

## **FUTURE PLANS AND USE OF PROCEEDS**

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### **FUTURE PLANS**

We strive to optimise our natural gas operation as well as construction and installation services in Gaomi City and intend to achieve this through our business strategies. For a detailed description of our future plans, please refer to “Business — Our Business Strategies” in this document.

### **USE OF PROCEEDS**

We estimate that we will receive net proceeds from the [REDACTED] of approximately HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range) (equivalent to approximately RMB[REDACTED]), after deducting the [REDACTED] fees and commissions and estimated expenses paid and payable by us in relation to the [REDACTED] and assuming no exercise of the [REDACTED].

Our Directors intend to apply the net proceeds from the [REDACTED] for the execution of our plans to (i) construct new mid-pressure pipelines, (ii) upgrade our urban pipeline network, (iii) replace existing gas meters with Goldcard Meters; and (iv) construct PNG end-user pipelines and connect these pipelines to our urban pipeline network (the “**Expansion Plan**”) with details set out below.

- (1) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for expanding our sale of PNG business through construction of new mid-pressure pipelines of approximately 101.0 km to cover certain rural areas and remote industrial areas in our Operating Area (the “**Target Area**”) in the coming three years after [REDACTED]. The expected capital expenditure for this entire plan of construction of new mid-pressure pipelines is approximately HK\$[93.1] million (equivalent to approximately RMB[81.0] million). We plan to supplement any shortfall in such expenditure with internal resources or bank borrowings, as appropriate.

These new mid-pressure pipelines will be connected to and become part of our existing urban pipeline network, which is connected to the city gateway stations. At the Latest Practicable Date, we owned and operated two city gateway stations for the transmission of PNG exclusively supplied by PetroChina and Shandong Shihua, respectively. For the functions of our city gateway stations, please refer to “Business — Sale of PNG — Our PNG Supply Facilities” in this document. Therefore, PNG supplied by PetroChina and Shandong Shihua will be processed at our existing city gateway stations and reach the Target Area through our urban pipeline network which is, in turn, connected to the PNG end-user pipelines. All expansion projects in rural areas of the Target Area are intended to serve rural residents under the Clean Energy Projects.

We expect that the net proceeds allocated to this purpose will be fully utilised by 2025, with detailed breakdown of the proceeds to be allocated as below:

- (a) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network construction in Renhe Industrial Park (仁和化工園區) of approximately 5.0 km in our Operating Area in 2022.

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- (b) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct new mid-pressure pipelines for connecting our natural gas stations to PNG end-users' pipeline networks of approximately 63.0 km in our Operating Area in 2023:
- (i) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension connecting Lvjia Village (律家村) and Shuangjing Road (雙井路) of approximately 16.0 km; and
  - (ii) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension in Jinggou (井溝), connecting Shuangjing Road (雙井路), Tianzhuang Village (田莊) and Qujiadahu (曲家大澗) of approximately 18.0 km;
  - (iii) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension in in Hongxiuhe Street (紅繡河街), connecting Xiahai Road (下海路) and Gaozhu Road (高諸路) of approximately 11.0 km; and
  - (iv) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension connecting Shuangjing Road (雙井路) and Zhugou (注溝) of approximately 18.0 km.
- (c) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct new mid-pressure pipelines for connecting our natural gas stations to PNG end-users' pipeline networks of approximately 33.0 km in our Operating Area in 2024:
- (i) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension connecting Weijiao Road (濰膠路) and Lvjia Village (律家村) of approximately 16.0 km; and
  - (ii) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension located in Xiahai Road (下海路), connecting Fenghuang Dajie/Boulevard — S102 (鳳凰大街-S102) of approximately 17.0 km.

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The table below sets out the details of each new mid-pressure pipeline construction project.

| Area         | Name of project   | Details of major construction work             | Year of commencement of construction | Expected year of completion of construction | Expected length of pipeline to be constructed<br>(km) | Expected major capital expenditure<br>(RMB million) | Expected breakeven point <sup>(1)</sup> | Expected investment payback period <sup>(2)</sup> |
|--------------|---|--|--------------------------------------|---|---|---|---|---|
| Rural        | Renhe Industrial Park (仁和化工園區管網建設)  | Mainly mid-pressure pipeline network extension | 2022                                 | [2023]                                      | 5.0   | 3.9   | Less than half a year                   | Around one year                                   |
| Rural        | Lvjia Village — Shuangjing Road Urban Pipeline Network (律家村 — 雙井路管網建設)                      | Mainly mid-pressure pipeline network extension | 2023                                 | [2023]                                      | 16.0  | 12.4  | Less than half a year                   | Around six and a half years                       |
| Rural        | Jinggou (井溝) connecting Shuangjing Road, Tianzhuang Village and Qujiadahu (雙井路-田莊-曲家大諧管網建設) | Mainly mid-pressure pipeline network extension | 2023                                 | [2023]                                      | 18.0  | 14.1  | Less than half a year                   | Around six years                                  |
| Rural        | Hongxiuhe Street (Xiahai Road — Gaozhu Road) (紅繡河街(下海路-高諾路)管網建設)                            | Mainly mid-pressure pipeline network extension | 2023                                 | [2024]                                      | 11.0  | 8.6   | Less than half a year                   | Around four and a half years                      |
| Rural        | Shuangjing Road — Zhugou Urban Pipeline Network (雙井路 — 注溝管網建設)                              | Mainly mid-pressure pipeline network extension | 2023                                 | [2023]                                      | 18.0  | 13.9  | Less than half a year                   | Around six years                                  |
| Rural        | Weijiao Road — Lvjiu Village Urban Pipeline Network (灘膠路 — 律家村管網建設)                         | Mainly mid-pressure pipeline network extension | 2024                                 | [2025]                                      | 16.0  | 12.4  | Less than half a year                   | Around seven and a half years                     |
| Rural        | Xiahai Lu (Fenghuang Dajie/Boulevard — S102) (下海路(鳳凰大街-S102)管網建設)                           | Mainly mid-pressure pipeline network extension | 2024                                 | [2025]                                      | 17.0  | 15.7  | Less than half a year                   | Around six and a half years                       |
| <b>Total</b> |   |  |                                      |   | <u>101.0</u>  | <u>81.0</u>   |   |   |

*Notes:*

- (1) Breakeven point occurs when the total gross profit generated from our sale of PNG from the projects fully offsets the expenses incurred thereto, including depreciation expenses of capital expenditure and other operating overheads (mainly consist of maintenance cost of the pipelines).
- (2) Investment payback period is defined as the cash investment payback period, which refers to the time required for the accumulated operating cash flow generated from the projects covers the capital expenditure incurred for the projects and construction fees for carrying out the construction works.

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- (2) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for upgrading approximately 43.4 km of our urban pipeline network. The expected capital expenditure for this entire plan of upgrade of our urban pipeline network is approximately HK\$[39.4] million (equivalent to approximately RMB[34.2] million). We plan to supplement any shortfall in such expenditure with internal resources or bank borrowings, as appropriate.

The mid-pressure pipelines to be upgraded are still in use, with an average remaining service duration of around two and a half years. For more information of our urban pipeline network, please refer to “Business — Sales of PNG — Our PNG Supply Facilities — Urban Pipeline Network” in this document. Since these mid-pressure pipelines are about to reach their maximum intended service duration of 20 years, we plan to systematically replace aged mid-pressure pipelines with new ones. Our Directors believe that this upgrading initiative can bring about the following benefits to our sale of natural gas business:

- (i) enhancing gas transmission safety. We can further enhance gas transmission safety as an upgrade to our urban pipeline network can prevent gas leakage, thereby minimising the occurrence of accidents due to gas leakage;
- (ii) saving maintenance costs and improving operating efficiency. An upgrade to our urban pipeline network can reduce our inspection and maintenance manpower on our urban pipeline network in short-to-mid term, thereby saving our maintenance costs and improving our operating efficiency; and
- (iii) improving PNG end-users’ usage experience, as the upgrade to our urban pipeline network can further stabilise the transmission pressure of PNG and will elevate our PNG end-users’ satisfaction towards our service.

We expect that the net proceeds allocated to this purpose will be fully utilised by 2025, with detailed breakdown of the proceeds to be allocated as below:

- (a) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to upgrade our urban pipeline network by replacing obsolete pipelines of approximately 22.3 km in 2023; and
- (b) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to upgrade our urban pipeline network by replacing obsolete pipelines of approximately 21.1 km in 2024.

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The table below sets out the details of each urban pipeline upgrade project.

| Area  | Name of project  | Details of major construction work             | Year of commencement of construction | Expected year of completion of construction | Expected length of pipeline to be upgraded<br>(km) | Expected major capital expenditure<br>(RMB million) | Expected breakeven point <sup>(1)</sup> | Expected investment payback period <sup>(2)</sup> |
|-------|--|--|--------------------------------------|---|--|---|---|---|
| Rural | Upgrade to Jiangzhuang Village (Fu'ri Front Street — Jiangzhuang Village) Pipeline Network and Fenghuang Dajie/Boulevard (Gucheng Road — Shuguang Road) Pipeline Network (姜莊(孚日前街-姜莊)段管網及鳳凰大街(古城路-曙光路)段管網更新工程)   | Mainly mid-pressure pipeline network upgrading | 2023                                 | [2024]                                      | 22.3   | 17.6  | Less than half a year                   | Around four and a half years                      |
| Rural | Upgrade to Kangcheng Dajie/Boulevard (Shui'an Oriental — Chang'an Street) Pipeline Network and Xianjia (Jiangzhuang Village — Xianjia Hongguang Road) Pipeline Network (康成大街(水岸東方-昌安大道)段管網及咸家(姜莊-咸家紅光大道)段管網更新工程) | Mainly mid-pressure pipeline network upgrading | 2024                                 | [2025]                                      | 21.1   | 16.6  | Less than one year                      | Around six and a half years                       |
| Total |  |  |                                      |   | 43.4   | 34.2  |   |   |

*Notes:*

- (1) Breakeven point occurs when the total gross profit generated from our sale of PNG from the projects fully offsets the expenses incurred thereto, including depreciation expenses of capital expenditure and other operating overheads (mainly consist of maintenance cost of the pipelines).
- (2) Investment payback period is defined as the cash investment payback period, which refers to the time required for the accumulated operating cash flow generated from the projects covers the capital expenditure incurred for the projects and construction fees for carrying out the construction works.

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- (3) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for replacing existing gas meters with our Goldcard Meters for over 19,500 households in our Operating Area. The expected capital expenditure for this entire plan of replacement of gas meters is approximately HK\$[13.3] million (equivalent to approximately RMB[11.5] million). We plan to supplement any shortfall in such expenditure with internal resources or bank borrowings, as appropriate.

We expect that the net proceeds allocated to this purpose will be fully utilised by 2024, with detailed breakdown of the proceeds to be allocated as below:

- (a) approximately [REDACTED]%, or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED]), will be used to install Goldcard Meters for over 13,000 households at approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) per household in 2023; and
- (b) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to install Goldcard Meters for over 6,500 households at approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) per household in 2024.

The table below sets out the details of each Goldcard Meters replacement project.

| Area         | Name of project  | Details of major construction work                     | Year of commencement of construction | Expected year of completion of construction | Expected number of Goldcard Meters to be installed<br><i>(household)</i> | Expected major capital expenditure<br><i>(RMB million)</i> | Expected breakeven point <sup>(1)</sup> | Expected investment payback period <sup>(2)</sup> |
|--------------|--|--|--------------------------------------|---|--|--|---|---|
| Rural        | Goldcard Meters replacement for PNG end-users of Liqian Street and Chaoyang Street (朝陽街道和禮泉街道置換金卡表工程)  | Replacing existing gas meters with our Goldcard Meters | 2023                                 | [2023]                                      | Over 13,000  | 7.7  | Less than half a year                   | Around two years                                  |
| Rural        | Goldcard Meters replacement for PNG end-users of Baicheng, Damoujia, Xianjia, Xiazhuang Village, Hanjia, Kaifa/ Development Zone 開發區 and Mishui Street (柏城、大傘家、咸家、夏莊、關家、開發區及密水街道置換金卡表工程) | Replacing existing gas meters with our Goldcard Meters | 2024                                 | [2024]                                      | Over 6,500   | 3.8  | Less than half a year                   | Around two years                                  |
| <b>Total</b> |  |  |                                      |   | <u>Over 19,500</u>   | <u>11.5</u>  |   |   |

*Notes:*

- (1) Breakeven point occurs when the total gross profit generated from our sale of PNG from the projects fully offsets the expenses incurred thereto, including assumed amortisation of capital expenditure of Goldcard Meters over 20 years (being the maximum longevity of Goldcard Meters according our management' judgment) and other operating overheads (mainly consist of maintenance cost of the pipelines).

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- (2) Investment payback period is defined as the cash investment payback period, which refers to the time required for the accumulated operating cash flow generated from the projects covers the capital expenditure incurred for the projects and construction fees for carrying out the construction works.

To illustrate the benefit of replacing the existing gas meters with Goldcard Meters, the following table sets out a cost-benefit analysis of using Goldcard Meters compared with using existing gas meters.

|   | <b>One<br/>Calendar<br/>Year</b> |
|---|----------------------------------|
|   | <i>(RMB /<br/>household)</i>     |
| <b>Using existing gas meters</b>  |                                  |
| Maintenance costs   | 22.0                             |
| Labour costs  | 16.4                             |
| <b>Total</b>  | <b>38.6</b>                      |
| <b>Using Goldcard Meters</b>  |                                  |
| Estimated amortisation of initial capital expenditure <sup>(Note)</sup> | 28.6                             |
| Maintenance and repair costs  | 3.3                              |
| <b>Total</b>  | <b>31.9</b>                      |
| <br><b>Costs saved for using Goldcard Meters</b>                        | <br><b>6.7</b>                   |

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*Note:* Initial capital expenditure on a Goldcard Meter per household equals to RMB572.4. Each Goldcard Meter is expected to be used for 20 years according to our management’s judgment. Therefore, initial capital expenditure on a Goldcard Meter is assumed to be amortised through the expected life of the Goldcard Meter.

Based on the above comparison, our Directors consider that it is more cost effective for our Group to replace existing gas meters with Goldcard Meters. Details of the operational efficiency of replacing existing gas meters with Goldcard Meters are set out in “Business — Our Business Strategies — Optimise our operational efficiency” in this document.

- (4) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for implementing the Clean Energy Projects for over 5,500 households in our Operating Area. The expected capital expenditure for such implementation of Clean Energy Projects approximately HK\$[27.1] million (equivalent to approximately RMB[23.6] million). We plan to supplement any shortfall in such expenditure with internal resources or bank borrowings, as appropriate.

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This is for expanding our reach by enabling households along our newly-constructed pipelines to access our urban pipeline network as an extension to the coal-to-gas project (煤改氣工程), which will be further carried on beyond 2022 in accordance with the Comprehensive Work Plan for Energy Conservation and Emission Reduction (節能減排工作方案); thereby growing our sale of PNG business in the coming three years after [REDACTED].

In terms of the detailed plan to carry out the Clean Energy Projects, we will firstly assign a project manager to each project to prepare an overall construction plan and drawing, according to which we will then extend our urban pipeline network to the respective proximities of the aforementioned villages. Following this step, we will proceed to lay down PNG end-user pipelines in the units, properties and premises of our PNG end-users and connect these pipelines to the newly constructed mid-pressure pipelines for PNG transmission. Project managers are also assigned to select qualified subcontractors so that we can outsource labour-intensive construction works and minimise labour directly employed by us. Project managers shall also prepare a report with respect to the progress of each project to our senior management, who will regularly monitor and discharge their supervisory duties in respect of our implementation of the coal-to-gas project (煤改氣工程) in Gaomi City. Upon the completion of the aforementioned Clean Energy Projects by 2024, more than 5,500 households in the rural areas in our Operating Area who currently use obsolete coal-fired boilers will become able to access PNG for their daily usage.

Households under such Clean Energy Projects are required to make full payment of the portion of fees payable by them before commencement of the project. According to the Clean Energy Project agreements, each household under the Clean Energy Projects shall pay RMB2,000 for its participation in the Clean Energy Projects, subject to a discount of RMB800 if that household already has natural gas access for purposes other than heating (i.e. the household will only be required to pay RMB1,200 in such case), as encouragement for residents in rural areas to change to use natural gas in place of coal as energy source for heating. So long as households under the Clean Energy Projects have paid such fee, they no longer have to separately bear the construction and installation costs and purchase cost of gas-burning appliances. According to CIC, the per capita disposal income of rural residents in the Target Area is approximately RMB23,355 in 2021.

We expect that the net proceeds allocated to this purpose will be fully utilised by 2024 with details breakdown of the proceeds to be allocated as below:

- (a) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct PNG end-user pipelines and connect these pipelines to our urban pipeline network for over 800 households at rural areas in 2022;
- (b) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct PNG end-user pipelines and connect these pipelines to our urban pipeline network for over 2,000 households at rural areas in 2023; and



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- (c) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct PNG end-user pipelines and connect these pipelines to our urban pipeline network for over 2,700 households at rural areas in 2024.

The table below sets out the details of each Clean Energy Project.

| Area         | Name of project  | Details of major construction work   | Year of commencement of construction | Expected year of completion of construction | Number of villages to be benefited from the Clean Energy Project | Expected number of length of PNG end-user pipeline to be constructed | Expected major capital expenditure | Expected breakeven point <sup>(1)</sup> | Expected investment payback period <sup>(2)</sup> |
|--------------|--|--|--------------------------------------|---|--|--|------------------------------------|---|---|
|              |  |  |                                      |   |  | (km)   | (RMB million)                      |   |   |
| Rural        | Clean Energy Project for Yangjia Village and other villages (楊家莊等村莊清潔能源村莊項目) | Constructing PNG end-user pipelines and connecting these pipelines to our urban pipeline network | 2022                                 | [2023]                                      | 3  | 3.1  | 3.7                                | Less than five and a half years         | Around seven and a half years                     |
| Rural        | Clean Energy Project for Zhangjiadun and others (張家墩等村莊清潔能源村莊項目)             | Constructing PNG end-user pipelines and connecting these pipelines to our urban pipeline network | 2023                                 | [2023]                                      | 6  | 6.8  | 9.0                                | Less than five years                    | Around nine years                                 |
| Rural        | Clean Energy Project for Dashawu and others (大沙塢等村莊清潔能源村莊項目)                 | Constructing PNG end-user pipelines and connecting these pipelines to our urban pipeline network | 2024                                 | [2024]                                      | 6  | 8.1  | 10.9                               | Less than four and a half years         | Around eight years                                |
| <b>Total</b> |  |  |                                      |   | <u>15</u>  | <u>18.0</u>  | <u>23.6</u>                        |   |   |

**Notes:**

- (1) Breakeven point occurs when the total gross profit generated from our sale of PNG from the projects fully offsets the expenses incurred thereto, including depreciation expenses of capital expenditure and other operating overheads (mainly consist of maintenance cost of the pipelines).
- (2) Investment payback period is defined as the cash investment payback period, which refers to the time required for the accumulated operating cash flow generated from the projects covers the capital expenditure incurred for the projects and construction fees for carrying out the construction works.
- (5) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used as working capital and other general corporate purposes.

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If the [REDACTED] is fixed at HK\$[REDACTED] per Share, being the high-end of the [REDACTED] range stated in this document and assuming no exercise of the [REDACTED], the net proceeds will be increased by approximately HK\$[REDACTED]. If the [REDACTED] is fixed at HK\$[REDACTED] per Share, being the low-end of the [REDACTED] range stated in this document and assuming no exercise of the [REDACTED], the net proceeds will be reduced by approximately HK\$[REDACTED]. If the [REDACTED] is set above the mid-point of the indicative [REDACTED] range, we intend to apply the additional amounts towards replacing existing gas meters with Goldcard Meters for additional households within our operating area and construction of new mid-pressure pipelines where necessary. If the [REDACTED] is set below the mid-point of the indicative [REDACTED] range, we intend to scale down our planned expenditure on the construction of new mid-pressure pipelines and the replacement of existing gas meters with Goldcard Meters proportionally, in accordance with the actual progress of each project; or alternatively, use a combination of cash generated from operating activities, or bank borrowings if the net proceeds are insufficient to fund the planned expenditure on the aforementioned projects.

The additional net proceeds that we would receive if the [REDACTED] is exercised in full would be HK\$[REDACTED] after deducting the [REDACTED] commissions and other estimated expenses payable by us in connection with the [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the [REDACTED] range stated in this document). Additional net proceeds received due to the exercise of any [REDACTED] will be used as general working capital or to finance the costs and expenses for construction of new mid-pressure pipelines where necessary.

To the extent that the net proceeds of the [REDACTED] are not immediately used for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits with banks in Hong Kong or the PRC so long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

We do not expect that our use of proceeds will change due to the impact of COVID-19. If any part of our plan does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the [REDACTED]. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

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### **REASONS FOR [REDACTED]**

We have contemplated the growth and expansion of our business with a view to becoming more competitive in the natural gas industry. We believe that the [REDACTED] on the Stock Exchange will increase our competitiveness by assisting us to expand our operations and strengthen our market share, financial results and business prospect in the natural gas industry. Our Directors believe that the [REDACTED] is strategic for our future development, and will raise our profile and market awareness of our brand name as well as strengthen our competitiveness among our competitors, which we hope will expose our Group’s services to new potential customers. Details of various benefits we would enjoy from the [REDACTED] are summarised below:

#### **Facilitate the implementation of our business strategies**

Our Directors believe that the [REDACTED] on the Stock Exchange will facilitate the implementation of our business strategies as set out in “Business — Our Business Strategies” in this document, including (i) continuing to expand our pipeline network and invest in clean energy transmission in the rural areas within our Operating Area; (ii) enhancing our operational safety; and (iii) optimising our operational efficiency.

According to the CIC Report, as China has invested heavily to boost natural gas production and Chinese oil and gas companies tend to produce more natural gas to meet national needs, production volume is expected to increase to approximately 275.4 billion m<sup>3</sup> by 2026, with a CAGR of 6.0% between 2021 and 2026. Also, it is expected that gas consumption will be increased to approximately 584.1 billion m<sup>3</sup> by 2026, with a CAGR of 9.4% between 2021 and 2026. In terms of the natural gas supply market in Gaomi City where we mainly operated during the Track Record Period, it has achieved the target of realising “natural gas coverage to each village and town” (“村村通和鎮鎮通”). Our Directors consider that we should further fuel our business operation by fully utilising our current status as a Concession grantee. As at the Latest Practicable Date, we did not fully utilise our granted area in which we are entitled to operate exclusively according to the Concession Agreement; and our urban pipeline network coverage in our Operating Area is relatively low. Hence, our Group has a genuine funding need to extend our sale of PNG and related businesses to cover more towns and villages in Gaomi City which are still not covered by our urban pipeline network. Our expansion plans include the construction of new mid-pressure pipelines for expanding our urban pipeline network within our Operation Area, the upgrade of our urban pipeline network, digitalisation of our gas meter reading system, and construction of PNG end-user pipelines and connecting these pipelines to our urban pipeline network to expand our customer base.

#### **Strengthen our financial position and enhance our working capital**

We finance our working capital requirements through a combination of funds generated from operations, bank borrowings and other means of financing (such as ABS financing). As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had cash and cash equivalents of approximately RMB26.3 million, RMB39.6 million, RMB37.4 million and RMB24.4 million, respectively. We have to maintain our current cash level to support our operation, including but not limited to payment for

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procurement costs, lease costs, staff costs and other administrative and operating expenses. Though we are able to expand our business using internally generated funds and bank borrowings, we intend to seek equity financing instead of debt financing for reasons listed below:

- fund-raising through debt financing from banks or financial institutions normally requires pledge of cash deposits, investment properties and certain property, plant and equipment and/or several personal guarantees from our Group and/or our Controlling Shareholders in order to secure bank borrowing, which would increase our reliance on our Controlling Shareholders and negatively affect our liquidity of cash, in case of cash deposits collaterals. Also, there is no assurance that such pledges would be made available by our Controlling Shareholders at all times. As we are committed to minimise related party transactions in order to operate our business independently from connected persons, it is also not in our best interest to rely on debt financing involving personal guarantees or collaterals provided by our Controlling Shareholders and their associates;
- our Directors are of the view that fund-raising through [REDACTED] will reduce our financing costs and increase our financial leverage. We will be exposed to the risks of higher interest rate, finance costs and financial performance if we rely heavily on debt financing, which may negatively affect our financial viability due to principal and interest payments if we choose debt financing to fund our business expansion;
- our Directors are also of the view that funds raised from equity financing are a committed source of funds without any maturity date. Hence it is more suitable than debt financing to our Company at the current stage and it could lower our finance cost in a long run as the lending rates fluctuate from time to time; and
- fund-raising through debt financing could be burdensome to our operations as we need to service debt financing obligations. If we fail to service such debt obligations on time or we are unable to comply with any of the covenants, we could be in default of such debt obligations and our liquidity, financial credibility and financial condition could be materially and adversely affected.

Having regard to the above factors and our funding needs for implementing our business strategies, our Directors consider that equity financing is a more attractive option and that pursuing equity financing by way of [REDACTED] is in the interest of our Company and its Shareholders as a whole as opposed to debt financing in a long run.

### **Enhance our corporate profile and corporate governance**

Our Directors consider that it is crucial for us to increase our competitiveness by enhancing our corporate profile and image, which we could leverage for attracting new customers and increasing market share. By way of [REDACTED], we can elevate our corporate image and status and provide credibility, reassurance and confidence to our customers and suppliers, which would also present a stronger bargaining position when negotiating commercial terms and exploring new business opportunities.

## **FUTURE PLANS AND USE OF PROCEEDS**

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We will be required to maintain a highest standard of ongoing regulatory compliance upon the [REDACTED], thus our Directors are of the view that the [REDACTED] will facilitate us to attract new customers given our reputation as a [REDACTED] company in Hong Kong, regulated financial disclosure, standard of internal controls and corporate governance. Meanwhile, as our operational efficiency and corporate governance will be improved through compliance with rigorous disclosure standards which would further enhance our internal control and risk management, it will also provide us with an opportunity to strive for continuous improvement and proper monitoring, strengthen our competitiveness and gain our customers’ trust ultimately.

### **Access to a broader shareholder base and more flexibility to adjust our capital structure**

Our Directors believe that the [REDACTED] on the Stock Exchange will allow us access to a broader shareholder base and provide us with more flexibility to adjust our capital structure from time to time, through access to a wider spectrum of fund raising channels, including debt and equity fund raising, and the ability to negotiate more favourable terms of financing from financial institutions, which in turn will enable us to better withstand external risks and market fluctuations.

### **Attract quality talents**

We rely on a group of experienced management team and employees in our business operations, which is an integral part of our natural gas related businesses. Our Directors believe that a public [REDACTED] status is expected to help us attract and retain quality talents to support our future business development.

For the reasons stated above, our Directors believe that the [REDACTED] on the Stock Exchange is commercially justifiable and sensible.