You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an [REDACTED] in our [REDACTED]. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our [REDACTED] could significantly decrease due to any of these risks, and you may lose all or part of your [REDACTED].

RISKS RELATING TO OUR BUSINESS

Our Concession Agreement under which we are entitled to operate our PNG sales business is subject to an effective term of 30 years from 18 August 2009. Early termination of or inability to renew the term of our Concession Agreement, or any illegality or invalidity of our Concession, will materially and adversely affect our business, financial condition and results of operations.

We principally engage in the sale of PNG under a Concession right in Gaomi City. We are entitled to exclusively operate PNG sales and related businesses within the Operating Area for an effective term of 30 years from 18 August 2009. Under the Concession Agreement, our Concession right may be cancelled and subject to temporary takeover by Gaomi City Bureau of Municipal Affairs Administration if (i) we transfer or lease our Concession right without authorisation; (ii) we are unable to continue operating due to our mismanagement or the occurrence of any extremely serious quality or production safety incidents; (iii) we cease or suspend operations, which materially affects public interest and safety; (iv) we fail to invest in pipeline construction in accordance with the municipal construction planning for two consecutive years; or (v) we engage in other illegal acts. For more information relating to the terms of our Concession Agreement, please refer to "Business — Concession Operation — Key Terms of Concession Agreement" in this document.

Further, according to the "*Measures for the Administration of the Franchise of Municipal Public Utilities*" (《市政公用事業特許經營管理辦法》) (the "**Concession Measures**"), government authorities are usually required to select investors or operators of municipal public utilities projects through public selection methods such as public tendering, and enter into concession agreements to grant concession rights with the selected investors or operators. However, our Concession was not granted to us by public selection methods as stipulated by the Concession Measures. For details, please see "Business — Concession Operations — Key terms of Concession Agreement" in this document.

We cannot assure you that the Concession Agreement will not be terminated before its expiration, that the Concession will not be deemed illegal or invalid, or that we will be able to renew the Concession Agreement on acceptable terms upon its expiration. If our Concession Agreement is terminated before expiration, the Concession is deemed illegal or invalid, or we are not able to renew the Concession Agreement or commence alternative operations which are similar in scope and nature to our existing operations in the Operating Area, our business, financial condition and results of operations are likely to be materially and adversely affected.

We currently operate our business in the Operating Area covered by the Concession. The size of the Operating Area may be adjusted, subject to any future agreement between us and Gaomi City Bureau of Municipal Affairs Administration.

We currently operate our business in the Operating Area covered by the Concession granted to us by Gaomi City Bureau of Municipal Affairs Administration. Pursuant to the Concession Agreement and subject to the relevant PRC laws and regulations, we are entitled to exclusively operate PNG sales and related businesses within the Operating Area for an effective term of 30 years from 18 August 2009. However, although the Concession Agreement is legally enforceable, Gaomi City Housing and Urban-Rural Development Bureau may want to negotiate with us for an adjustment of the size of our Operating Area in the future. Any such adjustment will be subject to agreement between us and Gaomi City Housing and Urban-Rural Development Bureau.

The area granted to us under the Concession Agreement was initially comprised of 100% of the administrative area of Gaomi City. In 2010, we consented to the operation of PNG sales and related businesses by Gaomi Haojia, another city-level natural gas operator and an Independent Third Party, within our granted area, thereby reducing the size of our Operating Area to approximately 70% of the administrative area of Gaomi City. We gave such consent with the approval of Gaomi City Housing and Urban-Rural Development Bureau. For details, please refer to "Business — Concession Operation — Key Terms of Concession Agreement — Operating Area" in this document.

We cannot assure you that the size of our Operating Area will not be further adjusted. Any further reduction in the size of our Operating Area may inhibit our business expansion and therefore materially and adversely affect our business, financial condition and results of operations.

We may encounter difficulties in growing our business within the Operating Area under the Concession Agreement.

Our business growth is subject to the expansion of our urban pipeline network and PNG end-user base. However, we may not be able to expand our business as planned within the Operating Area under our Concession right. While we estimate that our business will grow at a reasonable rate, the success of our business expansion depends on various factors such as economic development, government policies in terms of environmental protection, urban planning and the growth of the property construction and household population.

We cannot assure you that our business growth will increase on a scale or at a rate as estimated, or at all. Furthermore, if the local government ceases to authorise us to operate in our Operating Area under the circumstances stipulated by the relevant regulations, our Operating Area may be reduced in size which may in turn materially and adversely affect our business, financial condition and results of operations.

Any shortage of, disruption or suspension to our natural gas supplies could materially and adversely affect our sale of natural gas business.

Natural gas constitutes the major raw material for our sale of gas business. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our cost of natural gas was approximately RMB240.7 million, RMB201.5 million, RMB265.8 million and RMB123.4

million, accounting for approximately 88.7%, 80.6%, 77.3% and 91.1% of our total cost of sales, respectively. We rely on PetroChina and Shandong Shihua, which were our primary suppliers of PNG during the Track Record Period and up to the Latest Practicable Date, for our sale of gas. Our business, financial condition and results of operations may be adversely affected if there is any change to our relationship with these suppliers.

The business operation of each of PetroChina and Shandong Shihua is subject to various operating risks which can give rise to a reduction in PNG production, breakdown or failure of equipment, natural disasters and industrial incidents. The occurrence of any of these may limit or disrupt our ability to obtain sufficient and continuous supplies of PNG as it is unlikely that we can find a replacement supplier immediately. This may give rise to significant losses, such as revenue losses from disrupted operation. We cannot assure you that PetroChina and Shandong Shihua can necessarily sustain continuous operation as we expect at all times.

We have entered into a master agreement, purchase contracts and/or supplemental purchase contracts for the procurement of PNG with each of PetroChina and Shandong Shihua. In the event of emergency, we are subject to supply priorities as specified under our master agreement with PetroChina. For more information, please refer to "Business — Procurement of PNG" in this document. Although we have implemented emergency response plans, including but not limited to the backup support from our peak-shaving LNG station, in case of a serious and prolonged supply shortage, disruption or suspension, our sale of PNG business could be materially and adversely affected and we may become subject to claims from our customers. In addition, we cannot assure you that we can maintain our relationship with PetroChina and Shandong Shihua in the future. If PetroChina and/or Shandong Shihua suspend or terminate their supply of PNG to us before the expiration of our relevant agreements with them or refuse to renew such agreements upon expiration with us, and if we are unable to source alternative supplies of PNG, our business, reputation, financial condition and results of operations could be materially and adversely affected.

We may also be subject to significant fluctuations in the supply of natural gas in the market, due to reasons beyond our control. Such reasons include disruptions to the natural gas supplies of our upstream suppliers or the occurrence of any adverse political or economic conditions in natural gas exporting countries. If we are unable to source sufficient amounts of natural gas from alternative suppliers on commercially acceptable terms, or at all, our business, financial condition and results of operations may be materially and adversely affected.

Our sale of PNG is subject to pricing policies adopted by the PRC Government at various levels and thus our profitability may be materially and adversely affected if these pricing policies become unfavourable to us.

According to the *PRC Pricing Law (《中華人民共和國價格法》)* and relevant pricing rules and regulations, the PRC Government may direct, guide or determine the pricing of PNG, including both PNG procurement prices and PNG end-user selling prices. Please refer to "Business — Sale of PNG — Pricing", "Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas" and "Industry Overview — Analysis of the City Gas Supply Industry in Gaomi City" in this document for further information about the pricing of PNG in the PRC.

The PRC Government may adjust the pricing of PNG due to various considerations such as fluctuations in the costs of raw materials, changes in demand level and overall economic development. We do not have control over the prices guided by the PRC Government or their adjustments, and we may not be able to pass on any increased costs in our procurement of PNG to our PNG end-users in a timely manner, or at all. For example, when PNG production costs rise to a certain level, the PRC Government may increase the benchmark gate price of PNG correspondingly, resulting in an increase in our procurement costs. If our PNG end-user selling prices cannot be adjusted proportionally in time, we may face a lower profit or even loss. For example, our gross profit margin for PNG sales to residential PNG end-users declined to approximately (20.4%) for the four months ended 30 April 2022, primarily due to an unexpected surge in our average cost of PNG in early 2022, while our average selling price of PNG to such users remained the same. We cannot assure you that we can effectively manage our costs in light of the aforementioned possible price adjustments. If there is an increase in the cost of PNG charged by our suppliers and we fail to proportionally adjust the prices of PNG charged to our PNG end-users in a timely manner, or at all, we may not be able to maintain our profitability and our results of operations and financial condition may be materially and adversely affected.

In the event of an increase in costs due to circumstances beyond our control, such as changes in laws, rules, government regulations, government orders or force majeure events, we may apply to the relevant local pricing bureau under the applicable PRC laws and regulations for an adjustment of our PNG end-user selling price. Such application will be made in accordance with the upstream and downstream gas price linkage mechanism in the Operating Area, based on circumstances which we believe constitute grounds for adjustment. However, we cannot assure you that any such application will be successful. Even if our application is allowed, we cannot assure you that the relevant local pricing bureau will necessarily allow us to adjust our PNG end-user selling price in a timely manner or to the extent that will enable us to maintain our profitability, or generate any profit at all. Furthermore, as there is generally a time lag between the increase in our PNG procurement price and the increase in our PNG end-user selling price, any increase in our PNG procurement price may negatively affect our profit margin for the period before any adjustment can be made. As a result, our results of operations and financial condition may be materially and adversely affected.

There are minimum procurement obligations under our contractual arrangements with PetroChina and Shandong Shihua, and we cannot assure you that we will be able to meet such minimum procurement obligations.

Under the current overall contractual arrangements with each of PetroChina and Shandong Shihua, if our actual monthly procurement volume falls short of the minimum procurement volume agreed from time to time, we may have to pay a penalty calculated according to the penalty clause as stipulated in the relevant actual purchase contracts for the relevant periods. During the Track Record Period, we experienced procurement shortfalls under our contractual arrangements with PetroChina. For details, please refer to "Business — Procurement of PNG — PNG procured during the Track Record Period" in this document.

Despite not taking any action during the Track Record Period, PetroChina or Shandong Shihua may enforce the relevant take-or-pay obligations and claim against us if there is any shortfall in the future. If our customers' PNG demands are lower than the amounts of PNG that we are committed to procuring under our contractual arrangements with PetroChina and Shandong Shihua, or any other agreements with similar take-or-pay provisions that we may enter into for the procurement of PNG in the future, we may be required to pay for any shortfalls between our actual procurement volume and the minimum procurement volume as stipulated under the relevant contractual arrangements. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to accurately estimate the actual supply and demand of PNG, which may result in a procurement shortfall.

Each year, we set and agree with our PNG suppliers (PetroChina and Shandong Shihua) in advance a pre-determined annual base volume with specific minimum monthly procurement volumes for the following year at the time we enter into annual purchase contracts with them. These volume projections are generally estimated with reference to the actual volumes of PNG procured by us in previous years, as well as a range of other relevant factors such as anticipated economic outlook, local demographics and business conditions, weather conditions and our procurement team's overall industry experience. For details, please refer to "Business — Procurement of PNG — PNG procured during the Track Record Period" in this document.

When we submit a procurement volume projection for a particular year, our respective minimum monthly procurement volumes with our PNG suppliers are usually determined for the entire upcoming year. As such, it is not possible to precisely account for all factors that may affect our actual procurement volume. As such, we may not be able make accurate volume projections, which may result in procurement shortfalls. For the years ended 31 December 2019, 2020 and 2021, we experienced procurement shortfalls under our contractual arrangements with each of PetroChina and Shandong Shihua. Under certain take-or-pay obligations stipulated in our master agreements and actual purchase contracts with our PNG suppliers, we may be required to pay for any shortfalls between our actual procurement volume and the minimum monthly procurement volumes agreed between us and our PNG suppliers. In such case, our business, financial condition and results of operations may be materially and adversely affected. Please also refer to "Business — Procurement of PNG" in this document.

We may be involved in legal proceedings and disputes, which could have a material adverse effect on our reputation, business, financial condition and results of operations.

We may be involved in legal proceedings and disputes in the ordinary course of our business. Depending on the outcome of the proceedings, we may be ordered to pay fines or damages. In addition, we may have to pay legal costs associated with such disputes, including but not limited to fees relating to appraisal, auction, execution and legal advisory services. Litigation and other disputes may lead to inquiries, investigations and proceedings by regulatory authorities and other governmental agencies and may result in damage to our reputation, additional operating costs and the diversion of resources and management's attention from our core business. The disruption of our business due to judgment, arbitration and legal proceedings against us or adverse adjudications in proceedings against our Directors, senior management or key personnel may have a material adverse effect on our reputation, financial condition, results of operations and prospects.

In particular, since we rely on our Concession for the operation of our natural gas and related businesses, any legal proceedings or threatened legal proceedings involving our Concession, whether we are a plaintiff or a defendant, or involved in other ways, could cost us a significant amount of time and costs and direct our resources and management's attention from our business operations. Any unfavourable judgements in such legal proceedings, or related settlements, may result in the cancellation of our Concession right and/or have an impact on our ability to conduct our business, harm our reputation and have an adverse effect on our business, financial condition and results of operations.

If Jiaoyun Gas is penalised by the SAT in respect of the shortfall in its historical tax filings, our financial condition and results of operations may be adversely affected.

There were differences between the reported revenue of Jiaoyun Gas in its historical tax filings to the SAT and its financial information adjusted by the management for the purpose of preparing the relevant historical financial information in accordance with HKFRS. The differences came about as a result of accounting adjustments, namely (i) adjustment for expenses and cost cut-off; (ii) adjustment for bills discounted interest; (iii) adjustment for revenue and cost of revenue; (iv) adjustment for property, plant and equipment and land use right; and (v) fair value adjustments for investment properties, among others, according to the relevant accounting standards. For details, please refer to "Financial Information — Description of Major Components of Our Results of Operations — Income Tax Expenses — PRC enterprise income tax" in this document.

If Jiaoyun Gas is fined or penalised by the SAT in respect of the abovementioned shortfall in its historical tax filings, our financial condition and results of operations may be adversely affected.

Our manual gas meter readings of the volume of PNG used by our PNG end-users may be inaccurate.

We sell PNG to our PNG end-users and charge them according to the volume of PNG used by them as measured by gas meters installed at their properties. Although we collect the volume of PNG used by our PNG end-users manually on a regular basis, data collected from such manual reading of gas meters may be subject to human error. Further, data collected from our gas meters may be inaccurate due to the unauthorised alteration of such gas meter by our PNG end-users, which may be undiscovered during our manual reading of the relevant gas meters.

In the event that we do not accurately determine the volume of PNG used by our PNG end-users by taking the gas meter readings accurately, the volume of PNG for which we charge our PNG end-users may be significantly less than the actual volume supplied by us, which may have an adverse effect on our business, financial condition and operating results.

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

We operate in a high risk industry given the flammable and explosive nature of natural gas. Both our natural gas operations, which involve processes such as natural gas distribution and transmission, and our operational facilities (such as our urban pipeline network) are subject to risks and hazards including but not limited to gas leakages, equipment failures, natural disasters, environmental hazards and industrial accidents.

Any operational hazards and natural disasters may cause interruptions or suspensions to our operations and can have a material adverse impact on our business, financial condition and reputation. Such hazards may cause significant personal injury or death, severe damage to and destruction of our assets, and/or contamination of or damage to the environment. As a result, we may be subject to governmental investigations, which may cause our Group or management personnel to be subject to administrative action. We may also face criminal liabilities imposed by the government and/or civil liabilities or fines as a result of any damage suffered by third parties in relation to such hazards, and consequently be required to pay compensation in accordance with the applicable laws and regulations.

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

We are subject to various environmental, safety and health regulations in the PRC, compliance with which may be difficult or expensive, and any failure to comply with such regulations may give rise to penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business.

The PRC Government has published extensive environmental, safety and health regulations with which we are required to comply. For details of these requirements, please refer to "Regulatory Overview" in this document. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business, which may have a material and adverse effect on our business, financial condition and operating results.

Given the magnitude and complexity of the PRC Government's environmental, safety and health regulations, full compliance at all times with such regulations may be difficult or involve significant financial and other resources to establish efficient compliance and monitoring systems. Further, as these regulations are constantly evolving, the PRC Government may impose additional or stricter laws or regulations in the future. Compliance with such changes to environmental laws and regulations may cause us to incur significant costs which we may be unable to pass on to our customers, and may take significant time to effect which may delay our business expansion or affect our ongoing operations.

We are required to obtain certain approvals, licenses, permits and certificates for our operations and the construction projects of our gas facilities in the PRC. Failure to obtain such approvals, licenses, permits or certificates may have a material and adverse effect on our business and operations.

According to the applicable PRC laws and regulations, we are required to obtain certain approvals, licenses, permits and certificates for our operations, as well as the construction projects of our gas facilities prior to the construction and use of such projects. For details of these requirements, please refer to "Regulatory Overview" in this document.

As at the Latest Practicable Date, we have obtained all requisite licenses, permits and certificates for our business operations in the PRC and such licenses, permits and certificates are valid and remain in effect. However, there is no assurance that we will be able to obtain or renew such licenses, permits and certificates upon their expiration. In addition, the eligibility criteria for such licenses, permits and certificates may change from time to time and we may be required to observe stricter compliance standards in respect of such licenses, permits and certificates. We may also be required to obtain additional licenses, permits and certificates for our operations. In the event of the introduction of any new laws and regulations or changes in the interpretation of any existing laws and regulations that increase compliance costs for us, or prohibit or make it more expensive for us to continue with the operation of any part of our business, our business, financial condition and results of operations may be materially and adversely affected.

We cannot assure you that the PRC Government will not change or terminate any favourable policies and regulations in the future.

Since the beginning of our operation, our business growth has been supported from time to time by policies and regulations implemented by the PRC Government which encourage the use of natural gas as a clean alternative to coal consumption. This has had a positive impact on our sale of natural gas, being our primary business segment, and our sale of gas-burning appliances and provision of construction and installation services, being our ancillary business segments. For details, please refer to "Business — Our Competitive Strengths — We benefit from governmental policies relating to environmental protection" in this document.

We cannot assure you that the PRC Government will not change or terminate any of the favourable policies and regulations which benefit our natural gas related businesses in the future, or that the PRC Government will continue to implement policies and regulations that are favourable to us. If we are unable to derive a similar level of benefit from favourable government policies and regulations in the future, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our operations may be disrupted by natural disasters, severe weather conditions, severe communicable diseases or other factors beyond our control.

Natural disasters, severe weather conditions, severe communicable diseases or other factors which are beyond our control may adversely affect the economy and infrastructure of, and the livelihood of people in, the PRC. We may not be adequately prepared in terms of contingency planning or may not have recovery capabilities in place to deal with a major incident or crisis.

The PRC has, during the past few decades, experienced several outbreaks of severe communicable diseases such as severe acute respiratory syndrome (SARS), influenza A (H1N1) and avian influenza (H5N1, H7N9 and H10N8). In late 2019, an outbreak of respiratory illness caused by a novel coronavirus (COVID-19) was first reported and continues to spread across the PRC and globally. In March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a pandemic. As at the Latest Practicable Date, COVID-19 has spread across China and to over 200 countries and territories globally. The situation of the COVID-19 pandemic is constantly changing, and it remains uncertain when it will end. The COVID-19 pandemic has and may continue to have, an adverse effect on the PRC's economy.

The prolonged outbreak of COVID-19 may have serious implications for the global economy due to a slowdown at manufacturing sites and industrial sites in the PRC, as well as reduced demand by PRC consumers or customers of other countries/territories being affected. During the Track Record Period, we generated most of our revenue from our sale of PNG in the Operating Area. Our PNG is primarily sold to retail customers consisting of residential, commercial and industrial PNG end-users, with industrial PNG end-users being our primary customers. Demand for PNG from our PNG end-users, in particular our industrial and commercial PNG end-users, may be significantly reduced if there is a corresponding decrease in economic activities. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue from our sale of PNG to industrial PNG end-users was approximately RMB205.8 million, RMB188.6 million, RMB233.5 million and RMB92.6 million, accounting for approximately 73.0%, 76.4%, 76.5% and 69.5% of our revenue from the sale of PNG, respectively. If the demand for PNG from our industrial PNG end-users decreases significantly due to the outbreak of COVID-19, our results of operations, financial condition and prospects may be disrupted.

Any outbreak of severe communicable diseases, in particular COVID-19, may cause a shortage of labour and/or raw materials, and/or temporary suspension of our sale of PNG business and/or provision of construction and installation services. Our operations could be disrupted if any of our employees are suspected of having contracted COVID-19, since this could require us to quarantine some or all of our employees and disinfect the relevant area. The COVID-19 outbreak may also severely affect and restrict the level of economic activity in the areas which we operate, as the government may impose regulatory or administrative measures quarantining affected areas or other measures to control or contain the outbreak of COVID-19, which in turn may have a material and adverse effect on our business, financial condition and results of operations.

Any price adjustment measures imposed by the PRC government as a result of the COVID-19 outbreak may adversely reduce the revenue generated from our business. Pursuant to the Notice in relation to the Periodic Reduction of Non-residential Gas Costs to Support Enterprises to Resume Production* (《關於階段性降低非居民用氣成本支持企業復工復產的通知》) issued by the NDRC on 22 February 2020, among others, gas operators were required to lower the selling prices of PNG for non-residential PNG end-users until 30 June 2020. Accordingly, pursuant to the notices issued by the relevant local pricing bureau, the maximum PNG end-user price for industrial and commercial PNG end-users for the Operating Area was temporarily adjusted downwards for the period between February 2020 and June 2020. This adjustment caused our gross profit from PNG sales to temporarily decline during that period. If the PRC Government imposes any further unfavourable price adjustment measures related to our business in the future, our results of operations, financial condition and prospects may be adversely affected.

If the outbreak of COVID-19 cannot be controlled in the areas which we operate, we may have to suspend our natural gas operations and delay our business expansion plan. As a result, our results of operations and financial performance may be materially affected.

We may face claims and/or early termination from our commercial and industrial PNG end-users should we fail to perform under our usage agreements with them or fail to meet the requirements under applicable laws and regulations.

We are contractually bound to supply PNG to commercial and industrial PNG end-users pursuant to the usage agreements which we enter into with them, as well as other requirements under the applicable laws and regulations. Pursuant to such usage agreements, we are required to inform our PNG end-users in advance if the supply of PNG will be interrupted due to planned or ad hoc inspections and maintenance. We are also required to make timely responses and repair if PNG supply is suspended due to force majeure events, and ensure that supply can be resumed as soon as possible. Failure to perform pursuant to the usage agreements may lead to claims against us or the refund of fees, the termination of our services in whole or in part prior to the expiration of such usage agreements, and/or other adverse consequences, which may adversely affect our business, financial condition, results of operations and prospects.

We rely on our urban pipeline network for our business operations and engage subcontractors to undertake pipeline construction work for us.

We rely on our urban pipeline network for our business operations. For example, our sale of PNG business requires our urban pipeline network to be connected to the pipelines of our PNG end-users. Any unexpected breakdown or malfunction of our pipelines or gas leakage may cause interruption to the supply of PNG to our customers, time and additional capital expenditure for repair or replacement works, as well as severe safely risks to our staff and the general public. We may have to temporarily shut down PNG supply to our PNG end-users. This, in turn, may adversely affect our business, results of operations and reputation. We engaged three subcontractors to carry out our pipeline construction and installation of natural gas supply facilities during the Track Record Period. We cannot assure you that we are able to exercise the same degree of control over the quality of work performed by our subcontractors as our internal operations, or that their workmanship will not contain any defects which may adversely affect our natural gas supply and transmission. We also cannot assure you that the services rendered by our subcontractors will be continuously available on commercially acceptable terms, or at all. Any interruption in or loss of their services and our failure to engage appropriate replacements on commercially acceptable terms, or at all, in a timely manner, may materially and adversely affect our business, financial condition and results of operations.

Our business may be affected by seasonality.

Sale of PNG is subject to seasonality. During the Track Record Period, we generally experienced a higher demand for PNG from our residential and commercial PNG end-users in the winter. We believe that PNG demand and consumption is seasonal for such PNG end-users as they usually consume more gas to generate heat in winter (usually from November of the current year to April of the next year). However, such seasonal effect on our sale of PNG is less significant as the PNG consumption of our major customers, namely industrial PNG end-users, is relatively stable throughout all seasons.

Our expenses do not necessarily correspond to the changes in our sale of PNG and revenue in different seasons, and we have to incur maintenance expenses, labour costs and other overhead expenses throughout the year. Further, our PNG procurement volume is generally confirmed by us to our suppliers in advance from time to time and our suppliers are not obliged to provide us with additional PNG volume during peak seasons. At times when there is an increase in demand from residential PNG end-users, our sale of PNG to them will increase, which may affect our gross profit margin, as the selling price for our sale of PNG to residential PNG end-users is generally lower. As such, we expect that our revenue, cash flow and results of operations will to continue to fluctuate, which may materially and adversely affect our cash flows and financial performance.

Our gross profit margin in the future is subject to uncertainty.

During the Track Record Period, the majority of our revenue was generated from the sale of PNG, which accounted for approximately 79.5%, 71.0%, 69.2% and 84.2% of our total revenue for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022. We mostly sold PNG to retail customers consisting of residential, commercial and industrial PNG end-users. Fluctuations in the gross profit margin of our sale of PNG are mainly driven by (i) the prices at which we procure PNG from our suppliers; and (ii) the prices at which we sell PNG to our PNG end-users, both of which are subject to the relevant pricing regulations. The interactions of these factors could lead to significant changes to our gross profit margin and overall profitability. Given the nature of our PNG sales business and our Concession, which requires us to supply PNG to all of the PNG end-users in our Operating Area, it is practically difficult for us to actively and swiftly focus on a particular type of PNG end-users within our Operating Area, even if we consider that sales to such type of PNG end-user is likely to yield a higher gross profit margin. For instance, during the Track Record Period, the gross profit margin for our sale of PNG to residential PNG end-users was generally lower than that for our sale of PNG to commercial and industrial PNG end-users.

We cannot assure you that we will be able to maintain our gross profit margin at the level we achieved during the Track Record Period, or at any level. If our gross profit margin decreases, our profitability may be materially and adversely affected.

Our future plans are subject to uncertainties and risks and may result in fluctuations in our financial performance.

Our growth and future financial performance depend on the implementation of our future plans. It is intended that the net proceeds from the [REDACTED] will be used for (i) expanding our sale of PNG business through the construction of new mid-pressure pipelines in Gaomi City; (ii) upgrading our pipeline network; (iii) replacing existing gas meters with Goldcard Meters to over 25,000 households in our Operating Area; and (iv) construction of PNG end-user pipelines and connecting these pipelines to our urban pipeline network for 5,500 households in our Operating Area for the purpose of implementing the Clean Energy Projects as an extension to the coal-to-gas project (煤改氣工程) and in accordance with the Comprehensive Work Plan for Energy Conservation and Emission Reduction (節能減排工作方案). For details, please refer to "Future Plans and Use of Proceeds" in this document.

The implementation of our future plans may place a significant strain on our managerial, operational and financial resources. The investment payback period of our construction projects for the expansion of our pipeline network coverage may be longer than expected. Further, we may not be able to successfully manage the growth of our business, although we may adopt various measures and strategies such as raising working capital, integrating additional staff and employees into our operations and overseeing the coordination and cooperation between our natural gas stations. There is no assurance that the intended growth of our business can be achieved or will be profitable. The successful implementation of our future plans may be affected by various factors which are beyond our control, such as increases in the relevant costs, our ability to employ sufficient and competent staff to carry out such plans and changes in the relevant regulations and government policies.

Our future plans may be affected by factors such as, but not limited to, (i) delays in obtaining or failure to obtain the requisite permits, licenses and certificates from the relevant authorities; (ii) material, equipment and/or labour shortages; (iii) fluctuations in costs of material, equipment and/or labour; (iv) changes in government policies, rules or regulations; (v) slowdown in PRC economic growth or change in the economic environment; (vi) construction accidents; (vii) labour disputes or strikes; (viii) the outbreak of severe communicable diseases, in particular COVID-19; (ix) natural disasters or adverse weather conditions; and (x) other unforeseen problems or circumstances.

We may have to modify our future plans. For instance, if the construction works are not completed on a timely basis, we may not be able to grow our business on a scale or at a rate as expected. Further, if we fail to complete the construction works, there may be little or no prospect in recovering the significant capital resources that we may have invested. In such a case, our reputation and future business opportunities may be materially and adversely affected. Failure to implement our expansion plan may materially and adversely affect our business, financial condition, results of operations and prospects.

We expect to incur an increase in depreciation expenses resulting from our plan to expand the coverage of our pipeline network, which may adversely affect our financial condition and results of operations.

We expect to expand our sale of PNG business through the construction of new mid-pressure pipelines of approximately 101.0 km in our Operating Area. For details, please refer to "Future Plans and Use of Proceeds" in this document.

As a result of the expansion plan, we will be subject to an increase in depreciation expenses. Our consolidated financial information was prepared in accordance with HKFRS. Depreciation on property, plant and equipment is calculated using a straight-line method to allocate their cost, net of their residual values, over their estimated useful lives. For details, please refer to Note 13 to the Accountant's Report set out in Appendix I to this document. The aforementioned expansion plan, in relation to which we expect to incur depreciation expenses, is expected to be completed in full by 2024. The increase in depreciation expenses will have a negative effect on our profitability, financial condition and results of operations.

OTHER RISKS RELATING TO OUR GROUP

We had net current liabilities as at 31 December 2019, 2020 and 2021 and 30 April 2022.

We had net current liabilities of approximately RMB137.1 million and RMB39.5 million as at 31 December 2019 and 2020, respectively, mainly due to (i) advances that we made to our related parties and third parties; (ii) our payment obligations under our ABS; and (iii) bank borrowings and other borrowings relating to our bill financing arrangements, including the Non-compliant Bill Financing Arrangements, and the Deviation from Intended Use of Loan Proceeds. Although we had placed security deposits with banks for the Non-compliant Bill Financing Arrangements and the Deviation from Intended Use of Loan Proceeds, such amount of security deposit is usually lower than the loan amount obtained from such arrangements. Our total current liabilities also included our contractual liabilities which represent our unearned construction and installation services, PNG sales and sale of gas-burning appliances. Hence the net effect of such arrangements gave rise to the net current liabilities position for the years ended 31 December 2019 and 2020. We had net current liabilities of approximately RMB100.8 million as at 31 December 2021, mainly due to our dividend distribution to shareholders of RMB70.0 million and a deemed distribution as a part of the Reorganisation of RMB60.7 million. We recorded net current liabilities of approximately RMB88.7 million as at 30 April 2022 for the same reasons. For details, please refer to "Financial Information — Discussion of Certain Items of Consolidated Balance Sheets — Current Assets and Current Liabilities" in this document. We cannot assure you that we will not record net current liabilities in the future.

Having net current liabilities could expose us to liquidity risks, which could in turn restrict our ability to make necessary capital expenditures or develop business opportunities, and our business, operating results and financial condition could be materially and adversely affected as a result. If we are unable to generate sufficient cash flow from our operations or are otherwise unable to obtain sufficient funds to finance our operations or satisfy our current liabilities in a timely manner, our business operations, liquidity and ability to raise funding may be materially and adversely affected. We cannot assure you that we will be able to maintain sufficient working capital, revenue or raise the necessary funding to pay off our current liabilities and meet our capital commitments. In such circumstances, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We were involved in certain Non-compliant Bill Financing Arrangements during the Track Record Period and such transactions were not in strict compliance with the relevant PRC laws.

During the Track Record Period, Jiaoyun Gas entered into certain Non-compliant Bill Financing Arrangements with several commercial banks in Shandong Province that involved the issuance of bank acceptance notes, the face value of which were greater than the value of the actual underlying transactions. A considerable amount of cash generated from the Non-compliant Bill Financing Agreements was directly transferred or subsequently advanced to companies within the Private Group on an interest-free basis in order to fund their business operations. As advised by our PRC Legal Advisers, the Non-compliant Bill Financing Arrangements were not in strict compliance with the relevant PRC laws and regulations. For further details, please refer to "Business — Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing" and "Financial Information — Related Party Transactions — Related Parties Advances" in this document.

We have ceased all Non-compliant Bill Financing Arrangements since 17 June 2020 and have fully settled all relevant bank acceptance notes since 17 June 2021. All of the aforementioned interest-free non-compliant advances were also fully settled by 17 June 2021. However, we cannot assure you that the relevant regulatory bodies will not retrospectively impose penalties and/or fines on or take legal actions against us for the previous Non-compliant Bill Financing Arrangements and/or non-compliant advances to related parties. Any such penalties, fines and/or legal action could adversely affect our business, reputation, financial condition and results of operations.

We were involved in the Deviation from Intended Use of Loan Proceeds during the Track Record Period, and such transactions were not in strict compliance with the relevant PRC laws.

During the Track Record Period, the proceeds from certain of our bank loans were not used in accordance with their designated use under the terms of the relevant loan agreements. Jiaoyun Gas, instead of using the proceeds according to the stipulated use of loan under such relevant loan agreements, advanced the proceeds obtained from such bank loans to certain related parties on an interest-free basis. As advised by our PRC Legal Advisers, the Deviation from Intended Use of Loan Proceeds was not in strict compliance with the relevant PRC laws and regulations. For further details, please refer to "Business — Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds" and "Financial Information — Related Party Transactions — Related Parties Advances" in this document.

Jiaoyun Gas has ceased all Deviation from Intended Use of Loan Proceeds since 18 December 2020, and has fully settled all outstanding principal amounts of the relevant loans by 29 June 2021. We cannot assure you that the relevant regulatory bodies will not retrospectively impose penalties and/or fines on or take legal actions against us for the previous Deviation from Intended Use of Loan Proceeds. Any such penalties, fines and/or legal action could adversely affect our business, reputation, financial condition and results of operations.

Our financial condition could be adversely affected if we are unable to effectively control our finance costs.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, we incurred finance costs of RMB25.9 million, RMB16.2 million, RMB4.1 million and RMB0.8 million, accounting for approximately 7.3%, 4.7%, 0.9% and 0.5% of our total revenue, respectively. Such finance costs primarily consisted of interest expenses in respect of our (i) bank borrowings and other borrowings relating to our bill financing arrangements payable and (ii) ABS. The effective interest rate of our bank borrowings was 5.6%, 5.7%, 5.7% and 5.7% per annum for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. The effective coupon rate of our ABS was 7.7% and 7.7%, respectively, for the years ended 31 December 2019 and 2020. For details, please refer to "Financial Information — Discussion of Certain Items of Consolidated Balance Sheets — Indebtedness" in this document.

We may continue to incur substantial finance costs in respect of interest expenses from bank borrowings, and cannot assure you that we will be able to effectively control such costs. If we are unable to effectively control our finance costs, our financial condition could be adversely affected.

We may not be able to obtain sufficient funding to support our business development on acceptable terms, or at all.

The construction of new pipelines and expansion of the coverage of our pipeline network requires significant initial capital expenditure. According to the CIC Report, such initial capital investment is typically used for raw material, installation, mechanical excavation and other costs, and ranges from approximately RMB10 million to RMB10 billion. We therefore require funding in various forms such as bank borrowings and loans from other financial institutions to support the expansion of our pipeline network and our business. In the event that our current resources are not sufficient to support our needs, we will need to seek additional financing or delay certain or all of our future development plans. Our ability to obtain external financing on acceptable terms is subject to various factors, including (i) our future cash flows, financial condition and results of operations; (ii) macroeconomic and capital market conditions; and (iii) government policies and regulations. Our Group had previously entered into some financing arrangements, such as ABS, in respect of which we incurred a significant amount of interest expenses from 2015 to 2020. For details, please refer to "Financial Information — Discussion of Certain Items of Consolidated Balance Sheets — Indebtedness — Borrowings — ABS" in this document. There is no assurance that we will be able to obtain adequate financing on terms acceptable to us, or at all. If we fail to obtain such financing, we may be forced to delay, reduce or abandon our expansion plan or other growth strategies, which in turn could materially and adversely affect our business and results of operations.

We generated most of our revenue from our business operations in Gaomi City during the Track Record Period and up to the Latest Practicable Date. Our business and operating results depend heavily on the economic and social conditions and prosperity of Gaomi City and its neighbouring regions.

We operate our business in Gaomi City of Shandong Province. During the Track Record Period, most of the customers to which we supplied natural gas, sold gas-burning appliances and provided construction and installation services were situated in Gaomi City. We expect that Gaomi City will continue to be our principal market in the future.

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

Our failure to retain or secure our Directors and senior management team and other key and qualified personnel for our operations could hinder our growth and success.

Our success depends, to a large extent, on the experience and skills of our Directors and senior management team and key qualified personnel. Our Directors and senior management team has sufficient experience relating to the natural gas industry. Their expertise, industry experience, and contributions are crucial to our success. For details of their expertise and experience, please refer to "Directors and Senior Management" in this document. We cannot assure you that such persons will continue to work with us or abide by the agreed terms and conditions of their employment contracts. If we are unable to retain and recruit such key qualified personnel, our business prospects could be materially and adversely affected. Even if we were able to retain them or find suitable replacement in a timely manner, we might incur unexpected compensation expenses to meet that end, which could also materially and adversely affect our business.

Our business, financial performance and prospects also depend on our ability to employ, train and retain highly skilled personnel, including managerial, design, engineering and other technical professionals. We need to retain and recruit a large number of highly qualified mechanical engineers, civil engineers, pipeline engineers and other skilled workers for our operations in the city natural gas supply industry. Competition for skilled personnel is generally intense in the PRC. We cannot assure you that we will be able to maintain an adequate skilled labour force necessary to execute our projects or perform other corporate activities, and staff costs may increase as a result of a shortage in supply of qualified personnel. If we fail to attract and maintain an adequate labour force, our business operations could be materially and adversely affected and our future growth and expansion may be hindered.

An increase in our raw material, direct labour and subcontracting costs for our construction and installation services may affect our business, financial condition and operating results.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, we incurred raw material, direct labour and subcontracting costs for our construction and installation services, which amounted to approximately RMB11.9 million, RMB22.0 million, RMB36.4 million and RMB6.7 million, representing approximately 37.8%, 42.0%, 59.7% and 46.2% of our total revenue from the provision of construction and installation services, respectively. If our raw material and subcontracting costs significantly increase in the future, or if we cannot procure raw materials or engage subcontractors at costs which are comparable to our historical procurement costs, and if we are unable to pass on such increase in costs to our customers, our business, profit margins, financial condition and operating results may be materially and adversely affected.

The government subsidy received by our Group during the year ended 31 December 2021 was non-recurring in nature.

During the year ended 31 December 2021, we recorded a government subsidy of approximately RMB13.5 million for our the implementation of the coal-to-gas project (煤改氣工程). This subsidy was non-recurring in nature with no unfulfilled conditions or contingencies attached thereto, and the amount of the subsidy was subject to the discretion of the relevant government authority, namely Gaomi City Housing and Urban-Rural Development Bureau. Please refer to "Financial Information —

Description of Major Components of our Results of Operations — Other Income" in this document. There is no assurance that our Group will continue to receive government subsidies in the future, or at all. If there is any change, suspension or termination of government subsidies, our business, financial condition and results of operations could be materially and adversely affected.

We rely on a stable supply of PNG and LNG for our sale of gas business, and unfavourable fluctuations in the price of such raw materials may materially increase our costs of sales.

During the Track Record Period, the principal raw materials for our sale of gas business were PNG and LNG, which accounted for approximately 88.7%, 80.6%, 77.3% and 91.1% of our total cost of sales for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. The price of PNG and LNG may be adversely affected by factors beyond our control, including but not limited to suppliers' business interruptions, weather conditions, natural disasters, geopolitical tensions and conflicts (such as the Russia-Ukraine military conflict), economic conditions and sudden surges in demand.

We cannot assure you that our PNG and LNG suppliers will continue to supply PNG and LNG to us at prices that are commercially acceptable. In addition, we cannot assure you that we will be able to fully pass on any increase in such natural gas costs to our customers. In the event that we are unable to fully pass on our such natural gas cost increases to customers in a timely manner, or absorb such increases by other means, our profit margin may be adversely affected. The occurrence of pricing fluctuations may therefore have a material adverse impact on our business, financial condition and results of operations.

We are exposed to risk of inventory obsolescence.

Our Group's inventories mainly consist of LNG, construction materials (mainly consisting of pipeline components, valves and other materials necessary for our supply of PNG) and gas-burning appliances. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had inventories of approximately RMB10.2 million, RMB14.9 million, RMB9.3 million and RMB10.1 million, respectively. Our inventory turnover days were approximately 14 days, 18 days, 13 days and 9 days for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. Due to the nature of natural gas, we only maintain a very small amount of gas reserve. The majority of our inventories consists of construction materials for our construction and installation services. The demand for our construction and installation services depends on their economic condition, as well as the degree of their economic activity, which are factors beyond our control. We maintain an adequate stock of construction materials for our provision of construction and installation services. Therefore, any unexpected change in the economic condition or degree of economic activity of our customers may render our inventory obsolete. Such unexpected change in the demand for our construction and installation services may result in over-stocked construction materials which may lead to decline in inventory values, and significant write-offs. Furthermore, obsolescent inventories may directly impact our sales and pricing as we may be required to lower the sale price of our products to reduce the inventory level, which may lead to lower profit margin. All of these factors may in turn affect our Group's results of operations and financial position.

We are exposed to fair value changes of our investment properties.

Fair value changes in our investment properties may affect our financial position and results of operations. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, we recognised fair value gains on our investment properties of approximately RMB2.0 million, RMB1.0 million, RMB1.1 million and RMB0.8 million, respectively. Certain significant inputs used in the determination of fair value of investment properties are arrived at by reference to certain unobservable market data. Such determination requires us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Factors beyond our control can significantly influence and cause adverse changes to the estimates we use and thereby affect the fair values of our investment properties. These factors include, but are not limited to, general economic condition, changes in market interest rates and stability of the capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results, which could affect our results of operations and financial condition.

Our intangible assets and goodwill are subject to potential impairment, which may adversely affect our results of operations.

During the Track Record Period, our intangible assets comprised goodwill and software licenses. As at 31 December 2019, 2020 and 2021 and 30 April 2022, our intangible assets amounted to approximately RMB4.3 million, RMB4.2 million, RMB4.3 million and RMB4.3 million, respectively. Goodwill on acquisitions of subsidiaries is included in intangible assets, and gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Acquired software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The Group amortises software with a limited useful life using the straight-line method over 10 years.

Goodwill is initially measured at cost, being the excess of the (i) consideration transferred; (ii) amount of any non-controlling interest in the acquired entity; and (iii) acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets. After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. During the Track Record Period, we did not record any impairment losses on our intangible assets. However, there is no guarantee that we will not incur impairment losses in the future. Any significant impairment losses may reduce our asset and materially and adversely affect our financial position and results of operation.

If we are unable to fulfil our obligations in respect of contract liabilities, our results of operations and financial condition may be adversely affected.

The advances received from customers for our PNG sales, construction and installation services, CNG and LNG gas-burning appliances sales are recognised as contract liabilities in the consolidated balance sheet and revenue is recognised when we render the relevant services or sales of goods. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had contract liabilities of approximately

RMB87.8 million, RMB124.2 million, RMB101.3 million and RMB85.8 million, respectively. We may be required to return the corresponding portion of the payment from our customers in the case that we are unable to fulfil our obligations in respect of our contract liabilities, such as a delay in our completion of construction and installation services. This may adversely affect our results of operations and financial condition, including our cash and liquidity position.

We are exposed to credit risk for trade receivables and there is a possibility of providing impairment loss to our prepayments and other current assets.

During the Track Record Period, our trade receivables represented outstanding amounts due from our customers mainly for our products and services. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had net trade receivables of approximately RMB3.0 million, RMB0.2 million, RMB32.3 million and RMB32.5 million, respectively. We recorded a significant increase in our trade receivables as at 31 December 2021 and 30 April 2022 due to our implementation of Clean Energy Projects which were generally to be settled by installments over three years pursuant to the contracts entered between us and the relevant local government authorities.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are considered to be subjected to higher risk of default and are tested individually. For details on how expected credit losses are measured, please see Note 3 of the Accountant's Report in Appendix I to this document. The loss allowance in respect of these collectively assessed trade receivables amounted to approximately RMB616,000 and RMB621,000 based on an average expected loss rate of approximately 1.87% and 1.87% as at 31 December 2021 and 30 April 2022. The loss allowance as at 31 December 2019 and 2020 was immaterial.

During the Track Record Period, our trade receivables mainly resulted from our implementation of Clean Energy Projects. As the payments for such Clean Energy Projects are generally settled by installments over three years after the completion of each Clean Energy Project, the ageing of our trade receivables at any point of time may be significant. Although we strive to actively communicate with the local authorities to strictly adhere to the settlement of trade receivables due from Clean Energy Projects and recover our trade receivables through various means of fee collection, the process of fee collection could potentially be time-consuming and require significant financial and other resources. Furthermore, failure to secure adequate payments in time or to manage trade receivables effectively could have a material and adverse effect on our business, financial position, results of operations and prospects. If the actual recoverability is lower than expected, or that our past provision for impairment of trade receivables becomes insufficient in light of the new circumstances, we may need to make more provision for impairment of trade receivables, which may in turn adversely affect our business, financial position and results of operations. If we are unable to collect receivables from customers or experience a prolonged delay in receiving such payments, our cash flow position and our ability to meet our working capital requirements may be adversely affected.

Further, assets other than goodwill are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. If we provide impairment loss to our prepayments and other current assets, our results of operations, financial condition and cash flows may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

We are subject to future changes in laws or regulations or enforcement policies in relation to the natural gas industry.

Concession operation and the natural gas industry are subject to a broad range of laws and regulations in the PRC. As such, any significant change in government policies, rules and regulations in natural gas industry may materially and adversely affect our business, financial condition and results of operations.

Currently, all major aspects of the natural gas industry in the PRC are strictly regulated by the relevant government authorities, including procurement price, retail price and pipeline network construction and emission standards. The regulatory environment of the natural gas industry in the PRC is subject to frequent changes. Any change in existing laws and regulations or their interpretation that may affect our business or operations could require us to incur additional compliance costs or costly and time-consuming changes to our operations, either of which could materially and adversely affect our business, results of operations and financial condition. Please refer to "Regulatory Overview" in this document for further details.

Some of the licenses, permits and certificates are subject to periodic review and renewal by the government authorities and the standards of compliance required may change over time. Any changes in the existing policies by the governmental authorities resulting in the imposition of more burdensome requirements may result in our failure to obtain or maintain such licenses, permits and certificates. Any such failure could subject us to fines and other penalties, which could have a material and adverse effect on our results of operations and business, financial condition, and prospects. Please refer to "Business — Regulatory Compliance — License, Permits and Certificates" in this document for further details.

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

We are generally responsible for the maintenance of (i) our urban pipeline network and natural gas facilities in our Operating Area and (ii) part of the PNG end-user pipeline network as specified in the PNG usage agreements with our industrial and commercial PNG end-users, for our sale of PNG operations. For details of our repairs and maintenance costs, please refer to "Financial Information — Description of Major Components of Our Results of Operations — Cost of Sales" in this document. We may need to maintain, repair or replace certain equipment or facilities if we find any malfunction or safety risks in them, which requires significant capital expenditure. We expect that our capital expenditure for the maintenance of our operational facilities will increase as the PNG pipelines and facilities become aged, which may put pressure on our cash flows, and our future results of operations and financial condition may be adversely affected.

There may be alternative energy sources other than natural gas.

The cost of natural gas in comparison with alternative fuel sources will affect the demand for our supply of PNG business. Coal gas, petroleum, LPG, LNG, electricity and hydrogen are the main substitutes for natural gas. We believe that PNG end-users will consider factors such as cost, availability, reliability, convenience and safety when choosing the energy source to use. In the event that other forms of energy sources become more attractive, our PNG end-users may shift to use such other forms of energy, which may materially and adversely affect our business, financial condition, operating results and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the PRC economic, political and social conditions, as well as government policies, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operating businesses are based in China and our revenue is derived from those businesses. As such, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China.

China's economy differs from the economies of most developed countries in many aspects, including:

- the level of government involvement;
- the level of development;
- the economic growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has grown significantly in the past two decades, the growth has been geographically uneven, among various sectors of the economy and during different periods, and there is no assurance that such growth can be sustained or is sustainable. In addition, the PRC Government continues to play a significant role in regulating industrial development and the allocation, production, pricing and management of resources. Government economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may have an adverse effect on us.

China's economic growth may slow down due to weakened exports, as well as recent developments surrounding the trade war between China and the U.S. The tensions between China and the U.S. may cause fluctuation of the RMB currency, a contraction of certain industries in China and slowdown of domestic demand and consumption. Should the trade war materially impact China's economy, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Governmental control over currency conversion may affect the value of your [REDACTED] and limit our ability to utilise our cash and pay dividends effectively.

The RMB is not currently a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. As our operations are primarily conducted in the PRC and substantially all of our revenue is denominated in RMB, fluctuations in the RMB exchange rate against other currencies did not have a material impact on our results of operations during the Track Record Period. Pursuant to existing foreign exchange regulations in the PRC, we are allowed to carry out current account foreign exchange transactions (including dividend payouts) without submitting the certifying documents of such transactions to SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account purposes, including direct overseas investment and various international loans, may require the prior approval or registration with SAFE. If we fail to obtain SAFE's approval to convert RMB into foreign currencies for such purposes, our capital expenditure plans, business operations and subsequently our results of operations and financial condition could be materially and adversely affected.

Uncertainties with respect to the PRC legal system could have a material and adverse effect on our business and operations.

All of our business is conducted in the PRC and is governed by the laws and regulations of the PRC. The PRC legal system is based on written statutes, where prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new, and due to the limited number of published cases and judicial interpretations and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties.

Our Group is generally subject to laws, rules and regulations applicable to foreign investments in China. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities, thus we may have to resort to administrative and court proceedings to enforce the legal protections that we benefit from either by law or contract. Furthermore, the Chinese legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until sometime after the violation. These uncertainties, together with any development or interpretation of the PRC law that is adverse to us, could materially and adversely affect our business, financial condition, results of operations, cash flows and prospects.

It may be difficult to effect service of process, enforce foreign judgments and arbitral awards against us or our Directors and senior management located in the PRC.

It may be difficult to effect service of process, enforce foreign judgments and arbitral awards against us or our Directors and senior management located in the PRC. We are incorporated in the Cayman Islands. A substantial portion of our assets and operations are located in the PRC, and a majority of our Directors and senior management are located in the PRC. As a result, it may be difficult or impossible for you to effect service of process within Hong Kong upon us or these persons, or to bring an action in Hong Kong against us or these individuals. Moreover, China does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards.

On 14 July 2006, the Supreme People's Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**2006 Arrangement**"). Pursuant to such arrangement, a party with a final judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China, and vice versa. However, it is subject to the parties in the dispute agreeing to enter into a choice of court agreement in writing under the 2006 Arrangement. On January 18, 2019, the Supreme People's Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**2019 Arrangement**"), the commencement date of which shall be announced after the Supreme People's Court promulgates judicial interpretations and relevant procedures are completed in Hong Kong. The 2019 Arrangement will supersede the 2006 Arrangement and afford greater clarity and certainty for reciprocal recognition and enforcement of judgments in civil and commercial matters. The 2006 Arrangement will remain applicable to a "choice of court agreement in writing" entered into before the 2019 Arrangement taking effect. However, there remains uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC. Furthermore, an original action may only be brought in the PRC against our Directors and senior management located in the PRC, if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

Foreign individual holders of our Shares may become subject to PRC income tax and the PRC tax obligations of foreign enterprises that are holders of our Shares remain uncertain.

Under the *Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)*, relevant rules and regulations, PRC income tax at the rate of 10% is applicable to dividends payable by a PRC "resident enterprise" to investors that are "non-resident enterprises" (i.e., those enterprises that do not have an establishment or place of business in the PRC, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If the dividends we pay to our Shareholders are regarded as income derived from sources within the PRC, we may be required to withhold a 10% PRC withholding tax for the dividends we pay to our investors who are non-PRC enterprise Shareholders, or a 20% withholding tax for the dividends we pay to our investors who are non-PRC individual Shareholders, including the holders of our Shares. In addition, our non-PRC Shareholders may be subject to PRC tax on gains realised on the sale or other disposition of our Shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC Shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC in the event that we are considered as a PRC resident enterprise. China's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your [REDACTED] in our Shares may be materially affected.

Payment of dividends is subject to restrictions under PRC law.

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

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

We may be required to complete the filing with the CSRC for the [REDACTED] and subject to additional regulatory requirements if certain new draft regulations in relation to overseas listing are implemented in China.

On 24 December 2021, the CSRC published the *Administrative Provisions of the State Council on the Overseas Securities Offering and Listing by Domestic Companies* (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草稿徵求意見稿)》) (the "**Draft Administrative Provisions**"), and the (Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments)) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the "**Draft Measures for Filing**", together with the Draft Administrative Provisions, the "***Drafts relating to Overseas Listings***"). The Drafts relating to Overseas Listings require, among others, that PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to file the required documents with the CSRC within three working days after its application for overseas listing is submitted. See "Regulatory Overview — M&A Rules and Overseas Listing" for more details. As of the Latest Practicable Date, the Drafts relating to Overseas Listings have not yet come into force and their contents may be subject to further clarification and change.

In addition, according to the "Reply to the Reporters' Question by the CSRC Responsible Officers" (證監會有關負責人答記者問) dated 24 December 2021, the CSRC clarified that it adheres to the principle of non-retroactivity of the law, and the CSRC would start with the additional enterprises (增量企業), i.e., impose filing procedures on additional enterprises as well as existing enterprises (存量企業) with refinancing requests, while filing by other existing enterprises will be arranged separately so as to give them a sufficient transitional period. However, the CSRC Responsible Officers did not provide a clear definition of these terms. Therefore, whether our Company, for the purpose of this [REDACTED], is an "additional enterprise (增量企業)" or a "existing enterprise (存量企業)" is subject to further explanation by the CSRC. We cannot guarantee that we will be categorised as a "existing enterprise (存量企業)" by the CSRC. If we are categorised as an "additional enterprise (增量企業)", we may have to incur significant time, costs and resources to comply with these regulatory requirements and have to complete the filing procedures with the CSRC with respect to this [REDACTED]. Further, even if we are categorised as a "existing enterprise (存量企業)", we may still face more stringent regulatory requirements as compared to its current status. As such, our business operations may be materially and adversely affected. In addition, uncertainties exist regarding the final form of these regulations in relation to overseas listing as well as the interpretation and implementation thereof after promulgation. Any failure to comply with the rules and regulations relating to overseas listing may subject us to fines, penalties or other sanctions which may have a material adverse effect on our business and financial conditions as well as our ability to complete the [REDACTED].

RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our Shares, and the liquidity, market price and trading volume of the Shares may be volatile.

Prior to the [REDACTED], there has been no public market for our Shares. The initial [REDACTED] range for our Shares was the result of negotiations among the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) and us, and such [REDACTED] may differ significantly from the market price for our Shares following the [REDACTED]. We have applied to the Hong Kong Stock Exchange for the [REDACTED] of, and the [REDACTED], our Shares. However, there is no assurance that the [REDACTED] will result in the development of an active and liquid public trading market for our Shares. The market price, liquidity and trading volume of our Shares may be volatile. Factors such as the following may affect the volume and price at which our Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- release of lock-up or other transfer restrictions on our outstanding Shares or sale or perceived sale of additional Shares by us or other Shareholders.

In addition, Shares of other issuers listed on the Hong Kong Stock Exchange have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

The sale or potential sale of substantial amounts of our Shares in the public market (including any future offering) may affect the prevailing market price of our Shares and our ability to raise capital in the future, and future additional issuance of securities may dilute your shareholdings.

The sale of substantial amounts of our Shares or other securities related to our Shares in the public market, or the issuance of new Shares or other securities, or the market anticipation that such sale or issuance may occur, may cause fluctuations in the market price of our Shares, and may materially and adversely affect our ability to raise capital at a time and at a price as we see fit in the future. Furthermore, if we issue additional securities in future offerings, the shareholdings of the Shareholders may be diluted.

As the [REDACTED] of our Shares is higher than the net tangible asset value per share, you will experience immediate dilution.

The [REDACTED] of our Shares is higher than the net tangible asset value per share of the outstanding Shares issued to our existing Shareholders. Therefore, purchasers of our Shares in the [REDACTED] will experience an immediate dilution in the net tangible asset value, and the pro forma adjusted consolidated net tangible asset value per share of the Shares held by our existing Shareholders will increase. If, in order to expand our business in the future, we issue additional Shares at a price below the net tangible asset value per share, the net tangible asset value per share of our Shares held by the buyers of our Shares may be diluted.

There can be no assurance of the accuracy or comparability of facts and statistics contained in this document with respect to the PRC, its economy or its natural gas industry.

Facts and statistics in this document relating to the PRC, its economy and its natural gas industries, including its market share information, are derived from various official and other publicly available sources which are generally believed by us to be reliable. However, there can be no assurance as to the quality and reliability of such official source materials. In addition, facts and statistics from official government sources have not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED] and the [REDACTED] or any other party involved in the [REDACTED], and no representation is given as to its accuracy. In all cases, [REDACTED] should give consideration as to how much weight or importance they should attach to or place on such official government facts, forecasts or statistics.

There will be a time gap of several business days between pricing and trading of our Shares [REDACTED] under the [REDACTED].

The [REDACTED] of our Shares sold to the public under the [REDACTED] will be determined on the [REDACTED]. However, trading of our Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several business days after the [REDACTED]. As a result, [REDACTED] of our Shares may not be able to [REDACTED] in our Shares during that period. Accordingly, holders of our Shares may be subject to the risk that our [REDACTED] trading price could fall before trading begins as a result of adverse market conditions or other unfavourable circumstances that may arise during the period between the [REDACTED] and the date on which the dealing begins.

There can be no assurance if and when we will pay dividends in the future. Dividends declared in the past may not be indicative of our dividend policy in the future.

After completion of the [REDACTED], we expect to declare and distribute approximately 33.0% of our net profit for a given year as dividends to our Shareholders (the "**Dividend Policy**"). Assuming that the [REDACTED] occurs in 2022, 2022 will be the first year for which our net profit will be used for the purposes of declaring and paying dividends in accordance with the Dividend Policy. Please refer to "Financial Information — Dividend and Dividend Policy" in this document for further details of our Dividend Policy.

Any future determination to declare and pay any dividend will require the approval of the Board and will be at their discretion. Our Board will review the Dividend Policy from time to time and determine whether dividends are to be declared and paid based on our future results of operations, capital requirements and surplus, general business and financial conditions and other factors that our Directors consider relevant. In addition, any final dividend for a financial year will be subject to shareholders' approval and the relevant laws. Subject to any of the above constraints, we may not be able to pay dividend in accordance with our Dividend Policy. In addition, dividends paid in prior periods may not be indicative of future dividend payments. As a result, we cannot guarantee when, if and in what form dividend will be paid in the future.

You may face difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among others, our Memorandum and Articles and the Companies Act and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions, such as Hong Kong. Please refer to "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this document.

As a result of all of the above, our Shareholders may have more difficulty in protecting their interests through actions against our management, Directors or major Shareholders than they would as the listing of a corporation incorporated in Hong Kong.

Our Controlling Shareholders have substantial control over our Company and their interests may not be aligned with the interests of the other Shareholders.

Prior to and immediately following the completion of the [REDACTED], our Controlling Shareholders will continue to have substantial control over its interests in the issued share capital of our Company. Subject to the Articles of Association, the Companies Act and the Listing Rules, the Controlling Shareholders by virtue of their controlling beneficial ownership of the share capital of our Company, will be able to exercise significant control and exert significant influence over our business or otherwise on matters of significance to us and other Shareholders by voting at the general meeting of the Shareholders and at Board meetings. The interests of our Controlling Shareholders may differ from the interests of the other Shareholders and they are free to exercise their votes according to their interests. To the extent that the interests of our Controlling Shareholders conflict with the interests of other Shareholders, the interests of other Shareholders can be at a disadvantage and harmed.

Certain data and information in this document were obtained from third-party sources and were not independently verified by us.

This document contains certain data and information that we obtained from various government and private entity publications. Statistical data in these publications also include projections based on a number of assumptions. The industrial gas industry in China may not grow at the rate projected by market data, or at all. The failure of our industry to grow at the projected rate may have a material adverse effect on our business. In addition, the complex and changing nature of the broad macroeconomic factors discussed in this document may result in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market.

Furthermore, if any one or more of the assumptions underlying the market data is later found to be incorrect, actual results may differ from the projections based on these assumptions. Data and information contained in such third-party publications and reports may be collected using third party methodologies, which may differ from the data collection methods used by us. In addition, these industry publications and reports generally indicate that the information contained therein was believed to be reliable, but do not guarantee the accuracy and completeness of such information.

You should read the entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industry and the [REDACTED].

There may have been, prior to the publication of this document, and there may be, subsequent to the date of this document but prior to the completion of the [REDACTED], press and media coverage regarding us and the [REDACTED]. You should rely solely upon the information contained in this document, the [REDACTED] and any formal announcements made by us in Hong Kong in making your [REDACTED] decision regarding the [REDACTED]. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any estimates, views or opinions expressed by the press or other media regarding the [REDACTED] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

Accordingly, prospective [REDACTED] should not rely on any such information, reports or publications in making their decisions whether to [REDACTED] in the [REDACTED]. Prospective [REDACTED] in the [REDACTED] are reminded that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this document and the [REDACTED]. By applying to purchase our Shares in the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [REDACTED].