city gas business portfolio, it is also in line with the Group's LNG expansion and development strategy.

As mentioned in the section headed "A.3. Business Prospect of the Group" of this letter, it is expected that domestic natural gas business in the PRC will still be in the growth stage in the long term and the Group intends to comply with the general direction of national development and contribute to the Group's comprehensive competitiveness in the natural gas market through the deployment of the entire LNG industry chain. Having considered that the Acquisition is in line with the positive market prospect of natural gas business and the national policies in the PRC, we concur with the Directors that the Acquisition represents an opportunity to enhance the Group's LNG business portfolio and asset base and further expand its city gas business into the Guangxi market.

In addition, as mentioned in the section headed "A.4. Fund-raising alternatives available to the Group" of this letter, given the current net liabilities position of the Group and the going concern of its operation, there were very limited fund-raising alternatives available to the Group. We concur with the Company that in the event the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as prerequisites of the Syndicated Facility Agreement) does not materialise, the Company may be unable to reach another agreement with the Syndication Lenders on re-financing terms similar to the Syndicated Facility Agreement, which may increase the financial risk of the Group.

In light of the above, we are of the view that the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition) can help to alleviate the Group's financial stress and facilitate the Group to obtain additional external financing, and therefore are vital to the Company. Meanwhile, we consider the terms of the Capital and Asset Injection Plan are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6. Use of Proceeds

The gross proceeds from the Facility, the Convertible Bond Subscription and the Share Subscription amount to HK$700 million, HK$300 million and HK$500 million respectively, and the net proceeds, after deduction of all relevant expenses, amount to approximately HK$698.9 million, HK$297.8 million and HK$497.8 million respectively. The total net proceeds of the Facility, the Convertible Bond Subscription and the Share Subscription of HK$1,494.5 million are intended to be utilized in the following manner:

(i) approximately 67.78% of the net proceeds, which is equivalent to approximately HK$1,013 million, will be used for repaying some of the existing bank and other borrowings;

(ii) approximately 22.55% of the net proceeds, which is equivalent to approximately HK$337 million, will be used for repaying the outstanding amount and interest associated with the corporate bonds issued by the Company and other borrowings of the Group;

(iii) approximately 6.31% of the net proceeds, which is equivalent to approximately HK$94.5 million, will be used for business development; and

(iv) approximately 3.36% of the net proceeds, which is equivalent to approximately HK$50 million, will be used for general working capital purposes.

Having considered the Group's pressing liquidity issues as mentioned in the section head "A2.(b) Financial Position of the Group" of this letter, we consider that the Company's plan on the use of proceeds to apply a majority of the net proceeds amounting to approximately HK$1,350 million for repaying some of the existing bank and other borrowings is reasonable. Further to our discussion with the management, we understand that the remaining proceeds of approximately HK$94.5 million and HK$50 million will be respectively applied to (i) the development and operation of its existing city gas business and LNG business; and (ii) the operating expenses of the Group's existing operation headquarters in Beijing, Shanghai and Shenzhen, which is in line with the Group's existing business strategy.

As mentioned in the section headed "A.5. Reasons for and Benefits of the Capital and Asset Injection Plan (involving the Financial Assistance, the Share Subscription and the Acquisition)" of this letter, we concur with the Company that the Share Subscription and the Financial Assistance under the Capital and Asset Injection Plan for providing an immediate cash inflow of approximately HK$1.5 billion will address the Group's pressing liquidity issues, strengthen asset base and earning capability taking into account the needs of Group in terms of its current financial position as well as its long-term development goals.

B. THE SUBSCRIPTION OF NEW SHARES BY CONTROLLING SHAREHOLDER UNDER SPECIFIC MANDATE

On 26 September 2022 (after trading hours), the Company entered into the Share Subscription Agreement with Beijing Gas Group, pursuant to which the Company conditionally has agreed to allot and issue, and Beijing Gas Group has conditionally agreed to subscribe for 6,250,000,000 Subscription Shares at the Subscription Price of HK$0.08 per Subscription Share for a total subscription amount of HK$500 million.

1. Principal Terms of the Subscription Agreement

Date : 26 September 2022 (after trading hours)

Parties : (i) the Company, as the Issuer; and

(ii) Beijing Gas HK, as the Subscriber

As at the Latest Practicable Date, Beijing Gas HK is the Controlling Shareholder of the Company, who directly holds 5,341,042,131 Shares, representing approximately 41.13% of the issued share capital of the Company. Thus, Beijing Gas HK is a connected person and the Controlling Shareholder of the Company.

(a) Number of the Subscription Shares

The Subscription Shares represent:

(i) 48.13% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) 32.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion);

(iii) 27.49% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and Consideration Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion); and

(iv) 24.77% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares, Consideration Shares and Conversion Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion).

(b) Subscription Price

The Subscription Price of HK$0.08 per Share is the same as the issue price under the Acquisition Agreement. The Subscription Price represents:

(i) a discount of approximately 23.81% to the closing price of HK$0.105 per Share as quoted on the Stock Exchange on 26 September 2022, being the Last Trading Day;

(ii) a discount of approximately 28.19% to the average of the closing prices of HK$0.1114 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 32.43% to the average of the closing prices of HK$0.1184 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 17.44% to the average of the closing prices of HK$0.0969 per Share as quoted on the Stock Exchange for the last 45 consecutive trading days counting from the first trading day since trading resumption on 25 July 2022 up to and including the Last Trading Day;

(v) a premium of approximately 15.94% over the closing price of HK$0.069 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a premium of approximately 95.12% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022, with reference to 2022 Interim Report; and

(vii) a premium of approximately 70.21% over the audited net asset value attributable to shareholders of the Company per Share of approximately HK$0.047 per Share as at 31 December 2021, with reference to the annual report for the year ended 31 December 2021.

The net Subscription Price, after deduction of relevant expenses, is estimated to be approximately HK$0.0796 per Subscription Share.

(c) Ranking of the Subscription Shares

The Subscription Shares shall rank pari passu in all respects with the Shares in issue and will be allotted and issued under the Specific Mandate to be sought for approval at the SGM.

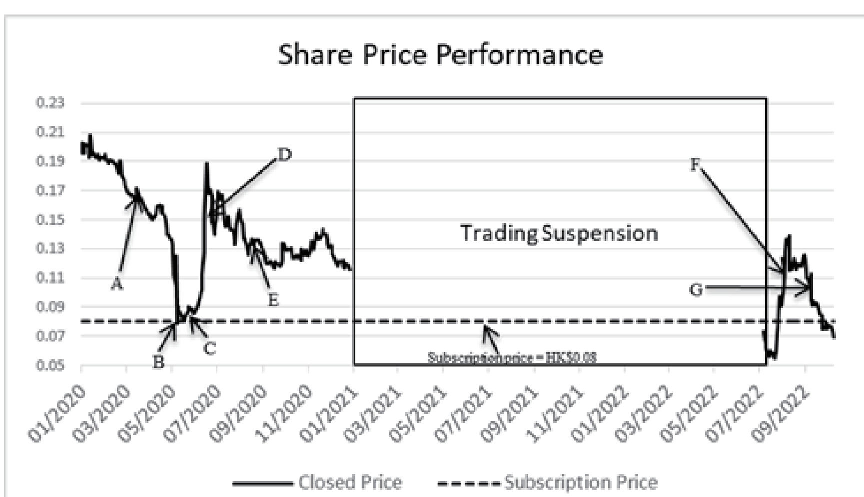
Details of the terms of the Share Subscription Agreement are set out in the Letter from the Board.

2. Evaluation of the Subscription Price

As mentioned in the Letter from the Board, the Subscription Price was arrived at after an arm's length negotiation between the Company and Beijing Gas HK after taking into account the following: (i) the recent trading performance of the Shares; (ii) the unaudited net asset value attributable to Shareholders which was approximately HK$0.041 per Share as at 30 June 2022; (iii) the business prospects and financial position of the Group, including the significant adverse effects on the business operations, financial performance and cash flows of the Group attributable to the Incident; and (iv) the current equity capital market conditions.

(a) Share price performance

The graph below illustrates the historical closing prices of the Shares as quoted on the Stock Exchange during the period from 18 January 2020 (being the date one year prior to the date of trading suspension (i.e. 18 January 2021)) (the "**Pre-Trading Suspension Period**") and the period from the resumption date (i.e. 25 July 2022) to the Latest Practicable Date (the "**Resumed Trading Period**") (collectively, the "**Review Period**"). We consider that the Review Period is fair, adequate, representative and sufficient to illustrate the general trend and level of movement of recent closing prices of the Shares for conducting a reasonable comparison among the historical closing prices of the Shares and the Subscription Price. The comparison of daily closing prices of the Shares and the Subscription Price is illustrated as follows:



Source: Infocast

Notes:

A: the publication of the announcement dated 27 March 2020, in relation to the annual results for FY2019.

B: the publication of the announcement dated 27 May 2020, in relation to the unusual share price and trading volume movements due to the forced sale of Shares held by Mr. Cheng from 22 May 2020 to 27 May 2020.

C: the publication of the announcement dated 1 June 2020, in relation to (i) the continuing forced sale of Shares held by Mr. Cheng from 28 May 2020 to 1 June 2020; and (ii) the possible disposal of non-controlling stake in certain subsidiaries of the Company to SK E&S.

D: the publication of the announcement dated 3 July 2020, in relation to the entering into of the Agreement in respect of the disposal of non-controlling stake in certain subsidiaries of the Company to SK E&S.

E: the publication of the announcement dated 28 August 2020, in relation to the interim results for the six months ended 30 June 2020.

F: the publication of the announcement dated 30 August 2022, in relation to the interim results for the six months ended 30 June 2022.

G: the publication of the announcement dated 26 September 2022, in relation to the Capital and Asset Injection Plan.

During the Pre-Trading Suspension Review Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$0.208 (the "**Pre-Suspension Highest Closing Price**") recorded on 31 January 2020 and HK$0.079 (the "**Pre-Suspension Lowest Closing Price**") recorded on 27 May 2020 respectively; and the average closing price of the Shares was approximately HK$0.143 (the "**Pre-Suspension Average Closing Price**"). We note that Shares were traded above the Subscription Price throughout the Pre-Trading Suspension Review Period except for the date of Pre-Suspension Lowest Closing Price. We also noted a large fluctuation during 22 May 2020 to 6 July 2020. Based on the announcements published by the Company and as further confirmed with the Company, we understand that the sharp decline of closing prices of the Shares was due to the fact that the 131,775,216 Shares held by Mr. Cheng and 209,544,000 Shares held by Grand Powerful Group Limited, which is wholly-owned by Mr. Cheng, representing a total of approximately 2.63% of the total issued share capital of the Company, were sold on the market as a result of forced sale by certain stock brokers under margin financing arrangements from 22 May 2020 to 1 June 2020. The closing prices of the Shares rebounded after the Company made an announcement on 1 June 2020 in relation to the potential disposal of non-controlling stakes in certain indirect wholly-owned subsidiaries of the Company to SK E&S, a subsidiary of SK Holdings Co., Ltd., which is a large conglomerate in Korea, for the future cooperation between the Group and SK E&S. Such potential disposal has been terminated on 16 November 2021. The Subscription Price of HK$0.08 represents (i) a premium of approximately 1.3% over the Pre-Suspension Lowest Closing Price of HK$0.079; (ii) a discount of approximately 61.5% to the Pre-Suspension Highest Closing Price of HK$0.208; and (iii) a discount of approximately 44.2% to the Pre-Suspension Average Closing Price of HK$0.143.

During the suspension period of approximately 18 months, the Company announced on 29 September 2021 and 19 April 2022 the Incident and 54 suspicious transactions identified under the forensic investigations which has caused significant adverse effect on the business operations, financial performance, cash flows of the Group for the two years ended 31 December 2020 and 2021. The Company's auditors gave a disclaimer of opinion in the auditors' report for the years ended 31 December 2020 and 2021, which contain audit qualifications relating to the going concern of the Company in both years.

During the Resumed Trading Period, the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK$0.139 (the "**Resumed Trading Highest Closing Price**") recorded on 29 August 2022 and HK$0.055 (the "**Resumed Trading Lowest Closing Price**") recorded from 10 August 2022 respectively; and the average closing price of the Shares was approximately HK$0.092 (the "**Resumed Trading Average Closing Price**"). The Subscription Price of HK$0.08 represents (i) a premium of approximately 45.5% over the Resumed Trading Lowest Closing Price of HK$0.055; (ii) a discount of approximately 42.5% to the Resumed Trading Highest Closing Price of HK$0.139; and (iii) a discount of approximately 13.2% to the Resumed Trading Average Closing Price of HK$0.092.

During the Resumed Trading Period up to the Last Trading Day, as a result of weak equity capital market sentiments, the Hang Seng Index entered the downward trend decreased approximately 13.2% from 20,562.94 on 25 July 2022 to 17,855.14 on the Last Trading Day which indicated weak equity capital market conditions. In addition, the uptrend of Share prices performance of the Company during the Resumed Trading Period up to the Last Trading Day is not in line with the relatively weak equity capital market conditions as indicated by the downtrend of Hang Seng Index, and may not persist. We also note that the Share price of the Company has decreased from HK$0.105 as at the Last Trading Day to HK$0.069 as at the Latest Practicable Date.

It is noted that (i) the relatively weak equity capital market conditions indicated by the downtrend of Hang Seng Index during the Resumed Trading Period and the relative short trading period of the Resumed Trading Period; (ii) the Incident and 54 suspicious transactions identified under the forensic investigations (i.e. Reviewed Transactions as reported in the Company's announcements dated 29 September 2021 and 19 April 2022) have caused significant adverse effect on the business operations, financial performance, cash flows of the Group for FY2020 and FY2021; and (iii) the Company's auditors gave a disclaimer of opinion in the auditors' report for FY2020 and FY2021. We consider that the discount on the Subscription Price to the prevailing market value of the Shares during the Resumed Trading Period is acceptable after taking into account comprehensive factors of (i) the current equity capital market conditions during the Resumed Trading Period; (ii) the unaudited net asset value attributable to Shareholders as at 30 June 2022 which was at approximately HK$0.041 per

Share; and (iii) the significant adverse effects on the business operations, financial performance and cash flows of the Group attributable to the Incident on top of its recent trading performance of the Shares during the Resumed Trading Period.

(b) Liquidity

As part of our analysis to further assess the Subscription Price in terms of the liquidity of the Shares, set out below are (i) the number of trading days; (ii) the percentage of the Shares' average daily trading volume (the "**Average Volume**") as compared to the total number of issued Shares held by the public as at the Latest Practicable Date; and (iii) the percentage of the Average Volume as compared to the total number of issued the Shares as at the Latest Practicable Date, during the Review Period:

Month	No. of trading days in each month	% of the Average Volume to total number of issue Shares held by the public as at the Latest Practicable Date *(Note 1)*	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date *(Note 2)*
2020			
January	10	0.072%	0.043%
February	20	0.092%	0.054%
March	22	0.212%	0.125%
April	19	0.201%	0.118%
May	20	1.537%	0.905%
June	21	0.496%	0.292%
July	22	0.684%	0.403%
August	21	0.220%	0.130%
September	22	0.229%	0.135%
October	18	0.298%	0.176%
November	21	0.218%	0.129%
December	22	0.116%	0.068%
2021			
January	10	0.111%	0.065%
2022			
July	5	1.941%	1.142%
August	23	0.829%	0.488%
September	21	0.248%	0.146%
October (up to the Latest Practicable Date)	19	0.086%	0.051%
	Maximum	1.941%	1.142%
	Minimum	0.072%	0.043%
	Average	0.447%	0.263%
	Median	0.220%	0.130%

1. Based on 7,645,072,584 Shares held by the public as at the Latest Practicable Date as disclosed in the Letter from the Board.

2. Based on 12,986,114,715 Shares as at the Latest Practicable Date as disclosed in the Letter from the Board.

We noted from the above table that the liquidity of the Shares was generally thin during the Review Period. Save for May 2020 and July 2022, the Average Volume during the Share Review Period was below 1% of (i) the total number of issued Shares held by the public; and (ii) the total number of issued Shares, as at the Latest Practicable Date.

Further to the announcements of the Company dated 27 May 2020 and 1 June 2020, the unusual movement in the Share price and the unusual trading volume movements during May 2020 was due to (i) certain Shares held by Mr. Cheng and his controlling corporation being sold on the market as a result of forced sale by certain stock brokers under margin financing arrangement; and (ii) the Group's discussion with SK Group, a large conglomerate in Korea in relation to a possible disposal of the Group's non-controlling stake in certain indirect wholly-owned subsidiary of the Group for the future cooperation between the Group and SK Group. Upon our enquiry, the Directors are of the view that the unusual spike of trading volume in July 2022 was a result of the resumption of trading in the Shares on 25 July 2022. The unusual trading volume movements during May 2020 and July 2022 were mainly due to the above-mentioned unusual situations which may not persist.

In view of the above, we consider that the trading volume of the Shares, being below 1% of (i) the total number of issued Shares held by the public and (ii) the total number of issued Shares for 13 out of 15 months across the Review Period, was thin during the Review Period, and the discount on the Subscription Price under the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as a comprehensive plan formulated to support the Group) to the prevailing market value of the Shares during the Resumed Trading Period is justifiable given the low liquidity of the Shares, which may indicate a lack of interest from the market.

(c) Market Comparables

As part of our analysis, given that the Group is principally engaged in (i) development and operation of city gas projects; (ii) direct supply of LNG to industrial end users; (iii) trading and distribution of CNG and LNG; and (iv) operating CNG and LNG refuelling stations for vehicles, we have attempted to identify comparable companies which (i) are listed on the Main Board of the Stock Exchange; (ii) are both principally engaged in the development and operation of natural gas related businesses in the PRC; (iii) have the geographic segments in the PRC generating at least 90% of revenue in aggregate according to their latest annual report as at the Last Trading Day; and (iv) have the market capitalisation under HK$5 billion as at the Latest Practicable Date. Reference to the price-to-earnings ratio (the "**PE Ratio**"), the price to sales ratio (the "**PS Ratio**") and the price-to-book ratio (the "**PB Ratio**") are common valuation methodologies adopted by the investment community for the business valuation.

The PE Ratio is the earning-based multiple which provides estimation of the company value on the basis of its earnings capability. It is calculated by dividing the market capitalisation by the net profit attributable to the equity holders of the respective company. Due to the consecutive loss position of the Group for FY2020 and FY2021 as a result of the Incident, the PE Ratio is not applicable to the Group and we have considered the PS Ratio as an alternative earning-based multiple. However, after discussion with the management of the Group, we considered not to adopt the PS Ratio as it does not consider the different cost structures between the Group and Comparable Companies. In comparison to the loss position of the Group, all Comparable Companies recorded positive earnings in their latest financial year. The PB Ratio is the asset-based multiple which reflects the market value in relation to net asset value. It was calculated by dividing the market capitalisation by the net asset value attributable to equity holders of the respective company which is appropriate in valuing asset-intensive companies. The Group and the Comparable Companies are listed companies in the asset-intensive natural gas related business and the gas pipelines and relevant property, plant and machinery are crucial for their on-going natural gas distribution business in the PRC. We have identified 8 comparable companies (the "**Comparable Companies**") in the table below, which is an exhaustive list of comparable companies we were able to identify from the Stock Exchange's website satisfying the above selection criteria:

Company name	Principal business	Stock code	PB Ratio (Note 2)
Binhai Investment Company Limited	Principally engaged in (i) sales of piped natural gas; (ii) construction and gas pipeline installation services; (iii) gas passing through service; and (iv) sales of bottled natural gas	**2886**	0.92
China Oil and Gas Group Limited	Primarily engaged in (i) sales and distribution of natural gas; (ii) construction and connection of gas pipelines; and (iii) exploitation and production of crude oil and natural gas	**603**	0.33
Chinese People Holdings Company Limited	Mainly engaged in (i) piped gas transmission and distribution; (ii) cylinder gas supply and gas distribution; and (iii) retail and wholesale of FMCG and food ingredients	**681**	0.11
Tianjin Jinran Public Utilities Company Limited	Principally engaged in (i) sales of piped gas; (ii) gas connection; (iii) gas transportation; and (iv) sales of gas appliances	**1265**	0.34

Company name	Principal business	Stock code	PB Ratio (Note 2)
Tian Lun Gas Holdings Limited	Primarily engaged in (i) city gas sales; (ii) long-haul pipeline gas transmission and sales; (iii) engineering design and construction; and (iv) gas pipeline connection	**1600**	0.54
Shanghai Dazhong Public Utilities (Group) Co., Ltd	Primarily engaged in (i) piped gas supply; (ii) wastewater treatment; (iii) public infrastructure projects; (iv) investments, (v) transportation services; and (vi) financial services	**1635**	0.36
Jiaxing Gas Group Co., Ltd	Mainly engaged in (i) sales of pipeline natural gas (under the concessions), liquefied natural gas and liquefied petroleum gas; (ii) construction and installation services; (iii) natural gas transportation services; and (iv) sales of vapor and construction materials and property leasing businesses	**9908**	1.30
Huzhou Gas Co., Ltd.	Mainly engaged 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	**6661**	1.16
		Maximum	1.30
		Minimum	0.11
		Median	0.45
		Average	0.63
The Company *(Note 3)*		**the Subscription Price**	1.94
		the Share price as at the Last Trading Day	2.55

Remark: The calculation is based that any amount denominated in RMB was translated into HK$ at the rate of RMB1=HK$1.2 for illustrative purpose.

Note:

1. The market capitalisations of the Comparable Companies are calculated by multiplying the share price as at the Last Trading Day and the number of issued shares of the respective companies according to the latest monthly return as at the Last Trading Day.

2. The PB Ratios of the Comparable Companies are calculated by dividing their market capitalisation by the net asset value attributable to equity holders of the respective companies according to their latest financial reports as at the Last Trading Day.

3. The market capitalisation of the Company is calculated by multiplying (i) the Subscription Price of HK0.08 / (ii) the closing price as at the Last Trading Day of HK$0.105 and the number of issued Shares as at the Last Trading Day.

As shown in the table above, the PB Ratio of the Company based on the Subscription Price is much higher than the range and median of those of the Comparable Companies, which indicated that by comparing the PB Ratios of the Company and Comparable Companies, the Subscription Price was set at a higher premium to the net assets of the Company. In addition, the Subscription Price represents a premium of approximately 95.12% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022.

Having considered

(i) the PB Ratio as represented by the Subscription Price is much higher than the range and median of those of the Comparable Companies;

(ii) the Subscription Price represents a premium of approximately 70.21% over the audited net asset value attributable to shareholders of the Company per Share of approximately HK$0.047 per Share as at 31 December 2021;

(iii) the Subscription Price represents a premium of approximately 95.12% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022;

(iv) the trading volume of the Shares, being below 1% of (i) the total number of issued Shares held by the public; and (ii) the total number of issued Shares for 13 out of 15 months across the Review Period, was thin;

(v) the uptrend of Share prices of the Company during the Resumed Trading Period up to the Last Trading Day is not in line with the weak equity capital market conditions as indicated by the downtrend of Hang Seng Index, and may not persist under the weak capital market conditions; and

(vi) given the current net liabilities position of the Group and the going concern of its operation, there were very limited fund-raising alternatives available to the Group, we consider that the discount on the Subscription Price under the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as a comprehensive plan formulated to support the Group) to the prevailing market value of the Shares during the Resumed Trading Period is justifiable and the Subscription Price is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

C. FINANCIAL ASSISTANCE FROM CONTROLLING SHAREHOLDER

On 26 September 2022 (after trading hours), the Company and Beijing Gas HK entered into (i) the Facility Agreement, pursuant to which Beijing Gas HK agreed to provide a shareholder loan to the Company of HK$700 million; and (ii) the Convertible Bond Subscription Agreement pursuant to which the Company had conditionally agreed to issue and Beijing Gas HK (as the subscriber) had conditionally agreed to subscribe for, the Convertible Bonds in the aggregate principal amount of HK$300 million, both as secured by issued shares of Beijing Gas Jingtang Company Limited* (北燃京唐有限公司), a wholly-owned subsidiary of the Company.

(a) Principal Terms of the Facility Agreement

The principal terms of the Facility Agreement are set out as follows:

Date	:	26 September 2022 (after trading hours)
Parties	:	(i) the Company, as the Borrower; and (ii) Beijing Gas HK, as the Lender
Aggregate principal amount	:	HK$700 million
Maturity Date	:	31 December 2025
Interest rate, interest period and payment of interest	:	The interest rate shall be Hong Kong Interbank Offered Rate (HIBOR) plus 2% per annum All interest on the loan shall be accrued and payable in full on the Termination Date.
Default interest	:	2% per annum higher than the rate which would have been payable on the overdue amount
Repayment	:	The Company shall repay the loan in full on the maturity date, unless in the event that the Syndicated Facility is fully repaid before the maturity date (31 December 2025) where the Company can opt to repay the loan in full early

Security	:	The Facility shall be secured by 20.92% of issued shares of Beijing Gas Jingtang Company Limited*（北燃京唐有限公司）, a wholly-owned subsidiary of the Company, as collateral in favour of the lender.

(b) Principal Terms of the Convertible Bond Subscription Agreement

The Convertible Bond Subscription Agreement are set out as follows:

Date	:	26 September 2022 (after trading hours)
Parties	:	(i) the Company, as the issuer; and (ii) Beijing Gas HK, as the subscriber
Principal amount	:	HK$300 million
Interest rate	:	Hong Kong Interbank Offered Rate (HIBOR) plus 1.8% per annum All interest accrued shall be payable in arrears in full on the maturity date.
Default interest		1.5% per annum higher than the interest rate in respect of such time period (i.e. the applicable HIBOR plus 1.8% per annum).
Maturity Date	:	The third anniversary of the date of issue of the Convertible Bond, which may be further extended for 3 months by agreement in writing between the issuer and the bondholder.
Conversion Price	:	HK$0.118 per Conversion Share
Conversion Rights	:	The Bondholder shall have the right to convert all or part of the Bond.
Conversion Share	:	Based on the initial Conversion Price of HK$0.118 per Conversion Share and assuming full conversion of the Convertible Bond at the initial Conversion Price, the Convertible Bond will be convertible into 2,542,372,881 Conversion Shares
Conversion Period	:	Any time after the issue date of the Convertible Bond up to its maturity date as described above

Redemption	:	The bondholder may require the Company to redeem all, but not part, of such Convertible Bond at a price equal to the principal plus accrued interest upon maturity or the occurrence of (i) the delisting of Shares of the Company or suspension of trading in the Shares on the Stock Exchange for a period equal to or exceeding ten consecutive trading days; and (ii) the change of control of the Company.
Transferability	:	The Convertible Bond is not transferable unless with the consent from the Company at its sole discretion.
Security	:	The Convertible Bond shall be secured by 8.37% of issued shares of Beijing Gas Jingtang Company Limited* (北燃京唐有限公司), a wholly-owned subsidiary of the Company, as collateral in favour of Beijing Gas HK.
Listing	:	The Convertible Bond will not be listed. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

Beijing Gas Jingtang Company Limited* (北燃京唐有限公司), a wholly-owned subsidiary of the Company, indirectly owns 29% equity interest in PetroChina Jingtang LNG Co., Limited* (中石油京唐液化天然氣有限公司). PetroChina Jingtang LNG Co., Limited* is an associate of the Company and is principally engaged in provision of port facilities for vessels, receiving, storage and re-gasification of liquefied natural gas.

For details of the terms of the Facility Agreement and the Convertible Bond Subscription Agreement, please refer to the Letter from the Board.

(c) Conversion price

The Conversion Price of HK$0.118 per Conversion Share represents:

(i) a premium of approximately 12.38% over the closing price of HK$0.105 per Share as quoted on the Stock Exchange on 26 September 2022, being the Last Trading Day;

(ii) a premium of approximately 5.92% over the average of the closing prices of HK$0.1114 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 0.34% to the average of the closing prices of HK$0.1184 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(iv) a premium of approximately 21.78% over the average of the closing prices of HK$0.0969 per Share as quoted on the Stock Exchange for the last 45 consecutive trading days counting from the first trading day since trading resumption on 25 July 2022 up to and including the Last Trading Day;

(v) a premium of 71.01% over the closing price of HK$0.069 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a premium of approximately 187.80% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022, with reference to the interim report for the six months end 30 June 2022; and

(vii) a premium of approximately 151.06% over the audited net asset value attributable to shareholders of the Company per Share of approximately HK$0.047 per Share as at 31 December 2021, with reference to the annual report for the year ended 31 December 2021.

The net Conversion Price, after deduction of relevant expenses, is approximately HK$0.117 per Conversion Share.

(d) Conversion Shares

Based on the initial Conversion Price of HK$0.118 per Conversion Share and assuming full conversion of the Convertible Bond at the initial Conversion Price, the Convertible Bonds will be convertible into 2,542,372,881 Conversion Shares, representing approximately:

(i) 19.58% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) 16.37% of the issued share capital of the Company, as enlarged upon conversion in full of the Convertible Bond (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion); and

(iii) 10.06% of the issued share capital of the Company as enlarged upon conversion in full of the Convertible Bond, issue of the Subscription Shares and the Consideration Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion).

The Conversion Shares issued upon conversion of the Convertible Bond will in all respects rank pari passu with the Shares. The Conversion Shares will be allotted and issued under the Specific Mandate to be sought for approval from the Independent Shareholders at the SGM.

(e) Evaluation of the interest rates and default rate under the Facility Agreement and the Convertible Bond Subscription Agreement

Pursuant to the terms of the Facility Agreement and the Convertible Bond Subscription Agreement, the interest will accrue on such loan with reference to The Hong Kong Interbank Offered Rate (HIBOR) as published by the Hong Kong Association of Banks (HKAB). The Hong Kong Interbank Offered Rate (HIBOR) is the benchmark interest rate that lenders and borrowers use for interbank lending in the Hong Kong market. It is published daily at 11:15 a.m. local time based on quotations from 12-20 banks appointed by the Hong Kong Association of Banks (HKAB) and selected by the Hong Kong Monetary Authority (HKMA). The effective interest rate under the Facility Agreement and the Convertible Bond Subscription Agreement as at the Last Trading Day are approximately 5.22% per annum and 5.02% per annum, respectively. All interest accrued shall be payable in arrears in full on the maturity date. In determining the fairness and reasonableness of the interest rate, we have obtained and reviewed the existing financing agreements entered into between the Group and independent third party lenders for conducting comparison with the interest rate pricing mechanism in order to ensure that such interest rates under the Facility Agreement and the Convertible Bond Subscription Agreement are on normal commercial terms and in the interests of the Company and Shareholders as a whole.

Based on the aforesaid documents provided by the Company, which represented an exhaustive list of the existing financing agreements entered into between the Group and independent third parties, we noted that the Group currently has 40 sets of existing debt financing agreements (the "**Existing Loan Comparables**") of which the effective interest rate of each loan agreement as at the Last Trading Day is within the range between approximately 1.60% and 8.50% per annum with median of approximately 6.12%. The effective interest rates under the Facility Agreement and the Convertible Bond Subscription Agreement as at the Last Trading Day are both within the range of the effective interest rates under the Existing Loan Comparables and are both below the median of the effective interest rates under the Existing Loan Comparables.

Default interest rates under the Facility Agreement and the Convertible Bond Subscription Agreement are additional 2% per annum and additional 1.5% per annum, respectively 19 out of the 40 existing loan financing agreements imposed default interests to the Company with the range of effective default interest rates from 0.80% to 5.00% per annum. (13 out of 19: equal to or exceeding 2%, being the current default rate under the Facility Agreement) (15 out of 19: equal to or exceeding 1.5%, being the current default rate under the Convertible Bond Subscription Agreement).

In January 2022, the Group appointed Mizuho Bank, Ltd. as facility agent to negotiate with potential lenders on behalf of the Group for a refinancing plan. We are given to understand that the management had approached more than 10 multinational banks through the facility agent for a Syndicated Facility arrangement to resolve its going concern. We have reviewed the Syndicated Facility Agreement and note that the refinancing is conditional upon the Capital and Asset Injection Plan to be executed by Beijing Gas Group. We also noted that the effective interest rates and default rates under the Facility Agreement and Convertible Bond Subscription Agreement as at the Last Trading Day are comparable to the effective interest rate and default rate under the terms offered by the aforementioned Syndication Lenders.

Given the above, we are of view that (i) it is a market norm to apply The Hong Kong Interbank Offered Rate (HIBOR) set by Hong Kong Association of Banks (HKAB) as reference rate for loan interest; and (ii) the interest rates and default rates under the Facility Agreement and the Convertible Bond Subscription Agreement are no less favourable than those offered by the independent third party lenders in accordance with the Existing Loan Comparables; and (iii) the interest rates and default rates under the Facility Agreement and the Convertible Bond Subscription Agreement are comparable to those offered by the independent third party Syndication Lenders. In addition, all interest under the Facility Agreement and the Convertible Bond Subscription Agreement accrued shall be payable in arrears in full on the maturity date. Therefore, we concur with the Company that the interest rates and default rates under the Facility Agreement and the Convertible Bond Subscription Agreement are fair and reasonable and in the interests of the Company and Independent Shareholders as a whole.

(f) Security analysis

Under the Convertible Bond Subscription Agreement and the Facility Agreement, the Convertible Bond shall be secured, in aggregate, by 29.29% of issued shares of Beijing Gas Jingtang Company Limited*（北燃京唐有限公司）, a wholly-owned subsidiary of the Company, as collateral in favour of Beijing Gas HK for the aggregate borrowing amounted to HK$1 billion. Beijing Gas Jingtang Company Limited*（北燃京唐有限公司）, a wholly owned subsidiary of the Company, indirectly owns 29% equity interest in PetroChina Jingtang LNG Co., Limited*（中石油京唐液化天然氣有限公司）. PetroChina Jingtang LNG Co., Limited* is an associate of the Company and is principally engaged in provision of port facilities for vessels, receiving, storage and re-gasification of liquefied natural gas. The audited net assets of PetroChina Jingtang LNG Co., Limited* were approximately RMB5,825.1 million as at 31 December 2021.

As advised by the management, it is a normal commercial practice to provide security for the financing arrangement and the credit risk borne by the lender and the interest rate chargeable will generally decrease when the guarantee letter and/or the value of the collateral are sufficient. In light of this, we have reviewed the 40 Existing Loan Comparables entered into between the Group and independent third parties and noted that 18 out of 40 Existing Loan Comparables are secured (the "**Existing Loan Comparables with Security**"). The Group facilitated its financing arrangement with independent third party financial institutions through provision of guarantee letter as security and/or fixed deposit or asset or equity interest as collateral pledge. The median and average of the interest rates of the Existing Loan Comparables with security are more favourable than those of the other Existing Loan Comparables without security. We concur with the management that it is a normal commercial practice to provide security for facilitating the financing arrangement with Beijing Gas HK, and the provision of 29.29% of issued shares of Beijing Gas Jingtang Company Limited* (北燃京唐有限公司) as security is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

(g) Convertible Bond Comparable

We noted that the Conversion Price represents a premium of 47.5% over both the Subscription Price and the issue price of the Consideration Shares. As part of our analysis to further assess the fairness and reasonableness of the Conversion Price, we tried to identify those subscription of convertible bonds/notes under specific mandate which were (i) announced and completed by companies listed on the main board of the Stock Exchange from 1 August 2021 up to including the Latest Practicable Date; and (ii) transferable in compliance of all applicable requirement of Listing Rules, Takeovers Code and applicable laws and regulation and / or upon approval from the bond issuer. We found 8 transactions (the "**CB Comparables**") which meet the said criteria and represent an exhaustive list under the said criteria. Despite that the businesses, operations and prospects of the Company are not the same as those of the CB Comparables, the CB Comparables could demonstrate the recent market practice of Hong Kong listed companies in the subscription of convertible bonds/notes under specific/general mandate.

Company Name	Stock Code	Announcement date	Premium/ (discount) of conversion price over/ (to) the closing price of the last trading day of the date of the relevant agreement / announcement (%)	Premium/ (discount) of conversion price over/ (to) the average closing price of the last 5 consecutive trading days up to and including the date of agreement / announcement	Premium/ (discount) of conversion price over/ (to) the average closing price of the last 45 consecutive trading days up to and including the date of agreement / announcement
Hua Yin International Holdings Limited	989	7 September 2021	2.63%	1.04%	2.42%
Wai Chun Group Holdings Limited	1013	21 October 2021	(11.11%)	(20.00%)	(21.88%)
Wai Chun Bio-Technology Limited	660	22 October 2021	0.00%	(11.97%)	(18.12%)
China Public Procurement Limited	1094	3 December 2021	(1.96%)	(7.29%)	(11.43%)
Hopson Development Holdings Limited	754	9 December 2021	15.02%	18.72%	6.16%
Rare Earth Magnesium Technology Group Holdings Limited	601	18 January 2022	0.00%	2.04%	(7.18%)
China Ruifeng Renewable Energy Holdings Limited	527	28 January 2022	9.09%	7.14%	0.76%
China Baoli Technologies Holdings Limited	164	21 April 2022	4.48%	3.86%	8.28%
		Maximum	15.02%	18.72%	8.28%
		Minimum	(11.11%)	(20.00%)	(21.88%)
		Median	1.32%	1.54%	(3.21%)
		Average	2.27%	(0.81%)	(5.12%)
		The Company	12.38%	5.92%	21.73%

As illustrated in the above, the conversion prices of the CB Comparables ranged (i) from a discount of approximately 11.11% to premium of approximately 15.02% to/over the respective closing price of their shares on the last trading day of the CB Comparables (the "**Market Range I**") with the median of a premium of approximately 1.32%; (ii) from a discount of approximately 20.00% to a premium of approximately 18.72% to/over the average closing price of the five trading days up to and including the last trading day of the CB Comparables (the "**Market Range II**") with the median of a premium of approximately 1.54%; (iii) from a discount of approximately 21.88% to a premium of approximately 8.28% to/over the average closing price of the 45 trading days up to and including the last trading day of the CB Comparables (the "**Market Range III**") with the median of a discount of approximately 3.21%.

We note that the Conversion Price represents a premium of 12.38% over the closing price of the Shares on the Last Trading Day (the "**Conversion Price Premium I**"), a premium of approximately 5.92% over the average closing price of the Shares on five trading days prior to the Last Trading Day (the "**Conversion Price Premium II**"), and a premium of approximately 21.73% over the average closing price of the Shares on 45 trading days prior to the Last Trading Day (the "**Conversion Price Premium III**").

The Conversion Price Premium I, the Conversion Price Premium II, and the Conversion Price Premium III are both above the median of the Market Range I, the Market Range II and the Market Range III, respectively. In addition, the Conversion Price represents a premium of approximately 187.80% over the unaudited net asset value per Share based on its latest financial report as at 30 June 2022.

The Conversion Price represents a premium of 47.50% over both the Subscription Price and the Consideration Share issue price. Upon exercising the conversion rights, the Company is expected to allot and issue less Conversion Shares at the Conversion Price in comparison to the pricing level of the Subscription Price and the Consideration Share issue price. In addition, we consider the Conversion Price at higher price level in comparison to the Subscription Price and the Consideration Share issue price also indicated the support from the Controlling Shareholder of the Company and its confidence on the business prospect of the Group upon the implementation of the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription, the Share Subscription and the Acquisition as a comprehensive plan formulated to support the Group) and the Syndicated Facility Agreement. Therefore, we consider the premium of the Conversion Price is fair and reasonable and in the interest of the Company and its Independent Shareholders.

Having considered (i) the current net liabilities position of the Group and the going concern of its operation and there were very limited fund-raising alternatives available to the Group; (ii) the Convertible Bond Subscription is part and parcel of the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as a comprehensive plan formulated to support the Group); (iii) the Conversion Price represents a premium of 47.50% over both the Subscription Price and the Consideration Share issue price; (iv) the Conversion Price Premium I, the Conversion Price Premium II, and the Conversion Price Premium III are both above the median of the Market Range I, the Market Range II and the Market Range III, respectively; and (v) the Conversion Price represents a premium of approximately 187.80% over the unaudited net asset value per Share based on its latest financial report as at 30 June 2022, we consider the Conversion Price is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

D. ACQUISITION OF THE TARGET COMPANY

On 26 September 2022 (after trading hours), the Company entered into the Acquisition Agreement with Beijing Gas Group, pursuant to which, Beijing Gas Group conditionally agreed to sell and the Company conditionally agreed to purchase, 100% equity interest in the Target Company, at a consideration of HK$280 million to be settled by the issue and allotment of 3,500,000,000 Consideration Shares to Beijing Gas Group or its designated wholly-owned subsidiary. It is expected that the Consideration Shares will be issued and allotted to Beijing Gas HK. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

1. Principal Terms of the Acquisition Agreement

The principal terms of the Acquisition Agreement are set out as follows:

Parties	:	(a) the Company, as the Purchaser; and (b) Beijing Gas Group, as the Vendor
Target	:	100% of the issued share capital of the Target Company, which will indirectly own 51% equity interest in the Project Company upon the completion of Reorganization of the Target Group
Acquisition Consideration	:	HK$280 million (the "**Consideration**"), which is to be satisfied by the issuance of 3,500,000,000 Consideration Shares
Consideration Shares Issue Price	:	HK$0.08 per Consideration Share

Basis of the Acquisition Consideration	:	The Consideration was determined after arm's length negotiations between the Company and Beijing Gas Group, having regard to the (i) prime opportunities for the Company to expand its city gas business into the Guangxi market, in which the Company currently has limited presence in the region; (ii) financial position, prospects and potential of the business of the Target Group in light of PRC government's continuous efforts in reducing pollution and carbon emissions by transiting from coal to clean energy (such as LNG); and (iii) the then preliminary valuation in respect of 51% equity interest in the Project Company The valuation report indicating a market value of approximately HK$334 million in respect of 51% equity interest of the Project Company prepared by Jones Lang LaSalle, an independent valuer, as at 31 July 2022

Details of the terms of the Acquisition Agreement, please refer to the Letter from the Board.

2. Consideration share issue price

The issue price of HK$0.08 per Consideration Share represents:

(a) a discount of approximately 23.81% to the closing price of HK$0.105 per Share as quoted on the Stock Exchange on 26 September 2022, being the Last Trading Day;

(b) a discount of approximately 28.19% to the average of the closing prices of HK$0.1114 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(c) a discount of approximately 32.43% to the average of the closing prices of HK$0.1184 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days up to and including the Last Trading Day;

(d) a discount of approximately 17.44% to the average of the closing prices of HK$0.0969 per Share as quoted on the Stock Exchange for the last 45 consecutive trading days counting from the first trading day since trading resumption on 25 July 2022 up to and including the Last Trading Day;

(e) a premium of approximately 15.94% over the closing price of HK$0.069 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(f) a premium of approximately 95.12% over the unaudited net asset value attributable to shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022, with reference to the interim report for the six months ended 30 June 2022; and

(g) a premium of approximately 70.21% over the audited net asset value attributable to shareholders of the Company per Share of approximately HK$0.047 per Share as at 31 December 2021, with reference to the annual report for the year ended 31 December 2021.

The issue price per Consideration Share is the same as the Subscription Price under the Share Subscription Agreement which is also determined after taking into account the following: (i) the recent trading performance of the Shares; (ii) the net asset value of the Group; (iii) the business prospects and financial position of the Group; and (iv) the recent equity capital market conditions.

3. Consideration Shares

The total number of 3,500,000,000 Consideration Shares to be allotted and issued represent approximately:

(a) 26.95% of the issued share capital of the Company as at the Latest Practicable Date;

(b) 21.23% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion);

(c) 15.39% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and Subscription Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion); and

(d) 13.85% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, Subscription Shares and Conversion Shares (assuming that there is no other changes to the total number of Shares from the Latest Practicable Date to the date of Completion)

The Consideration Shares shall rank pari passu in all respects with the Shares in issue and will be allotted and issued under the Specific Mandate to be sought for approval at the SGM.

4. Information of the Target Company

Upon completion of Reorganization, the Target Group will consist of three companies, namely, the Target Company, the PRC Project Holding Company and the Project Company. The Target Company is a wholly owned subsidiary of Beijing Gas HK that was incorporated in Hong Kong on 19 September 2022. The issued share capital of the Target Company as at the Latest Practicable Date is HK$110,000. The Target Company is an investment holding company that does not engage in any business activities.

PRC Project Holding Company is established in the PRC on 18 September 2015 with a registered capital of HK$100,000 and is an indirectly wholly-owned subsidiary of the Company as at the Latest Practicable Date. It is an investment holding company that does not engage in business activities. Upon completion of the Reorganization, the PRC Project Holding Company shall be wholly-owned by the Target Company and shall hold 51% of the equity interest of the Project Company.

The Project Company was established in the PRC in August 2014 with a registered share capital of RMB30,000,000 and is a city gas business operator located at Teng County of Guangxi Province in the PRC. It supplies gas and provide ancillary services to residential, commercial and industrial users in its administrative region under an operating concession right of 30 years commencing from year 2016 in the region. As at the Latest Practicable Date, Beijing Gas Group directly holds 51% equity interest in the Project Company. The remaining 49% equity interest in the Project Company are owned by Guangxi Heyuxiang New Energy Investment Co., Ltd*（廣西和裕祥新能源投資有限公司）, a company which is ultimately beneficially owned 95% by Xu Lingling*（許玲玲）and 5% by Wang Liwei*（王立委）, which and who is an independent third party(ies) to the Company. As confirmed by Beijing Gas Group, neither Guangxi Heyuxiang New Energy Investment Co., Ltd* nor its beneficial owner (including Xu Lingling and Wang Liwei*) is a party acting in concert with Beijing Gas Group and Beijing Gas HK.

As at 30 April 2022, the customer network of the Project Company comprises 10,111 residential users, 75 commercial users and 13 industrial users. The volumes of gas sales for the year ended 31 December 2021 and the four months ended 30 April 2022 were approximately 127.1 million cubic meters and 39.8 million cubic meters, respectively.

By leveraging the geographic advantage of Teng County being located adjacent to Xijiang River, the Project Company also intends to develop its business of CNG/LNG refuelling stations for vehicles and business of LNG refuelling for vessels when opportunities arise in the future according to market demand.

The members of the Target Group will undergo the Reorganization, details of which are illustrated in the Letter from the Board.

5. Financial Performance of the Target Group

The Target Company was incorporated in Hong Kong on 19 September 2022 with an issued share capital of HK$110,000 as at the Latest Practicable Date.

PRC Project Holding Company is established in the PRC on 18 September 2015 with a registered capital of HK$100,000.

Both of the Target Company and PRC Project Holding Company are investment holding companies that do not engage in any business activities.

Under the Reorganisation, the Target Company and PRC Project Holding Company are investment holding company of the 51% equity interest of the Project Company.

Set out below is certain key financial information of the Project Company as extracted from the statement of profit or loss and other comprehensive income for the years ended 31 December 2019, 31 December 2020 and 31 December 2021, and for the four months ended 30 April 2021 and 30 April 2022 (the "**Project Company Review Period**"), details of which are set out in the Appendix IIC to the Circular:

RMB'000	**For the year ended 31 December 2019** *(audited)*	**For the year ended 31 December 2020** *(audited)*	**For the year ended 31 December 2021** *(audited)*	**For the four months ended 30 April 2021** *(unaudited)*	**For the four months ended 30 April 2022** *(audited)*
Revenue	114,189	234,112	363,208	91,749	141,311
Cost of sales and services	(102,150)	(194,671)	(305,187)	(77,261)	(112,049)
Gross profit	12,039	39,441	58,021	14,488	29,262
Gross profit margin	10.5%	16.8%	16.0%	15.8%	20.7%
Profit for the year/ period	4,002	25,849	43,749	10,871	23,163

Comparison between FY2019 and FY2020

The revenue of the Project Company increased from approximately RMB114.2 million for approximately FY2019 to RMB234.1 million for FY2020, representing an increase of approximately 105.0%, which was mainly due to the increase in sales volume of piped natural gas in Teng County. The gross profit margin of the Project Company increased from approximately 10.5% for FY2019 to approximately 16.8% for FY2020 as a result of increase in piped gas sales price. In light of the above, the Project Company recorded a profit of approximately RMB25.8 million for FY2020 as compared to approximately RMB4.0 million for FY2019 as a result of the increase of natural gas sales volume and price.

Comparison between FY2020 and FY2021

The revenue of the Project Company increased from approximately RMB234.1 million for FY2020 to approximately RMB363.2 million for FY2021, representing an increase of approximately 55.1%, which was mainly due to the continuing increase in demand of natural gas in Teng County. Such increase was mainly due to the increase in sales volume of piped natural gas and provision of construction and installation services. The gross profit margin of the Project Company remained stable at 16.0% for FY2021 (FY2020: 16.8%). The Project Company recorded a profit of approximately RMB43.7 million for FY2021 as compared to approximately RMB25.8 million for FY2020 which is in line with the increase of revenue as a result of the increase in sales volume of piped natural gas and provision of construction and installation services.

Comparison between the four months ended 30 April 2021 and 30 April 2022

The Project Company reported revenue of approximately RMB141.3 million for the four months ended 30 April 2022 as compared to approximately RMB91.7 million for the four months ended 30 April 2021, representing an increase of 54.0%, which was primarily due to the increases in revenue from sales of pipe natural gas in response the demand of commercial users and industrial users in Teng County. The Project Company's gross profit margin increased from 15.8% for the four months ended 30 April 2021 to 20.7% for the four months ended 30 April 2022 as a result of increase in natural gas sales price.

Profit for the four months ended 30 April 2022 of the Project Company was approximately RMB23.2 million as compared to approximately RMB10.9 million for the four months ended 30 April 2021, representing an increase of 113.1% as a result of the increases in revenue and gross profit margin.

To conclude, the Project Company has been growing rapidly in terms of size and profitability during the Project Company Review Period. For instance, its revenue and profit have been growing at a CAGR of approximately 78.3% and approximately 230.6% from FY2019 to FY2021 respectively, with a rising trend in its gross profit margin. The Project Company commenced supplying natural gas to its customers in the Teng County in late 2015 with the 30-year exclusive franchise operation agreement with the local government. The volumes of gas sales of the Project Company for FY2021 amounted 127.1 million cubic meters. In comparison, the volume of natural gas sold by the Group to its residential, commercial and industrial users under its city gas business segment amounted to 133.0 million cubic meters for FY2021. In terms of the sales volume of the Group, the Project Company also has a very sizable client base in Teng County under the exclusive franchise operation agreement for natural gas supply.

As advised by the management of the Group and further to our review of the Catalogue of Guangxi for Guiding Industry Restructuring (2021 Version)*《廣西工業產業結構調整指導目錄(2021年本)》under implementation by the Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region* (廣西壯族自治區工業和信息化廳) which requires local ceramic producers to complete conversion of the use of energy source in production from coal to gas by end of 2025, we noted that the estimated size of "coal-to-gas" transition projects in the ceramic industrial park will be over 500 million cubic meters, representing more than 290% of the sales volume of the Project Company in FY2021. We concur with the Company that the Project Company is expected to benefit from the increasing industrial activities in the Teng County, including most notably the development of a ceramic industrial park in the region which is expected to lead to rising energy demand from clean energy sources.

Financial position of the Project Company

Set out below is the statement of financial position of the Project Company as at 31 December 2020, 31 December 2021 and 30 April 2022 as extracted from the statements of financial position of the Project Company as set out in the Appendix IIC of the Circular:

RMB ’000	**As at 31 December 2020** *(audited)*	**As at 31 December 2021** *(audited)*	**As at 30 April 2022** *(audited)*
Non-current assets	119,414	140,212	146,848
Current assets	29,638	53,437	108,709
Total assets	149,052	193,649	255,557
Non-current liabilities	2,417	16,459	28,396
Current liabilities	102,143	110,980	137,788
Total liabilities	104,560	127,439	166,184
Equity attributable to owners of the Company	44,492	66,210	89,373
Cash and bank balances	9,482	30,634	68,481
Total borrowings	56,400	71,049	75,080
Current ratio [1]	0.29	0.48	0.79
Gearing ratio[2]	126.8%	107.3%	84.0%

Notes:

1. Being current assets divided by current liabilities

2. Being the total borrowings divided by total equity

As at 31 December 2021

As at 31 December 2021, the Project Company had total assets of approximately RMB193.6 million, which comprised of non-current assets and current assets of the of approximately RMB140.2 million and approximately RMB53.4 million respectively. As at 31 December 2021, the Project Company's non-current assets mainly comprised of property, plant and equipment while its current assets mainly comprised of cash and cash equivalents and trade receivables.

The Project Company had total liabilities of approximately RMB127.4 million as at 31 December 2021, which comprised of non-current liabilities and current liabilities of approximately RMB16.5 million and approximately RMB111.0 million respectively. As at 31 December 2021, the Project Company's non-current liabilities mainly comprised of bank and other borrowings while its current liabilities mainly comprised of short-term bank and other borrowings maturing within one year, contract liabilities and trade payables.

As at 30 April 2022

As 30 April 2022, the Project Company had total assets of approximately RMB255.6 million, which mainly comprised of property, plant and equipment while its current assets mainly comprised of cash and cash equivalents and trade receivables.

The Project Company had total liabilities of approximately RMB166.2 million as at 30 April 2022, which comprised of non-current liabilities and current liabilities of approximately RMB28.4 million and approximately RMB137.8 million respectively. As at 30 April 2022, the Project Company's non-current liabilities mainly comprised of bank and other borrowings while its current liabilities mainly comprised of short-term bank and other borrowings maturing within one year, contract liabilities and trade payables.

The current ratio of the Project Company was approximately 0.79 time as at 30 April 2022, which improved from 0.48 time as at 31 December 2021. The net assets of the Project Company amounted to approximately RMB89.4 million as at 30 April 2022, representing an increase of approximately 35.0%. Therefore, the Project Company's gearing ratio decreased from approximately 107.3% as at 31 December 2021 to 84.0% as at 30 April 2022.

As at 30 April 2022, the Project Company had cash and cash equivalents of approximately RMB68.5 million, representing an increase of approximately 123.9% as compared to that as at 31 December 2021. Such increase indicated an improvement of the Project Company's liquidity position to meet its short-term liabilities.

6. Evaluation of the Consideration

To assess the fairness and reasonableness of the Consideration, we obtained the valuation report prepared by Jones Lang LaSalle (the "**Valuer**") and noted that the market value of 51% equity interest in the Project Company as at 31 July 2022 (i.e. the valuation date) was approximately HK$334 million.

In compliance with the requirements of Rule 13.80 of the Listing Rules, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the valuation report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the valuation. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we are satisfied with the terms of engagement and scope of work of the Valuer as well as their qualification and competence for preparation of the valuation report. The Valuer also confirmed that they are independent to the Group and the parties to the Acquisition.

(a) Major Assumptions

According to the valuation report, the valuation was performed based on the following assumptions, which include:

(i) there will be no material change in the existing political, legal, technological, natural, fiscal or economic conditions, which might adversely affect the business of the Project Company;

(ii) the operational and contractual terms stipulated in the relevant contracts and agreements entered into between Project Company and any other parties, including but not limited to loan contracts, business contracts and other contracts that will affect the business of Project Company, will be honored;

(iii) the facilities and systems in place or proposed (if any) are sufficient for future operations in order to realize the growth potential of the business that is in line with the industry and maintain a competitive edge;

(iv) the continuous prudent management of the Project Company that is reasonable and necessary to maintain the character and integrity of the assets valued;

(v) the accuracy of the audited financial and operational information of the Project Company provided by the Company and relied to a considerable extent on such information in arriving at the opinion of value; and

(vi) there are no hidden or unexpected conditions (such as natural disaster, war, government intervention, major change in management, etc.) associated with the asset valued that might adversely affect the reported value.

We have inquired the Valuer on the applicability of the abovementioned assumptions and we understand that such assumptions are generally and consistently adopted in other business valuation exercises and are in line with the market practices. We are therefore of the view that the assumptions adopted in the valuation are reasonable.

(b) Valuation methodology

The Valuer derived the valuation utilising the guideline public companies method under market approach as valuation methodology. With reference to the Valuation Report, the Valuer considered three generally accepted approaches, namely market approach, costs approach and income approach:

(i) Market approach considers the prices recently paid for similar assets, with adjustments made to market prices to reflect the condition and utility of the appraised assets relative to the market comparative. Benefits of using market approach include its simplicity, clarity, speed and the need for fewer assumptions. It also introduces objectivity in application as publicly available inputs are used. We understand from the Valuer that the above 6 major assumptions under the above section headed "(a) Major Assumption" also apply to the income approach which will require the adoption of more additional subjective assumptions for its underlying long-term financial projections. Accordingly, the Valuer is of the view that it is appropriate to conduct the Valuation using market approach;

(ii) Cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the Project Company and thus was rejected by the Valuer; and

(iii) Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. As income approach involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained, thus was rejected by the Valuer.

Having considered that (i) the cost approach does not directly incorporate information about the economic benefits and future earning potential of the Project Company; (ii) the income approach requires to adopt more subjective assumptions than the market approach for compiling its long-term financial projection and the valuation result would be greatly sensitive to any changes in assumptions; and (iii) the market approach required few assumptions and can apply publicly available comparables to enhance the objectivity of the valuation, we consider the adoption of market approach for the Valuation is reasonable.

Under market approach, the Valuer adopted the guideline public companies method in conducting the Valuation. We noted that the Valuer selected the comparable listed companies with selection criteria including:

(i) The shares of the comparable companies have been listed and actively traded in public exchanges no less than six months;

(ii) The comparable companies derive their revenues from the same industry as the Project Company, which is specifically natural gas distribution by pipeline;

(iii) The comparable companies mainly operate in Mainland China;

(iv) The comparable companies recorded positive earning as the Project Company in their latest financial year; and

(v) Sufficient operation and financial data, including the EV/EBITDA Ratio, on the companies are available as at the valuation date

Based on the aforesaid research criteria and as advised by the Valuer, the research conducted by the Valuer under guideline public companies method of the market approach, has covered the companies listed and actively traded in public exchanges globally in no less than six months. Despite the Acquisition was carried out by the Company which is listed in the Stock Exchange, the Valuer considers that the valuation was performed on the market value basis and an exhaustive and inclusive list of comparable companies with shares publicly and actively traded is necessary to provide the indication of the value. Accordingly the Valuer selected 21 comparable companies. The selection criteria enable the Valuer to identify companies that mainly operates similar activity (the provision of natural gas distribution by pipeline) in the same geographical region (i.e. the PRC) of the Project Company, with sufficient data publicly available for the Valuer to conduct the Valuation. We also noted that the comparable companies are all listed in the stock exchanges of Shanghai, Shenzhen or Hong Kong which are the major stock exchanges for companies with businesses mainly in China, same as the Project Company. We consider the selection criteria adopted by the Valuer in identifying the comparable companies in terms of similar principal business, geographical operation and financial position with positive earning in the recent financial year for valuation analysis are appropriate and reasonable. Based on our independent research on the comparable companies selected by the Valuer, we are of the view that all of the comparable companies fit the selection criteria and are fair and representative.

In addition, we noted that the Valuer performed scenario analysis containing two scenarios. In the first scenario, the Valuer adopted the adjusted EV/EBITDA (as defined below) multiples of 12 out of the 21 selected comparable companies that are listed in the Stock Exchange (the "**HK Listed Comparables**"). In such scenario, the Valuer applied the average of adjusted EV/EBITDA (as defined below) of the HK Listed Comparables of 6.76 to the valuation analysis and kept other inputs and parameters consistent, the valuation result would be HK$293 million. In the second scenario, the Valuer adopted the adjusted EV/EBITDA (as defined below) multiples of 9 out of the 21 selected comparable companies that are listed in Shanghai Stock Exchange and Shenzhen Stock Exchange (the "**PRC Listed Comparables**"). In such scenario, the Valuer applied the average of adjusted EV/EBITDA (as defined below) of the PRC Listed Comparables of 10.46 to the valuation analysis and kept other inputs and parameters consistent, the valuation result would be HK$461 million. We obtained and reviewed the above scenario analysis performed by the Valuer, and noted that the valuation result for both analysis are also above the Consideration of HK$280.0 million. H Having considered that the Acquisition is carried out by the Company which is listed in the Stock Exchange and the Company will settle the consideration through issuance of the Consideration Shares, we are of the view that the scenario analysis by applying adjusted EV/EBITDA multiples of the HK Listed Comparables is more relevant and appropriate to assess the level of Consideration. Nevertheless, the Independent Shareholders should note that the values under the valuation report and the two scenarios analysis are all above the Consideration of HK$280 million.

The Valuer applied the enterprise value ("**EV**") over earnings before interest, tax, depreciation and amortisation ("**EBITDA**") multiple ("**EV/EBITDA**") for the purpose of arriving at the Valuation. We understood from the Valuer that it considers that EV/EBITDA multiple can reflect the latest financial performance and position of the Project Company in comparison to the comparable companies identified under the above criteria. It is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows the Valuer to compare the Project Company against the comparable companies without considering how each comparable company finance its operations.

After the Valuer computed the base EV/EBITDA of the comparable companies, the Valuer adjusted such ratio by certain factors such as size premium and market capitalisation to enterprise value ratio, to arrive at the adjusted EV/EBITDA of the comparable companies.

We understood from the Valuer that the adjustments were made principally to reflect the difference in sizes among the Project Company and the comparable companies, and such adjustments were referred to a formula in a textbook titled "Financial Valuation – Applications and Model, 2017" by James R. Hitchner. As advised by the Valuer, James R. Hichner is a renowned valuation expert in the US for the pricing multiple adjustments and the formula is widely accepted for valuation adjustments to reflect the difference in sizes among the subject company and its comparable companies. "Financial Valuation – Applications and Model, 2017" has been recognized by the American Institute of Certified Public Accountants (AICPA) and National Association of Certified Valuators and Analysts (NACVA) of the US and adopted as the textbook for their valuation courses (James R. Hitchner is the managing director of a firm specializing in the valuation of businesses/intangible assets, litigation or forensic services. He has over 30 years of valuation experience who is the editor in chief of the journal

"Financial Valuation and Litigation Expert" and the editor or co-author of several valuation-related publications such as "Financial Valuation Workbook, Fourth Edition", "A Consensus View Q&A Guide to Financial Valuation" and "Valuation for Financial Reporting: Fair Value, Business Combination, Intangible Assets, Goodwill and Impairment Analysis, Third Edition".). In respect of size premium, we noted the Valuer made reference to Cost of Capital Navigator 2022 published by Kroll Inc. (Kroll Inc., formerly Duff & Phelps which was founded in 1932, provides valuation, compliance and regulation, corporate finance and restructuring, cyber risk, environmental, social and governance, investigations and disputes, and business services. Kroll Inc. serves clients in 140 countries across six continents and spanning nearly every industry and sector).

In respect of the discount on lack of marketability, we noted that the Valuer applied a discount of 16.2% ("**DLOM**") to reflect the cost associated with locating interested and capable buyers of interest in privately held companies, as there is no established market of readily available buyers and sellers. We noted that the Valuer determined the DLOM with reference to the 2021 edition of the Stout Restricted Stock Study Companion Guide (the "**Stout Study**") published by Stout Risius Ross, LLC, ("**Stout**") Stout is a global investment bank and advisory firm specializing in corporate finance, valuation, financial disputes, and investigations, serving a range of clients from public corporations to privately held companies in numerous industries. As advised by the Valuer, the Stout Study is a well known and widely accepted study among the valuers for analysis of the discount on lack of marketability. As for the DLOM analysis, since the Project Company is a private company whose shares are not publicly traded in the open market, a discount for lack of marketability shall be considered in the course of valuation to discount for lack of ability of converting shares of the Project Company into immediate cash. We have reviewed the result of the Stout Study obtained by the Independent Valuer and noted that amongst 763 private company transactions under the 2021 edition of the Stout Study, the Valuer has selected the 44 comparable cases for transaction discounts in the industry category closest to the business of the Project Company; and the adopted DLOM of 16.2% is the median of the transaction discounts of the selected 44 comparable cases which is considered to be fair and reasonable for the DLOM analysis of the Project Company.

In respect of the control premium, we noted that the Valuer, with reference to Control Premium Study (1st Quarter 2022) publish by FactSet Mergerstat of Business Valuation Resources, LLC, applied a premium of 31.0% to reflect the price premium for controlling interest of a company. Since the Acquisition represents 51% of the interest of the Project Company and it is widely recognized that an investment which offers an investor control of a business is worth more than a minority stake, we are of the view that the use of control premium is reasonable. We noted that founded in 1995, Business Valuation Resources, LLC is an investment research firm which offers searchable empirical databases and content, as well as newsletters focusing on business valuation information. They provide market databases and analysis, cost of capital calculations and analyses and proprietary data on private and public company comparables. Their clients include regulators, tax authorities, public accountants, M&A advisors, Corporate CFOs, chief compliance officers, private equity professionals, venture capitalists, investment bankers, business brokers and intermediaries, professor, lawyer and judges, and business owners. As advised by the Valuer, the Control Premium Study published by FactSet Mergerstat of the Business Valuation Resources, LLC is a widely accepted source among valuers for analysis of control premium. As advised by the Valuer, the equity value of the Project Company inferred from the EV/EBITDA multiple of the comparable companies is presented on non-controlling basis. Since the Company will gain control of the Project Company after the Acquisition, a control premium shall be considered in the course of valuation. We have reviewed Control Premium Study obtained by the Independent Valuer and noted that the applied control premium of 31% was the median of equity control premium of a list of 122 cases of acquisitions of majority control/privatisations globally in the first quarter of 2022 based on Control Premium Study 1st Quarter 2022 which is considered to be fair and reasonable for the control premium analysis of the Project Company.

Based on our review on the valuation report and our discussion with the Valuer in relation to the analysis of (i) selection of valuation methodology; (ii) major assumptions applied to the market approach valuation analysis; (iii) selection criteria of the comparable listed companies; (iv) the valuation adjustments applied due to size difference, DLOM and control premium; and (v) the scenario analysis, we consider that the methodology, principal bases, assumptions and parameters adopted for the valuation report are appropriate and reasonable.

Having considered our independent work performed on the Valuation Report as set out above and the Consideration of HK$280.0 million that is lower than the valuation of 51% equity interest in the Project Company under the valuation report (i.e. HK$334 million) and each of the different scenario analysis (i.e. HK$293 million which applied the multiple of the HK Listed Comparables; and HK$461 million which applied the multiple of the PRC Listed Comparables), we are of the view that the Consideration is fair and reasonable.

7. Consideration Share Issue Price

The Consideration Share under the Acquisition arrangement is a part of the Capital and Asset Injection Plan involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as a comprehensive plan formulated to support the Group. Therefore, the issue price per Consideration Share (the "**Issue Price**") is the same as the Subscription Price under the Share Subscription Agreement which is also determined after taking into account the following: (i) the recent trading performance of the Shares; (ii) the unaudited net asset value attributable to the Shareholders which was at approximately HK$0.041 per Share as at 30 June 2022; (iii) the business prospects and financial position of the Group, including the significant adverse effects on the business operations, financial performance and cash flows of the Group attributable to the Incident; and (iv) the current equity market capital conditions.

With reference to the section headed "B.2. Evaluation of the Subscription Price" of this letter, having considered:

(a) the PB Ratios of the Company based on the closing price as at the Last Trading Day and the Subscription Price are both much higher than the range and median of those of the Comparable Companies;

(b) the Subscription Price and the Issue Price represent a premium of approximately 95.12% over the unaudited net asset value attributable to Shareholders of the Company per Share of approximately HK$0.041 per Share as at 30 June 2022;

(c) the trading volume of the Shares, being below 1% of (i) the total number of issued Shares held by the public; and (ii) the total number of issued Shares for 13 out of 15 months across the Review Period, was thin during the Review Period;

(d) the uptrend of Share prices of the Company during the Resumed Trading Period up to the Last Trading Date is not in line with the weak equity capital market conditions as indicated by the downtrend of Hang Seng Index, and may not persist; and

(e) given the current net liabilities position of the Group and the going concern of its operation as mentioned above, there were very limited fund-raising alternatives available to the Group. By allotment and issue of the Consideration Shares, the Group will not have any immediate cash outflow which may worsen its financial position,

we concur with the Company that the discount on the Subscription Price and the Issue Price under the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as a comprehensive plan formulated to support the Group) to the prevailing market value of the Shares during the Resumed Trading Period is justifiable and the Subscription Price and the Issue Price were arrived at an arm's length negotiation between the Company and Beijing Gas HK after taking into account the following: (i) the recent trading performance of the Shares; (ii) the net asset value of the Group; (iii) the business prospects and financial position of the Group; and (iv) the recent equity capital market conditions and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

E. FINANCIAL EFFECTS OF THE ACQUISITION, THE SHARE SUBSCRIPTION, THE FACILITY AND THE CONVERTIBLE BOND

1. Effect on working capital, assets and liabilities

Based on the Pro Forma Information, if completion of the Capital and Asset Injection Plan had taken place on 30 June 2022, the total assets of the Group as at 30 June 2022 will increase from approximately HK$4,572.9 million to approximately HK$6,598.8 million whereas the net assets will increase from approximately HK$628.5 million to approximately HK$1,452.0 million. On the other hand, total current net liabilities will be reduced from approximately HK$2,550.1 million to approximately HK$1,096.0 million. Such improvement is primarily attributable an immediate cash inflow of approximately HK$1.5 billion from the Share Subscription and the Financial Assistance under the Capital and Asset Injection Plan to address the Group's pressing liquidity issues and strengthen its asset base. In addition, the Acquisition will be settled by Consideration Shares which shall not impose working capital pressure to the Group.

2. Effect on earnings

Upon completion of the Capital and Asset Injection Plan, there will be no immediate material impact on earnings of the Group, while (i) the Target Group (excluding Project Company) will become wholly-owned subsidiaries of the Company, and their financial results will be consolidated into the Group's financial statements; and (ii) the Project Company, being a subsidiary of the Target Group, will become a non-wholly owned subsidiary of the Company, and its financial results will be consolidated into the Group's financial statements. The Acquisition is aimed at positioning the Group for better business growth and development in terms of its natural gas business in the future which, in the long run, is expected to benefit the Group and the Shareholders as a whole.

3. Effect on gearing

As at 30 June 2022, the Group had total borrowings of approximately HK$3,112.1 million and total equity of approximately HK$628.5 million. The gearing ratio of the Group was approximately 495.5%, being the total borrowings divided by total equity. Based on the pro forma financial information, if completion of the Capital and Asset Injection Plan had taken place on 30 June 2022, the Group would have total borrowings of approximately HK$4,195.9 million (including HK$1,000 million of long term debt from the Financial Assistance of the Beijing Gas HK under the Capital and Asset Injection Plan) and total equity of approximately HK$1,452.0 million. Accordingly, the gearing ratio of the Group would decrease from approximately 495.5% to approximately 289.0%.

To conclude, in light of the foregoing financial effects of the Capital and Asset Injection Plan on the earnings, working capital, net asset value as well as gearing position of the Group and the Enlarged Group, we concur with the Company that the Capital and Asset Injection Plan is formulated to address the Group's pressing liquidity issues, strengthen asset base and earning capability taking into account the needs of the Group in term of its current financial position as well as its long-term development goals.

F. DILUTION EFFECT ON SHAREHOLDING INTEREST OF THE EXISTING PUBLIC SHAREHOLDERS

With reference to the shareholding table in the section headed "EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Letter from the Board, the shareholding interests of the existing public Shareholders was approximately 58.87% as at the Latest Practicable Date. Immediately after completion of the Capital and Asset Injection Plan and assuming full conversion of the Convertible Bond, the shareholding interests of the existing public Shareholders would be diluted to approximately 30.24% (representing a decrease of approximately 28.63% (the "**Existing Public Shareholding Dilution**")).

Taking into account:

(i) the current net liabilities position of the Group and the going concern of its operation and there were very limited fund-raising alternatives available to the Group;

(ii) the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as a comprehensive plan formulated to support the Group) is prerequisite to the Syndicated Facility Agreement;

(iii) the aforementioned reasons for and benefits of the Capital and Asset Injection Plan, including its aim to address the Group's pressing liquidity issues, strengthen asset base and earning capability taking into account the needs of the Group in terms of its current financial position as well as its long-term development goals; and

(iv) the terms of the Capital and Asset Injection Plan were agreed upon after arm's length negotiations between the parties and is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole,

we are of the view that the Existing Public Shareholding Dilution is acceptable.

G. WHITEWASH WAIVER

As at the Latest Practicable Date, Beijing Gas Group and its concert parties hold 5,341,042,131 Shares, representing approximately 41.13% of the total issued Shares. As illustrated in the section headed "EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY" in the Letter from the Board, upon completion of the Share Subscription and the Acquisition, Beijing Gas Group and its concert parties' voting right in the Company will increase to approximately 66.37% before conversion of any of the Conversion Bond, and will further increase to approximately 69.76% upon full conversion of the Conversion Bond.

Accordingly, in the absence of the Whitewash Waiver, completion of the Share Subscription and the Acquisition will give rise to an obligation on the part of Beijing Gas Group to make a mandatory offer for all the Shares (other than those already owned or acquired by Beijing Gas Group and parties acting in concert with it) under Rule 26.1 of the Takeovers Code.

Beijing Gas Group has applied to the Executive for the Whitewash Waiver from compliance with the obligation to make a mandatory general offer under Rule 26.1 of the Takeovers Code as a result of the issue of the Subscription Shares and the Consideration Shares. The Whitewash Waiver, if granted by the Executive, is expected to be subject to, amongst others, the passing of the Whitewash Waiver Resolutions. Beijing Gas Group and its concert parties, and those who are involved in or interested in the Financial Assistance, the Share Subscription and the Acquisition will be required to abstain from voting in respect of the Whitewash Waiver Resolutions. The Share Subscription, the Financial Assistance, the Acquisition and will not proceed if the Whitewash Waiver is not granted by the Executive, or not approved by the Independent Shareholders.

Completion of the Capital and Asset Injection Plan (involving the Share Subscription, the Financial Assistance, and the Acquisition) is conditional upon the fulfilment of the conditions precedent of the Financial Assistance, the Share Subscription and the Acquisition as set out in the sections headed "(i) The Facility Agreement", "(ii) The Convertible Bond Subscription Agreement", "Principal terms of the Share Subscription Agreement" and "Principal terms of the Acquisition Agreement" in the Letter from the Board, including but not limited to the Company having received all the necessary approvals or consents from (a) the Stock Exchange and the SFC and (b) the Independent Shareholders at the SGM in respect of the Share Subscription, the Financial Assistance, the Acquisition and the Whitewash Waiver. In addition, the utilisation of the Syndicated Facility is also conditional upon (i) completion of the Acquisition; (ii) completion of the Share Subscription; and (iii) the proceeds of the Financial Assistance having been credited to an account of the Company opened with Mizuho Bank, Ltd., and a remittance instruction having been provided by the Company to repay its existing loans following completion of the Convertible Bond Subscription and the Facility Agreement. In this regard, if the conditions precedent in relation to the Whitewash Waiver in the Facility Agreement, the Convertible Bond Subscription Agreement, the Share Subscription Agreement and the Acquisition Agreement are not fulfilled on or before the Long Stop Date, these agreements shall lapse and the Share Subscription, the Financial Assistance, the Acquisition and the Syndicated Facility will not proceed.

Taking into account:

(i) the current net liabilities position of the Group and the going concern of its operation and there were very limited fund-raising alternatives available to the Group;

(ii) the Capital and Asset Injection Plan (involving the Share Subscription, the Facility, the Convertible Bond Subscription and the Acquisition as a comprehensive plan formulated to support the Group) is prerequisite to the Syndicated Facility Agreement;

(iii) the aforementioned reasons for and benefits of the Capital and Asset Injection Plan, the Capital and Asset Injection Plan is formulated to address the Group's pressing liquidity issues, strengthen asset base and earning capability taking into account the needs of the Group in terms of its current financial position as well as its long-term development goals; and

(iv) the terms of the Capital and Asset Injection Plan were agreed upon after arm's length negotiations between the parties and are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole,

we are of the opinion that the approval of the Whitewash Waiver is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Capital and Asset Injection Plan and the Syndicated Facility.

RECOMMENDATION

In light of the above, we consider that the Financial Assistance and the Share Subscription are both one-off financing solutions with a view to improving the Group's liquidity, whilst the Acquisition will allow the Group to further expand its natural gas supply business, which is in the ordinary and usual course of business of the Group. We also consider that the Share Subscription, the Financial Assistance, the Acquisition and the Whitewash Waiver are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Share Subscription, the Financial Assistance, the Acquisition and the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung	**Louis Chan**
Managing Director	*Director*

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 20 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021 AND FOR THE SIX MONTHS ENDED 30 JUNE 2022

The financial information of the Group for the three years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022, together with the accompanying notes to financial statements (including the significant accounting policies), are respectively set out in the following documents, which are also available on the website of the Stock Exchange (http://www.hkexnews.hk) and the Company's website (http://www.bgbluesky.com) for access:

(i) Pages 4 to 27 of the Company's unaudited interim report for the six months ended 30 June 2022 published on 15 September 2022;
(https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0915/2022091500494.pdf)

(ii) Pages 112 to 243 of the annual report of the Company for the year ended 31 December 2021 published on 28 April 2022;
(https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042800666.pdf)

(iii) Pages 119 to 267 of the Company's annual report for the year ended 31 December 2020 published on 25 October 2021; and
(https://www1.hkexnews.hk/listedco/listconews/sehk/2021/1025/2021102500719.pdf)

(iv) Pages 102 to 229 of the Company's annual report for the year ended 31 December 2019 published on 15 May 2020
(https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0515/2020051501821.pdf)

The audited consolidated financial statements of the Company for the three years ended 31 December 2019, 2020 and 2021 are incorporated by reference into this circular and form part of this circular.

The following summary of financial information for each of the three years ended 31 December 2019, 2020 and 2021 and for the six months ended 30 June 2022 as extracted from the consolidated financial statements of the Company as set forth in the annual reports and the interim report of the Group set out above.

	For the six months ended 30 June		For the year ended 31 December		
	2022	2021	2021	2020	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)			
REVENUE	919,261	1,205,336	1,728,019	1,463,102	2,676,129
Cost of sales	(878,622)	(1,158,211)	(1,608,675)	(1,307,855)	(2,451,619)
Gross profit	40,639	47,125	119,344	155,247	224,510
Other income and gains, net	17,623	11,305	34,326	34,840	165,634
Administrative expenses	(96,128)	(118,705)	(243,986)	(363,130)	(339,250)
Other expenses	(41,067)	(12,625)	(124,869)	(254,474)	(22,730)
Reversal/(provision) for impairment losses on financial assets	14,768	34,346	(251,118)	(1,567,110)	5,749
Impairment losses on other assets, net	–	–	(45,746)	(2,035,804)	–
Finance costs	(52,772)	(64,862)	(132,298)	(195,462)	(244,162)
Share of profits and losses of:					
Associates	137,114	146,621	374,289	320,432	305,712
Joint ventures	(600)	(878)	–	(11,767)	1,575
PROFIT/(LOSS) BEFORE TAX	19,577	42,327	(270,058)	(3,917,228)	97,038
Income tax (expenses)/credit	(1,269)	(3,271)	(8,499)	110,826	(23,168)
PROFIT/(LOSS) FOR THE PERIOD/YEAR	18,308	39,056	(278,557)	(3,806,402)	73,870
OTHER COMPREHENSIVE INCOME/(LOSS)					
Items that may be reclassified to profit or loss in subsequent periods:					
Exchange difference on translation of foreign operations	(10,094)	(114,199)	5,761	130,636	(370,700)
Share of other comprehensive income/(loss) of associates and joint ventures	(81,050)	23,569	63,067	35,004	(140,038)
	(91,144)	(90,630)	68,828	165,640	(510,738)

	For the six months ended 30 June		For the year ended 31 December		
	2022	2021	2021	2020	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Items that will not be reclassified to profit or loss in subsequent periods:					
Equity investments at fair value through other comprehensive income					
Change in fair value	–	24	–	(7,620)	(116,442)
Write-off of assets	–	–	–	(111,375)	–
	–	–	–	(118,995)	(116,442)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD/YEAR, NET OF INCOME TAX	(91,144)	(90,606)	68,828	46,645	(627,180)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD/YEAR	(72,836)	(51,550)	(209,729)	(3,759,757)	(553,310)
PROFIT/(LOSS) FOR THE PERIOD/YEAR ATTRIBUTABLE TO:					
Owners of the Company	19,968	40,076	(275,400)	(3,716,327)	(10,871)
Non-controlling interests	(1,660)	(1,020)	(3,157)	(90,075)	84,741
	18,308	39,056	(278,557)	(3,806,402)	73,870
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD/YEAR ATTRIBUTABLE TO:					
Owners of the Company	(69,694)	(49,977)	(208,725)	(3,675,341)	(602,453)
Non-controlling interests	(3,142)	(1,573)	(1,004)	(84,416)	49,143
	(72,836)	(51,550)	(209,729)	(3,759,757)	(553,310)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY					
Basic and diluted (HK cents)	0.15	0.31	(2.12)	(28.62)	(0.08)

For each of the years ended 31 December 2019, 2020 and 2021 and six months period ended 30 June 2022, no dividend was declared or paid by the Company.

Save for the recognition of provision for impairment losses on financial assets of approximately HK$1,567.1 million and HK$251.1 million for each of the two years ended 31 December 2020 and 2021, there were no items of income or expense which were material for each of the three years ended 31 December 2019, 2020, 2021 and for the six months ended 30 June 2022.

No modified opinion, emphasis of matter or material uncertainty related to going concern was contained in the auditor's reports of the Company issued by Mazars CPA Limited for the financial year ended 31 December 2019.

The consolidated financial statements of the Company for the years ended 31 December 2020 and 2021 were audited by Ernst & Young, who expressed a disclaimer of opinion in both years which have been reproduced below:

For the year ended 31 December 2020

"We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters and the potential interaction of the multiple uncertainties related to going concern and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

1. *Impairment/write-off of assets recognised during the year ended 31 December 2020*

As disclosed in note 2.3 to the consolidated financial statements, the board of directors resolved to establish a special committee (the "Special Committee") to perform an investigation on certain suspicious transactions (the "Incident"). An independent forensic accountant (the "Forensic Accountant") was appointed to assist the Special Committee in conducting a forensic investigation into the Incident (the "Investigation").

The Forensic Accountant conducted the Investigation on the 22 suspicious transactions identified by the management and reported to the Special Committee (the "Reviewed Transactions").

On 28 September 2021, the Forensic Accountant completed their investigation and submitted a forensic investigation report (the "Forensic Investigation Report") to the Special Committee. The Special Committee reviewed and submitted the Forensic Investigation Report, together with a report of the Special Committee to the board of directors for approval on 29 September 2021 and the key findings on the Forensic Investigation Report were announced by the Company on the same date.

During the course of the preparation of the consolidated financial statements for the year ended 31 December 2020, the board of directors had taken into account the findings of the Investigation, considered the relevant information and supporting evidence available and estimated the financial impact of the matters identified in the Investigation.

As disclosed in note 2.4 to the financial statements, in addition to the Reviewed Transactions, the board of directors also reassessed the impairment of the remaining assets of the Group and the accounting treatment of certain other transactions that occurred in prior years.

As a result of the aforesaid assessments, the board of directors considered it would be appropriate to recognise impairment losses/write-off in respect of certain assets in the Group's consolidated financial statements for the year ended 31 December 2020 and the amounts recognised included:

(i) Impairment of financial assets of HK$1,567 million recognised in the current year's profit or loss;

(ii) Impairment/write-off of other assets of HK$2,319 million recognised in the current year's profit or loss; and

(iii) Write-off of financial assets of HK$119 million recognised in the current year's other comprehensive income.

However, we noted that when the board of directors performed the assessments as mentioned above, the assessments and impairment tests were not extended to the related assets as at 31 December 2019.

Accordingly, we have been unable to obtain sufficient and appropriate audit evidence to assess the appropriateness of the carrying amount of these assets of the Group as at 31 December 2019, nor have we been able to ascertain whether any of the impairment losses of HK$3,769 million and HK$119 million recognised by the board of directors in profit or loss and other comprehensive income for the year ended 31 December 2020, respectively, should have been recorded in profit or loss and other comprehensive income for the year ended 31 December 2019 and prior years. Therefore, we have been unable to determine whether it would be necessary to make adjustments to the aforesaid impairment losses/write-off recognised by the Group in its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020; and the carrying amount of these assets in the Group's consolidated statement of financial position as at 31 December 2019.

2. Impairment of goodwill, intangible assets, and property, plant and equipment

As disclosed in note 18 to the financial statements, certain of the Group's subsidiaries are engaged in the direct supply of natural gas to industrial end users. The board of directors noted that the scope of operations as stated in the business licenses of the related subsidiaries does not include the processing and storage of natural gas.

The carrying amount of the goodwill, intangible assets and property, plant and equipment of these subsidiaries as at 31 December 2020 (after impairment as mentioned in 1. above) amounted to HK$110 million, HK$7 million and HK$59 million, respectively. For asset impairment assessment purposes, the board of directors has assumed that the Group's direct supply of natural gas business will be continued uninterrupted and the cash flow forecasts prepared by the board of directors for asset impairment purposes had included the estimated cash flows to be generated from such operations on that basis.

Due to the lack of sufficient evidence to support the aforesaid assumptions adopted by the board of directors, we were unable to assess the reasonableness of the bases and assumptions which the Group's management adopted to determine the recoverable amounts of the related cash-generating units ("CGUs") to which the above goodwill, intangible assets and property, plant and equipment were attributed. Accordingly, we were unable to determine whether the recoverable amounts of the CGUs were appropriately estimated and whether the goodwill, intangible assets and property, plant and equipment were impaired as at 31 December 2020 and 2019. Any adjustments in respect of the Group's impairment assessment of the aforesaid assets would have a consequential impact on the Group's net assets as at 31 December 2020 and 2019 and its financial performance for the years ended 31 December 2020 and 2019.

3. *Deposits paid for acquisition of subsidiaries*

(a) As disclosed in note 2.3.1(a) to the financial statements, the board of directors noted that in January 2016, one of the Relevant Companies (as further detailed in note 2.5 to the financial statements) which was not a group company of the Group, entered into an equity transfer agreement with the shareholders of 浙江博臣能源股份有限公司 (Zhejiang Bochen Energy Co., Ltd, "Zhejiang Bochen") for the acquisition of the entire equity interest in Zhejiang Bochen Group for a consideration of RMB468 million. Zhejiang Bochen was ultimately held by the Zhejiang Bochen Original Shareholder.

Certain of the subsidiaries of Zhejiang Boshen (the "Acquired Companies") were transferred to the Group through four acquisition transactions from August 2016 to June 2020 at a total contracted consideration of RMB430 million. However, the board of directors noted that RMB542.88 million was paid by the Group to the Zhejiang Bochen Original Shareholder. As at the date of approval of the financial statements, 84% and 16% of the equity interest of Zhejiang Bochen is held by one of the Relevant Companies (the "Zhejiang Bochen Current Shareholder") and the Zhejiang Bochen Original Shareholder, respectively. According to the latest negotiations, the Zhejiang Bochen Current Shareholder and the Zhejiang Bochen Original Shareholder have agreed to transfer the 84% and 16% interests in Zhejiang Bochen to the Group at nil consideration but the transfer is not yet completed as at the date of approval of the financial statements.

The board of directors considered that RMB468 million should have been accounted for as the acquisition cost of the Zhejiang Bochen Group. Thus the RMB468 million should be reallocated to the acquisition of the Acquired Companies and the entities to be transferred to the Group, including Zhejiang Bochen and/or its subsidiaries and associates/joint ventures. Accordingly, the board of directors has recalculated the purchase price allocation of the Acquired Companies based on the reallocation. For Zhejiang Bochen and its subsidiaries and associates/joint ventures that are not yet transferred to the Group, the related allocated consideration was reclassified to deposits paid for the acquisition of subsidiaries. Based on the above calculation, the board of directors has reclassified HK$317 million and HK$7 million of goodwill and intangible assets to deposits paid for the acquisition of subsidiaries as at 31 December 2020. The carrying amount of the deposits paid in respect of the acquisition of the Zhejiang Bochen Group included in the "Deposits paid for acquisition of subsidiaries" in the consolidated statement of financial position as at 31 December 2020 amounted to HK$226 million (after impairment adjustments of HK$168 million and the aforesaid cost reallocation).

The successful acquisition of the equity interest of Zhejiang Bochen by the Group depends on the outcome of certain events, including but not limited to (i) the potential follow up actions to be taken by the Group in relation to the compliance of laws and regulations in respect of the acquisition of the Acquired Companies; and (ii) the compliance and completion of matters as required by the Hong Kong Listing Rules in respect of the entities to be transferred to the Group.

We were unable to obtain sufficient relevant evidence to ascertain (i) the outcome of the events, including but not limited to those as mentioned above, affecting the acquisition of the equity interest of Zhejiang Bochen by the Group; (ii) the actual consideration incurred by the Group for the acquisition, as the Group did not enter into an agreement for the acquisition of Zhejiang Bochen (other than the Acquired Companies); and (iii) the recoverable amount of the equity interests of Zhejiang Bochen to be transferred to the Group and therefore the recoverability of the HK$226 million included in "Deposits paid for acquisition of subsidiaries" in the consolidated statement of financial position as at 31 December 2020.

Consequently, we were unable to satisfy ourselves as to whether (i) the consideration for the acquisition was properly determined; (ii) the reallocation of goodwill and intangible assets to deposits paid for the acquisition of subsidiaries should have been recorded in 2019 and in prior years; (iii) the impairment loss of HK$168 million recognised during the year was properly determined; and (iv) any further provision is required to be made against the above deposits as at 31 December 2020. Any adjustments in respect of the consideration, the reallocation and the impairment assessment of the deposits would have a consequential impact on the Group's net assets as at 31 December 2020 and 2019 and its financial performance for the years ended 31 December 2020 and 2019.

(b) As disclosed in note 2.4.2 to the financial statements in respect of the acquisition of 51% of the equity interest of 唐山華普燃氣有限公司 (Tangshan Huapu Gas Co., Ltd., "Tangshan Huapu"), the board of directors is currently in negotiation with the then sole shareholder (the "Tangshan Huapu Original Shareholder") on the final consideration to be payable by the Group. The carrying amount of the deposit paid for the acquisition of the 51% equity interest of Tangshan Huapu included in the "Deposits paid for acquisition of subsidiaries" in the consolidated statement of financial position as at 31 December 2020 amounted to HK$86 million (after impairment adjustment of HK$77 million).

The successful acquisition of the 51% equity interest of Tangshan Huapu by the Group depends on the outcome of certain events, including but not limited to (i) the successful negotiation between the Group and the Tangshan Huapu Original Shareholder; and (ii) the compliance with the Hong Kong Listing Rules in respect of the acquisition.

We were unable to obtain sufficient relevant evidence to ascertain the outcome of the events, including but not limited to the aforesaid events affecting the acquisition of the 51% equity interest of Tangshan Huapu by the Group. We are also unable to obtain sufficient relevant evidence to ascertain the recoverable amount of the 51% equity interests of Tangshan Huapu to be transferred to the Group.

Consequently we were unable to satisfy ourselves as to whether the provision was properly determined. Any adjustments in respect of the Group's impairment assessment of the deposit would have a consequential impact on the Group's net assets as at 31 December 2020 and 2019 and its financial performance for the years ended 31 December 2020 and 2019.

(c) As disclosed in note 2.3.1(c) to the financial statements in respect of the acquisition of a 39% further interest in 山西民生天然氣有限公司（Shanxi Minsheng Natural Gas Co., Ltd）("Shanxi Minsheng") and 永濟市民生天然氣有限公司（Yongji Minsheng Natural Gas Co., Ltd.）("Yongji Minsheng"), the board of directors is currently in negotiation with an individual third party which held all of the equity interests of Shanxi Minsheng and Yongji Minsheng (the "Shanxi Minsheng Original Shareholder") for the acquisition, despite that the refund period of the deposits paid by the Group had already expired according to the investment intention agreement and a supplementary agreement (collectively the "Investment Intention Agreements") in February 2021. The carrying amount of the deposits paid included in the "Deposits paid for acquisition of subsidiaries" in the consolidated statement of financial position as at 31 December 2020 amounted to HK$50 million (after provision for expected credit loss).

The successful acquisition of the 39% equity interest of Shanxi Minsheng and Yongji Minsheng by the Group depends on the successful negotiation between the Group and the Shanxi Minsheng Original Shareholder. We were unable to obtain sufficient relevant evidence to ascertain the outcome of the negotiation and therefore we were unable to satisfy ourselves as to whether any provision is required to be made against the above deposits as at 31 December 2020. Any adjustments in respect of the Group's impairment assessment of the deposits would have a consequential impact on the Group's net assets as at 31 December 2020 and its financial performance for the year ended 31 December 2020.

4. Unsubstantiated cash payments and receipts

As disclosed in note 2.3.1(c) to the financial statements, the board of directors noted that after the completion of the acquisition of equity interest in Shanxi Minsheng, the Group paid, through Shanxi Minsheng, an aggregate amount of RMB134 million to a person (the "Person") who did not appear to have a business relationship with the Group. The board of directors noted that prior to the payment to the Person, certain current account offsetting agreements were entered into between Shanxi Minsheng, the Person and certain persons and suppliers (the "Original Creditors") and the amounts became payable by the Group to the Person (the "Offsetting Arrangements") prior to the payment made by Shanxi Minsheng to the Person. However, the board of directors could only obtain the account offsetting agreements for certain of the amounts being setoff.

In August 2021, the Company entered into an agreement with certain parties, including the buyer (the "Buyer") of the Group's printing business in prior years who is suspected to be related to the Person, pursuant to which the Buyer confirmed that HK$65 million was still owed by the Buyer to the Group in respect of the acquisition of the Group's printing business by the Buyer in prior years and the Buyer agreed to settle the amounts by installments. Up to the date of approval of the consolidated financial statements, HK$12 million was settled by the Buyer to the Group according to the terms of the agreement. The board of directors recognised HK$65 million as other receivable and the amount was included in "Prepayments, deposits and other receivables" in the consolidated statement of financial position as at 31 December 2020. The same amount was credited to the Group's profit or loss during the year and the amount was included in the "Other expenses, net" in profit or loss for the year ended 31 December 2020.

Because no satisfactory explanation was provided on the matters as described above and the board of directors is unable to obtain all offsetting agreements in relation to the Offsetting Arrangements, there were no alternative audit procedures that we could perform to satisfy ourselves as to (i) the business rationale and commercial substance of the aforesaid matters; and (ii) whether the RMB134 million was properly setoff between the Group, the Person and the Original Creditors prior to the payment to the Person.

We have been unable to determine (i) whether it would be necessary to make adjustments to the HK$65 million included in other receivables as at 31 December 2020 and the validity of crediting to the amount in the Group's profit or loss; (ii) if any liability was still payable by the Group as at 31 December 2020 in relation to the amounts payable to the Original Creditors; and (iii) whether there are any matters that may arise from the Group's disposal of the printing business that may have any financial impact on the Group's consolidated statement of financial position as at 31 December 2020 and 2019 and its financial performance for the years ended 31 December 2020 and 2019.

5. *Consolidation*

(a) As disclosed in note 2.5 to the financial statements, the board of directors discovered the existence of the service agreements (the "Service Agreements") signed between the Company and certain third parties (the "Nominees") relating to the holding of the equity interests in certain companies on behalf of the Company (the "Relevant Companies") by the Nominees for the Company. The board of directors denies the validity of the Service Agreements and accordingly, the Relevant Companies which are not yet acquired by the Group (the "Unacquired Relevant Companies") were not consolidated or equity accounted by the Company as the Group had no control or significant influence over the Unacquired Relevant Companies.

We were unable to obtain sufficient relevant evidence to ascertain whether the Unacquired Relevant Companies were subsidiaries, associates or joint ventures of the Group and whether the Unacquired Relevant Companies should have been consolidated by the Group according to International Financial Reporting Standard 10 Consolidated Financial Statements or accounted for under the equity method of accounting according to International Accounting Standard 28 *Investments in Associates and Joint Ventures*.

Consequently, we were unable to determine whether adjustments are required to be made to the Group's consolidated statement of financial position as at 31 December 2020 and 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2020 and 2019 in respect of the Unacquired Relevant Companies.

(b) As disclosed in note 20 to the financial statements, the Group holds a 65% equity interest in 錢唐融資租賃股份有限公司 (Qian Tang Finance Lease Co., Ltd.) ("Qian Tang"). In the opinion of the board of directors, due to a dispute with the new holder of the 35% equity interest of Qian Tang (the "New JV Partner"), the Group is unable to control the Relevant Activities of Qian Tang, despite that the Group is able to control the composition of the board of directors of Qian Tang according to the current articles of association. Consequently, Qian Tang was accounted for as a joint venture by the Group as at 31 December 2020 and 2019 and during the year. At 31 December 2020 and 2019, the Group's carrying amount of the investment in Qian Tang amounted to HK$175 million and HK$166 million, respectively, and the Group's share of losses of Qian Tang during the years ended 31 December 2020 and 2019 amounted to HK$537,000 and HK$4 million, respectively.

We were unable to obtain sufficient relevant evidence supporting the appropriateness of the accounting treatment adopted by the Group to account for its investment in Qian Tang as a joint venture and consequently we were unable to determine whether adjustments are required to be made to the Group's consolidated statement of financial position as at 31 December 2020 and 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the years ended 31 December 2020 and 2019.

(c) During our audit, we noted that certain of the intra-group balances as at 31 December 2020 and 2019 could not be eliminated in full on consolidation. The net differences amounted to HK$412 million as at 31 December 2020 and HK$340 million as at 31 December 2019 and the differences were adjusted to the Group's exchange fluctuation reserve in other comprehensive income as at 31 December 2020 and 2019.

We were unable to obtain sufficient appropriate audit evidence supporting this treatment of the aforesaid differences as at 31 December 2020 and 2019. Consequently, we were unable to determine whether any adjustment to the Group's exchange fluctuation reserve and/or other account items of the Group were necessary.

6. Related party transactions

(a) During our audit, the management represented that related parties were identified for significant transactions and the terms of agreements, including pricing policies, were approved by the board of directors. However, we noted that the Group does not have a clear internal control mechanism in respect of related party transactions, including the definition of related parties, the reconciliation of balances with related parties, pricing policy for transactions with related parties and approval procedures for contracts with related parties. We also noted that the management of the Group did not prepare a proper list of related parties of the Group.

(b) In respect of the Unacquired Relevant Companies as disclosed in 5.(a) above, the management also represented that the Unacquired Relevant Companies are not related parties of the Group.

However, we were unable to ascertain whether the Unacquired Relevant Companies were related parties of the Group and whether the transactions with the Unacquired Relevant Companies should be disclosed as related party transactions in the consolidated financial statements pursuant to International Accounting Standard 24 *Related Party Disclosures* ("IAS 24").

In respect of the matters in (a) and (b) above, we were unable to obtain sufficient evidence to ensure the completeness of the disclosure of all related party transactions in the consolidated financial statements, and whether there were any further related party transactions that would require disclosure. As a result, we were unable to satisfy ourselves as to the completeness and adequacy of the disclosures of the Group's related party transactions under IAS 24 in the consolidated financial statements for the year ended 31 December 2020.

7. *Investments in associates and joint ventures*

The Group holds a number of investments in associates and joint ventures which are accounted for using the equity method of accounting.

We were unable to obtain sufficient appropriate audit evidence we considered necessary regarding the financial information of certain associates and joint ventures of the Group (the "Associates and JVs"), including the financial information of Qian Tang as included in 5.(b) above. At 31 December 2020 and 2019, the Group's carrying amount of the investments in these Associates and JVs amounted to HK$30 million and HK$182 million, respectively, and the share of losses of these Associates and JVs recognised by the Group during the year ended 31 December 2020 amounted to HK$1.2 million and HK$0.9 million, respectively. Given these scope limitations, there were no other satisfactory procedures that we could perform to determine whether any adjustments to the Group's carrying amount of the investments in the Associates and JVs as at 31 December 2020 and 2019 and the Group's share of results of the Associates and JVs for the year ended 31 December 2020 and 2019 were necessary.

We were also unable to obtain sufficient appropriate audit evidence we considered necessary regarding the amounts of HK$160 million and HK$150 million due to Qian Tang by the Group included in "Amounts due to joint ventures" included in the consolidated statement of financial position as at 31 December 2020 and 2019, respectively. There were no alternative audit procedures that we could perform to satisfy ourselves as to the existence and valuation of the amounts as at 31 December 2020 and 2019. Consequently, we were unable to determine whether any adjustments to the amounts at 31 December 2020 and 2019 were required.

8. *Unreturned loan confirmations and bank confirmations*

(a) We were unable to obtain loan confirmations directly from certain bond holders. The amounts due by the Group to these bond holders as at 31 December 2020 and 2019 amounted to HK$456 million and HK$787 million, respectively, and were included in bank and other borrowings in the consolidated statement of financial position.

There were no alternative audit procedures that we could perform to satisfy ourselves as to the accuracy of the carrying amount of the loans due to these bond holders as at 31 December 2020 and 2019. Consequently, we were unable to determine whether any adjustments to the Group's bank and other borrowings amounts as at 31 December 2020 and 2019 were required.

(b) We were unable to obtain bank confirmations or bank statements directly from (i) three banks outside of Mainland China (including a bank in Hong Kong), as the board of directors was unable to arrange the signature from the authorised person on the confirmations and the board of directors was unable to arrange the change of authorised signature with the related banks; and (ii) a bank located in Hong Kong, as the bank account had been closed during the year. In the Group's accounting records, the Group had an insignificant amount of cash in these bank accounts as at 31 December 2020 and the Group had HK$39 million of cash deposited in one of the banks located in Hong Kong as at 31 December 2019. HK$20 million of loan was due to one of the banks in Hong Kong by the Group as at 31 December 2020 and 2019.

There were no alternative audit procedures that we could perform to satisfy ourselves as to the accuracy of the carrying amount of the HK$20 million of loan due to one of the banks in Hong Kong and to ascertain whether there are other loans due to these banks as at 31 December 2020 and 2019 and the existence of the HK$39 million of cash deposited in the bank in Hong Kong as at 31 December 2019. Consequently, we were unable to determine whether any adjustment to the Group's bank loans as at 31 December 2020 and 2019 and the Group's cash at bank as at 31 December 2020 and 2019 was required.

9. *Prior years' purchase price allocations for the acquisition of subsidiaries and an associate*

(a) In prior years, the Group had acquired a number of subsidiaries and intangible assets were recognised as a result of the purchase price allocation ("PPA") for certain of the acquisitions. The intangible assets initially recognised represented the fair value of the operating concessions of the acquired subsidiaries and the amounts were determined according to the valuations performed by independent professional valuers based on the income approach. The income approach was applied based on the cash flow forecasts of the subsidiaries acquired prepared by the then management. The aggregate carrying amount of the intangible assets recognised as at 31 December 2020 and 2019 (before the impairment losses recognised as disclosed in 1. above) amounted to HK$1,091 million and HK$1,163 million, respectively.

We had obtained the valuation reports issued by the independent professional valuers in respect of the intangible assets recognised during the PPAs. However, we were unable to obtain proper documentation prepared by the then management as to the basis of the assumptions adopted in the cash flow forecasts and consequently we were unable to assess the reasonableness of the bases and assumptions adopted. For one of the acquisitions in which HK$350 million of intangible assets was initially recognised as a result of the PPA, we noted that the fair value of intangible asset as stated in the valuation report was HK$366 million higher than the amount recognised by the then management in the Group's consolidated financial statements and we were unable to verify the difference.

Accordingly, we were unable to determine whether the Group's intangible assets were properly recognised as a result of the PPAs and consequently whether the Group's goodwill and intangible assets were properly stated as at 31 December 2020 and 2019. We were also unable to determine the classification of the impairment losses recognised on goodwill and intangible assets during the year.

(b) During the year ended 31 December 2018, the Group acquired certain equity interests in a company which was classified as an associate by the Group. For the purpose of the PPA, the identifiable assets and liabilities of the associate acquired were assessed by the then management based on independent valuations prepared by an independent professional valuer. We had obtained the valuation report issued by the independent professional valuer but we were unable to verify the basis of the valuation of the property, plant and equipment of the associate. The carrying amount of the property, plant and equipment of the associate as at 31 December 2020 amounted to HK$5,508 million (2019: HK$5,157 million), in which HK$1,597 million (2019: HK$1,501 million) is attributable to the Group after equity accounting.

Accordingly, we were unable to determine whether the fair value of the property, plant and equipment of the associate was properly recognised as a result of the PPA, and consequently whether any adjustment is required to be made to the Group's share of net assets of the associate as at 31 December 2020 and 2019 and Group's share of profit or loss of the associate for the years ended 31 December 2020 and 2019.

10. Revenue from the trading of goods

During the year ended 31 December 2020, the Group was engaged in the trading of liquified natural gas ("LNG") in Mainland China and the international trading of LNG and other industrial products.

The board of directors was unable to provide satisfactory explanation about the business rationale and commercial substance of certain of the Group's trading transactions carried out during the year ended 31 December 2020, including sales and purchases of LNG and other industrial products with the Unacquired Relevant Companies (as defined in 5.(a) above) and the trading activities which involved multiple parties within the same transactions. We were also unable to obtain sufficient appropriate audit evidence we considered necessary evidencing the delivery or receipt of goods for certain of the Group's trading transactions carried out during the year ended 31 December 2020.

The gross amount of sales and cost of sales of these transactions carried out during the year ended 31 December 2020 amounted to HK$874 million and HK$868 million, respectively, and the Group accounted for these transactions on a net basis and net income of HK$6 million had been recognised in the Group's revenue for the year ended 31 December 2020. The aforesaid accounting treatment was not applied by the board of directors for the prior year's figures.

There were no alternative audit procedures that we could perform to satisfy ourselves as to the business rationale and commercial substance of these trading activities and the appropriateness of the accounting treatment applied. Therefore we were unable to determine whether any adjustments were necessary in respect of the trading transactions in the preceding paragraph incurred during the year ended 31 December 2020.

Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the Group's financial performance for the year ended 31 December 2020 and the related elements making up the consolidated statement of financial position as at 31 December 2020.

11. Disagreement on accounting treatment affecting opening balances

As disclosed in note 2.4.7 to the financial statements, the Group corrected a prior year's accounting error in respect of two sales and leaseback arrangements but the comparative amounts were not restated. In our opinion, this is not in accordance with International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires an entity to correct material prior period errors retrospectively by restating the comparative amounts for the prior period(s) presented in which the error occurred. Accordingly, the Group's property, plant and equipment and right-of-use assets as at 31 December 2019 should be increased/decreased by HK$159 million and the Group's bank and other borrowings and lease liabilities at 31 December 2019 should be increased/decreased by HK$142 million.

12. Material uncertainties relating to going concern

As described in note 2.2 to the financial statements, at 31 December 2020, the current liabilities of the Group exceeded its current assets by approximately HK$2,692 million. The Group's total bank and other borrowings as at 31 December 2020 amounted to HK$3,518 million, including HK$1,953 million due for repayment in2021 according to the repayment schedule of the respective loan agreements. In addition, HK$1,412 million of bank and other loans due after 2021 were reclassified as current liabilities as at 31 December 2020 ascertain debt covenants were breached based on the financial information of the Group for the year ended 31 December 2020.

Furthermore, the trading of the shares of the Company has been suspended since 18 January 2021 and the Company was unable to submit the consolidated financial statements for the year ended 31 December 2020 by the deadlines as set out in the bank and other loans agreements. These also triggered events of default in respect of certain of the Group's bank and other borrowings. The respective amounts as at 31 December 2020 were already included in current liabilities due to the breach of covenants as mentioned in the preceding paragraph.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.2 to the financial statements. The validity of the going concern assumption on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully obtaining assistance from a major shareholder and the eventual form of assistance; (ii) successfully obtaining agreement with the creditors of the defaulted borrowings for a standstill moratorium and the restructuring scheme arrangement; and (iii) resumption of trading of the Company's shares.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements."

For the year ended 31 December 2021

"We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters and the potential interaction of the multiple uncertainties related to going concern and their possible cumulative effect on the consolidated financial statements as described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements and whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

1. Equity interests held by third parties

As set out in our auditor's report dated 30 September 2021 on the Group's consolidated financial statements for the year ended 31 December 2020, the board of directors discovered the existence of the service agreements (the "Service Agreements") signed between the Company and certain third parties (the "Nominees") relating to the holding of equity interests, pursuant to which the Nominees agreed to hold an equity interest in certain companies (the "Unacquired Relevant Companies") on behalf of the Company. The board of directors denies the validity of the Service Agreements and accordingly, the Unacquired Relevant Companies were not consolidated or equity accounted for by the Company as the Group had no control or significant influence over the Unacquired Relevant Companies.

Our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2020 was modified in respect of the aforesaid matter as we were unable to obtain sufficient relevant evidence to ascertain whether the Unacquired Relevant Companies were subsidiaries, associates or joint ventures of the Group and whether the Unacquired Relevant Companies should have been consolidated by the Group according to International Financial Reporting Standard 10 Consolidated Financial Statements ("IFRS 10") or accounted for under the equity method of accounting according to International Accounting Standard 28 *Investments in Associates and Joint Ventures* ("IAS 28").

Consequently, we were unable to determine whether adjustments are required to be made to the Group's consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2020 in respect of the Unacquired Relevant Companies.

As disclosed in note 2.1 to the financial statements, the board of directors and the Special Committee continued to investigate the matter subsequent to the issuance of the Group's consolidated financial statements for the year ended 31 December 2020 and certain additional Unacquired Relevant Companies had been identified. Despite that the Group had been in negotiation with the Nominees to dissociate the Service Agreements with the Group, the Group was unable to reach an agreement with the Nominees.

We were unable to obtain sufficient relevant evidence to ascertain whether the Unacquired Relevant Companies were subsidiaries, associates or joint ventures of the Group and whether the Unacquired Relevant Companies should have been consolidated by the Group according to IFRS 10 or accounted for under the equity method of accounting according to IAS 28 as at 1 January 2021 and 31 December 2021.

Consequently, we were unable to determine whether adjustments are required to be made to the Group's consolidated statement of financial position as at 1 January 2021 and 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the years ended 31 December 2021 and 2020 in respect of the Unacquired Relevant Companies.

2. Related party transactions

As set out in our auditor's report dated 30 September 2021 on the Group's consolidated financial statements for the year ended 31 December 2020, we have previously modified our opinion due to a limitation on the scope of the audit in respect of the Group's related party transactions as (i) the Group did not have a clear internal control mechanism in respect of related party transactions; and (ii) we were unable to ascertain whether the Unacquired Relevant Companies were related parties of the Group and whether the transactions with the Unacquired Relevant Companies should be disclosed as related party transactions in the consolidated financial statements pursuant to International Accounting Standard 24 *Related Party Disclosures* ("IAS 24").

We were unable to obtain sufficient evidence to ensure the completeness of the disclosure of all related party transactions in the consolidated financial statements, and whether there were any further related party transactions that would require disclosure. As a result, we were unable to satisfy ourselves as to the completeness and adequacy of the disclosures of the Group's related party transactions under IAS 24 in the consolidated financial statements for the year ended 31 December 2020.

Subsequent to the issuance of the Group's consolidated financial statements for the year ended 31 December 2020, in December 2021, the Group implemented new internal control policies in respect of the Group's related party transactions.

However, given that the internal control policies were implemented by the Group in December 2021, we were unable to obtain sufficient evidence to ensure the completeness of the disclosure of all related party transactions which occurred prior to the implementation of the internal control policies. We were also unable to ascertain whether the Unacquired Relevant Companies (as disclosed in 1. above) were related parties of the Group and whether the transactions with the Unacquired Relevant Companies should be disclosed as related party transactions in the consolidated financial statements for the year ended 31 December 2021 pursuant to IAS 24.

Consequently, we were unable to obtain sufficient evidence to ensure the completeness of the disclosure of all related party transactions in the consolidated financial statements for the years ended 31 December 2021 and 2020, and whether there were any further related party transactions that would require disclosure.

3. Matters relating to opening balances and impacting on the financial performance of the Group during the year ended 31 December 2021

(a) Deposits paid for acquisition of 51% equity interest in Tangshan Huapu

As set out in our auditor's report dated 30 September 2021 on the Group's consolidated financial statements for the year ended 31 December 2020, the board of directors was in negotiation with the then sole shareholder (the "Tangshan Huapu Original Shareholder") on the final consideration to be paid by the Group in respect of the acquisition of 51% of the equity interest of 唐山華普燃氣有限公司 (Tangshan Huapu Gas Co., Ltd., "Tangshan Huapu"). The carrying amount of the deposits paid for the acquisition of the 51% of equity interest of Tangshan Huapu included in the "Deposits for acquisition of subsidiaries" in the consolidated statement of financial position as at 31 December 2020 amounted to HK$86 million (after impairment adjustments). The successful acquisition of the 51% equity interest of Tangshan Huapu by the Group depended on the outcome of certain events, including but not limited to (i) the successful negotiation between the Group and the Tangshan Huapu Original Shareholder; and (ii) the compliance with the Hong Kong Listing Rules in respect of the acquisition.

Our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2020 was modified in respect of the aforesaid matter as we were unable to obtain sufficient relevant evidence to ascertain the outcome of the events, including but not limited to the aforesaid events affecting the acquisition of the 51% equity interest of Tangshan Huapu by the Group. We were also unable to obtain sufficient relevant evidence to ascertain the recoverable amount of the 51% equity interests of Tangshan Huapu to be transferred to the Group. Consequently we were unable to satisfy ourselves as to whether the provision for impairment was properly determined. Any adjustments in respect of the Group's impairment assessment of the deposit would have a consequential impact on the Group's net assets as at 31 December 2020 and 2019 and its financial performance for the years ended 31 December 2020 and 2019.

As disclosed in note 21 to the financial statements, subsequent to the issuance of the Group's consolidated financial statements for the year ended 31 December 2020, the Group completed the due diligence work on Tangshan Huapu and continued to negotiate with the Tangshan Huapu Original Shareholder on the final consideration for the acquisition. The board of directors eventually resolved to cease the acquisition due to the business risk of Tangshan Huapu and the failure to reach an agreed consideration with the Tangshan Huapu Original Shareholder. The board of directors considered that it is unlikely to recover the deposits paid by the Group and thus an impairment loss of HK$90 million (which is the carrying amount of the deposits after exchange realignment adjustment) was recognised in profit or loss during the year ended 31 December 2021.

Since no additional relevant evidence was obtained by us in respect of the recoverable amount of the 51% equity interests of Tangshan Huapu to be transferred to the Group as at 31 December 2020, we were unable to satisfy ourselves as to whether the provision was properly determined as at 31 December 2020.

We have been unable to obtain sufficient and appropriate audit evidence to assess the appropriateness of the carrying amount of the deposits paid for the acquisition of 51% of equity interest of Tangshan Huapu as at 31 December 2020, nor have we been able to ascertain whether any of the impairment loss of HK$90 million recognised by the Group in profit or loss for the year ended 31 December 2021 should have been recorded in profit or loss for the year ended 31 December 2020 or prior years. Therefore, we have been unable to determine whether it would be necessary to make adjustments to the aforesaid impairment loss recognised by the Group in its profit or loss and other comprehensive income for the years ended 31 December 2021 and 2020; and the carrying amount of deposits for acquisition of subsidiaries in the Group's consolidated statement of financial position as at 31 December 2020.

(b) Provision for potential liability

As disclosed in note 40 to the financial statements in respect of the Litigation against Benxi Liaoyou, a 90% held subsidiary of the Company, the Claimant is claiming for the payment of RMB106 million (equivalent to approximately HK$130.7 million) against the Group in relation to two lease contracts: (i) the CM Finance Lease, which was entered in 2016 between Benxi Liaoyou and Huai'an Zhongyou (a company with 67.9% of equity interest held by the non-controlling shareholder of Benxi Liaoyou) (as lessees) and CMIFLCL (as lessor); and (ii) the CITIC Finance Lease, which was entered in 2017 between CMIFLCL (as lessee) and the Claimant (as lessor).

The Group has engaged PRC legal advisers to handle the Litigation and from the evidence provided by the Claimant to the Court and other information gathered by the Group, the board of directors of the Company suspects that the CM Finance Lease was entered into by Benxi Liaoyou without the approval of the then board of directors of Benxi Liaoyou or the Company. Also, despite that the CM Finance Lease was entered into by Benxi Liaoyou and Huai'an Zhongyou as the lessees under the CM Finance Lease, the leased assets appeared to be used by Huai'an Zhongyou and the amounts advanced under the CM Finance Lease were directly paid to parties which are unrelated to Benxi Liaoyou and instead appeared to have a business relationship with Huai'an Zhongyou.

In the view of the board of directors, the Group's liabilities in respect of the Claimant's claims depends on the outcome of the Litigation. In assessing the financial impact of the matter to the Group's consolidated financial statements for the year ended 31 December 2021, the Group engaged an external valuer to perform an estimation of the potential liability to be borne by the Group.

Based on the estimation, an expense of HK$79.7 million was recognised by the Group during the year with the same amount being included in the "Provision for Liability" in the consolidated statement of financial position as at 31 December 2021. Based on the information available to the board of directors, Huai'an Zhongyou appeared to have failed to make the lease payments to CMIFLCL since the year ended 31 December 2019, which indicated that a possible liability to be borne by the Group might have already existed as at 31 December 2020 or in prior years. However, since the board of directors did not estimate the provision amount as at 31 December 2020, we were unable to obtain sufficient relevant evidence to ascertain the amount of the Group's possible liability under the CM Finance Lease as at 31 December 2020.

Consequently, we have been unable to obtain sufficient and appropriate audit evidence to ascertain the amount of provision for liability that should be recognised as at 31 December 2020 and if any of the provision amount of HK$79.7 million recognised by the Group in profit or loss for the year ended 31 December 2021 should have been recognised in profit or loss for the year ended 31 December 2020 or prior years. Therefore, we have been unable to determine whether it would be necessary to make adjustments to the provision for liability recognised by the Group in profit or loss for the years ended 31 December 2021 and 2020; and the provision for liability in the Group's consolidated statement of financial position as at 31 December 2021 and 2020.

(c) Investment in Qian Tang

As set out in our auditor's report dated 30 September 2021 on the Group's consolidated financial statements for the year ended 31 December 2020, the Group holds a 65% equity interest in 錢唐融資租賃股份有限公司 (Qian Tang Finance Lease Co., Ltd.) ("Qian Tang"). In the opinion of the board of directors, due to a dispute with the new beneficial owner of the 35% equity interest of Qian Tang (the "New JV Partner"), the Group was unable to control the business, financial and operational matters of Qian Tang (the "Relevant Activities"), despite that the Group is able to control the composition of the board of directors of Qian Tang according to the current articles of association. Consequently, Qian Tang was accounted for as a joint venture by the Group as at 31 December 2020 and 2019 and during the prior years. At 31 December 2020 and 2019, the Group's carrying amount of the investment in Qian Tang amounted to HK$175 million and HK$166 million, respectively, and the Group's share of losses of Qian Tang during the years ended 31 December 2020 and 2019 amounted to HK$537,000 and HK$4 million, respectively.

Our auditor's report on the Group's consolidated financial statements for the year ended 31 December 2020 was modified in respect of the aforesaid matter as we were unable to obtain sufficient relevant evidence supporting the appropriateness of the accounting treatment adopted by the Group to account for its investment in Qian Tang as a joint venture and consequently we were unable to determine whether adjustments are required to be made to the Group's consolidated statement of financial position as at 31 December 2020 and 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the years ended 31 December 2020 and 2019.

As disclosed in note 20 to the financial statements, in November 2021, legal action had been taken by the Group against the New JV Partner for keeping, among others, the company chop, legal representative chop, business license and certain financial records of Qian Tang. The local court has accepted the case but the trial has not yet commenced up to the date of approval of the financial statements. In January 2022, the Group also applied for the preservation of, among others, the company chop, legal representative chop and business license of Qian Tang and in late January 2022 the court issued an order to prohibit the

New JV Partner to use the aforesaid chops and business license of Qian Tang during the trial. However, despite the court order, the New JV Partner has yet to return the aforesaid chops and business license to Qian Tang.

According to the legal opinion issued by the Group's PRC legal advisor, the Group has sufficient legal grounds to request the New JV Partner to return, among others, the company chop, legal representative chop and business license to Qian Tang. In the view of the board of directors, this indicates that the Group is able to control the Relevant Activities of Qian Tang through shareholders' meetings and the control over the composition of the board of directors of Qian Tang according to the current articles of association and the PRC law. Thus in the opinion of the directors, Qian Tang should be reclassified from a joint venture to a subsidiary of the Group during the year ended 31 December 2021. Accordingly, the Group ceased to apply equity accounting on its investment in Qian Tang starting from 31 December 2021 and the financial information of Qian Tang was consolidated in the Group's consolidated statement of financial position starting from that date. The financial performance of Qian Tang and the impact of the reclassification had an insignificant financial impact to the Group's profit or loss during the year ended 31 December 2021.

Despite the above, we were unable to obtain sufficient relevant evidence supporting the appropriateness of the accounting treatment adopted by the Group as at 31 December 2020. Consequently, we were unable to determine whether adjustments are required to be made to the Group's consolidated statement of financial position as at 31 December 2020.

4. Correction of prior years' errors relating to purchase price allocation in prior years

As set out in our auditor's report dated 30 September 2021 on the Group's consolidated financial statements for the year ended 31 December 2020, in prior years, the Group had acquired a number of subsidiaries, and intangible assets were recognised as a result of the purchase price allocation ("PPA") for certain of the acquisitions. The intangible assets initially recognised represented the fair value of the operating concessions of the acquired subsidiaries and the amounts were determined according to the valuations performed by independent professional valuers based on the income approach. The income approach was applied based on the cash flow forecasts of the subsidiaries acquired prepared by the then management.

We had obtained the valuation reports issued by the independent professional valuers in respect of the intangible assets recognised during the PPAs. However, we were unable to obtain proper documentation prepared by the then management as to the basis of the assumptions adopted in the cash flow forecasts and consequently we were unable to assess the reasonableness of the basis and assumptions adopted. For one of the acquisitions in which HK$350 million of intangible assets was initially recognised as a result of the PPA, we noted that the fair value of intangible assets as stated in the valuation report was HK$716 million, which was HK$366 million higher than the amount recognised by the then management in the Group's consolidated financial statements and we were unable to verify the difference. Accordingly, we were unable to determine whether the Group's intangible assets were properly recognised as a result of the PPAs and consequently whether the Group's goodwill and intangible assets were properly stated as at 31 December 2020 and 2019. We were also unable to determine the classification of the impairment losses recognised on goodwill and intangible assets during the year ended 31 December 2020.

As disclosed in note 2.3 to the financial statements, during the current year the Group engaged an external professional valuer to reperform the valuation of the fair value of intangible assets (operating concessions) arising from certain significant acquisitions in prior years. Based on the results of the valuations, the management noted that intangible asset (operating concession) and the goodwill amounts, the related deferred tax liabilities arising and the amounts attributable to the non-controlling interests recognised for certain of the PPAs had been misstated at initial recognition. The management corrected the errors in the current year's consolidated financial statements by adjusting the opening balances as at 1 January 2021, however no restatement was made to the comparative amounts. A third consolidated statement of financial position as at 1 January 2020 was also not presented in the current year's consolidated financial statements.

This is not in accordance with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors, which requires an entity to correct material prior period errors retrospectively by restating the comparative amounts for the prior period(s) presented in which the error occurred, and International Accounting Standard 1 Presentation of Financial Statements, which requires an entity to present a third statement of financial position as at the beginning of the preceding period if a retrospective application of an accounting policy, retrospective restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

Accordingly, the accounting items in the consolidated statement of financial position as at 1 January 2020 and 31 December 2020 and the consolidated profit or loss for the year ended 31 December 2020 as disclosed in note 2.3 to the financial statements and the related comparative information should have been restated in the current year's financial statements and a third consolidated statement of financial position as at 1 January 2020 should have been presented in the current year's financial statements.

As addressed in 5.(a) below, our auditor's opinion for the year ended 31 December 2020 was modified as we were unable to determine whether it would be necessary to make adjustments to the impairment losses/write-off of assets recognised by the Group in its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020; and the carrying amount of these assets in the Group's consolidated statement of financial position as at 31 December 2019. Accordingly, we have been unable to determine whether it would be necessary to make further adjustments to the adjustment amounts as at 1 January 2020 and the consolidated profit or loss for the year ended 31 December 2020 as disclosed in note 2.3 to the financial statements.

5. *Corresponding figures*

(a) Impairment losses/write-off of assets during the year ended 31 December 2020

During the year ended 31 December 2020, impairment losses/write-off of assets of HK$3,886 million and write-off of financial assets of HK$119 million had been recognised by the Group in profit or loss and other comprehensive income, respectively. However, we noted that the impairment assessments performed by the board of directors were not extended to the related assets as at 31 December 2019. Accordingly, we were unable to obtain sufficient and appropriate audit evidence to assess the appropriateness of the carrying amount of these assets of the Group as at 31 December 2019, nor have we been able to ascertain whether any of the impairment losses of HK$3,769 million and HK$119 million recognised by the board of directors in profit or loss and other comprehensive income for the year ended 31 December 2020, respectively, should have been recorded in profit or loss and other comprehensive income for the year ended 31 December 2019 and prior years. Therefore, we were unable to determine whether it would be necessary to make adjustments to the aforesaid impairment losses/write-off recognised by the Group in its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020; and the carrying amount of these assets in the Group's consolidated statement of financial position as at 31 December 2019. Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2020 was modified accordingly.

(b) Revenue from the trading of goods for the year ended 31 December 2020

During the year ended 31 December 2020, the Group was engaged in the trading of liquefied natural gas ("**LNG**") in Mainland China and the international trading of LNG and other industrial products. The board of directors was unable to provide satisfactory explanation about the business rationale and commercial substance of certain of the Group's trading transactions carried out during the year ended 31 December 2020, including sales and purchases of LNG and other industrial products with the Unacquired Relevant Companies and the trading activities which involved multiple parties within the same transactions. We were also unable to obtain sufficient appropriate audit evidence we considered necessary evidencing the delivery or receipt of goods for certain of the Group's trading transactions carried out during the year ended 31 December 2020. The gross amount of sales and cost of sales of these transactions carried out during the year ended 31 December 2020 amounted to HK$874 million and HK$868 million, respectively, and the Group accounted for these transactions on a net basis and net income of HK$6 million had been recognised in the Group's revenue for the year ended 31 December 2020.

There were no alternative audit procedures that we could perform to satisfy ourselves as to the business rationale and commercial substance of these trading activities and the appropriateness of the accounting treatment applied. Therefore we were unable to determine whether any adjustments were necessary in respect of the trading transactions undertaken during the year ended 31 December 2020 as set out in the preceding paragraph. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the Group's financial performance for the year ended 31 December 2020 and the related balances making up the consolidated statement of financial position as at 31 December 2020. Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2020 was modified accordingly.

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2021 is also modified because of the possible effect of the above matters on the comparability of the current year's figures and the corresponding figures.

6. Material uncertainties relating to going concern

As described in note 2.2 to the financial statements, at 31 December 2021, the current liabilities of the Group exceeded its current assets by approximately HK$2.9 billion. The current liabilities included HK$2.2 billion of bank and other borrowings due for repayment in 2022 according to the original repayment schedule of the respective loan agreements and HK$1.3 billion of bank and other borrowings due for repayment after 2022 according to the original repayments schedule but were reclassified as current liabilities as the events of defaults had been triggered in respect of certain of the Group's bank and other borrowings due to, among others, the suspension of trading of the Company's shares since 18 January 2021. Certain of the Group's creditors had also demanded for immediate repayment and the Group is currently in negotiation with the creditors for a refinancing arrangement.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.2 to the financial statements. The validity of the going concern assumption on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including, inter alia; (i) successfully obtaining agreement with the creditors for a refinancing arrangement; (ii) completion of the asset injections and successfully obtaining a loan from the major shareholder; and (iii) resumption of trading of the Company's shares.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements."

2. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

Uncertainties have been the defining theme of China's natural gas market in 2022 as it has come under pressure from the combined challenges of slower growth in activity amid the pandemic and spiraling commodity prices as a result of the Russian-Ukrainian war in the first half of the year. After a solid growth in 2021, China's LNG demand is expected to slow down in 2022.

Against the backdrop, in June 2022, the Ministry of Ecology and Environment and seven other departments jointly issued the "Implementation Plan for Synergistic Effectiveness in Reducing Pollution and Reducing Carbon", which reinforces the goals of achieving "carbon peaking and carbon neutrality" (known as "**dual carbon target**") as promoted by the PRC government to reduce carbon emission over the long run. The program puts forward work targets including the basic formation of the work pattern of carbon reduction synergy by 2025, and significantly enhancing carbon reduction synergy by 2030, etc. It set forth the landscape for the promotion of and transformation to clean energy supply structure in the country.

Amid the unprecedented challenges, the Company's management will continue to seek opportunities to accelerate the expansion of its business operations nationwide. The Enlarged Group will continue to leveraging the position of Beijing Gas Group, its Controlling Shareholder, in terms of strategic synergy, investment and financing arrangements, talent acquisition and management enhancement, with a view to developing the Enlarged Group into a future-oriented integrated clean energy operator, focusing on quality city gas projects and LNG industry chain, and creating greater returns for the Shareholders.

In particular, the Enlarged Group will have opportunities to cooperate with Beijing Gas Group in nationwide LNG trading and distribution outside Beijing by leveraging Beijing Gas Group's LNG receiving terminals.

To further improve the Enlarged Group's market position and competitiveness in the natural gas business, the Group also intends to seek opportunities for acquisitions of quality assets that are aligned with the core business and strategic visions of the Enlarged Group, and introduction of strategic investors that may help to further improve the capital structure of the Enlarged Group and provide capital for future development.

If the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver are approved by the Independent Shareholders at the SGM, the Company will strive to improve the financial position of the Group and proceed with optimizing the debt level according to the plan set out in the "Letter from the Board" in this circular. With the repayment of bank and other borrowings of HK$1,350 million by applying the proceeds, the Group's debt level will decrease significantly.

3. INDEBTEDNESS STATEMENT

At the close of business on 31 August 2022, being the latest practicable date for the purpose of the indebtedness statement prior to printing of this circular, the total indebtedness of the Enlarged Group included the following:

a. Unsecured and unguaranteed outstanding bonds of approximately HK$387,988,000;

b. Outstanding bank borrowings of approximately HK$128,816,000 which were secured by the Group's cash and bank deposits;

c. Outstanding bank borrowings of approximately HK$83,154,000 which were secured by the Group's collection right of its natural gas sale receipts;

d. Unsecured and unguaranteed bank borrowings of approximately HK$2,432,119,000;

e. Outstanding other borrowings of approximately HK$66,841,000 which were secured by certain buildings and gas pipelines of the Group; and

f. Lease liabilities of approximately HK$15,597,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of business on 31 August 2022, being the latest practicable date for the purpose of the indebtedness statement prior to printing of this circular, the Enlarged Group did not have any material debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans or other borrowings or indebtedness in the nature of borrowing of the Enlarged Group including bank overdrafts and liabilities under acceptances or acceptance credits or hire purchase commitments or outstanding mortgages and charges or guarantees or other material contingent liabilities.

4. WORKING CAPITAL

As at 30 June 2022, the Group's current liabilities exceeded its current assets by approximately HK$ 2,550.1 million.

In addition to the proposed Capital and Asset Injection Plan, on 17 October 2022, the Company entered into the Syndicated Facility Agreement pursuant to which the Syndicated Lenders have agreed to provide the Syndicated Facility of HK$1,013 million to the Group for one year, with option to further extend for 24 months as agreed between the Company and the Syndicated Lenders.

The Directors, after due and careful consideration, are of the view that following the completion of the Capital and Asset Injection Plan, after taking into account the financial resources available to the Enlarged Group, including internally generated funds, the available bank facilities (including the Syndicated Facility) and the proceeds from the Financial Assistance and the Share Subscription, the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of the Circular, in the absence of any unforeseeable circumstances.

Significant uncertainties exist as to whether the Group will be able to achieve the proposed Capital and Asset Injection Plan and the Syndicated Facility. Whether the Group will have sufficient working capital for its present requirements for at least twelve months from the date of the Circular is contingent upon the successful completion of the Capital and Asset Injection Plan.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that:

(i) there is no material change in the financial position or trading position or outlook of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up; and

(ii) save as the final dividend of RMB12,055,000 declared by the Project Company on 29 June 2022 to its then equity holders in respect of the year ended 31 December 2021, which was fully paid to the equity holders in July 2022, there is no material change in the financial position or trading position or outlook of the Project Company since 30 April 2022, being the date to which the latest published audited financial statements of the Project Company were made up.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEIJING GAS BLUE SKY HOLDINGS LIMITED

Introduction

We report on the historical financial information of Sapphire Gas Company Limited (the "**Target Company**") set out on pages IIA-3 to IIA-11, which comprises the statement of profit or loss and other comprehensive income and the statement of changes in equity of the Target Company for the period from 19 September 2022 (date of incorporation) to 30 September 2022 (the "**Relevant Period**"), and the statement of financial position of the Target Company as at 30 September 2022 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages IIA-3 to IIA-11 forms an integral part of this report, which has been prepared for inclusion in Appendix IIA to the circular of Beijing Gas Blue Sky Holdings Limited (the "**Company**") dated 31 October 2022 (the "**Circular**") in connection with the acquisition of 100% equity interest of the Target Company by the Company.

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 of the Company 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 of the Company, 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 Target Company as at 30 September 2022 and of the financial performance of the Target Company for the Relevant Period 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 of Hong Kong Limited 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 pages IIA-3 have been made.

Dividends

We refer to note 7 the Historical Financial Information which states that no dividends have been paid or declared by the Target Company in respect of the Relevant Period.

Ernst & Young
Certified Public Accountants
Hong Kong
31 October 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 Target Company for the Relevant Period, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollar ("**HK$**") except when otherwise indicated.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Period from 19 September 2022 (date of incorporation) to 30 September 2022** *HK$*
Revenue	*4*	–
Administrative expenses	*10(a)*	–
PROFIT BEFORE TAX	*5*	–
Income tax	*6*	–
PROFIT FOR THE PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		–

STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 September 2022** *HK$*
CURRENT ASSET		
Other receivable	*8*	110,000
EQUITY		
Share capital	*9*	110,000

STATEMENT OF CHANGES IN EQUITY

Period from 19 September 2022 (date of incorporation) to 30 September 2022

	Share capital	Total equity
	HK$	*HK$*
At 19 September 2022 (date of incorporation)	–	–
Issuance of new shares (note 9)	110,000	110,000
At 30 September 2022	110,000	110,000

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target Company is a limited liability company established in Hong Kong. Its registered office is located at Room 3402-4, 34F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

During the Relevant Period, the Target Company did not actively engage in any business.

At the end of the Relevant Period, the immediate holding company of the Target Company is Beijing Gas Company Limited, which is a limited liability company established in Hong Kong; and in the opinion of the sole director of the Target Company, the ultimate holding company of the Target Company is 北京控股集團有限公司, which is a state-owned enterprise established in the People's Republic of China (the "**PRC**") and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

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 2022, together with the relevant transitional provisions, have been adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Period.

The Historical Financial Information has been prepared under the historical cost convention.

A statement of cash flows has not been presented as the Target Company does not operate a bank or cash account or hold any cash equivalents and had no cash transactions during the Relevant Period. Accordingly, in the opinion of the sole director of the Target Company, the presentation of a statement of cash flows would provide no additional useful information to the users of the Historical Financial Information.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Target Company 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 IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1,3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]
Amendments to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[1,4]

1 Effective for annual periods beginning on or after 1 January 2023

2 No mandatory effective date yet determined but available for adoption

3 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

4 The IASB amends IFRS 17 to permit a classification overlay for financial assets presented in comparative periods on initial application of IFRS 1

The Target Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Target Company considers that these new and revised IFRSs are unlikely to have a significant impact on the Target Company's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Target Company 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 Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a holding company of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company 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 Target Company or an entity related to the Target Company;

(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 holding company 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 Target Company or to the holding company of the Target Company.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Target Company commits to purchase or sell the assets.

(a) Classification and measurement

Debt instruments are measured at amortised cost using the effective interest method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

(b) Impairment

The Target Company applies the expected credit loss model on all the financial assets that are subject to impairment. Impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Target Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where 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.

The Target Company considers a default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Target Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

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 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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. OPERATING SEGMENT INFORMATION

No operating segment or geographical information is presented as the Target Company did not engage in any business during the Relevant Period.

4. REVENUE

The Target Company did not earn any revenue during the Relevant Period.

5. PROFIT BEFORE TAX

The Target Company's profit before tax is arrived at after charging:

	Period from 19 September 2022 (date of incorporation) to 30 September 2022 *HK$*
Sole director's remuneration	–

6. INCOME TAX

No provision for Hong Kong profits tax had been made as the Target Company did not generate any assessable profits during the Relevant Period.

There is no significant unprovided deferred tax in respect of the Relevant Period and as at the end of the Relevant Period.

7. DIVIDEND

No dividends were paid or declared by the Target Company in respect of the Relevant Period.

8. OTHER RECEIVABLE

The balance represents amount due from the sole shareholder which is interest-free, unsecured and repayable on demand.

9. SHARE CAPITAL

The Target Company was incorporated on 19 September 2022 and 110,000 ordinary shares were issued at HK$1 per share on the same date, which resulted in proceeds of HK$110,000 to provide initial working capital to the Target Company.

10. RELATED PARTY DISCLOSURES

(a) Other than expenses in connection with the incorporation of the Target Company being borne by the sole shareholder of the Target Company and the balance with the sole shareholder as disclosed in note 8, the Target Company had no outstanding balance or transaction with related parties as at the end of the Relevant Period or during the Relevant Period.

(b) In the opinion of the sole director of the Target Company, the sole director of the Target Company represented the key management personnel of the Target Company. No compensation was paid to the key management personnel during the Relevant Period.

11. FINANCIAL INSTRUMENTS BY CATEGORY

The financial asset of the Target Company as at the end the Relevant Period was a financial asset stated at amortised cost.

12. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amount of financial asset which is due to be received or settled within one year is reasonable approximation of its respective fair value, and accordingly, no disclosure of the fair value of this financial instrument is made.

13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company does not have written risk management policies and guidelines. It has no significant exposure to financial risks, including interest rate risk, liquidity risk, foreign currency risk and credit risk.

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern. The Target Company does not have specific policies for managing capital but it will continue to maintain a healthy capital ratio.

14. EVENT AFTER THE RELEVANT PERIOD

On 18 October 2022, the Target Company entered into an acquisition agreement with Sino Supreme Inc Limited ("**Sino Supreme**"), an indirect wholly-owned subsidiary of the Company, pursuant to which, Sino Supreme has conditionally agreed to sell and the Target Company has conditionally agreed to purchase, 100% equity interest in 深圳華然能源有限公司 (the "**PRC Project Holding Company**"), an indirect wholly-owned subsidiary of the Company, at a consideration of HK$1 to be settled by cash. The acquisition was completed on 26 October 2022 and the PRC Project Holding Company has become a wholly-owned subsidiary of the Target Company since then.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 September 2022.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEIJING GAS BLUE SKY HOLDINGS LIMITED

Introduction

We report on the historical financial information of 深圳華然能源有限公司 (the "**PRC Project Holding Company**") set out on pages IIB-4 to IIB-14, which comprises the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the PRC Project Holding Company for each of the years ended 31 December 2019, 2020 and 2021, and the four months ended 30 April 2022 (the "**Relevant Periods**"), and the statements of financial position of the PRC Project Holding Company as at 31 December 2019, 2020 and 2021 and 30 April 2022 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages IIB-4 to IIB-14 forms an integral part of this report, which has been prepared for inclusion in Appendix IIB to the circular of Beijing Gas Blue Sky Holdings Limited (the "**Company**") dated 31 October 2022 (the "**Circular**") in connection with the acquisition of 100% equity interest of Sapphire Gas Company Limited by the Company.

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 of the Company 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 of the Company, 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 PRC Project Holding Company as at 31 December 2019, 2020 and 2021 and 30 April 2022 and of the financial performance and cash flows of the PRC Project Holding Company for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the PRC Project Holding Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the four months ended 30 April 2021 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Company are responsible for the preparation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) *Engagements to Review Historical Financial Statements* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, 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 of Hong Kong Limited 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 pages IIB-4 have been made.

Dividends

We refer to note 7 to the Historical Financial Information which states that no dividends have been paid or declared by the PRC Project Holding Company in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
31 October 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 PRC Project Holding Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young 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**") except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Four months ended 30 April		Year ended 31 December		
	Notes	**2022**	**2021**	**2021**	**2020**	**2019**
		RMB	*RMB*	*RMB*	*RMB*	*RMB*
			(Unaudited)			
Revenue	*4*	–	–	–	–	–
Administrative expenses		(205)	–	–	–	–
LOSS BEFORE TAX	*5*	(205)	–	–	–	–
Income tax	*6*	–	–	–	–	–
LOSS FOR THE YEAR/ PERIOD AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR/PERIOD		(205)	–	–	–	–

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 30 April 2022	As at 31 December 2021	2020	2019
		RMB	*RMB*	*RMB*	*RMB*
CURRENT ASSETS					
Other receivables		–	–	–	500
Cash at bank	*8*	795	–	–	–
TOTAL CURRENT ASSETS		795	–	–	500
CURRENT LIABILITY					
Due to a fellow subsidiary	*9*	1,000	5,003	5,003	5,503
NET LIABILITIES		(205)	(5,003)	(5,003)	(5,003)
DEFICIENCY IN ASSETS					
Paid-up capital	*10*	–	–	–	–
Reserves	*11*	(205)	(5,003)	(5,003)	(5,003)
TOTAL DEFICIENCY IN ASSETS		(205)	(5,003)	(5,003)	(5,003)

STATEMENTS OF CHANGES IN EQUITY

Relevant Periods

	Paid-up capital *RMB*	Capital reserve *RMB* *(note 11)*	Accumulated losses *RMB*	Total deficiency in assets *RMB*
At 1 January 2019, 31 December 2019, 2020 and 2021 and 1 January 2022	–	–*	(5,003)*	(5,003)
Loss for the period and total comprehensive loss for the period	–	–	(205)	(205)
Contribution from an equity holder	–	5,003	–	5,003
At 30 April 2022	–	5,003*	(5,208)*	(205)

Four months ended 30 April 2021 (Unaudited)

	Paid-up capital *RMB*	Capital reserve *RMB*	Accumulated losses *RMB*	Total deficiency in assets *RMB*
At 1 January 2021 and 30 April 2021	–	–	(5,003)	(5,003)

* These reserves accounts comprise the negative reserves of RMB5,003, RMB5,003, RMB5,003 and RMB205 in the statements of financial position as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively.

STATEMENTS OF CASH FLOWS

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
		(unaudited)			
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before tax and net cash flows from operating activities	(205)	–	–	–	–
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase in amount due to a fellow subsidiary	1,000	–	–	–	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	795	–	–	–	–
Cash and cash equivalents at beginning of year/period	–	–	–	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	795	–	–	–	–

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The PRC Project Holding Company is a limited liability company established in the People's Republic of China (the "**PRC**"). It's registered office is located at Unit 206, China Railway South Headquarters Building, No. 3333, Central Road, Weilan Coast Community, Yuehai street, Nanshan District, Shenzhen, the PRC.

During the Relevant Periods, the PRC Project Holding Company did not actively engage in any business.

At the end of the Relevant Periods, the immediate holding company of the PRC Project Holding Company is Sino Supreme Inc Limited, which is a limited liability company established in Hong Kong; and in the opinion of the sole director of the PRC Project Holding Company, the ultimate holding company of the PRC Project Holding Company is Beijing Gas Blue Sky Holdings Limited, which is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

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 2022, together with the relevant transitional provisions, have been early adopted by the PRC Project Holding Company in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The PRC Project Holding Company 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 IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1,3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]
Amendments to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[1,4]

1 Effective for annual periods beginning on or after 1 January 2023

2 No mandatory effective date yet determined but available for adoption

3 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

4 The IASB amends IFRS 17 to permit a classification overlay for financial assets presented in comparative periods on initial application of IFRS 1

The PRC Project Holding Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the PRC Project Holding Company considers that these new and revised IFRSs are unlikely to have a significant impact on the PRC Project Holding Company's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the PRC Project Holding Company 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 PRC Project Holding Company;

(ii) has significant influence over the PRC Project Holding Company; or

(iii) is a member of the key management personnel of the PRC Project Holding Company or of a holding company of the PRC Project Holding Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the PRC Project Holding Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the PRC Project Holding Company 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 PRC Project Holding Company or an entity related to the PRC Project Holding Company;

(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 holding company 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 PRC Project Holding Company or to the holding company of the PRC Project Holding Company.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the PRC Project Holding Company commits to purchase or sell the assets.

(a) Classification and measurement

Debt instruments are measured at amortised cost using the effective interest method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

(b) Impairment

The PRC Project Holding Company applies the expected credit loss model on all the financial assets that are subject to impairment. Impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the PRC Project Holding Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where 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.

The PRC Project Holding Company considers a default has occurred when a financial asset is more than 90 days past due unless the PRC Project Holding Company has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the PRC Project Holding Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities

Financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

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.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and other monetary assets 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 PRC Project Holding Company's cash management.

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 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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the PRC Project Holding Company operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. OPERATING SEGMENT INFORMATION

No operating segment or geographical information is presented as the PRC Project Holding Company did not engage in any business during the Relevant Periods and the period covered by the Interim Comparative Financial Information.

4. REVENUE

The PRC Project Holding Company did not earn any revenue during the Relevant Periods and the period covered by the Interim Comparative Financial Information.

5. LOSS BEFORE TAX

The PRC Project Holding Company's loss before tax is arrived at after charging:

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB	*RMB* (Unaudited)	*RMB*	*RMB*	*RMB*
Sole director's remuneration	–	–	–	–	–

6. INCOME TAX

No provision for Mainland China tax had been made as the PRC Project Holding Company did not generate any assessable profits during the Relevant Periods and the period covered by the Interim Comparative Financial Information.

There is no significant unprovided deferred tax in respect of the Relevant Periods and the period covered by the Interim Comparative Financial Information and as at the end of each of the Relevant Periods.

7. DIVIDEND

No dividends were paid or declared by the PRC Project Holding Company in respect of the Relevant Periods and the period covered by the Interim Comparative Financial Information.

8. CASH AT BANK

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balance is deposited with a creditworthy bank with no recent history of default.

9. DUE TO A FELLOW SUBSIDIARY

The balance due to a fellow subsidiary is interest-free, unsecured and repayable on demand.

10. PAID-UP CAPITAL

The registered capital of the PRC Project Holding Company is RMB100,000 and none of which has been paid up as at the end of each of the Relevant Periods. In accordance with the memorandum of association of the PRC Project Holding Company, such registered capital has to be fully paid up by 2 September 2026.

11. CAPITAL RESERVE

The capital reserve represented the amount of indebtedness waived by a fellow subsidiary during the four months ended 30 April 2022 pursuant to an agreement entered into with the fellow subsidiary on 6 April 2022.

12. RELATED PARTY DISCLOSURES

(a) Other than the balance with a fellow subsidiary as disclosed in note 9, the PRC Project Holding Company had no outstanding balance with related parties as at the end of each of the Relevant Periods.

(b) In the opinion of the directors of the PRC Project Holding Company, the sole director of the PRC Project Holding Company represented the key management personnel of the PRC Project Holding Company. No compensation was paid to the key management personnel during the Relevant Periods and the period covered by the Interim Comparative Financial Information.

13. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets and the financial liability of the PRC Project Holding Company as at the end of each of the Relevant Periods were financial assets stated at amortised cost and a financial liability stated at amortised cost, respectively.

14. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The PRC Project Holding Company does not have written risk management policies and guidelines. It has no significant exposure to financial risks, including interest rate risk, liquidity risk, foreign currency risk and credit risk.

Capital management

The primary objectives of the PRC Project Holding Company's capital management are to safeguard the PRC Project Holding Company's ability to continue as a going concern. The PRC Project Holding Company does not have specific policies for managing capital but it will continue to maintain a healthy capital ratio.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the PRC Project Holding Company in respect of any period subsequent to 30 April 2022.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEIJING GAS BLUE SKY HOLDINGS LIMITED

Introduction

We report on the historical financial information of 北京燃氣集團藤縣有限公司 (the "**Project Company**") set out on pages IIC-4 to IIC-50, which comprises the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows of the Project Company for each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 (the "**Relevant Periods**"), and the statements of financial position of the Project Company as at 31 December 2019, 2020 and 2021 and 30 April 2022 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages IIC-4 to IIC-50 forms an integral part of this report, which has been prepared for inclusion in Appendix IIC to the circular of Beijing Gas Blue Sky Holdings Limited (the "**Company**") dated 31 October 2022 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest of Sapphire Gas Company Limited by the Company.

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 of the Company 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 of the Company, 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 Project Company as at 31 December 2019, 2020 and 2021 and 30 April 2022 and of the financial performance and cash flows of the Project Company for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Review of Interim Comparative Financial Information

We have reviewed the Interim Comparative Financial Information of the Project Company which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the four months ended 30 April 2021 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Company are responsible for the preparation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) *Engagements to Review Historical Financial Statements* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of accountants' report, is not prepared, in all material respects, 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 of Hong Kong Limited 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 pages IIC-4 have been made.

Dividends

We refer to note 10 to the Historical Financial Information which contains information about the dividends declared and paid by the Project Company in respect of the Relevant Periods.

Ernst & Young
Certified Public Accountants
Hong Kong
31 October 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 Project Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young Hua Ming LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**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.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Four months ended 30 April		Year ended 31 December		
	Notes	**2022**	**2021**	**2021**	**2020**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Unaudited)			
Revenue	*5*	141,311	91,749	363,208	234,112	114,189
Cost of sales		(112,049)	(77,261)	(305,187)	(194,671)	(102,150)
Gross profit		29,262	14,488	58,021	39,441	12,039
Other income and gains, net	*6*	1,253	1,213	4,461	2,987	1,864
Selling expenses		(666)	(556)	(2,739)	(2,824)	(1,282)
Administrative expenses		(1,624)	(1,425)	(5,600)	(5,738)	(4,917)
Finance costs	*7*	(970)	(931)	(2,612)	(3,442)	(2,973)
PROFIT BEFORE TAX	*8*	27,255	12,789	51,531	30,424	4,731
Income tax	*9*	(4,092)	(1,918)	(7,782)	(4,575)	(729)
PROFIT FOR THE YEAR/ PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		23,163	10,871	43,749	25,849	4,002

STATEMENTS OF FINANCIAL POSITION

		As at 30 April	As at 31 December		
	Notes	**2022**	**2021**	**2020**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*11*	141,512	134,685	113,796	104,159
Right-of-use assets	*12(a)*	4,816	5,001	5,082	4,769
Intangible assets	*13*	510	516	535	554
Deferred tax assets	*22*	10	10	1	869
TOTAL NON-CURRENT ASSETS		146,848	140,212	119,414	110,351
CURRENT ASSETS					
Inventories	*14*	4,858	4,524	2,950	2,240
Trade receivables	*15*	13,084	3,765	10,016	2,600
Prepayments and other receivables	*16*	22,286	14,514	7,190	10,509
Cash and cash equivalents	*17*	68,481	30,634	9,482	18,339
TOTAL CURRENT ASSETS		108,709	53,437	29,638	33,688
CURRENT LIABILITIES					
Trade payables	*18*	17,985	13,979	5,170	2,038
Other payables and accruals	*19*	22,567	28,171	26,074	28,059
Contract liabilities	*20*	45,990	10,134	14,776	8,832
Bank and other borrowings	*21*	48,080	56,049	55,400	66,192
Lease liabilities	*12(b)*	398	446	467	216
Income tax payable		2,858	2,201	256	–
TOTAL CURRENT LIABILITIES		137,788	110,980	102,143	105,337
NET CURRENT LIABILITIES		(29,079)	(57,543)	(72,505)	(71,649)
TOTAL ASSETS LESS CURRENT LIABILITIES		117,769	82,669	46,909	38,702

		As at 30 April	As at 31 December		
	Notes	**2022**	**2021**	**2020**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES					
Bank and other borrowings	*21*	27,000	15,000	1,000	16,400
Lease liabilities	*12(b)*	1,396	1,459	1,417	1,249
TOTAL NON-CURRENT LIABILITIES		28,396	16,459	2,417	17,649
NET ASSETS		89,373	66,210	44,492	21,053
EQUITY					
Paid-up capital	*23*	30,000	30,000	30,000	30,000
Reserves	*24*	59,373	36,210	14,492	(8,947)
TOTAL EQUITY		89,373	66,210	44,492	21,053

STATEMENTS OF CHANGES IN EQUITY

Relevant Periods

	Note	**Paid-up capital** *RMB'000*	**Special reserve** *RMB'000* *(note 24(b))*	**Surplus reserve** *RMB'000* *(note 24(c))*	**Retained profits/ (accumulated losses)** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2019		30,000	–	–	(12,949)	17,051
Profit for the year and total comprehensive income for the year		–	–	–	4,002	4,002
At 31 December 2019 and 1 January 2020		30,000	–*	–*	(8,947)*	21,053
Profit for the year and total comprehensive income for the year		–	–	–	25,849	25,849
Transfer to special reserve		–	1,262	–	(1,262)	–
Transfer to surplus reserve		–	–	1,690	(1,690)	–
Dividend distribution	*10*	–	–	–	(2,410)	(2,410)
At 31 December 2020 and 1 January 2021		30,000	1,262*	1,690*	11,540*	44,492
Profit for the year and total comprehensive income for the year		–	–	–	43,749	43,749
Transfer to special reserve		–	2,368	–	(2,368)	–
Transfer to surplus reserve		–	–	4,375	(4,375)	–
Dividend distribution	*10*	–	–	–	(22,031)	(22,031)
At 31 December 2021 and 1 January 2022		30,000	3,630*	6,065*	26,515*	66,210
Profit for the period and total comprehensive income for the period		–	–	–	23,163	23,163
Transfer to special reserve		–	629	–	(629)	–
At 30 April 2022		30,000	4,259*	6,065*	49,049*	89,373

* These reserves accounts comprise the consolidated negative reserves of RMB8,947,000 and consolidated positive reserves of RMB14,492,000, RMB36,210,000 and RMB59,373,000 in the statements of financial position as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively.

Four months ended 30 April 2021 (Unaudited)

	Paid-up capital	**Special reserve**	**Surplus reserve**	**Retained profits**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note 24(b))	*(note 24(c))*		
At 1 January 2021	30,000	1,262	1,690	11,540	44,492
Profit for the period and total comprehensive income for the period	–	–	–	10,871	10,871
Transfer to special reserve	–	866	–	(866)	–
At 30 April 2021	30,000	2,128	1,690	21,545	55,363

STATEMENTS OF CASH FLOWS

		Four months ended 30 April		Year ended 31 December		
		2022	2021	2021	2020	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Unaudited)			
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		27,255	12,789	51,531	30,424	4,731
Adjustments for:						
Finance costs	7	970	931	2,612	3,442	2,973
Interest income	6	(135)	(63)	(386)	(160)	(23)
Impairment of financial assets, net	8	–	–	14	4	–
Depreciation of property, plant and equipment	11	1,592	1,491	4,667	4,016	3,472
Depreciation of right-of-use assets	12(a)	185	158	481	478	315
Amortisation of intangible assets	13	6	6	19	19	23
		29,873	15,312	58,938	38,223	11,491
Increase in inventories		(334)	(349)	(1,574)	(710)	(85)
Decrease/(increase) in trade receivables		(9,319)	7,623	6,255	(7,420)	(2,526)
Decrease/(increase) in prepayments and other receivables		(7,772)	(8,287)	(7,342)	3,257	(2,118)
Increase/(decrease) in trade payables		3,916	(6,042)	8,809	3,132	3,358
Increase/(decrease) in other payables		3,758	(3,017)	(6,506)	4,856	730
Decrease/(increase) in contract liabilities		35,856	23,367	(4,642)	5,944	1,020
Cash generated from operations		55,978	28,517	53,938	47,282	11,870
PRC profits tax paid		(3,435)	(2,731)	(5,846)	(3,389)	(62)
Net cash flows from operating activities		52,543	25,786	48,092	43,893	11,808

		Four months ended 30 April		Year ended 31 December		
		2022	2021	2021	2020	2019
	Notes	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		135	63	386	160	23
Purchases of items of property, plant and equipment	*11*	(17,781)	(7,753)	(16,953)	(20,494)	(14,954)
Purchases of intangible assets	*13*	–	–	–	–	(133)
Net cash flows used in investing activities		(17,646)	(7,690)	(16,567)	(20,334)	(15,064)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank and other borrowings	*25(b)*	15,000	30,145	75,000	53,480	64,920
Repayment of bank and other borrowings	*25(b)*	(11,000)	(20,000)	(60,400)	(79,670)	(43,341)
Principal portion of lease liabilities	*25(b)*	(111)	(77)	(379)	(372)	(229)
Dividends paid	*25(b)*	–	–	(22,031)	(2,410)	–
Interest portion of lease liabilities	*25(b)*	(28)	(28)	(28)	(82)	(28)
Other interest paid	*25(b)*	(911)	(875)	(2,535)	(3,362)	(2,943)
Net cash flows from/(used in) financing activities		2,950	9,165	(10,373)	(32,416)	18,379
NET INCREASE IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		30,634	9,482	9,482	18,339	3,216
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	*17*	68,481	36,743	30,634	9,482	18,339

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Project Company is a limited liability company established in the People's Republic of China (the "**PRC**") on 13 August 2014. The registered office of the Project Company is located at 92 Tengzhou Avenue, Tengzhou Town, Teng County, China.

During the Relevant Periods, the Project Company was involved in the following principal activities in the mainland of the PRC ("**Mainland China**"):

- The sale of gas, mainly piped natural gas ("**PNG**") (under concessions) and liquefied natural gas ("**LNG**"); and
- The provision of construction and installation services of gas pipelines.

At the end of the Relevant Periods, the immediate holding company of the Project Company is Beijing Gas Group Company Limited ("**Beijing Gas Group**"), which is a limited liability company established in the PRC; and in the opinion of the directors of the Project Company, the ultimate holding company of the Project Company is 北京控股集團有限公司, which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

The statutory financial statements of the Project Company for each of the years ended 31 December 2019, 2020 and 2021 prepared under PRC Generally Accepted Accounting Principles were audited by Da Hua Certified Public Accountants LLP, certified public accountants registered in the PRC.

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 2022, together with the relevant transitional provisions, have been early adopted by the Project Company in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

Going concern

As at 30 April 2022, the Project Company's current liabilities exceeded its current assets by RMB29,079,000. The liquidity of the Project Company is primarily dependent on its ability to maintain adequate cash flows from operations, to renew its short-term bank loans and to obtain continuous financial support from related parties to support its working capital and meet its obligations and commitments when they become due.

The Project Company has carried out a review of its cash flow forecast for the twelve months ending 30 April 2023. Based on such forecast, the directors believe that adequate sources of liquidity exist to fund the Project Company's working capital and capital expenditure requirements, and to meet its short-term debt obligations and other liabilities and commitments as they become due in the twelve months ending 30 April 2023.

Based on the above factors, the directors of the Project Company are of the opinion that the Project Company will have sufficient funding to operate as a going concern and meet its financial obligations as and when they fall due for at least twelve months from the end of the Relevant Periods. Accordingly, the Historical Financial Information has been prepared on the going concern basis.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Project Company 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 IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[1]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]
Amendments to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[1, 4]

1 Effective for annual periods beginning on or after 1 January 2023

2 No mandatory effective date yet determined but available for adoption

3 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

4 The IASB amends IFRS 17 to permit a classification overlay for financial assets presented in comparative periods on initial application of IFRS 1

Further information about those IFRSs that are expected to be applicable to the Project Company is described below:

(a) 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 Project Company's financial statements.

(b) 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 Project Company's financial statements.

(c) 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 Project Company is currently assessing the impact of the amendments on the Project Company's accounting policy disclosures.

(d) 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 Project Company's financial statements.

(e) 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 Project Company's financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Project Company 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 Project Company;

(ii) has significant influence over the Project Company; or

(iii) is a member of the key management personnel of the Project Company or of a holding company of the Project Company;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Project Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Project Company 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 Project Company or an entity related to the Project Company;

(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 holding company 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 Project Company or to the holding company of the Project Company.

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. 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 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 Project Company 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:

Gas pipelines	30 years
Stations and machinery	5-30 years
Furniture and fixtures	5-10 years
Motor vehicles	10-11 years
Others	3-5 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 period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents stations, gas pipelines 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.

Leases

The Project Company 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.

Project Company as a lessee

The Project Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Project Company 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 the straight-line basis over the following depreciation periods, which are the shorter of the lease terms and the estimated useful lives of the assets:

Office premises	3-10 years
Machinery	3 years
Leasehold land	50 years

If ownership of the leased asset is transferred to the Project Company 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 Project Company and payments of penalties for termination of a lease, if the lease term reflects the Project Company 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 Project Company uses its incremental borrowing rate at the lease commencement date because 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 Project Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is 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 recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on the straight-line basis over the lease term.

Project Company as a lessor

When the Project Company 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 Project Company 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 Project Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on the straight-line basis over the lease terms and is included in other income 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 receivable at an amount equal to the net investment in the lease. The finance costs of such leases are charged to profit or loss and other comprehensive income so as to provide a constant periodic rate of change over the lease terms.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognised on 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 period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful lives of 2 to 10 years, as appropriate.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets and financial assets), 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 reporting period as to whether there is an 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 a non-financial 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 any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Financial assets

Trade receivables that do not contain a significant financing component or for which the Project Company has applied the practical expedient of not adjusting the effect of a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from Contracts with Customers. All the other financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Project Company commits to purchase or sell the assets.

(a) Classification and measurement

Debt instruments are measured at amortised cost using the effective interest method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

(b) Impairment

The Project Company applies the expected credit loss model on all the financial assets that are subject to impairment, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IFRS 16 Leases. For trade receivables and contract assets without a significant financing component, the Project Company applies the simplified approach which requires impairment allowances to be measured at lifetime expected credit losses.

For other financial assets, impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Project Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where 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.

The Project Company considers a default has occurred when a financial asset is more than 90 days past due unless the Project Company has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Project Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities

Financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

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.

Fair value measurement

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 Project Company. 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 Project Company 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 Historical Financial Information on a recurring basis, the Project Company 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 each of the Relevant Periods.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and other monetary assets 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 Project Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including assets similar in nature to cash, which are not restricted as to use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Project Company transfers the related goods or services. Contract liabilities are recognised as revenue when the Project Company 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 asset relates. Other contract costs are expensed as incurred.

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.

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 Project Company 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 Project Company 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.

(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 Project Company'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.

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.

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.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, 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.

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. Where 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/amortisation charge.

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 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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Project Company operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Dividends

Final dividends are recognised as a liability when they are approved by the equity holders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the 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) Useful lives of property, plant and equipment

The Project Company 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 or unforeseen 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.

(ii) 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.

(iii) Provision for expected credit losses on trade receivables

The Project Company uses a provision matrix to calculate ECLs for trade 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 Project Company's historical observed default rates. The Project Company 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 Periods, 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 Project Company'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 Project Company's trade receivables is disclosed in note 15 to the Historical Financial Information.

(iv) Impairment of non-financial assets

The Project Company assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. 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.

4. OPERATING SEGMENT INFORMATION

Operating segment information

No operating segment information is presented as all of the Project Company's revenue and reported results during each of the Relevant Periods, and its total assets as at the end of each of the Relevant Periods were derived from one single operating segment, i.e., sale of gas, mainly PNG and LNG.

Geographical information

The Project Company's revenue during each of the Relevant Periods and the period covered by the Interim Comparative Financial Information were all derived from external customers based in Mainland China, and its non-current assets, excluding financial assets, as at the end of each of the Relevant Periods were all located in Mainland China.

Information about major customers

A summary of revenue earned from external customers, which individually contributed 10% or more to the Project Company's total revenue, during each of the Relevant Periods and the period covered by the Interim Comparative Financial Information, is set out below:

	Four months ended 30 April		**Year ended 31 December**		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Customer A	71,823	47,034	181,716	112,979	–
Customer B	36,962	25,282	76,336	66,808	54,440
Customer C	N/A*	10,249	N/A*	30,231	34,340

* The corresponding revenue of this customer is not disclosed as it did not contribute more than 10% of the Project Company's revenue for the relevant years/period.

5. REVENUE

Revenue of the Project Company for each of the Relevant Periods and the period covered by the Interim Comparative Financial Information wholly represented revenue from contracts with customers.

(a) Disaggregated revenue information

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Types of goods or services					
Sale of PNG	122,619	82,828	303,747	189,512	71,575
Sale of LNG	6,028	6,317	23,003	35,896	30,306
Provision of construction and installation services	12,664	2,604	36,458	8,704	12,308
Total revenue from contracts with customers	141,311	91,749	363,208	234,112	114,189
Timing of revenue recognition					
Goods transferred at a point in time	128,647	89,145	326,750	225,408	101,881
Services transferred over time	12,664	2,604	36,458	8,704	12,308
Total revenue from contracts with customers	141,311	91,749	363,208	234,112	114,189

The following table shows the amounts of revenue recognised in each of the Relevant Periods and the period covered by the Interim Comparative Financial Information that were included in the contract liabilities at the beginning of each of the Relevant Periods:

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Sale of goods	10,134	8,047	8,047	5,263	2,886
Construction and installation services	–	2,325	6,729	3,569	4,926
	10,134	10,372	14,776	8,832	7,812

(b) Performance obligations

Information about the Project Company's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of PNG and LNG, and payment is generally due within 30 days from delivery. In addition, the Project Company received prepayments before delivery from certain 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.

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 30 April	As at 31 December		
	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Expected to be recognised within one year	45,990	10,134	14,776	8,832

6. OTHER INCOME AND GAINS, NET

	Four months ended 30 April		Year ended 31 December		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Miscellaneous income*	984	1,141	3,774	2,363	1,414
Interest income	135	63	386	160	23
Government grants	1	–	84	43	55
Rental income	–	–	32	282	277
Others	133	9	185	139	95
	1,253	1,213	4,461	2,987	1,864

* The miscellaneous income mainly represented the sales of stoves and water heaters during each of the Relevant Periods and the period covered by the Interim Comparative Financial Information.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Four months ended 30 April		Year ended 31 December		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Interest on bank loans	942	903	2,531	3,360	2,945
Interest on lease liabilities	28	28	81	82	28
	970	931	2,612	3,442	2,973

8. PROFIT BEFORE TAX

The Project Company's profit before tax is arrived at after charging/(crediting):

	Four months ended 30 April		Year ended 31 December		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Cost of inventories sold	102,590	76,634	280,459	188,735	90,550
Cost of services provided	9,459	627	24,728	5,936	11,600
Depreciation of property, plant and equipment	1,592	1,491	4,667	4,016	3,472
Less: Amount included in cost of inventories sold	(1,512)	(1,417)	(4,434)	(3,757)	(3,246)
	80	74	233	259	226
Depreciation of right-of-use assets	155	128	391	388	241
Amortisation of intangible assets	6	6	19	19	23
Employee benefit expense:					
Wages and salaries	1,709	1,614	6,370	8,721	5,108
Pension scheme contributions	253	165	676	43	399
Social security contributions and accommodation benefits	241	183	696	562	423
	2,203	1,902	7,742	9,326	5,930
Less: Amount included in cost of inventories sold	(822)	(657)	(2,555)	(3,502)	(2,144)
	1,381	1,305	5,187	5,824	3,786
Impairment/(reversal of impairment) of financial assets, net:					
Trade receivables	–	–	(4)	4	–
Other receivables	–	–	18	–	–
	–	–	14	4	–

9. INCOME TAX

The components of income tax expense are as follows:

	Four months ended 30 April		Year ended 31 December		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Current – Mainland China	4,092	1,918	7,791	3,707	–
Deferred tax *(note 22)*	–	–	(9)	868	729
Total tax expense for the year/period	4,092	1,918	7,782	4,575	729

(a) The provision for Mainland China current income tax is based on the PRC statutory tax rate of 25% and the assessable profits of the Project Company 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 Project Company, in accordance with the "Catalogue of Industries Encouraged to Develop in the Western Region", has been registered with the local tax authority to be eligible for a reduced income tax rate of 15% up to 31 December 2030. Accordingly, the Project Company was entitled to the 15% income tax rate during the Relevant Periods and the period covered by the Interim Comparative Financial Information.

(b) A reconciliation of the tax expense applicable to profit before tax at the statutory rate of the PRC to the tax expense at the effective tax rate is as follows:

	Four months ended 30 April		Year ended 31 December		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Profit before tax	27,255	12,789	51,531	30,424	4,731
Tax expense at the PRC statutory tax rate of 25%	6,814	3,197	12,883	7,606	1,183
Lower tax rate enacted by local tax authority	(2,726)	(1,279)	(5,153)	(3,042)	(473)
Tax effect of expenses not deductible for tax purpose	4	–	52	11	19
Tax expense for the year/period	4,092	1,918	7,782	4,575	729
Tax expense at the effective tax rate	15%	15%	15%	15%	15%

10. DIVIDENDS

The dividends declared by the Project Company to its then equity holders during the Relevant Periods and the period covered by the Interim Comparative Financial Information are as follows:

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Final dividends	–	–	22,031	2,410	–

Pursuant to the resolution of equity holders passed at a general meeting on 29 June 2020, a final dividend of RMB2,410,000 was declared to the equity holders in respect of the year ended 31 December 2019.

Pursuant to the resolution of equity holders passed at a general meeting on 4 June 2021, a final dividend of RMB22,031,000 was declared to the equity holders in respect of the year ended 31 December 2020.

11. PROPERTY, PLANT AND EQUIPMENT

	Gas pipelines	Stations and machinery	Furniture and fixtures	Motor vehicles	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2019	67,791	26,059	352	587	332	179	95,300
Additions	–	181	231	–	50	16,143	16,605
Transferred from construction in progress	9,229	17	123	–	–	(9,369)	–
At 1 January 2020	77,020	26,257	706	587	382	6,953	111,905
Additions	–	1,190	99	233	84	12,047	13,653
Transferred from construction in progress	8,261	645	–	–	–	(8,906)	–
At 1 January 2021	85,281	28,092	805	820	466	10,094	125,558
Additions	–	248	25	–	–	25,283	25,556
Transferred from construction in progress	17,973	–	–	–	–	(17,973)	–
At 1 January 2022	103,254	28,340	830	820	466	17,404	151,114
Additions	–	1,386	15	–	–	7,018	8,419
At 30 April 2022	103,254	29,726	845	820	466	24,422	159,533

	Gas pipelines *RMB'000*	Stations and machinery *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Accumulated depreciation:							
At 1 January 2019	2,432	1,302	110	169	261	–	4,274
Depreciation provided for the year	2,518	801	44	56	53	–	3,472
At 1 January 2020	4,950	2,103	154	225	314	–	7,746
Depreciation provided for the year	2,550	1,253	75	73	65	–	4,016
At 1 January 2021	7,500	3,356	229	298	379	–	11,762
Depreciation provided for the year	3,198	1,280	80	77	32	–	4,667
At 1 January 2022	10,698	4,636	309	375	411	–	16,429
Depreciation provided for the year	1,083	460	17	26	6	–	1,592
At 30 April 2022	11,781	5,096	326	401	417	–	18,021
Net carrying amount:							
At 31 December 2019	72,070	24,154	552	362	68	6,953	104,159
At 31 December 2020	77,781	24,736	576	522	87	10,094	113,796
At 31 December 2021	92,556	23,704	521	445	55	17,404	134,685
At 30 April 2022	91,473	24,630	519	419	49	24,422	141,512

12. LEASES

The Project Company as a lessee

The Project Company has lease contracts for various items of office premises, machinery 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 3 and 10 years. Generally, the Project Company is restricted from assigning and subleasing the leased assets outside the Project Company.

(a) Right-of-use assets

The carrying amounts of the Project Company's right-of-use assets and the movements during the Relevant Periods are as follows:

	Office premises	**Machinery**	**Leasehold land**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	238	–	3,319	3,557
Additions	1,463	64	–	1,527
Depreciation provided during the year	(242)	(5)	(68)	(315)
At 31 December 2019 and 1 January 2020	1,459	59	3,251	4,769
Additions	791	–	–	791
Depreciation provided during the year	(389)	(21)	(68)	(478)
At 31 December 2020 and 1 January 2021	1,861	38	3,183	5,082
Additions	400	–	–	400
Depreciation provided during the year	(392)	(21)	(68)	(481)
At 31 December 2021 and 1 January 2022	1,869	17	3,115	5,001
Depreciation provided during the year	(155)	(7)	(23)	(185)
At 30 April 2022	1,714	10	3,092	4,816

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

	Four months ended 30 April	**Year ended 31 December**	
	2022	**2020**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	1,905	1,465	167
New leases	–	791	1,527
Accretion of interest recognised during the year/period	28	82	28
Payments	(139)	(454)	(257)
Carrying amount at end of year/period	1,794	1,884	1,465
Portion classified as current liabilities	(398)	(467)	(216)
Non-current portion	1,396	1,417	1,249

The maturity analysis of lease liabilities is disclosed in note 30 to the Historical Financial Information.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

		Four months ended 30 April		Year ended 31 December		
		2022	**2021**	**2021**	**2020**	**2019**
	Notes	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Interest on lease liabilities	*7*	28	28	81	82	28
Depreciation of right-of-use assets	*8*	185	158	481	478	315
Total amount recognised in profit or loss		213	186	562	560	343

The Project Company as a lessor

Operating leases

The Project Company leases its equipment in Mainland China under operating lease arrangements. The terms of the leases generally do not require the lessee to pay security deposits.

At the end of each of the Relevant Periods, the undiscounted lease payments receivable by the Project Company in future periods under non-cancellable operating leases with its lessee are as follows:

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	32	–	–	282

13. INTANGIBLE ASSETS

	Computer software *RMB'000*
Cost:	
At 1 January 2019	474
Additions	133
At 31 December 2019 and 1 January 2020	607
At 31 December 2020 and 1 January 2021	607
At 31 December 2021 and 1 January 2022	607
At 30 April 2022	607
Accumulated amortisation:	
At 1 January 2019	30
Amortisation provided during the year	23
At 31 December 2019 and 1 January 2020	53
Amortisation during the year	19
At 31 December 2020 and 1 January 2021	72
Amortisation provided during the year	19
At 31 December 2021 and 1 January 2022	91
Amortisation provided during the period	6
At 30 April 2022	97
Net carrying amount:	
At 31 December 2019	554
At 31 December 2020	535
At 31 December 2021	516
At 30 April 2022	510

14. INVENTORIES

	As at 30 April 2022 *RMB'000*	As at 31 December 2021 *RMB'000*	As at 31 December 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
Construction materials	4,433	3,825	2,584	2,156
LNG	425	699	366	84
	4,858	4,524	2,950	2,240

15. TRADE RECEIVABLES

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	13,084	3,765	10,020	2,600
Impairment	–	–	(4)	–
	13,084	3,765	10,016	2,600

The Project Company's trading terms with its customers are mainly on advance payment, except for regular customers, where credit is normally allowed. The credit period is generally one month. Each regular customer has a maximum credit limit. The Project Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. For the four months ended 30 April 2022, and the years ended 31 December 2021, 2020 and 2019, the Project Company had certain concentrations of credit risk as 28%, 14%, 98% and 98% of the Project Company's trade receivable were due from the Project Company's largest debtor and as 38%, 31%, 100% and 100% of the Project Company's trade receivable were due from the Project Company's five largest debtors, respectively. The Project Company does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months (*)	12,846	3,759	10,018	2,600
3 months to 6 months	238	6	2	–
	13,084	3,765	10,020	2,600

* These trade receivables were within the credit period.

The movements in the loss allowance for impairment of trade receivables during the Relevant Periods are as follows:

	Four months ended 30 April	Year ended 31 December		
	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	–	4	–	–
Impairment losses/(reversal of impairment) recognised in profit or loss	–	(4)	4	–
At end of year/period	–	–	4	–

An impairment analysis is performed at the end of each of the Relevant Periods 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. 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. Overdue balances of trade receivables are insignificant, and therefore the expected credit losses as at the end of each of the Relevant Periods were assessed to be insignificant.

16. PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	21,353	13,486	6,559	5,921
Other receivables	951	1,046	631	4,588
Impairment of other receivables	(18)	(18)	–	–
	22,286	14,514	7,190	10,509

Notes:

(a) Prepayments mainly included prepayments for purchase of natural gas and construction materials.

(b) Other receivables represent other receivables from 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 Company. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 30 April 2022, 31 December 2021, 2020 and 2019, the loss allowance was assessed to be minimal.

17. CASH AND CASH EQUIVALENTS

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	68,444	30,579	9,482	18,339
Other monetary assets	37	55	–	–
Cash and cash equivalents	68,481	30,634	9,482	18,339

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

The cash and cash equivalents of the Project Company as at the end of each of the Relevant Periods were all denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Project Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash and cash equivalents as at 30 April 2022, 31 December 2021, 2020 and 2019 placed with a fellow subsidiary, which is an authorised financial institution established in Mainland China, are disclosed in note 27(c).

18. TRADE PAYABLES

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 30 April 2022 *RMB'000*	As at 31 December 2021 *RMB'000*	As at 31 December 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
Within 90 days	17,883	13,967	5,158	2,026
91 to 180 days	–	–	–	–
181 to 365 days	–	–	–	–
More than 1 year	12	12	12	12
	17,895	13,979	5,170	2,038

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

Trade payables as at 30 April 2022, 31 December 2021, 2020 and 2019 due to an equity holder, arising from transactions carried out in the ordinary course of business of the Project Company are disclosed in note 27(c). The balances are unsecured, interest-free and are repayable within credit periods similar to those offered by the related parties to their major customers.

19. OTHER PAYABLES AND ACCRUALS

	As at 30 April 2022 *RMB'000*	As at 31 December 2021 *RMB'000*	As at 31 December 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
Payroll and welfare	619	1,930	4,232	717
Other tax payables	6,371	1,138	2,900	906
Security deposit	365	524	4,520	4,520
Other payables	15,212	24,579	14,422	21,916
	22,567	28,171	26,074	28,059

The balances due to certain equity holders included in other payables and accruals as at 30 April 2022, 31 December 2021, 2020 and 2019, arising from transactions carried out in the ordinary course of business of the Project Company are disclosed in note 27(c).

20. CONTRACT LIABILITIES

	As at 30 April 2022 *RMB'000*	As at 31 December 2021 *RMB'000*	As at 31 December 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
Short-term advances from contracts in respect of:				
Sale of goods	45,990	10,134	8,047	5,263
Construction and installation services	–	–	6,729	3,569
Total contract liabilities	45,990	10,134	14,776	8,832

Contract liabilities include advances received from customers for sale of natural gas, construction and installation services. The increase in contract liabilities was mainly due to the increase in advances received from sales of goods for the four months ended 30 April 2022.

21. BANK AND OTHER BORROWINGS

As at 30 April 2022	Effective interest rate (%)	Maturity (year)	RMB'000
Current			
Bank loans – secured	1.8500%-3.8000%	2023	40,080
Current portion of long term bank loans – secured	4.6000%-4.6500%	2023	8,000
			48,080
Non-current			
Bank loans – secured	4.6000%-4.6500%	2024-2026	27,000
			75,080

As at 31 December 2021	Effective interest rate (%)	Maturity (year)	RMB'000
Current			
Bank loans – unsecured	3.7500%	2022	10,000
Bank loans – secured	1.8500%-3.8000%	2022	40,030
Current portion of long term bank loans – unsecured	4.2900%	2022	1,000
Current portion of long term bank loans – secured	2.6500%-4.6000%	2022	5,019
			56,049
Non-current			
Bank loans – secured	2.6500%-4.6000%	2023-2025	15,000
			71,049

As at 31 December 2020	Effective interest rate (%)	Maturity (year)	RMB'000
Current			
Bank loans – secured	4.1500%	2021	20,000
Other loans – unsecured	4.3500%	2021	20,000
Current portion of long term bank loans – unsecured	4.2900%	2021	3,400
Current portion of long term bank loans – secured	4.2900%	2021	12,000
			55,400
Non-current			
Bank loans – unsecured	4.2900%	2022	1,000
			56,400

As at 31 December 2019	Effective interest rate (%)	Maturity (year)	RMB'000
Current			
Other loans – unsecured	4.3500%-4.5675%	2020	46,192
Current portion of long term bank loans – unsecured	4.2900%	2020	2,000
Current portion of long term bank loans – secured	4.2900%-5.2250%	2020	18,000
			66,192
Non-current			
Bank loans – unsecured	4.2900%	2021-2022	4,400
Bank loans – secured	4.2900%	2021	12,000
			16,400
			82,592

Notes:

(a) The secured bank borrowings of the Project Company were secured by the right for the collection of the receivables from the sales of gas.

(b) The balances due to equity holders included in other loans as at 30 April 2022, 31 December 2021, 2020 and 2019 are disclosed in note 27(c).

22. DEFERRED TAX ASSETS

The movements in deferred tax assets during the Relevant Periods are as follows:

	Impairment of financial assets *RMB'000*	Tax losses recognised *RMB'000*	Total *RMB'000*
Gross deferred tax assets as at 1 January 2019	–	1,598	1,598
Deferred tax charged to profit or loss during the year	–	(729)	(729)
Gross deferred tax assets as at 31 December 2019 and 1 January 2020	–	869	869
Deferred tax credited/(charged) to profit or loss during the year	1	(869)	(868)
Gross deferred tax assets as at 31 December 2020 and 1 January 2021	1	–	1
Deferred tax credited to profit or loss during the year	9	–	9
Gross deferred tax assets as at 31 December 2021 and 1 January 2022	10	–	10
Deferred tax credited/(charged) to profit or loss during the period	–	–	–
Gross deferred tax assets as at 30 April 2022	10	–	10

23. PAID-UP CAPITAL

	As at 30 April 2022 *RMB'000*	As at 31 December 2021 *RMB'000*	As at 31 December 2020 *RMB'000*	As at 31 December 2019 *RMB'000*
Beijing Gas Group	15,300	15,300	15,300	15,300
廣西和裕祥新能源投資有限公司	14,700	14,700	14,700	14,700
	30,000	30,000	30,000	30,000

24. RESERVES

(a) The amounts of the Project Company's reserves and the movements therein for the Relevant Periods and the period covered by Interim Comparative Financial Information are presented in the statement of changes in equity.

(b) Special reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety of the PRC, the Project Company is required to set aside an amount to a safety production fund at certain percentages of the previous year's operating revenue. The fund can be used for improvement of safety, and is not available for distribution to equity holders. The balance of the safety production fund in equity represents the safety fund that was set aside but not yet used.

(c) Surplus reserve

Pursuant to the relevant PRC laws and the articles of association of the Project Company, the Project Company is required to transfer a minimum of 10% of their distributable profits after tax based on its PRC statutory financial statements to the statutory surplus reserve fund, until the accumulated total of the fund reaches 50% of its registered capital.

25. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

The Project Company had non-cash additions to right-of-use assets and lease liabilities of nil, RMB400,000, RMB791,000 and RMB1,527,000 during the four months ended 30 April 2022 and the years ended 31 December 2021, 31 December 2020 and 31 December 2019, respectively, in respect of lease arrangements for office premises, machinery and leasehold land.

(b) Changes in liabilities arising from financing activities

	Bank and other loans *RMB'000*	**Lease liabilities** *RMB'000*	**Dividends payable** *RMB'000*
At 1 January 2019	61,011	167	–
Changes from financing cash flows	18,636	(257)	–
Interest expenses	2,945	28	–
New leases	–	1,527	–
At 31 December 2019 and 1 January 2020	82,592	1,465	–
Changes from financing cash flows	(29,552)	(454)	(2,410)
Interest expenses	3,360	82	–
New leases	–	791	–
Dividend declared during the year	–	–	2,410
At 31 December 2020 and 1 January 2021	56,400	1,884	–
Changes from financing cash flows	12,118	(460)	(22,031)
Interest expenses	2,531	81	–
New leases	–	400	–
Dividend declared during the year	–	–	22,031
At 31 December 2021 and 1 January 2022	71,049	1,905	–
Changes from financing cash flows	3,089	(139)	–
Interest expense	942	28	–
At 30 April 2022	75,080	1,794	–

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	Four months ended 30 April		Year ended 31 December		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Within operating activities	–	–	18	131	551
Within financing activities	139	77	460	454	257
	139	77	478	585	808

26. CAPITAL COMMITMENTS

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for: plant and machinery	345	9,613	230	2,575

27. RELATED PARTY DISCLOSURES

(a) Name and relationship:

Name of related party	Relationship with the Project Company
Beijing Gas Group	Controlling equity holder of the Project Company
廣西和裕祥新能源投資有限公司	Equity holder of the Project Company
北京市燃氣集團燃氣學院	Fellow Subsidiary controlled by the controlling equity holder of the Project Company
北京控股集團財務有限公司	Fellow Subsidiary controlled by the controlling equity holder of the Project Company
北京市煤氣熱力工程設計院有限公司	Fellow Subsidiary controlled by the controlling equity holder of the Project Company
北京燃氣集團梧州晟年有限公司	Fellow Subsidiary controlled by the controlling equity holder of the Project Company
梧州北燃城投能源有限公司	Entity controlled by key management personnel of the Project Company

(b) Transactions with related parties:

Name of related party	Nature of transaction	Four months ended 30 April 2022 RMB'000	2021 RMB'000	Year ended 31 December 2021 RMB'000	2020 RMB'000	2019 RMB'000
Equity holders:						
Beijing Gas Group	Purchase of goods	49	–	–	514	–
	Provision of services	–	–	16	–	–
	Accrual of executive compensation	199	209	552	315	293
廣西和裕祥新能源投資有限公司	Interests on borrowings	–	–	–	177	181
Fellow subsidiaries controlled by the controlling equity holder:						
北京市煤氣熱力工程設計院有限公司	Purchase of goods	–	–	–	–	82
北京市燃氣集團燃氣學院	Provision of services	–	–	3	68	–
北京燃氣集團梧州晟年有限公司	Provision of services	–	–	32	–	–
	Sales of goods	–	–	6,174	–	–
北京控股集團財務 有限公司	Interests on borrowings	–	218	848	1,288	213
	Interests income	16	45	103	136	14
Entity controlled by key management personnel:						
梧州北燃城投能源 有限公司	Provision of services	22	48	209	–	–

Note: In the opinion of the directors of the Company, the transactions between the Project Company and the related parties were conducted in the ordinary and usual course of business and on normal commercial terms, and the pricing terms were based on the prevailing market prices.

(c) Outstanding balances with related parties:

	Notes	As at 30 April 2022 RMB'000	As at 31December 2021 RMB'000	As at 31December 2020 RMB'000	As at 31December 2019 RMB'000
Amounts due to related parties:					
Beijing Gas Group	*(i)*	53	–	127	–
Amounts due to related parties included in other payables and accruals:					
Beijing Gas Group	*(ii)*	2,295	2,096	1,544	1,229
廣西和裕祥新能源投資有限公司		1	1	1	1
		2,296	2,097	1,545	1,230
Amount due to related party included in bank and other borrowings:					
Beijing Gas Group		–	–	20,000	40,000
廣西和裕祥新能源投資有限公司		–	–	–	6,192
		–	–	20,000	46,192
Cash and cash equivalents placed in:					
北京控股集團財務有限公司		5,726	182	1,007	14,137

Note:

(i) The amounts due to related parties were trade in nature, unsecured, interest-free and repayable on demand.

(ii) The balances represented accrued payroll and welfare of the expatriate executives appointed by Beijing Gas Group.

(d) Key management personnel remuneration:

Key management personnel receive compensation in the form of salaries, allowances, benefits in kind and bonuses. Details of key management personnel remuneration during the Relevant Periods and the period covered by the Interim Comparative Financial Information are as follows:

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	192	174	604	540	524
Performance related bonuses	114	29	88	325	51
Total remuneration paid to key management personnel	306	203	692	865	575

28. 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 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	13,084	3,765	10,016	2,600
Prepayments and other receivables	831	862	631	745
Cash and cash equivalents	68,481	30,634	9,482	18,339
	82,396	35,261	20,129	21,684

Financial liabilities at amortised cost

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	17,985	13,979	5,170	2,038
Other payables and accruals	15,577	25,103	18,942	26,436
Bank and other borrowings	75,080	71,049	56,400	82,592
Lease liabilities	1,794	1,905	1,884	1,465
	110,346	112,036	82,396	112,531

29. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Project Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts			
	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities				
Bank and other borrowings	27,000	15,000	1,000	16,400

	Fair values			
	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities				
Bank and other borrowings	24,468	13,725	953	15,590

The fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments and other receivables, trade payables, financial liabilities included in other payables and accruals, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of bank and other borrowings 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 Project Company's own non-performance risk for bank and other borrowings as at the end of each of the Relevant Periods were assessed to be insignificant.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Project Company's financial instruments include trade and other receivables, cash and bank balances, trade and other payables, bank and other borrowings and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Project Company's exposure to the risk of changes in market interest rates relates primarily to the Project Company's long term debt obligations with a floating interest rate.

For the four months ended 30 April 2022 and the years ended 31 December 2019, 2020 and 2021, it is estimated that an increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Project Company's profit after tax and retained profits by RMB207,000, RMB282,000, RMB292,000 and RMB456,000, respectively, arising as a result of higher/ lower interest expense on the Project Company's floating-rate borrowings. There would be no impact on other components of the Project Company's equity. The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of Relevant Periods. For the purposes of the analysis, it is assumed that the amounts of variable-rate borrowings outstanding at the end of Relevant Periods were outstanding throughout the whole year. The 100 basis point increase or decrease represents management assessment of a reasonably possible change in interest rates over the period until the reporting date of the next financial year. The analysis was performed on the same basis for the end of each of the Relevant Periods.

Credit risk

The Project Company trades only with recognised and creditworthy third parties. It is the Project Company'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 Project Company's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 30 April 2022, 31 December 2021, 2020 and 2019

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 30 April 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	13,084	13,084
Financial assets included in prepayments and other receivables – normal**	849	–	–	–	849
Cash and cash equivalents – not yet past due	68,481	–	–	–	68,481
	69,330		–	13,084	82,414

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	3,765	3,765
Financial assets included in prepayments and other receivables – normal**	880	–	–	–	880
Cash and cash equivalents – not yet past due	30,634	–	–	–	30,634
	31,514	–	–	3,765	35,279

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	10,020	10,020
Financial assets included in prepayments and other receivables – normal**	631	–	–	–	631
Cash and cash equivalents – not yet past due	9,482	–	–	–	9,482
	10,113	–	–	10,020	20,133

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables*	–	–	–	2,600	2,600
Financial assets included in prepayments and other receivables – normal**	745	–	–	–	745
Cash and cash equivalents – not yet past due	18,339	–	–	–	18,339
	19,084	–	–	2,600	21,684

* For trade receivables to which the Project Company applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 15 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables 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.

Liquidity risk

The Project Company 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 Project Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

The Project Company has the following loans and borrowings as at the end of each of the Relevant Periods:

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	75,080	71,049	36,400	36,400
Other borrowings	–	–	20,000	46,192
Lease liabilities	1,794	1,905	1,884	1,465
	76,874	72,954	58,284	84,057
Analysed into repayable:				
Within one year or on demand	48,478	56,495	35,867	66,408
In the second year	8,371	5,362	10,370	12,262
In the third to fifth years, inclusive	8,791	10,737	573	4,814
Beyond five years	11,234	360	474	528
	76,874	72,954	58,284	84,057

The maturity profile of the Project Company's financial liabilities as at the end of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at 30 April 2022

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	17,895	–	–	–	17,895	17,895
Other payables and accruals	15,577	–	–	–	15,577	15,577
Lease liabilities	469	426	881	245	2,021	1,794
Bank and other borrowings	48,984	8,372	8,372	11,512	77,240	75,080
	82,925	8,798	9,253	11,757	112,733	110,346

As at 31 December 2021

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	13,979	–	–	–	13,979	13,979
Other payables and accruals	25,103	–	–	–	25,103	25,103
Lease liabilities	524	425	827	385	2,161	1,905
Bank and other borrowings	57,296	5,233	10,465	–	72,994	71,049
	96,902	5,658	11,292	385	114,237	112,036

As at 31 December 2020

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	5,170	–	–	–	5,170	5,170
Other payables and accruals	18,942	–	–	–	18,942	18,942
Lease liabilities	455	425	775	520	2,175	1,884
Bank and other borrowings	57,644	1,043	–	–	58,687	56,400
	82,211	1,468	775	520	84,974	82,396

As at 31 December 2019

	On demand or within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2,038	–	–	–	2,038	2,038
Other payables and accruals	26,436	–	–	–	26,436	26,436
Lease liabilities	279	281	546	653	1,759	1,465
Bank and other borrowings	68,043	12,515	4,589	–	85,147	82,592
	96,796	12,796	5,135	653	115,380	112,531

Capital management

The primary objectives of the Project Company's capital management are to safeguard the Project Company'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 Project Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Project Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Project Company 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 Project Company monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Project Company's policy is to maintain the gearing ratio healthy. Net debt includes bank and other borrowings, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of each of the Relevant Periods are as follows:

	As at 30 April 2022	As at 31 December 2021	As at 31 December 2020	As at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other borrowings	75,080	71,049	56,400	82,592
Less: Cash and cash equivalents	(68,481)	(30,634)	(9,482)	(18,339)
Net debt	6,599	40,415	46,918	64,253
Capital	89,373	66,210	44,492	21,053
Capital and net debt	95,972	106,625	91,410	85,306
Gearing ratio	6.88%	37.90%	51.33%	75.32%

31. EVENT AFTER THE RELEVANT PERIODS

Pursuant to the resolution of equity holders passed at a general meeting on 29 June 2022, a final dividend of RMB12,055,000 was declared to the equity holders in respect of the year ended 31 December 2021 and was fully paid to the equity holders in July 2022.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Project Company in respect of any period subsequent to 30 April 2022.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Target Group consists of three members, namely, the Target Company, PRC Project Holding Company and the Project Company. The Target Company was incorporated in Hong Kong on 19 September 2022 by Beijing Gas HK. PRC Project Holding Company was established in the PRC on 18 September 2015 and is a wholly-owned subsidiary of the Target Company as at the Latest Practicable Date. Both of the Target Company and PRC Project Holding Company are investment holding companies that do not engage in business activities. Upon completion of the Reorganization, PRC Project Holding Company shall be wholly-owned by the Target Company and shall hold 51% of the equity interest of the Project Company. The Project Company was established in the PRC in August 2014 with a registered share capital of RMB30,000,000 and is a city gas business operator located at Teng County of Guangxi Province in the PRC. As at the Latest Practicable Date, Beijing Gas Group directly holds a 51% equity interests in the Project Company.

As the Project Company is the main operating subsidiary of the Target Group, this section summarises the business and financial results of the Project Company and the financial conditions and other financial information of the Target Group for the three years ended 31 December 2021 and the four months ended 30 April 2022.

Pursuant to the franchise operation agreement with local government of Teng County, the Project Company is granted an exclusive natural gas operating concession right for 30 years commencing from year 2016 to invest in and operate the city pipeline system to supply natural gas and provide ancillary services to in the administrative region of Teng County.

The Project Company commenced supplying natural gas to its customers in the Teng County in late 2015. With the construction of natural gas storage and distribution stations (city gate), the Project Company can directly source natural gas from the PipeChina network covering the natural gas consumption in the Teng County and its neighboring rural townships. As at 30 April 2022, the customer network of the Project Company comprises 10,111 residential users, 75 commercial users and 13 industrial users. The volume of gas sales for the year ended 31 December 2021 and the four months ended 30 April 2022 was approximately 127.1 million cubic meters and 39.8 million cubic meters, respectively.

As ceramic production is the most notable economic activities in the region, currently natural gas sales to industrial users by the Project Company is the main revenue source whilst residential and commercial users accounted for a relatively low proportion in the Project Company's revenue contribution.

Revenue and gross profit of the Project Company

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	141,311	91,749	363,208	234,112	114,189
Sales of PNG	122,619	71,575	303,747	189,512	71,575
Sales of LNG	6,028	30,306	23,003	35,896	30,306
Construction & Installation income	12,664	12,308	36,458	8,704	12,308
Gross profit	29,262	14,488	58,021	39,441	12,039
Gross Margin %	20.71%	15.79%	15.97%	16.85%	10.54%

Revenue

The Project Company generated most of the revenue from the sales of PNG and LNG. For the three years ended 31 December 2021, the revenue of the Project Company increased from approximately RMB114.2 million in year 2019 to approximately RMB234.1 million in year 2020, and further to approximately RMB363.2 million in year 2021, representing an increase of approximately 105.0% for year 2020 and approximately 55.1% for year 2021 respectively. Such increase was primarily driven by growth in sales volume of PNG of 135.5% in year 2020 and 36.4% in year 2021.

For the four months ended 30 April 2022, the revenue of the Project Company increased from approximately RMB91.7 million to approximately RMB141.3 million, representing an increase of approximately 54.0%. Such increase was attributed to combined effect of growth in both the volume and price of the gas sold in response to increase in upstream gas supply cost of approximately 19.4% over comparative period.

Gross Profit

The Project Company's gross profit increased from approximately RMB12.0 million in year 2019 to approximately RMB39.4 million in year 2020, representing an increase of approximately 227.6%. Such increase was primarily attributed to the growth in sales volume of PNG as mentioned above. In addition, the increase was also driven by the improvement in gross profit margin from approximately 10.54% to 16.85% due to general increase in both PNG and LNG sales prices for the year.

The Project Company's gross profit further increased to approximately RMB58.0 million in year 2021, representing an increase of approximately 47.1%. Such increase was generally in line with the revenue growth as mentioned above and the gross profit margin remained at a similar level for year 2020 and 2021.

For the four months ended 30 April 2022, the Project Company's gross profit increased from approximately RMB14.5 million to approximately RMB29.3 million, representing an increase of approximately 102.0%. Such increase was attributed to combined effect of growth in both the volume and price of the gas sold in response to increase in upstream gas supply cost of approximately 19.4% over the comparative period.

Other operating expenses and income tax of the Project Company

	Four months ended 30 April		Year ended 31 December		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Selling expenses	666	556	2,739	2,824	1,282
Administrative expenses	1,624	1,425	5,600	5,738	4,917
Finance costs	970	931	2,612	3,442	2,973
Effective tax rate	15.01%	15.00%	15.10%	15.04%	15.41%

Selling and administrative expenses

The selling and administrative expenses of the Project Company mainly comprises staff and welfare costs, marketing expenses, utility expenses, depreciation charges and miscellaneous administrative overheads. The selling and administrative expenses represented approximately 5.4%, 3.7% and 2.3% of the revenue of the Project Company for the three years ended 31 December 2019, 2020 and 2021, respectively, and approximately 2.2% and 1.6% of the revenue of the Project Company for the four months period ended 30 April 2021 and 2022, respectively.

The selling expenses of the Project Company increased from approximately RMB1.3 million in year 2019 to RMB2.8 million in year 2020, representing an increase of approximately 120.3%. Such increase was mainly due to sales incentive paid to sales and marketing staff for customer development in year 2020. The administrative expenses of the Project Company increased from RMB4.9 million in year 2019 to RMB5.7 million in year 2020, representing an increase of approximately 16.7%. Such increase was mainly attributed to general pay rise for staff in 2020.

For the year ended 31 December 2021 and comparative period ended 30 April 2022, the selling and administrative expenses of the Project Company remained at a similar level.

Finance costs

The finance costs of the Project Company were mainly interest expenses on bank borrowing for financing the construction of natural gas pipeline and operating facilities. The finance costs of the Project Company were approximately RMB2.9 million, RMB3.4 million and RMB2.6 million for the three years ended 31 December 2019, 2020 and 2021 respectively, representing approximately 2.6%, 1.5% and 0.7% of the total revenue of the Project Company over the same period, and the finance costs of the Project Company for the four months ended 30 April 2021 and 2022 were approximately RMB0.9 million and RMB1.0 million, respectively, representing 1.0% and 0.7% of the total revenue of the Project Company over the same period.

The increase in finance costs for year 2020 was mainly due to a higher level of borrowings to finance the construction projects and the decrease in finance costs for year 2021 was mainly due to lower interest rate on borrowings offered to the construction projects of Project Company under preferential local policy.

Income tax expense

According to the PRC policy of the "Catalogue of industries Encouraged to Develop in Western Region", the Project Company is eligible for a reduced income tax rate of 15% until 31 December 2030. For the three years ended 31 December 2021 and the four months ended 30 April 2022, the effective tax rates of the Project Company were in line with the preferential income tax rate of 15%.

Profit and total comprehensive income for the year/period of the Project Company

	Four months ended 30 April		**Year ended 31 December**		
	2022	**2021**	**2021**	**2020**	**2019**
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year/period and total comprehensive income for the year/ period	23,163	10,871	43,749	25,849	4,002

As a result of the foregoing, the net profits of the Project Company were approximately 4.0 million, 25.8 million and 43.7 million for the three years ended 31 December 2019, 2020 and 2021, respectively; and approximately RMB10.9 million and RMB23.2 million for the four months ended 30 April 2021 and 2022, respectively.

FINANCIAL RESOURCES AND GEARING RATIO

Project Company

	As at 30 April	As at 31 December		
	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total equity	89,373	66,210	44,492	21,053
Cash and bank balances	68,481	30,634	9,482	18,339
Bank and other borrowings	75,080	71,049	56,400	82,592

Liquidity, Gearing and Capital Structure

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the Project Company's total cash and bank balances amounted to approximately RMB18.3 million, RMB9.5 million, RMB30.6 million and RMB68.5 million respectively.

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the Project Company had total assets of approximately RMB144.0 million, RMB149.1 million, RMB193.6 million and RMB255.6 million respectively and net current liabilities of approximately RMB71.6 million, RMB72.5 million, RMB57.5 million and RMB29.1 million respectively. The current ratio as at 31 December 2019, 2020 and 2021 and 30 April 2022 of the Target Group was 0.32, 0.29, 0.48 and 0.79 respectively.

As at 30 April 2022, the Project Company had outstanding bank and other borrowings of approximately RMB75.1 million and lease liabilities of approximately RMB1.8 million respectively.

The total equity of the Project Company as at 31 December 2019, 2020 and 2021 and 30 April 2022 amounted to approximately RMB21.01 million, RMB44.5 million, RMB66.2 million and RMB89.4 million respectively. The gearing ratio (defined as total liabilities to total assets) as at 31 December 2019, 2020 and 2021 and 30 April 2022 was approximately 85.4%, 70.2%, 65.8% and 65.0% respectively.

Financial Resources

For the three years ended 31 December 2021 and the four months ended 30 April 2022, the Project Company primarily financed the working capital requirement from its funds generated from business operations and bank borrowings.

PLEDGE OF ASSETS

Save for the right for the collection of receivables from gas sales which is used to secure the bank borrowings of approximately RMB30.0 million RMB32.0 million RMB61.0 million and RMB75.1 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, no asset of the Project Company was charged as security against the bank loan.

CONTINGENT LIABILITIES

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the Project Company had no material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the Project Company had capital commitments in respect of purchase of plant and machinery of RMB2.6 million, RMB0.2 million, RMB9.6 million and RMB0.3 million respectively.

SIGNIFICANT INVESTMENTS

For the three years ended 31 December 2021 and the four months ended 30 April 2022, the Project Company did not have any material investments.

MATERIAL ACQUISITIONS AND DISPOSALS

For the three years ended 31 December 2021 and four months ended 30 April 2022, the Project Company did not make any material acquisition or disposal of subsidiaries, jointly controlled entities and associated companies. The Project Company also did not have any plans to acquire material investments or capital assets after the Acquisition in the financial year 2022.

FOREIGN EXCHANGE RISK

The Project Company conducts its business in PRC, and all of its transactions are denominated in RMB. The Project Company did not experience any material impact or difficulties in liquidity on its operation resulting from the fluctuation in exchange rate. The Project Company also did not carry out hedging transaction or forward contract arrangement for the three years ended 31 December 2021 and the four months ended 31 April 2022. Upon the completion of the Acquisition, the Group will continue to monitor the foreign exchange risk of the Project Company and take prudential measures as and when appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, 2020 and 2021 and 30 April 2022, the Project Company employed 83, 92, 95 and 92 employees in Teng County, Guangxi province, the PRC respectively.

The Project Company provided on-the-job training to its employee in respect of industry and technical knowledge in natural gas supply business operations as well as occupational health and safety measures for the years ended 31 December 2019, 2020 and 2021 and for the four months ended 30 April 2022.

Apart from salary and bonus, save as disclosed in this circular, the Project Company has also made contributions for housing provident funds and social security insurance funds for its employees. The Project Company has no share option scheme.

For the years ended 31 December 2019, 2020 and 2021 and for the four months ended 30 April 2021 and 2022, the total amount of employee remuneration of the Project Company were approximately RMB3.8 million, RMB5.8 million, RMB5.2million, RMB1.3 million and RMB1.4 million respectively.

PROSPECTS

By leveraging the advantage of Teng County being located adjacent to Xijiang River, the Project Company also intends to develop other natural gas supply business such as CNG/LNG refueling stations for vehicles and business of LNG refueling for vessels when opportunities arise in the future according to market demand.

The information set out in this appendix does not form part of the accountants' reports prepared by the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, set out in Appendices IIA, IIB and IIC to this Circular and is included herein for information only.

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

INTRODUCTION

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Group (the "**Unaudited Pro Forma Financial Information**"), which has been prepared by the Directors in accordance with the rule 4.29 of the Listing Rules. The Unaudited Pro Forma Financial Information has been prepared based on the basis set out in the accompanying notes, which is consistent with the accounting policies of the Group, solely for the purpose to illustrate the effect of the Acquisition on the Group's financial position as if the Acquisition had been completed on 30 June 2022.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information and is prepared for illustrative purposes only. As a result, and because of the hypothetical nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the financial position of the Group had the Acquisition been completed on 30 June 2022 or any future date. Furthermore, the Unaudited Pro forma Financial Information does not purport to predict the Group's future financial position after the Completion.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the accountants' reports of the Target Company, the PRC Project Holding Company and the Project Company as set out in Appendices IIA, IIB and IIC respectively to this Circular, and other financial information included elsewhere in this Circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP AS AT 30 JUNE 2022

	The Group as at 30 June 2022	Target Group – The Target Company as at 30 September 2022		Target Group – The PRC Project Holding Company as at 30 April 2022		Target Group – The Project Company as at 30 April 2022		Pro forma adjustments			The Enlarged Group as at 30 June 2022
	HK$'000	*HK$*	*HK$'000*	*RMB*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 3)*	*(note 3)*	*(note 4)*	*(note 4)*	*(note 5)*	*(note 6)*	*(note 7)*	
Non-current assets											
Property, plant and equipment	478,976	–	–	–	–	141,512	165,709				644,685
Investment properties	53,323	–	–	–	–	–	–				53,323
Right-of-use assets	43,810	–	–	–	–	4,816	5,639				49,449
Intangible assets	69,844	–	–	–	–	510	597				70,441
Goodwill	623,200	–	–	–	–	–	–		226,516		849,716
Interests in associates	1,855,606	–	–	–	–	–	–				1,855,606
Interests in joint ventures	33,138	–	–	–	–	–	–				33,138
Deposits for acquisition of subsidiaries	56,442	–	–	–	–	–	–				56,442
Deposits for acquisition of property, plant and equipment	24,453	–	–	–	–	–	–				24,453
Prepayments and other receivables	8,506	–	–	–	–	–	–				8,506
Equity investments at FVTOCI	690	–	–	–	–	–	–				690
Other non-current assets	1,257	–	–	–	–	–	–				1,257
Deferred tax assets	6,771	–	–	–	–	10	12				6,783
Total non-current assets	3,256,016	–	–	–	–	146,848	171,957				3,654,489
Current assets											
Inventories	23,035	–	–	–	–	4,858	5,689				28,724
Trade receivables	168,912	–	–	–	–	13,084	15,321				184,233
Contract assets	16,366	–	–	–	–	–	–				16,366
Prepayments, deposits and other receivables	519,890	110,000	110	–	–	22,286	26,097				546,097
Amounts due from associates	2,123	–	–	–	–	–	–				2,123
Amounts due from joint ventures	65,895	–	–	–	–	–	–				65,895
Financial assets at FVTPL	16,985	–	–	–	–	–	–				16,985
Pledged deposits	171,189	–	–	–	–	–	–				171,189
Cash and cash equivalents	332,475	–	–	795	1	68,481	80,191	1,500,000			1,912,667
Total current assets	1,316,870	110,000	110	795	1	108,709	127,298				2,944,279
Total assets	4,572,886	110,000	110	795	1	255,557	299,255				6,598,768

	The Group as at 30 June 2022	Target Group – The Target Company as at 30 September 2022		Target Group – The PRC Project Holding Company as at 30 April 2022		Target Group – The Project Company as at 30 April 2022		Pro forma adjustments			The Enlarged Group as at 30 June 2022
	HK$'000	*HK$*	*HK$'000*	*RMB*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK'000*
	(note 1)	*(note 2)*	*(note 2)*	*(note 3)*	*(note 3)*	*(note 4)*	*(note 4)*	*(note 5)*	*(note 6)*	*(note 7)*	
Current liabilities											
Trade and bills payables	162,664	–	–	–	–	17,985	21,060				183,619
Other payables and accrued charged	441,507	–	–	1,000	1	22,567	26,426			11,977	479,913
Bank and other borrowings	3,058,366	–	–	–	–	48,080	56,301				3,114,667
Due to joint-controlled entities	64,647	–	–	–	–	–	–				64,647
Lease liabilities	7,888	–	–	–	–	398	466				8,354
Taxes payable	55,849	–	–	–	–	2,858	3,347				59,196
Provision for liability	76,006	–	–	–	–	–	–				76,006
Contract liabilities	–	–	–	–	–	45,990	53,854				53,854
Total current liabilities	3,866,927	–	–	1,000	1	137,788	161,349				4,040,254
Non-current liabilities											
Loan from a shareholder	–	–	–	–	–	–	–	700,000		(725)	699,275
Bank and other borrowings	53,762	–	–	–	–	27,000	31,617				85,379
Convertible bond – liability portion	–	–	–	–	–	–	–	300,000		(3,415)	296,585
Lease liabilities – non-current	7,345	–	–	–	–	1,396	1,635				8,980
Deferred tax liabilities	16,401	–	–	–	–	–	–				16,401
Total non-current liabilities	77,508	–	–	–	–	28,396	33,252				1,106,620
Total liabilities	3,944,435	–	–	1,000	1	166,184	194,601				5,146,874
Net Assets	628,451	110,000	110	(205)	(0)	89,373	104,551				1,452,004

Notes:

(1) The balances were extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2022, as set out in the published interim report of the Company for the six months ended 30 June 2022.

(2) The balances were extracted from the audited statement of financial position of the Target Company as at 30 September 2022, as set out in Appendix IIA to the Circular, and rounded to nearest thousand.

(3) The balances were extracted from the audited statement of financial position of the PRC Project Holding Company as at 30 April 2022, as set out in Appendix IIB to the Circular, and were translated into Hong Kong dollars at the translation rate of RMB100=HK$117.10 and rounded to nearest thousand. Such translation was for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at that rate.

(4) The balances were extracted from the audited statement of financial position of the Project Company as at 30 April 2022, as set out in Appendix IIC to the Circular, and were translated into Hong Kong dollars at the translation rate of RMB100=HK$117.10. Such translation was for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at that rate.

(5) Being adjustments to reflect the impact of the issue of 6,250,000,000 new shares of the Company at a total cash consideration of HK$500 million under the Share Subscription Agreement, the issue of the Convertible Bonds by the Company at a total cash consideration of HK$300 million under the Convertible Bond Subscription Agreement, and the full utilisation of the loan facility of HK$700 million by the Company under the Facility Agreement. Becoming unconditional of these agreements are Conditions Precedent for the completion of the Acquisition.

For accounting purpose, the Convertible Bonds will be bifurcated into a liability component and an equity component. For the purpose of the Unaudited Pro Forma Financial Information, the Directors assumed that the amount of the equity component initially recognised is not material and hence the whole proceeds from the issue of the Convertible Bonds were attributed to the liability component for illustrative purpose only. The Company will base on the fair value of the liability component at the date of issue of the Convertible Bonds for initial measurement of the equity component.

For the purpose of the Unaudited Pro Forma Financial Information, the Directors also assumed that the Company would fully utilise the facility amount granted under the Facility Agreement, which is for illustrative only and may be different from the actual amount to be utilised by the Company.

(6) Being adjustment for the purchase price allocation of the Acquisition.

Under International Financial Reporting Standard 3 (Revised) *Business Combinations* issued by the International Accounting Standards Board, the Group will apply the purchase method to account for the acquisition of the Target Company in the consolidated financial statements of the Group. The goodwill arising from the Acquisition is calculated as follows:

	Notes	*HK$'000*
Share consideration	*(a)*	280,000
Less: Net assets value of the Target Company attributable to the Company as at 30 September 2022	*(b)*	110
Less: Net assets value of the PRC Project Holding Company attributable to the Company as at 30 April 2022	*(b)*	–
Less: Net assets value of the Project Company attributable to the Company as at 30 April 2022	*(b)*	53,374
Goodwill arising from the Acquisition		226,516

Notes:

(a) In accordance with the Acquisition Agreement, the consideration is HK$280,000,000, satisfied by the issuance and allotment of 3,500,000,000 Consideration Shares at the issue price of approximately HK$0.08 per share by the Company. For the purpose of the Unaudited Pro Forma Financial Information, the issue price of the Consideration Shares of HK$0.08 per share, as set out in the Acquisition Agreement, is used in the calculation of the value of the Consideration Shares.

(b) For the purpose of the Unaudited Pro Forma Financial Information, the Directors assumed that the fair value of the identifiable assets and liabilities of the Target Company, the PRC Project Holding Company and the Project Company approximated to their respective carrying amounts at 30 September 2022 and 30 April 2022, respectively. The net assets values of the Target Company, the PRC Project Holding Company and the Project Company attributable to the Company, as shown above, are based on 100%, 100% and 51% of their respective net assets of approximately HK$110,000, Nil and RMB89,373,000 (equivalent to approximately HK$104,656,000) as at 30 September 2022 and 30 April 2022, as set out in Appendices IIA, IIB and IIC, respectively.

Upon the completion of the Acquisition, the fair value of the Consideration Shares will be measured with reference to the fair value of the Company's shares on the date of the completion of the Proposed Acquisition and the fair values of all identifiable assets and liabilities of the Target Company, the PRC Project Holding Company and the Project Company as at the completion date will be assessed. Accordingly, the goodwill so calculated, if any, may be materially different from that in the calculation above. In extreme case, in the event that the consideration for the Acquisition is lower than the fair value of the net assets of the Target Group acquired, the difference will, after reassessment, be recognised in profit or loss as a gain on bargain purchase.

(7) Being adjustment to reflect the legal and professional service costs directly attributable to the Capital and Asset Injection Plan and the preparation of this Circular, which are estimated to be approximately HK$12 million, of which HK$725,000, HK$3,415,000, HK$600,000 and HK$7,237,000 were apportioned to the loan from a shareholder under the Facility Agreement, the Convertible Bonds, the shares of the Company to be issued under the Share Subscription Agreement and the Acquisition, respectively. The portions allocated to the loan from a shareholder and the Convertible Bonds will be offset against the carrying amounts of these liabilities upon initial recognition and those allocated to the share capital and the Acquisition will be offset against the share capital and charged to profit or loss, respectively.

(8) No adjustments have been made to adjust any trading results or other transactions of the Group or the Target Group entered into subsequent to 30 April 2022, respectively, including a final dividend of RMB12,055,000 declared by the Project Company to its then equity holders in respect of the year ended 31 December 2021.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Section A of Appendix III to this Circular.

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To the directors of Beijing Gas Blue Sky Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Beijing Gas Blue Sky Holdings Limited (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 unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities of the Group as at 30 June 2022, and related notes as set out in Section A of Appendix III to a shareholders' circular dated 31 October 2022 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed acquisition (the "**Proposed Acquisition**") of 100% equity interest in Sapphire Gas Company Limited (the "**Target Company**"), which shall hold 100% equity interest in 深圳華然能源有限公司 (the "**PRC Project Holding Company**") directly and 51% equity interest in 北京燃氣集團藤縣有限公司 (the "**Project Company**") indirectly upon completion of a reorganisation. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's assets and liabilities as at 30 June 2022 as if the Proposed Acquisition had taken place on 30 June 2022. As part of this process, information about the assets and liabilities of the Group, the Target Company, the PRC Project Holding Company and the Project Company has been extracted by the Directors from the published interim report of the Company for the six months ended 30 June 2022, the financial statements of the Target Company for the period from 19 September 2022 (date of incorporation) to 30 September 2022, and the financial statements of the PRC Project Holding Company and the Project Company for the four months ended 30 April 2022 (on which accountants' reports have been published), respectively.

Directors' responsibility for the Unaudited Pro Forma Financial Information~

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with rule 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 7 ("**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 behaviour.

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 rule 4.29(7) of the Listing Rules, on the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information in accordance with rule 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 Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition 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 Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited 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 Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the Proposed Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Ernst & Young
Certified Public Accountants
Hong Kong
31 October 2022

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
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Company Licence No.: C-030171

31 October 2022

The Board of Directors
Beijing Gas Blue Sky Holdings Limited
Rooms 3402-4, 34th Floor, West Tower, Shun Tak Centre,
200 Connaught Road Central,
Hong Kong

Dear Sirs,

In accordance with the instructions from Beijing Gas Blue Sky Holdings Limited (the "**Company**" or the "**Client**"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or "**we**") have undertaken a valuation exercise which requires us to express an independent opinion of a range for the market value of 51.00% equity interest in 北京燃氣集團籐縣有限公司 (translated as "Beijing Gas Group (Teng County) Co., Ltd" and referred as the "**Subject**") as at 31 July 2022 (the "**Valuation Date**"). The report which follows is dated 31 October 2022 (the "**Report Date**"). The purpose of this valuation is for the Client's internal reference and inclusion in the Client's public disclosure.

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

BACKGROUND OF THE COMPANY

Beijing Gas Blue Sky Holdings Ltd, formerly Blue Sky Power Holdings Limited, is an investment holding company principally engaged in trading and distribution of natural gas. The Company was incorporated in Bermuda and has been listed in the Stock Exchange of Hong Kong since 12 July 2011 with stock code: 6828 HK.

BACKGROUND OF THE SUBJECT

The Subject is a private company established in the PRC on 13 August 2014 with limited liability. The Subject was engaged in sale of piped natural gas, liquefied natural gas, and the provision of construction and installation services of gas pipelines.

The Subject supplies gas and provide ancillary services to residential, commercial and industrial users in Teng County of Guangxi Province in the PRC. The Subject has entered into the franchise operation agreement（特許經營協議）with the local government of Teng County. Under the franchise operation agreement, the Subject was granted by local government the exclusive right for 30 years commencing from year 2016 to invest in and operate the city pipeline system to provide and distribute piped natural gas in the Teng County.

Key financial information of the Subject for the four-month period ended 30 April 2022, and three financial years ended 31 December 2019, 2020 and 2021 respectively is set out as below (unit: RMB'000):

	Financial year ended 2019/12/31 *(Audited)*	**Financial year ended 2020/12/31** *(Audited)*	**Financial year ended 2021/12/31** *(Audited)*	**Four months ended 2022/04/30** *(Audited)*
Revenue	114,189	234,112	363,208	141,311
Net Profit	4,002	25,849	43,749	23,163
Net Assets	21,053	44,492	66,210	89,373

SOURCES OF INFORMATION

In conducting our valuation of the 51.00% equity interest in the Subject, we have reviewed information from several sources, including, but not limited to:

- Background of the Subject and relevant corporate information;
- Audited financial statements, which contain the financial and operational information, of the Subject for the four-month period ended 30 April 2022, and three financial years ended 31 December 2019, 2020 and 2021 respectively; and
- Market information derived from public domains in relation to the Subject's business and our valuation.

We have held discussions with management of the Company, and conducted market research from public sources to assess the reasonableness and fairness of the above information provided by the management. We assumed such information is reliable and legitimate; and we have relied to a considerable extent on the information provided by the Company in arriving at our opinion of value.

BASIS OF OPINION

We have conducted our valuation referred to the International Valuation Standards issued by International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic condition of the Subject and an assessment of the key assumptions, estimates, and representations made by the proprietor or the operator of the Subject. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Subject;
- Market information of companies engaged in similar lines of business;
- Financial and business risk of the business including continuity of income;
- Consideration and analysis on the micro and macro economy affecting the Subject's business; and
- Assessment of the liquidity of the Subject's business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Subject.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparables. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the asset than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar asset with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

SELECTION OF VALUATION APPROACH AND METHODOLOGY

To select the most appropriate approach, we have considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to us to perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Subject. In our opinion, the cost approach is inappropriate for valuing the Subject, as it does not directly incorporate information about the economic benefits contributed by the Subject. The income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. We have therefore relied on the market approach in determining our opinion of value.

There are two common methods under market approach, namely, guideline public companies method and guideline transactions method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transactions method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to Subject's financial metrics.

In this exercise, the market value of equity interest in the Subject was developed through the guideline public companies method. The guideline transactions method is not adopted due to lack of sufficient recent market transactions with similar nature as the Subject. The guideline public companies method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple.

SELECTION OF VALUATION PRICE MULTIPLES

In order to reflect the latest financial performance and position of the Subject, it is considered that the suitable multiple in this valuation is the current enterprise value to EBITDA multiple (the "**EV/EBITDA Multiple**"), which is defined as the current enterprise value to the normalised earnings before interest, tax, depreciation and amortisation of the Subject from 1 May 2021 to 30 April 2022. EV/EBITDA is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows us to compare the Subject against the comparable companies without considering how each comparable company finances its operations.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value. The following assumptions in determining the market value of the equity interest have been made:

- We have assumed that there will be no material changes in the existing political, legal, technological, natural, fiscal or economic conditions, which might adversely affect the business of the Subject;

- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements entered into between the Subject and any other parties, including but not limited to loan contracts, business contracts and other contracts that will affect the business of the Subject, will be honored;

- We have assumed that the facilities and systems in place or proposed (if any) are sufficient for future operations in order to realize the growth potential of the business that is in line with the industry and maintain a competitive edge;

- We have assumed continuous prudent management of the Subject that is reasonable and necessary to maintain the character and integrity of the assets valued;

- We have assumed the accuracy of the audited financial and operational information of the Subject provided to us by the Company and relied to a considerable extent on such information in arriving at our opinion of value; and

- We have assumed that there are no hidden or unexpected conditions (such as natural disaster, war, government intervention, major change in management, etc.) associated with the asset valued that might adversely affect the reported value.

SUMMARY OF MARKET APPROACH

In determining the financial multiple, a list of comparable companies was identified. The selection criteria are set as below:

1. The shares of the comparable companies have been listed and actively traded in public exchanges for no less than six months;

2. The comparable companies derive their revenues from the same industry as the Subject, which is specifically natural gas distribution by pipeline;

3. The comparable companies mainly operate in Mainland China;

4. The comparable companies recorded positive earnings as the Subject in their latest financial year; and

5. Sufficient operational and financial data, including the EV/EBITDA Ratio, on the companies are available as at the Valuation Date.

As sourced from Bloomberg, an exhaustive list of comparable companies satisfying the above criteria was obtained. The details of the comparable companies are listed below:

Ticker	Company Name	Stock Exchanges	Company Description	EV/EBITDA Multiple Before Adjustment
2688 HK Equity	ENN Energy Holdings Ltd	Hong Kong	ENN Energy Holdings Ltd. distributes natural gas in China. The company, through its subsidiaries, invests in, operates, and manages gas pipelines, and sells and distributes piped and bottled gas in China.	11.78
601139 CH Equity	Shenzhen Gas Corporation Ltd	Shanghai	Shenzhen Gas Corporation Ltd. operates as a natural gas distribution company. The company markets pipeline gas, liquefied petroleum gas, bottled petroleum gas, and other products. Shenzhen Gas markets its products throughout China.	10.38
002911 CH Equity	Foran Energy Group Co., Ltd	Shenzhen	Foran Energy Group Co., Ltd. operates as a natural gas production company. The company mainly offers liquefied and compressed natural gas transmission and distribution services. Foran Energy Group also provides natural gas high pressure pipe network construction services.	17.88
300332 CH Equity	Top Resource Conservation & Environment Corp	Shenzhen	Top Resource Conservation & Environment Corp. invests, designs, constructs and operates heat energy generation projects. The company's main offerings include heat energy generation projects, and comprehensive energy efficiency services.	20.82
600917 CH Equity	Chongqing Gas Group Co., Ltd	Shanghai	Chongqing Gas Group Corporation Limited supplies gas, installs gas facilities and equipment in Chongqing.	14.77
603053 CH Equity	Chengdu Gas Group Co., Ltd	Shanghai	Chengdu Gas Group Co., Ltd. provides city gas supply services. The company offers city gas transmission, city gas distribution, and other related services. Chengdu Gas Group also offers urban gas project planning, gas appliance inspection, gas equipment distribution services.	9.71
600681 CH Equity	Bestsun Energy Co., Ltd	Shanghai	Bestsun Energy Co., Ltd is a natural gas distributor. The company invests in natural gas pipelines, liquefied natural gas, and natural gas vehicle fillings stations. Bestsun also provides gas appliances, installations, and maintenances.	9.14
605169 CH Equity	Xinjiang Hongtong Natural Gas Co., Ltd	Shanghai	Xinjiang Hongtong Natural Gas Co., Ltd. operates as a gas distribution company. The company wholesales compressed natural gas, liquefied natural gas, and other gas products. Xinjiang Hongtong Natural Gas also provides natural gas pipeline construction, natural gas station construction, and other services.	9.58

Ticker	Company Name	Stock Exchanges	Company Description	EV/EBITDA Multiple Before Adjustment
1600 HK Equity	China Tian Lun Gas Holdings Ltd	Hong Kong	China Tian Lun Gas Holdings Ltd. processes and distributes natural gas through urban pipelines. The company operates in Henan Province, China. China Tian Lun Gas also operates a compressed natural gas filling station.	6.18
000593 CH Equity	Delong Composite Energy Group Co., Ltd	Shenzhen	Delong Composite Energy Group Co., Ltd operates gas businesses. The company provides nature gas distribution, liquefied gas supply, and gas pipeline development services. Delong Composite Energy Group conducts businesses in China.	16.24
603080 CH Equity	Xinjiang Torch Gas Co., Ltd	Shanghai	Xinjiang Torch Gas Co., Ltd. provides natural gas distribution services. The company offers gas transmission, gas distribution, pipeline maintenance, and other related services. Xinjiang Torch Gas also sells pipe fittings, gas appliances, and accessories.	8.62
2886 HK Equity	Binhai Investment Company Ltd	Hong Kong	Binhai Investment Company Ltd, through its subsidiaries, operates gas businesses. The company constructs gas pipeline networks, provides piped gas to customers in mainland China, wholesales and retails liquefied petroleum gas (LPG) by way of refueling gas cylinders or tanks for domestic, industrial and commercial customers, and sell LPG equipment and domestic gas appliances.	6.78
603 HK Equity	China Oil and Gas Group Ltd	Hong Kong	China Oil and Gas Group Ltd. is engaged in the investments in, and the operation and management of the natural gas and energy related business. Gas operations include city piped gas business, natural gas vehicle refilling stations, pipeline construction and operation, as well as transportation, delivery and distribution of compressed natural gas (CNG) and liquefied natural gas (LNG).	5.30
1635 HK Equity	Shanghai Dazhong Public Utilities (Group) Co., Ltd	Hong Kong	Shanghai Dazhong Public Utilities (Group) Co., Ltd. provides gas supply services. The company provides gas transmission, gas system management, gas network maintenance, and other services. Shanghai Dazhong Public Utilities (Group) also operates industrial investment businesses.	17.98

Ticker	Company Name	Stock Exchanges	Company Description	EV/EBITDA Multiple Before Adjustment
9908 HK Equity	JiaXing Gas Group Co., Ltd	Hong Kong	JiaXing Gas Group Co., Ltd. operates as a gas distribution company. The company markets civil pipeline gas, industrial and commercial pipeline gas, bottled gas, and other products. JiaXing Gas Group markets its products throughout China.	1.11
6661 HK Equity	Huzhou Gas Co., Ltd	Hong Kong	Huzhou Gas Co., Ltd. operates as a piped natural gas (PNG) distributor. The company offers sales of PNG, pipeline network and gas facilities construction and installation services, household gas appliances, and more. Huzhou Gas conducts businesses in China.	2.39
1193 HK Equity	China Resources Gas Group Limited	Hong Kong	China Resources Gas Group Limited distributes natural gas and petroleum gas. The company also operates compressed natural gas filling stations. China Resources Gas Group serves customers in China.	8.16
384 HK Equity	China Gas Holdings Ltd	Hong Kong	China Gas Holdings Ltd. invests in, operates and manages natural gas distribution pipelines. The company distributes and sells natural gas to residential, commercial and industrial users, and bottles and sells compressed natural gas. China Gas also constructs and operates gas stations.	9.52
3633 HK Equity	Zhongyu Energy Holdings Ltd	Hong Kong	Zhongyu Energy Holdings Limited operates as a downstream gas distribution company. The company principally engages in the investment, operation, and management of city gas pipeline infrastructure and the distribution of piped gas to residential, industrial, and commercial users. Zhongyu Energy Holdings serves customers in China.	16.53
1083 HK Equity	Towngas Smart Energy Company Ltd	Hong Kong	Towngas Smart Energy Company Limited distributes and markets gas. The company sells LPG (liquefied petroleum gas) in bulk and cylinder containers, provides piped LPG and natural gas, constructs gas pipelines, operates city gas-pipeline networks and gas stations, and sells LPG natural gas household appliances. Towngas Smart Energy conducts businesses in Hong Kong.	8.63

Ticker	Company Name	Stock Exchanges	Company Description	EV/EBITDA Multiple Before Adjustment
135 HK Equity	KunLun Energy Company Ltd	Hong Kong	KunLun Energy Company Limited operates as an integrated energy company. The company, through its subsidiaries, explores and produces crude oil and natural gas in China. KunLun Energy engages in urban and natural gas pipelines, receiving, processing, storage, and transportation of liquefied natural gas, generation and distribution of natural gas.	4.42

Based on the aforementioned selection criteria, the list of comparable companies above is considered to be exhaustive, fair and representative.

As shown in the table above, the comparable companies are all listed in the stock exchanges of Shanghai, Shenzhen or Hong Kong. Given that the three stock exchanges are the major stock exchanges for companies with businesses mainly operating in China, which is the same as the Subject, we considered the EV/EBITDA multiples derived from the list of comparable companies from these three stock exchanges to be applicable to the Subject.

The comparable companies are often of significantly different size from the Subject. Larger companies generally have lower expected returns that translate into higher values. On the other hand, smaller companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher and resulting in lower multiples. Therefore, the base multiples were adjusted to reflect the difference in size and profitability between the comparable companies and the Subject.

We referred to a formula in a widely-adopted textbook "Financial Valuation – Applications and Model, 2017" by James R. Hitchner, a renowned valuation expert in the US, for the pricing multiple adjustments:

The adjusted EV/EBITDA multiples were calculated using the following formula:

Adjusted EV/EBITDA multiple = $1 / ((1 / M) + \alpha * \epsilon * \theta)$

where:

M	=	The Base EV/EBITDA multiple
α	=	The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies
ϵ	=	The ratio of the equity value to the enterprise value of the comparable company
θ	=	Required adjustment in the equity discount rate for difference in size and profitability

(Reference: Hitchner, R. (2017) Financial Valuation: Applications and Models (4th Edition))

M is the base EV/EBITDA ratio and we take the reciprocal of M to come up with 1/M. The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/EBITDA multiple represents a capitalization rate of the enterprise value.

For the parameter θ, it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the Subject. With reference to Cost of Capital Navigator 2022 published by Kroll, depending on the market capitalization of each of the Comparable Companies, size premium differentials were adopted to capture the size difference between the comparable companies and the Subject.

The ratio of the market capitalization to enterprise value ϵ was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital ("**WACC**") of the valuation subject. Since the size and specific risk premium differentials "θ" are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we shall only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio ϵ was used to apply an appropriate weighting on the parameter θ so that the capitalization rate was adjusted only to the extent of its equity portion.

The ratio of EBITDA to net operating profit after tax ("**NOPAT**") was used as a scale factor α, which is applied in the adjustment of the EV/EBITDA multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. As EV/EBITDA was adopted as the pricing multiple in this valuation, EBITDA becomes an alternative measure of the benefits for enterprise value in the pricing multiple adjustment formula. Hence, α was used as a scale factor for the alternative measure of benefit.

Details of the adjusted factors of the comparable companies are shown as below:

Ticker	Company Name	Total Adjustment ((1/M)+α * ϵ * θ)	Adjusted EV/ EBITDA Multiple
2688 HK Equity	ENN Energy Holdings Ltd	0.13	7.75
601139 CH Equity	Shenzhen Gas Corporation Ltd	0.12	8.55
002911 CH Equity*	Foran Energy Group Co., Ltd	0.08	12.93
300332 CH Equity*	Top Resource Conservation & Environment Corp	0.07	13.61
600917 CH Equity	Chongqing Gas Group Co., Ltd	0.10	9.93
603053 CH Equity	Chengdu Gas Group Co., Ltd	0.14	7.25
600681 CH Equity	Bestsun Energy Co., Ltd	0.13	7.43
605169 CH Equity	Xinjiang Hongtong Natural Gas Co., Ltd	0.10	9.58
1600 HK Equity	China Tian Lun Gas Holdings Ltd	0.16	6.18
000593 CH Equity*	Delong Composite Energy Group Co., Ltd	0.06	16.24
603080 CH Equity	Xinjiang Torch Gas Co., Ltd	0.12	8.62
2886 HK Equity	Binhai Investment Company Ltd	0.15	6.78
603 HK Equity	China Oil and Gas Group Ltd	0.19	5.30
1635 HK Equity*	Shanghai Dazhong Public Utilities (Group) Co., Ltd	0.08	13.07
9908 HK Equity*	JiaXing Gas Group Co., Ltd	0.90	1.11
6661 HK Equity*	Huzhou Gas Co., Ltd	0.42	2.39
1193 HK Equity	China Resources Gas Group Limited	0.16	6.36
384 HK Equity	China Gas Holdings Ltd	0.12	8.10
3633 HK Equity*	Zhongyu Energy Holdings Ltd	0.08	12.25
1083 HK Equity	Towngas Smart Energy Company Ltd	0.13	7.86
135 HK Equity*	KunLun Energy Company Ltd	0.25	4.01
		Average (excluding outliers)	7.67

* *Excluded from the calculation of the average of the EV/EBITDA multiple as considered as outliers. An outlier is a datapoint which is more than 1 standard deviation away from the overall average.*

Normally investing in the larger sized companies involves lower risks. Hence, the investors require lower return and are willing to value the shares with higher valuation multiples. As shown in the table above, the valuation multiples of the comparable companies with larger size were adjusted down to reflect that the size of the Subject is relatively smaller. Therefore, we considered the adjusted multiples are appropriate.

The average value excluding outliers, i.e. 7.67, is adopted in our valuation.

DISCOUNT FOR LACK OF MARKETABILITY

A factor to be considered in valuing closely held companies such as the Subject is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

For this exercise, the indicated discount for lack of marketability adopted for the equity interest in the Subject is 16.20% as at the Valuation Date, based on a study 2021 edition of the Stout Restricted Stock Study Companion Guide issued by Stout Risius Ross, LLC. The adopted discount refers to the overall median discount for 44 transactions of electric, gas, and sanitary services wholesale trade industry in the study. This is the category closest to the business of the Subject defined in the study. This discount was derived from by comparing the percentage difference between the private placement price per share and the market trading price per share of the same companies in the Stout Restricted Stock Study. Licensed since 2001, the Stout Restricted Stock Study is a well known and widely accepted study among the valuers.

CONTROL PREMIUM

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest of a business enterprise that reflects the power of a control. Both factors recognize that controlling owners have rights that minority owners do not have and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to what economic benefits, cause a differential in the per-share value of a controlling ownership block versus a minority ownership block. In this Valuation, a control premium of 31.0% is adopted to calculate the market value of the Subject with reference to Control Premium Study (1st Quarter 2022) published by FactSet Mergerstat. As no gas distribution or related industry category is separately disclosed in this study, the control premium is adopted based on the median of all sectors. The control premium was derived from the median of all sector transactions whereby 50.01% of a company or more was acquired and covering the period from 2012 to first quarter of 2022. The Control Premium Study published by FactSet Mergerstat is a widely accepted sources among valuers.

CALCULATION OF VALUATION RESULT

Under the guideline public companies method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date and adjusted as discussed above. We have also taken into account the discount for lack of marketability and control premium. The calculation of the market value of the 51.00% equity interest in the Subject as at the Valuation Date is as follows:

	31 July 2022
Trailing 12 Months EBITDA of the Subject*	69,442,000
EV/EBITDA Multiple (times)	7.67
Enterprise Value of the Subject	**532,610,539**
Add: Cash and Cash Equivalents*	68,481,000
Less: Interest Bearing Debt and Lease Liabilities*	76,874,000
Less: Cash Dividend**	12,055,176
100.00% Equity Interest in the Subject (before discount of lack of marketability and controlling adjustments)	**512,162,363**
Less: Discount of Lack of Marketability (16.20%)	82,970,302
100.00% Equity Interest in the Subject (after discount of lack of marketability adjustment and before controlling adjustment)	**429,192,060**
Add: Control Premium (31.00%)	133,049,539
100.00% Equity Interest in the Subject (after discount of lack of marketability and controlling adjustment)	**562,241,599**
Market Value of 51.00% Equity Interest in the Subject	**286,743,215**
Exchange Rate (RMB:HKD)***	1.17
Market Value of 51.00% Equity Interest in the Subject (HKD)(Rounded)	**334,000,000**

* *The trailing 12 months EBITDA of the Subject, as well as cash and cash equivalents, and interest bearing debt were extracted from the accountants' report.*

** *As advised by the management of the Company, the Subject distributed a cash dividend around RMB12 mil in July 2022. The relative amount is deducted in our valuation to reflect the impact on value.*

*** *Sourced from Bloomberg*

SCENARIO ANALYSIS

12 of the 21 comparable companies are listed in the Stock Exchange of Hong Kong ("**HK Listed Comparables**"). The range of the adjusted EV/EBITDA of the HK Listed Comparables was from 1.11 to 13.07. The adopted multiple 7.67 was within this range. If the adopted multiple 7.67 was replaced by the average multiple of HK Listed Comparables, i.e. 6.76 and other inputs were kept consistent. The valuation result would change to HKD293 million.

On the other hand, 9 of the comparable companies are listed in Shanghai Stock Exchange or Shenzhen Stock Exchange ("**PRC Listed Comparables**") The range of the adjusted EV/EBITDA of the PRC Listed Comparables was from 7.25 to 16.24. The adopted multiple 7.67 was within this range. If the adopted multiple 7.67 was replaced by the average multiple of PRC Listed Comparables, i.e. 10.46 and other inputs were kept consistent. The valuation result would change to HKD461 million.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions which have been set out in this report above. Further, while the assumptions are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We confirm that we have sufficient current local knowledge of the market which the Subject are engaged in and the skills and understanding necessary to undertake the valuation of the Subject competently. We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Further, we are not aware of any material changes to the Subject between the Valuation Date and the date of this report.

We are instructed to provide our opinion of value as per the Valuation Date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date. In particular, it has come to our attention that the outbreak of Novel Coronavirus disease (COVID-19) has caused significant disruption to economic activities around the world. This disruption has increased the risk towards the achievability of the financial assumptions. As of the date of this report, it is uncertain how long the disruption will last and to what extent it will affect the economy. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this report.

This report is issued subject to our Limiting Conditions as attached.

OPINION OF VALUE

Based on the results of our investigations and analysis, we are of the opinion that the market value of the 51.00% equity interest of the Subject as at the Valuation Date is reasonably stated at the amount of HKD 334 million.

Yours faithfully, For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Note: Mr. Simon M.K. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS). He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, assumptions and other data provided to us by the company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the company's analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the Subject rests solely with the company.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the board of the Company have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the Subject. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialized expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/ proposal and the full settlement of the fees and all the expenses.

8. We assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation. We cannot provide assurance on the achievability of the results forecasted by the company/engagement parties because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results (if any) is dependent on actions, plans and assumptions of management.

9. This report has been prepared solely for the use as stated in the report and the engagement letter. The report should not be otherwise referred to, in whole or in part, or quoted in any document or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

10. This report is solely for the use by the client and the calculation of values expressed herein is valid only for the purpose stated in this report and the engagement letter/or proposal as of the Valuation Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

11. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

12. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

13. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the Subject.

14. To the extent any of the assumptions mentioned requires adjustments, the resulting value may differ significantly.

15. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

The following is the text of a letter received from the financial adviser to the Company, Asian Capital Limited, addressed to the Board and prepared for the sole purpose of inclusion in this circular.

31 October 2022

The Board of Directors
Beijing Gas Blue Sky Holdings Ltd
Rooms 3402-4, 34th Floor
West Tower, Shun Tak Centre
200 Connaught Road Central
Hong Kong

Dear Sirs,

We refer to the valuation report (the "**Valuation Report**") of the Project Company prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Valuer**") as set out in appendix IV to this circular (the "**Circular**"), of which this letter forms part. We are required to report on the Valuation Report under Rule 11.1(b) of the Takeovers Code. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We have reviewed the Valuation Report and discussed with the management of the Group and the Valuer regarding the Valuation Report, including the bases and assumptions set out therein. We have also conducted reasonable check to assess the qualifications and experience of the Valuer and Simon M.K. Chan ("**Mr. Chan**", the executive director of the Valuer) for compiling the Valuation Report, including reviewing the supporting documents on the qualifications of the Valuer and Mr. Chan and discussed with the representatives of the Valuer and Mr. Chan on their qualifications and experience. We have also reviewed the relevant track record of Mr. Chan to assess his knowledge, skills and understandings necessary to conduct the valuation of the Project Company.

We have relied on the information and materials supplied, and the opinions expressed to us, by the management of the Group and the Valuer which we have assumed to be true, accurate, complete and not misleading in all material aspects at the relevant time they were supplied or expressed. We have no reason to believe that any material information has been withheld from us, or to doubt the truth, accuracy or completeness of the information provided.

Our work does not constitute any valuation of the Project Company. Our opinion in this letter has been given for the sole purpose of compliance with Rule 11.1(b) of the Takeovers Code. We and our respective director will not, whether jointly or severally, be responsible to anyone other than the Company for providing advice in connection with the foregoing, nor will we and our respective director, whether jointly or severally, owe any responsibility to anyone other than the Company. Nothing in this letter should be construed as an opinion or recommendation to any person as to how to vote on the Financial Assistance, the Subscription, the Acquisition and the Whitewash Waiver. Shareholders of the Company are recommended to read all information as set out in the Circular.

Based on the foregoing, we are of the opinion that the valuation of the Project Company together with its bases and assumptions set out in the Valuation Report have been made by the Valuer after due care and consideration. We are also satisfied that the Valuer and Mr. Chan have the qualifications and experience to compile the Valuation Report.

Yours faithfully,
For and on behalf of
Asian Capital Limited
Joseph Lam
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular 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 any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

Set out below are the authorised and issued share capital of the Company (i) as at the Latest Practicable Date, immediately after (ii) Subscription Shares allotted and issued, (iii) Consideration Shares allotted and issued and (iv) Conversion Shares allotted and issued upon full conversion of the Convertible Bonds.

		Nominal Value
Authorised share capital:		*HK$*
91,000,000,000	Shares as at the Latest Practicable Date	5,005,000,000
Issued and fully paid share capital or credited as fully paid:		
12,986,114,715	Shares as at the Latest Practicable Date	714,236,309
6,250,000,000	Subscription Shares allotted and issued	343,750,000
3,500,000,000	Consideration Shares allotted and issued	192,500,000
2,542,372,881	Conversion Shares allotted and issued upon full conversion of the Convertible Bonds	139,830,508
25,278,487,596	Shares upon Subscription Shares, Consideration Shares and Conversion Shares allotted and issued	1,390,316,818

The nominal value of the Shares is HK$0.055 each. All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and capital.

The Company had not issued or repurchased any Shares since 31 December 2021 (being the date to which the latest published audited financial statements of the Group were made up) and up to and including the Latest Practicable Date.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or securities convertible into or exchangeable into Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests in the Shares and underlying Shares

As at the Latest Practicable Date, none of the Directors or chief executive of the Company and their associates had any interests or short positions in the Shares, warrants, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required as recorded in the register required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code ("**Model Code**") contained in Appendix 10 to the Listing Rules or required to be disclosed pursuant to the Takeovers Code.

(b) Substantial Shareholders' interests in the Shares and underlying Shares

As at the Latest Practicable Date, persons/corporations (other than the Directors and the chief executive of the Company) which had interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Mr. Cheng Ming Kit *(Note 2)*	Beneficial owner	391,962,514 (L)	3.02%
	Interest of controlled corporations	687,100,256 (L)	5.29%
Grand Powerful Group Limited *(Note 2)*	Beneficial owner	584,148,256 (L)	4.50%
Mr. Lee Tsz Hang	Beneficial Owner	564,845,000	4.35%
	Interest of controlled corporations *(Note 2)*	213,032,000	1.64%
Beijing Gas Company Limited *(Note 4)*	Beneficial owner	5,341,042,131 (L)	41.13%
Beijing Gas Group Co., Ltd *(Note 4)*	Interest of controlled corporation	5,341,042,131 (L)	41.13%

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Beijing Enterprises Group Company Limited *(Note 4)*	Interest of controlled corporation	5,341,042,131 (L)	41.13%

Notes:

1. The letter "L" denotes a long position in the shares of the Company.

2. Mr. Cheng Ming Kit ("***Mr. Cheng"****), a former executive Director who was appointed in May 2014 and subsequently removed in November 2021, holds 100% interest in Grand Powerful Group Limited and is deemed to be interested in 584,148,256 Shares held by Grand Powerful Group Limited and 100% interest in China Print Power Limited and is deemed to be interested in 102,952,000 Shares held by China Print Power Limited. According to the disclosure of interests notices filed by Mr. Cheng, (i) Mr. Cheng personally holds 108,249,824 Shares and shall purchase up to 153,750,000 Shares upon request from an option holder; (ii) Mr. Cheng is also having a right derived from an option to purchase up to 120,000,000 Shares from another option holder; and (iii) Mr. Cheng has options to subscribe for 9,962,690 Shares upon the full exercise of the share options granted to him under the Company's share option scheme. However, the aforementioned 9,962,690 share options granted by the Company (in respect of 9,962,690 Shares) have lapsed automatically upon his removal as a Director on 29 November 2021.*

3. According to the disclosure of interest notice filed by Mr. Lee Tsz Hang ("**Mr. Lee**"), Mr. Lee holds 100% interest in Win Ways Investment Limited and is deemed to be interested in 213,032,000 Shares held by Win Ways Investment Limited.

4. Beijing Enterprises Group Company Limited indirectly controlled Beijing Gas Company Limited through Beijing Gas Group Co., Ltd. and is deemed to be interested in 5,341,042,131 Shares. Mr. Zhi Xiaoye, the non-executive Director and Chairman of the Board, is currently vice president of Beijing Enterprises Holdings Limited and a director and general manager of Beijing Gas Group Co., Ltd.

Save as disclosed above, as at the Latest Practicable Date, none of the person (other than the existing Directors or chief executive of the Company) who had an interest (or long position) or short position in the Shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% 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 member of the Enlarged Group.

4. DISCLOSURE REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, Beijing Gas Group confirms that:

(a) none of the directors of Beijing Gas Group was interested (within the meaning of Part XV of the SFO) in any Shares or convertible securities, warrants, options or derivatives in respect of the Shares;

(b) save as disclosed in the paragraph headed "Effect on the Shareholding Structure of the Company" in the section headed "Letter from the Board" in this circular, there is no holding of voting rights in the Company or rights over any Shares which is owned, controlled or directed by Beijing Gas Group or parties acting in concert with it;

(c) Beijing Gas Group and parties acting in concert with it do not hold any outstanding convertible securities, warrants, options or derivatives in respect of the Shares;

(d) none of Beijing Gas Group or parties acting in concert with it has received any irrevocable commitment from any person to vote for or against the resolutions to be proposed at the SGM to approve the Whitewash Waiver Resolutions;

(e) save for (a) the Acquisition Agreement, (b) the Convertible Bond Subscription Agreement, (c) the Deeds of Share Mortgage, (d) the Facility Agreement and (e) the Share Subscription Agreement, none of Beijing Gas Group or parties acting in concert with it had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;

(f) none of Beijing Gas Group or parties acting in concert with it has borrowed or lent any Shares or convertible securities, warrants, options and derivatives in respect of the Shares;

(g) save for (a) the subscription price for the Shares and the Convertible Bond payable under the Share Subscription Agreement and the Convertible Bond Subscription Agreement, respectively; (b) the transfer of 100% equity interest of the Target Company from Beijing Gas Group to the Company pursuant to the Acquisition Agreement; and (c) the loan provided by Beijing Gas HK to the Company pursuant to the Facility Agreement, none of Beijing Gas Group or parties acting in concert with it has paid or will pay any other consideration, compensation or benefits in whatever form to the Company or any parties in concert with it or any shareholder of the Company in relation to the Financial Assistance, the Share Subscription and the Acquisition;

(h) none of Beijing Gas Group or its concert parties had entered into any understanding, arrangement or agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(i) save for the Shares to be allotted to Beijing Gas HK pursuant to (a) the Share Subscription Agreement; (b) the Acquisition Agreement and (c) as a result of the conversion of the Convertible Bond respectively, none of Beijing Gas Group or parties acting in concert with it will make any acquisitions or disposals of voting rights in the Company in the period between the date of the Announcement and the completion of the Share Subscription Agreement, the Acquisition Agreement and the Convertible Bond Subscription Agreement;

(j) save for (a) the Acquisition Agreement, (b) the Convertible Bond Subscription Agreement, (c) the Deeds of Share Mortgage, (d) the Facility Agreement and (e) the Share Subscription Agreement, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or shares of any of Beijing Gas Group and parties acting in concert with it and which might be material to the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver;

(k) save for the Share Subscription Agreement, the Convertible Bond Subscription Agreement, the Acquisition Agreement and the Facility Agreement, there are no agreements or arrangements to which Beijing Gas Group is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition under the Financial Assistance, the Share Subscription, the Acquisition or the Whitewash Waiver; and

(l) there was no agreement, arrangement or understanding pursuant to which the Shares to be allotted to Beijing Gas HK pursuant to (a) the Share Subscription Agreement; (b) the Acquisition Agreement and (c) as a result of the conversion of the Convertible Bond respectively would be transferred, charged or pledged to any other persons.

Dealings in securities

During the Relevant Period,

(m) save for (a) the Acquisition Agreement, (b) the Convertible Bond Subscription Agreement, and (c) the Share Subscription Agreement, none of Beijing Gas Group or parties acting in concert with it has dealt in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares, or, acquired or entered into any agreement to acquire any voting rights in the Company within six months immediately prior to the date of the Announcement;

(n) none of the directors of Beijing Gas Group had dealt for value in any Shares, convertible securities, warrants, options and derivatives in respect of the Shares;

(o) there were no Shares or convertible securities, warrants, options and derivatives of the Company which Beijing Gas Group or parties acting in concert with it or the Directors have borrowed or lent;

(p) the Company had not dealt for value in any equity interests or convertible securities, warrants, options and derivatives in respect of the equity interests of Beijing Gas Group;

(q) none of the Directors had dealt for value in any equity interests or convertible securities, warrants, options and derivatives in respect of the equity interests of Beijing Gas Group or any Shares or convertible securities, warrants, options and derivatives in respect of the Shares; and

(r) none of Beijing Gas Group or parties acting in concert with it has borrowed or lent any Shares or relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

Negative statement

As at the Latest Practicable Date, the Company confirms that:

(s) none of the Company, its subsidiaries or associated companies has entered into any understanding, arrangement or agreement which constitutes special deal (as defined under Rule 25 of the Takeovers Code) with any of the Shareholders;

(t) the Company did not own any equity interests or convertible securities, warrants, options and derivatives in respect of the equity interests of Beijing Gas Group;

(u) none of the Directors had any interest (within the meaning of Part XV of the SFO) in any equity interests or convertible securities, warrants, options and derivatives in respect of the equity interests of Beijing Gas Group;

(v) save as disclosed in the paragraph headed "Disclosure of Interests" in this Appendix, none of the Directors had any interest (within the meaning of Part XV of the SFO) in the Shares or convertible securities, warrants, options and derivatives in respect of the Shares;

(w) no Shares, convertible securities, warrants, options and derivatives in respect of the Shares were owned or controlled by any subsidiary of the Company or by a pension fund of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of "acting in concert" or who is an associate of the Company by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal traders and exempt fund managers;

(x) save for (a) the Acquisition Agreement, (b) the Convertible Bond Subscription Agreement, (c) the Deeds of Share Mortgage, (d) the Facility Agreement and (e) the Share Subscription Agreement, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of "acting in concert", or who is an associate of the Company by virtue of classes (2), (3) or (4) of the definition of "associate" under the Takeovers Code;

(y) no Shares or convertible securities, warrants, options and derivatives in respect of the Shares were managed on a discretionary basis by fund managers connected with the Company;

(z) none of the Directors held any shareholdings in the Company which would entitle them to vote for or against the Whitewash Waiver Resolutions; and

(aa) there were no Shares or convertible securities, warrants, options and derivatives in respect of the Shares which the Company or the Directors has/have borrowed or lent.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing service contract with the Company or any of its subsidiaries or associated companies or the Target Group which (i) (including both continuous and fixed term contracts) have been entered into or amended within six months before the date of the Announcement; (ii) are continuous contracts with a notice period of twelve months or more; (iii) are fixed term contracts with more than twelve months to run irrespective of the notice period; or (iv) is not determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CONTRACTS

Save for the following contracts, no contracts (not being contracts in the ordinary course of business carried on or intended to be carried on by the members of the Enlarged Group) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date, which are or may be material.

(a) Acquisition Agreement;

(b) Convertible Bond Subscription Agreement;

(c) Deeds of Share Mortgage;

(d) Facility Agreement;

(e) Syndicated Facility Agreement;

(f) Share Subscription Agreement;

(g) the termination agreements dated 16 November 2021 entered into between Shenzhen Feida Energy Co., Ltd.* (深圳翡達能源有限公司) (the "**Vendor I**"), Shenzhen Jinzhifu Energy Co., Ltd.*（深圳金置富能源有限公司）(the "**Vendor II**"), Shenzhen Zhanding Technical Service Co., Ltd.*（深圳展頂技術服務有限公司）(the "**Vendor III**", together with Vendor 1 and Vendor 2, the "**Vendors**"), the Company and SK E&S HongKong Corporation Limited ("**SK E&S**"), pursuant to which the parties agreed to terminate the share purchase agreements entered into on 3 July 2020 between the parties, under which SK E&S agreed to acquire from the Vendors: (i) 30% equity interests in Ningbo Beilun Bochen Energy Trading Co., Ltd.* (the "**Target Company I**") at a consideration of RMB37.5 million; (ii) Huzhou Bochen Natural Gas Co., Ltd.* (the "**Target Company II**") at a consideration of RMB30.0 million and (iii) Zhejiang Boxin Energy Co., Ltd.* (the "**Target Company III**", together with Target Company I and Target Company II, the "**Target Companies**") at a consideration of RMB61.5 million;

(h) the termination agreement dated 16 November 2021 entered into between the Company and Prism Energy International China Zhoushan Limited（福睿斯(舟山)清潔能源有限公司）("**Prism Zhoushan**"), pursuant to which the parties agreed to terminate the agreement dated 3 July 2020 entered into the same parties, in respect of the supply by Prism Zhoushan and purchase by the Company of LNG for a term of ten years; and

(i) the termination agreements dated 16 November 2021 entered into between the Vendors, SK E&S, the Target Companies and the Company, pursuant to which the parties agreed to terminate the joint venture agreement in respect of the operation and management matters of the Target Companies.

7. ARRANGEMENTS AFFECTING THE DIRECTORS

As at the Latest Practicable Date,

(a) no agreement, arrangement or understanding (including any compensation arrangement) exists between Beijing Gas Group or parties acting in concert with it and any of the Directors, recent directors of the Company, Shareholders or recent shareholders of the Company having any connection with or dependence upon the Financial Assistance, Share Subscription, Acquisition and the Whitewash Waiver;

(b) there was no material contract entered into by Beijing Gas Group in which any Director has a material personal interest;

(c) there was no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Financial Assistance, Share Subscription, Acquisition and the Whitewash Waiver;

(d) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of, or otherwise connected with, the Financial Assistance, Share Subscription, Acquisition and the Whitewash Waiver; and

(e) none of the directors or proposed director had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2021, the date to which the latest published audited financial statements of the Group were made up.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Enlarged Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Enlarged Group.

9. LITIGATION

On 18 February 2022, Benxi Liaoyou New Era Gas Co., Ltd ("**Benxi Liaoyou**"), a non-wholly-owned subsidiary of the Company, received a statement of claim from the Intermediate People's Court of Huai'an City regarding the claims by CITIC Financial Leasing Co., Ltd ("**CITIC Financial**") against several parties including Benxi Liaoyou for a dispute over a finance lease arrangement. The litigation is related to (among other things) a finance lease arrangement entered into in December 2016 between CM International Financial Leasing Corp., Ltd. (the "**Lessor**") and Benxi Liaoyou and Huai'an Zhongyou Longyi Energy Industry Co., Ltd (together, the "**Lessees**"). As disclosed in the pleadings of the litigation, the Lessor shall acquire certain liquefied natural gas equipment and then lease the same to the Lessees pursuant to the finance lease arrangement. In December 2017, the Lessor entered into another finance lease arrangement with CITIC Financial, and later failed to fulfil its payment obligations to CITIC Financial. In January 2022, CITIC Financial commenced this litigation via subrogation, claiming a total amount of RMB107,737,002.16. On 18 April 2022, Benxi Liaoyou received a statement of claim from the Tianjin Maritime Court in regard of the aforementioned dispute raised by the Lessor, claiming a total amount of RMB222,131,700.78. On 28 April 2022, due to the amendment of claimed amount (from RMB107,737,002.16 to RMB79,792,157.88), the Intermediate People's Court of Huai'an City decided that the litigation shall be transferred to and heard before the Huaiyin District People's Court of Huai'an City. On 22 July 2022, Huaiyin District People's Court of Huai'an City held the trial, where parties to the litigation exchanged evidence. Currently, the case is pending notice of further trial. On 16 August 2022, Tianjin Maritime Court held the trial and issued civil judgement on 31 August 2022, stating that this litigation shall be suspended for trial until the case raised before Huaiyin District People's Court of Huai'an City is closed.

Save as disclosed above, as at the Latest Practicable Date, no member of the Enlarged Group is engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of the Enlarged Group.

10. EXPERT AND CONSENT

Name	Qualification
Asian Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, being the financial adviser of the Company in relation to the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver
Octal Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Shareholders in respect of the Financial Assistance, the Share Subscription, the Acquisition and the Whitewash Waiver
Ernst & Young	Certified Public Accountants
Jones Lang LaSalle	Independent valuer

Each of the experts above has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

None of the experts above has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of the experts above had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2021, the date to which the latest published audited financial statements of the Group were made up.

11. MARKET PRICE

The table below shows the closing prices of the Share on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; and (iii) the last trading day of each of the calendar months during the Relevant Period:

Date	Closing Price per Share *HK$*
31 March 2022	suspended
29 April 2022	suspended
31 May 2022	suspended
30 June 2022	suspended
29 July 2022	0.062
31 August 2022	0.120
26 September 2022 (the Last Trading Date)	0.105
30 September 2022	0.094
28 October 2022 (the Latest Practicable Date)	0.069

The highest and lowest closing price per Share as quoted on the Stock Exchange during the Relevant Period were HK$0.143 per Share on 29 August 2022 and HK$0.055 per Share on 10 August 2022 respectively.

12. MISCELLANEOUS

(a) The registered office of the Company is situated at Conyers Corporate Services (Bermuda) Limited, Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Hong Kong Branch Share Registrar and Transfer Office of the Company is situated at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(b) The company secretary of the Company is Ms. Annie Chen, who is a practising solicitor in Hong Kong with extensive experience in legal and company secretarial matters.

(c) The principal place of business of the Company in Hong Kong is situated at Room 3402-4, 34/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

(d) Beijing Gas Group was established in the PRC with limited liability. Beijing Gas Group is the Controlling Shareholder of the Company and is indirectly interested in approximately 41.13% of the issued share capital of the Company as at the Latest Practicable Date. As at the Latest Practicable Date, the directors of Beijing Gas Group are Ms. Li Yalan, Mr. Zhi Xiaoye, Mr. Xiong Bin, Mr. Yin Yuguang, Mr. Xu Tong, Ms. Du Yanfeng, Mr. Wang Chaohui, Mr. Zhao Shan, Ms. Hu Xiaowei and Mr. Tan Jijia and the registered office of Beijing Gas Group is situated at No. 22, Xizhimen Nanxiaojie, Xicheng District Beijing, the PRC. Beijing Gas Group is an indirect wholly-owned subsidiary of Beijing Enterprise Holdings Limited (stock code: 392).

(e) The principal members of Beijing Gas Group's concert group are: (i) Beijing Enterprises Holdings Limited and (ii) Beijing Gas HK. Details of the principal members of Beijing Gas Group's concert group are as follows:

(i) Beijing Enterprises Holdings Limited is a company incorporated in Hong Kong and is listed on the Main Board of the Stock Exchange (stock code: 392) and controlled as to 62.31% by Beijing Enterprises Group Company Limited* (北京控股集團有限公司), which is in turn ultimately and beneficially owned by the State-owned Assets Supervision and Administration Commission of People' Government of Beijing Municipality (北京市人民政府). The remaining issued shares of Beijing Enterprises Holding Limited are held by the public shareholders. As at the Latest Practicable Date, the directors of Beijing Enterprises Holdings Limited are Mr. Dai Xiaofeng, Mr. Jiang Xinhao, Mr. Xiong Bin, Mr. Tam Chun Fai, Mr. Wu Jiesi, Mr. Lam Hoi Ham and Dr. Yu Sun Say and the registered office address of Beijing Enterprises Holdings Limited is situated at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(ii) Beijing Gas HK is a company incorporated in Hong Kong with limited liability. Beijing Gas HK is the Controlling Shareholder of the Company and is indirectly wholly-owned by Beijing Gas Group. As at the Latest Practicable Date, the directors of Beijing Gas HK are Ms. Li Yalan, Mr. Zhi Xiaoye and Mr. Xu Tong and the registered office of Beijing Gas HK is situated at Room 3402-4, 34/F., West Tower Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

(f) The financial adviser to Beijing Gas Group in respect of the Capital and Asset Injection Plan is BNP Paribas. The address of BNP Paribas is 60/F-63/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

In the event of inconsistency, the English text of this circular will prevail over the Chinese text.

13. DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection (i) on the website of the Company at www.bgbluesky.com; (ii) the website of the SFC at www.sfc.hk and (iii) on the website of the Hong Kong Stock Exchange at www.hkexnews.hk, from the date of this circular up to and including the date of the SGM.

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the financial years ended 31 December 2019, 2020 and 2021;

(c) the interim report of the Company for the six months ended 30 June 2022;

(d) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(e) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(f) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

(g) the accountants' report prepared by Ernst & Young in respect of the Target Company, the text of which is set out in Appendix IIA in this circular;

(h) the accountants' report prepared by Ernst & Young in respect of the PRC Project Holding Company, the text of which is set out in Appendix IIB in this circular;

(i) the accountants' report prepared by Ernst & Young in respect of the Project Company, the text of which is set out in Appendix IIC in this circular;

(j) the report of Ernst & Young on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III in this circular;

(k) the valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited on the Project Company, the text of which is set out in Appendix IV in this circular;

(l) the letter from Asian Capital Limited on the valuation report of the Project Company, text of which is set out in Appendix V in this circular;

(m) the consent letter from the expert referred to in the paragraph headed "Expert and Consent" in this Appendix;

(n) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix; and

(o) this circular.

BEIJING GAS BLUE SKY HOLDINGS LIMITED
北京燃氣藍天控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 6828)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting ("**SGM**") of Beijing Gas Blue Sky Holdings Limited (the "**Company**") will be held on Tuesday, 15 November 2022 at 11:00 a.m. at Room 3402-4, 34/F, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company. Unless otherwise specified, terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 31 October 2022 (the "**Circular**").

ORDINARY RESOLUTION

1. (a) To approve, confirm and ratify (A) the Financial Assistance by Beijing Gas HK pursuant to the Facility Agreement and the Convertible Bond Subscription Agreement; (B) the subscription of new Shares by Beijing Gas HK pursuant to the Subscription Agreement; and (C) the acquisition of the Target Company and the issue of Consideration Shares pursuant to the Acquisition Agreement, and the transactions contemplated thereunder;

   (b) Subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting and not having withdrawn the approval for the listing of, and the permission to deal in the Subscription Shares, the Consideration Shares and the Conversion Shares, to approve the grant of a specific mandate to the Directors for the allotment and issue of the Subscription Shares, the Consideration Shares and the Conversion Shares in accordance with the terms and conditions of the Subscription Agreement, the Acquisition Agreement and the Convertible Bond Subscription Agreement respectively; and

   (c) To authorise any one or more Directors to do all such acts and execute all such other documents generally and unconditionally as he/she as may consider necessary, expedient or desirable in connection with or to give effect to paragraphs (a) to (b) of this resolution, including, without limitation, the allotment and issue of the Subscription Shares, the Consideration Shares and the Conversion Shares.

2. To elect Mr. Shao Dan as a non-executive Director, the appointment which shall take effect upon the completion of the Subscription Agreement.

SPECIAL RESOLUTION

3. (a) To approve the grant of waiver of the obligation of the Beijing Gas Group to make a general offer for all the shares and other equity share capital of the Company (other than those Shares and other equity share capital owned or agreed to be acquired by the Beijing Gas Group and parties acting in concert with it) as a result of the allotment and issue of Shares under (a) the Share Subscription Agreement and (b) the Acquisition Agreement in accordance with the Whitewash Waiver granted or to be granted by the Executive pursuant to Note 1 on dispensations to Rule 26 of the Takeovers Code; and

   (b) To authorize any one or more directors to, do all such acts and things and execute all relevant documents or deeds (and, if necessary, affix the company seal in accordance with the by-laws of the Company) as he/she may consider necessary, expedient or desirable in connection with, to give effect to, or to consummate any matter relating to or in connection with the Whitewash Waiver and/or the transactions contemplated thereunder.

By Order of the Board
BEIJING GAS BLUE SKY HOLDINGS LIMITED
Zhi Xiaoye
Chairman

31 October 2022

Notes:

1. A member entitled to attend and vote at the SGM who is a holder of two or more Shares is entitled to appoint no more than two proxies to attend and vote in his/her stead. If a member is a clearing house (as defined in the bye-laws of the Company) (or its nominees(s)), a clearing house (or its nominees(s)) may appoint more than two proxies to attend and vote at the SGM. A proxy need not be a member of the Company.

2. The proxy form must be lodged at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof.

3. If the member is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. To ascertain Shareholders' eligibility to attend and vote at the SGM, the register of members of the Company will be closed from Thursday, 10 November 2022 to Tuesday, 15 November 2022, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify to attend and (if applicable) vote at the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 9 November 2022. Shareholders whose names are recorded in the register of members of the Company on Tuesday, 15 November 2022 are entitled to attend and (if applicable) vote at the SGM.

5. If tropical cyclone warning signal no. 8 or above is hoisted or "extreme conditions" caused by super typhoons or a black rainstorm warning signal is in force at 7:00 a.m. on Tuesday, 15 November 2022, the meeting will be postponed and further announcement for details of alternative meeting arrangements will be made. The meeting will be held as scheduled even when tropical cyclone warning signal no. 3 or below is hoisted, or an amber or red rainstorm warning signal is in force. You should make your own decision as to whether you would attend the meeting under bad weather conditions and if you should choose to do so, you are advised to exercise care and caution.

6. To safeguard the health and safety of shareholders and to prevent the spread of COVID-19, the following precautionary measures will be taken at the SGM:

   – compulsory body temperature check;

   – mandatory wearing of surgical face mask; and

   – no refreshments will be served.

   To the extent permitted by law, the Company may, in its absolute discretion, refuse entry to any person who does not comply with the above precautions or who is subject to any quarantine prescribed by the Government of the Hong Kong Special Administrative Region. However, those being denied entry at the meeting venue would still be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the venue. Shareholders are encouraged to appoint the chairman of the SGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the SGM in person. Due to the constantly evolving COVID-19 pandemic situation, the Company may be required to change the arrangements for the SGM when appropriate. Shareholders should check the Company's website and/or the Stock Exchange's website for future announcements and updates on the arrangements for the SGM.

As at the date of this notice, the executive Directors of the Company are Mr. Li Weiqi, Mr. Chen Ning and Mr. Yeung Shek Hin; the non-executive Director of the Company is Mr. Zhi Xiaoye; and the independent non-executive Directors of the Company are Mr. Cui Yulei, Ms. Hsu Wai Man Helen and Mr. Xu Jianwen.