

SUMMARY

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

BUSINESS OVERVIEW

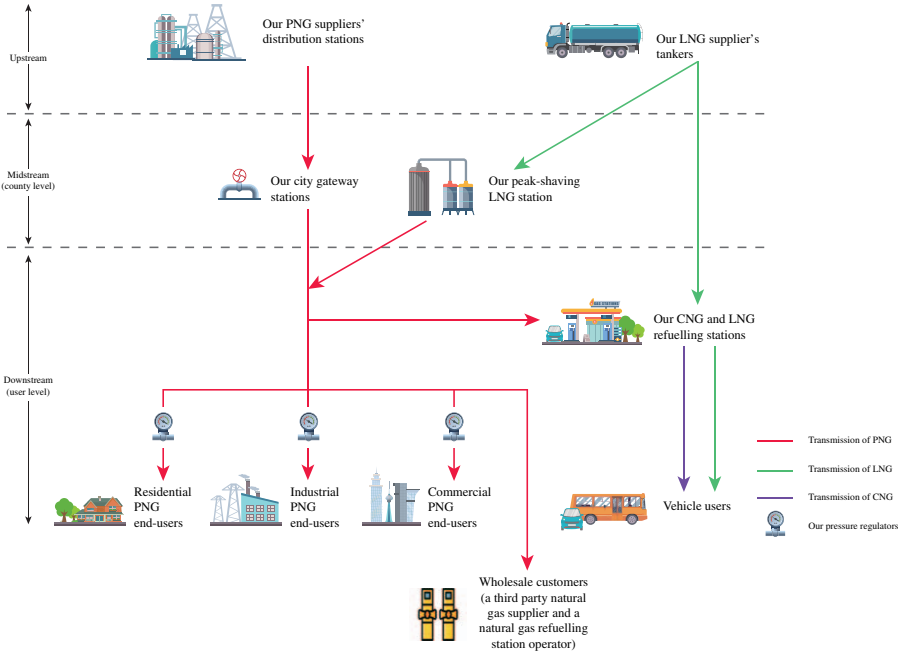
We are a natural gas operator with over 16 years of experience. We operate in Gaomi City, Weifang Municipality of Shandong Province, which has an area of approximately 1,523.5 km² and a residential population of approximately 895,000 people as of 2021. We have been designated as an Outstanding Enterprise (優秀企業) in Gaomi City for five consecutive years. According to “2021 County Economic Report and County Development Monitoring and Evaluation” (《2021縣域經濟與縣域發展監測評價報告》) published by Zhongjun County Economic Research Institute (中郡縣域經濟研究所), Gaomi City was ranked the 74th among the “Top 100 Counties in China” (中國百強縣) in 2021. We have an exclusive right under our Concession Agreement with Gaomi City Bureau of Municipal Affairs Administration to operate PNG sales and related businesses within our Operating Area, for an effective term of 30 years from 18 August 2009. As at the Latest Practicable Date, our Operating Area under the Concession represented approximately 70.0% of the total administrative area of Gaomi City. Our PNG suppliers are PetroChina and Shandong Shihua (which is owned by Sinopec as to 50%). We have entered into master agreements and a series of actual purchase contracts with them for the procurement of PNG. Our PNG customers are primarily retail, consisting of residential, commercial and industrial PNG end-users. We also engage in the sale of CNG and LNG, provision of construction and installation services and sale of gas-burning appliances. As at the Latest Practicable Date, our Group does not intend to expand its business beyond Gaomi City.

BUSINESS MODEL

We generate our revenue from (i) the sale of PNG, primarily through our urban pipeline network to our PNG end-users in our Operating Area; (ii) the sale of CNG and LNG at our CNG and LNG refuelling stations; (iii) the provision of construction and installation services; and (iv) the sale of gas-burning appliances.

Sale of gas

The chart below illustrates and summarises the flow of, and relationship between, our PNG, CNG and LNG operations.



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Gaomi City is a hub located in the region in Shandong Province through which the Taiqingwei Pipeline* (泰青威管道) and Kunlun Pipeline* (昆侖管道) run. In Gaomi City, the consumption volume of natural gas is expected to reach 254.4 million m³ in 2026 with a CAGR of 12.8% from 2021, and the sales value of Gaomi City’s natural gas supply market is expected to reach RMB996.5 million by 2026 with a CAGR of 13.1% from 2021, according to the CIC Report. This is mainly driven by a steady increase in natural gas consumption within the industrial fuel, construction and city natural gas sectors.

Key terms of our Concession

We operate our sales of natural gas and related businesses in Gaomi City under our Concession granted by Gaomi City Bureau of Municipal Affairs Administration (高密市市政管理局) to Jiaoyun Gas, the summary of key terms of which are set out below. For details, please refer to “Business — Concession Operations — Key Terms of Concession Agreement” in this document.

Concession right	Operate exclusively within the granted area (now representing approximately 70% of the administrative area of Gaomi City), including (i) the sale of PNG to industrial, commercial and residential PNG end-users, public institutions, organisations and those in the transportation sector; (ii) the provision of natural gas engineering design, installation, construction, operation, management and maintenance; and (iii) the construction of natural gas pipeline networks and ancillary facilities. Gaomi City Bureau of Municipal Affairs Administration is prohibited from granting a Concession right to any third party within the granted area.
Granted area	Subsequently adjusted to be approximately 70% of the administrative area, including both urban and rural areas, of Gaomi City.
Concession term	Effective term of 30 years, which is the maximum term permitted under the applicable PRC laws and regulations and as confirmed in a written confirmation issued by Gaomi City Housing and Urban-Rural Development Bureau, which is the competent authority to issue such confirmation.
Cancellation of Concession right	Will be cancelled and/or 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 operation, which materially affects public interest and safety; (iv) we fail to invest in pipeline construction in accordance with municipal construction planning for two consecutive years; or (v) we engage in other illegal acts. Gaomi City Housing and Urban-Rural Development Bureau, being fully informed of the details of our non-compliance incidents, has provided a written confirmation that (a) our non-compliance incidents did not invoke the Cancellation Clause; (b) our Concession would not be cancelled, terminated or diminutised prior to the expiration of our concession term due to our non-compliance incidents.

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Pricing

Our PNG end-user selling prices shall follow the benchmark rates determined and approved by the local pricing authorities. Our other services, if provided, shall be priced in accordance with the pricing standards which are separately approved by the local pricing authorities.

The area granted to us under the Concession Agreement was comprised of 100% of the administrative area of Gaomi City at the time of its execution. In 2010, Gaomi City Housing and Urban-Rural Development Bureau, after discussion with us and with our consent, decided to engage Gaomi Haojia to supply PNG to approximately 30% of the administrative area of Gaomi City. Since 2010, Gaomi Haojia has been operating its PNG sales and related businesses in its operating area in Gaomi City. Consequently, the size of our Operating Area was reduced to approximately 70% of the administrative area of Gaomi City, within which we have been and are entitled to exclusively operate our sales of PNG and related businesses. As confirmed by Gaomi City Housing and Urban-Rural Development Bureau, at the time when the reduction of our original operating area was decided in 2010, the natural gas industry in Gaomi City was in the initial phase of its development. As such, there was a need to expedite the construction of natural gas supply facilities in Gaomi City.

Sale of PNG and sale of CNG and LNG

Our PNG end-user selling price to retail customers is subject to regulatory control as described in “Business — Sale of PNG — Pricing” in this document, while the selling price of PNG to our wholesale customers is pre-agreed with them. Our CNG and LNG pricing fluctuates depending on supply and demand dynamics in our Operating Area from time to time. For details, please refer to “Business — Sale of CNG and LNG” in this document.

The below table sets out the sales volume and average selling price of our PNG and CNG and LNG sales for the periods indicated.

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume
	RMB/m ³	'000/m ³	RMB/m ³	'000/m ³	RMB/m ³	'000/m ³	RMB/m ³	'000/m ³	RMB/m ³	'000/m ³
PNG	3.0	93,497	2.8	88,010	3.0	102,104	2.9	35,767	3.5	38,479
CNG and LNG	3.5	10,356	2.9	7,923	3.5	6,321	3.2	2,231	4.1	1,971

During the Track Record Period, although there was a slight decline in 2020 due to the COVID-19 outbreak, there was generally an increasing trend for our sales volume of PNG. Such increasing trend was primarily attributable to the recovery of business activities in Gaomi City after COVID-19 in 2021, as well as the implementation of Clean Energy Projects which led to a general increase in PNG demand. Our average selling price of PNG decreased in 2020 primarily due to the temporary price reduction of non-residential PNG end-user selling price set by the relevant authorities in the first quarter of 2020 in response to COVID-19. Upon the lifting of such price reduction, there was an overall increase in our average PNG end-user selling price for the year ended 31 December 2020 and the four months ended 30 April 2021.

As for our sales volume for LNG and CNG, there was generally a decreasing trend during the Track Record Period. As petrol is a common alternative fuel for vehicles, due to a decline in petrol prices during the Track Record Period, more vehicle users opted to fuel their vehicles using petrol

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instead of gas (which was relatively more expensive). Hence, our LNG and CNG sales volume is generally correlated to changes in petrol prices. Our average selling price of LNG and CNG fluctuated during the Track Record Period as it changed in line with the general market price of LNG. Due to lower demand in 2020 as a result of COVID-19, our average selling price of LNG and CNG declined in 2020, but increased thereafter in 2021 and 2022 as a result of an overall increase in our average selling price of CNG and LNG during the Track Record Period.

Provision of construction and installation services

We provide construction and installation services including the construction of PNG end-user pipeline network and connection of such pipeline network to our urban pipeline network for the sale of PNG, the procurement of appropriate gas pipelines, gas meters and relevant parts, the installation of natural gas facilities, equipment and devices into property building infrastructure or within units, and the overall engineering design and feasibility planning, as well as inspection, of such work. We provide our construction and installation services to property developers, residential PNG end-users and non-residential PNG end-users. For details, please refer to “Business — Provision of Construction and Installation Services” in this document.

Sale of gas-burning appliances

We also engage in the sale of gas-burning appliances, such as gas stoves, wall-hung gas boilers and water heaters, of third party brand names. Our customers include property owners and property occupiers. We target the residents of newly developed residential properties and existing properties in Gaomi City. Our after-sales services include installation services of gas-burning appliances sold. For details, please refer to “Business — Sale of Gas-burning Appliances” in this document.

Our customers

During the Track Record Period, our customers included (i) retail customers of our PNG, which included residential, commercial and industrial PNG end-users; (ii) vehicle users of CNG and LNG at our CNG and LNG refuelling stations; (iii) gas-burning appliances customers; (iv) property developers, residential PNG end-users and non-residential PNG end-users who required our construction and installation services; and (v) two wholesale customers for PNG, with one being a natural gas supplier operating in Changyi City (a neighbouring city) and the other being a natural gas refuelling station operator in Gaomi City. Our major retail natural gas customers primarily consisted of industrial PNG end-users such as companies engaged in the steelmaking, fabric manufacturing and farming industries with whom we generally had over three years of business relationship up to the Latest Practicable Date. Our residential PNG end-users consisted of residential property owners and occupiers, while our commercial PNG end-users consisted of schools, hospitals, shops, restaurants, government agencies and commercial property owners and occupiers. For details, please refer to “Business — Our Customers” in this document. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, sales to our largest customer in each year/period during the Track Record Period accounted for approximately 5.7%, 5.3%, 5.7% and 6.0% of the total revenue of our Group, respectively, and sales to our five largest customers in each year/period during the Track Record Period in aggregate accounted for approximately 13.6%, 15.0%, 17.1% and 18.9% of the total revenue of our Group, respectively. None of our Directors, their respective associates or any shareholder (which to the knowledge of our Directors owns 5% or more of our Company’s issued share capital) held any interest in any of our five largest customers during the Track Record Period.

Our suppliers

During the Track Record Period, we procured (i) PNG from PetroChina and Shandong Shihua; (ii) LNG from Zhonghui Energy; (iii) gas-burning appliances; (iv) equipment and machinery; and (v) pipeline construction and installation services. For details, please refer to “Business — Our Suppliers” in this document.

According to the CIC Report, the supply of PNG from upstream natural gas suppliers has been, and is expected to continue to be, dominated by the Big-3 Noc due to prevailing national regulatory restrictions. Therefore, it is an industry norm for local downstream gas distributors in the PRC to

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materially rely on one or more of the Big-3 Noc companies, in our case Shandong Shihua and PetroChina (which are the only two upstream PNG suppliers in Gaomi City). We have certain take-or-pay obligations with PetroChina and Shandong Shihua, pursuant to which we may have to pay a penalty if our actual procurement volume falls short of the agreed minimum monthly procurement volume. For the years ended 31 December 2019, 2020 and 2021, we recorded procurement shortfalls with both PetroChina and Shandong Shihua. We did not experience any procurement shortfall for the four months ended 30 April 2022. We were not required to make any payment for the aforementioned procurement shortfalls due to the exemption stipulated in an official notice issued by the Shandong Provincial Development and Reform Commission (山東省發展和改革委員會) from February to June 2020 in light of COVID-19. Our Directors confirm that no take-or-pay obligation was enforced by either PetroChina or Shandong Shihua against us during the Track Record Period and up to the Latest Practicable Date. If PetroChina and Shandong Shihua had enforced the relevant take-or-pay obligations against us in relation to the aforementioned shortfalls, we would have had to additionally pay approximately RMB0.6 million, RMB0.5 million and RMB0.6 million to PetroChina for the years ended 31 December 2019, 2020 and 2021, respectively, and approximately RMB6.2 million, RMB2.1 million and RMB1.1 million to Shandong Shihua for the years ended 31 December 2019, 2020 and 2021, respectively. We did not make provisions on our financial statements in respect of the procurement shortfalls recorded during the Track Record Period. For details, please refer to “Business — Procurement of PNG” in this document.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, purchases from our largest supplier in each year/period during the Track Record Period accounted for approximately 65.9%, 58.7%, 53.8% and 54.1% of the total purchases of our Group, respectively; and purchases from our five largest suppliers in each year/period during the Track Record Period in aggregate accounted for approximately 97.0%, 95.3%, 88.2% and 97.0% of the total purchases of our Group, respectively. Save for Yuanhua Trading and Jiaoyun Property, our Directors confirm that none of our Directors, their respective close associates or any shareholder (which to the knowledge of our Directors owns 5% or more of our Company’s issued share capital) held any interest in any of our five largest suppliers during the Track Record Period.

OUR COMPETITIVE STRENGTHS

We believe that we possess the following competitive strengths: (i) our Concession to sell natural gas in the Operating Area for an effective term of 30 years; (ii) governmental policies relating to environmental protection; (iii) our long-term relationship with each of PetroChina and Shandong Shihua; (iv) stable operating cash inflow from our sale of natural gas business; (v) our emphasis on natural gas supply safety and efficiency; and (vi) our committed and experienced management team. For details, please refer to “Business — Our Competitive Strengths” in this document.

OUR BUSINESS STRATEGIES

We intend to (i) increase our market penetration in Gaomi City by continuing to expand our pipeline network and invest in clean energy transmission in the rural areas within our Operating Area; (ii) enhance our operational safety; and (iii) optimise our operational efficiency. For details, please refer to “Business — Our Business Strategies” in this document.

GOVERNMENT SUBSIDIES

In recent years, the PRC Government has announced a number of policies to promote and encourage the use of clean energy sources at state council, provincial and local city levels. Such policies are generally favourable to our business as natural gas is perceived to be a relatively clean source of energy. In particular, there are three relevant local policies implemented in Gaomi City which offer government subsidies to incentivise users to switch from coal-fired appliances to gas-burning appliances as energy sources: (1) Zero-coal Policy; (2) Clean Energy Projects; and (3) Eight Measures to ensure Heat Supply in Gaomi City during the 2021-2022 heating season 《高密市2021-2022年供熱季保熱保供八條措施》. For details, please refer to “Industry Overview — Market drivers of the city natural gas market — Favourable government policies” and “Business — Government Policies and Subsidies” in this document.

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OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Mr. Luan Linjiang (one of the controlling shareholders of our Company prior to the [REDACTED]), through LLJ Phoenix, held 33% of the total issued share capital of our Company, and Mr. Luan Xiaolong, through LXL Phoenix and SEGM Holding (wholly owned by SDJY Holding, which is in turn wholly owned by Mr. Luan Xiaolong) held 56% and 10% of the total issued share capital of our Company, respectively. Immediately after the completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Luan Linjiang will be beneficially interested in [REDACTED]% of the enlarged issued share capital of our Company. According to the Listing Rules, Mr. Luan Xiaolong, LXL Phoenix, SEGM Holding and SDJY Holding are considered as our Controlling Shareholders immediately following the [REDACTED]. For details, please refer to “Relationship with Our Controlling Shareholders” in this document.

CONTINUING CONNECTED TRANSACTIONS

In the ordinary and usual course of our business, we have entered into certain transactions with Mr. Luan Linjiang (our Chairman, executive Director and substantial Shareholder) and Mr. Luan Xiaolong (our executive Director, chief executive officer and Controlling Shareholder) and their respective associates, as well as Shandong Shihua (a substantial shareholder of our subsidiary), which will constitute our continuing connected transactions upon [REDACTED]. These continuing connected transactions include a tenancy agreement, construction and installation services framework agreements, a subcontracting framework agreement and natural gas sale and purchase agreements. We have applied for, and the Stock Exchange [has granted] us, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions. For details, please refer to “Connected Transactions” and “Waivers from Strict Compliance with the Listing Rules” in this document.

[REDACTED] INVESTMENT

The [REDACTED] Investor made an investment in our Group for a total cash consideration of RMB610,000, based on an independent valuation after arm’s length negotiations between the parties and was settled on 15 July 2021. The [REDACTED] Investment represents a discount of approximately [REDACTED]% to the [REDACTED] per Share (based on the mid-point of the indicative [REDACTED] of HK\$[REDACTED] per Share). Immediately following the completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), QMIG, a company wholly owned by the [REDACTED] Investor, will be interested in [REDACTED]% of the issued share capital of our Company. For details, please refer to “History, Reorganisation and Corporate Structure — [REDACTED] Investment” in this document.

COMPETITION

While the natural gas industry in the PRC is relatively fragmented, natural gas distribution at regional level, such as in Gaomi City, is relatively concentrated, with us taking up a market share of approximately 70%. With our exclusive right under the Concession, supportive government policies, a specialised and experienced management team and the exercise of prudence in ensuring the safety of our customers by proactively adopting safety monitoring, we believe that we will be able to further scale up our operations to meet the increasing demands for natural gas in Gaomi City and remain competitive in the industry. For details, please refer to “Business — Competition” in this document.

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SUMMARY OF FINANCIAL INFORMATION AND RESULTS OF OPERATIONS

The following table set out a summary of our financial information and results of operations during the Track Record Period. For details, please refer to “Financial Information” in this document, and the Accountant’s Report set out in Appendix I to this document.

	For the year ended 31 December			For the four months ended 30 April	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Revenue	354,231	347,943	440,894	135,962	158,253
Cost of sales	(271,495)	(249,912)	(343,677)	(110,494)	(135,485)
Gross profit	82,736	98,031	97,217	25,468	22,768
Operating profit	72,458	81,599	95,115	22,187	16,371
Profit and total comprehensive income for the year/period	37,026	51,022	68,374	15,613	11,858
Profit and total comprehensive income attributable to:					
Owners of our Company	35,223	50,081	67,505	15,253	11,318
Non-controlling interests	1,803	941	869	360	540
	37,026	51,022	68,374	15,613	11,858

Non-HKFRS measure

To supplement our consolidated results which are prepared and presented in accordance with HKFRS, we also used adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with, HKFRS. We believe that this additional financial measure provides useful guidance as it reflects our net profit position relating to our normal business operations by having eliminated the potential impact of our [REDACTED] expenses and interest expenses incurred in relation to our ABS. For details, please refer to “Financial Information — Non-HKFRS measure” in this document.

	For the year ended 31 December			For the four months ended 30 April	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Profit and total comprehensive income for the year/period	37,026	51,022	68,374	15,613	11,858
Excluding:					
ABS-related finance expenses (net) ⁽¹⁾	13,293	4,782	—	—	—
[REDACTED] expenses ⁽²⁾	—	3,974	5,838	1,158	4,192
Adjusted net profit (non-HKFRS measure)	50,319	59,778	74,212	16,771	16,050

Note:

- (1) ABS-related finance expenses (net) represent the finance expenses (net) in relation to funds obtained from our ABS used by the Private Group as part of our financing arrangement with the Private Group. Our ABS had reached maturity and was fully redeemed.
- (2) [REDACTED] expenses mainly relate to the [REDACTED].

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Revenue

The below table sets out our revenue breakdown by business segment for the periods indicated.

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
PNG sales	281,783	79.5	246,959	71.0	305,150	69.2	104,820	77.1	133,215	84.2
CNG and LNG sales	35,677	10.1	22,726	6.5	22,023	5.0	7,123	5.2	9,013	5.7
Construction and installation services	31,379	8.9	52,445	15.1	60,887	13.8	17,930	13.2	14,466	9.1
Sale of gas-burning appliances	5,392	1.5	25,813	7.4	52,834	12.0	6,089	4.5	1,559	1.0
Total	354,231	100.0	347,943	100.0	440,894	100.0	135,962	100.0	158,253	100.0

PNG sales is our business segment with the largest contribution to revenue. We generally saw an increasing trend for our revenue during the Track Record Period, although it was slightly affected by the COVID-19 outbreak in 2020 as there was a decline in sales volume for both PNG sales and CNG and LNG sales due to lower demand, together with a decline in average PNG selling price to industrial PNG end-users. Revenue increased from 2020 to 2021 mainly due to an increase in PNG consumption by industrial PNG end-users as COVID-19 impacts on industrial operations in Gaomi City gradually subsided, while our PNG end-user selling price also recovered. Revenue increased for the four months ended 30 April 2022 mainly due to an increase in our average PNG selling price to industrial and commercial PNG-end users, as well as an increase in PNG consumption by residential PNG end-users primarily as a result of our implementation of the Clean Energy Projects.

The table below sets out our revenue from PNG sales by customer type for the periods indicated.

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Retail customers										
Industrial PNG end-users	205,806	73.0	188,630	76.4	233,468	76.5	76,915	73.4	92,615	69.5
Residential PNG end-users	33,935	12.0	43,537	17.6	48,135	15.8	18,793	17.9	30,334	22.8
Commercial PNG end-users	23,884	8.5	12,976	5.3	18,679	6.1	8,394	8.0	7,803	5.9
Wholesale customers	18,158	6.5	1,816	0.7	4,868	1.6	718	0.7	2,463	1.8
	281,783	100.0	246,959	100.0	305,150	100.0	104,820	100.0	133,215	100.0

There was generally an increasing trend for our revenue from the sale of PNG to industrial PNG end-users during the Track Record Period, although it was slightly affected by the COVID-19 outbreak in 2020 due to lower demand and average PNG selling price as a result of a temporary price reduction set by the government in the first quarter of 2020. Such increasing trend was mainly due to increases in our PNG sales volume and average PNG selling price. While sales volume to industrial PNG end-users decreased due to the resurgence of COVID-19 in March 2022, revenue still increased for such end-users between the four months ended 30 April 2021 and the four months ended 30 April 2022 due to an increase in the average selling price of PNG.

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There was an increasing trend for our revenue from the sale of PNG to residential PNG end-users during Track Record Period. Between 2019 and 2021, this was mainly due to an increase in residential PNG end-users owing to the implementation of the Zero-coal policy and an influx of people moving into newly built residential properties in Gaomi City. Between the four months ended 30 April 2021 and the four months ended 30 April 2022, this was mainly due to an increase in PNG consumption as a result of Clean Energy Projects.

Revenue from our sale of PNG to commercial PNG end-users fluctuated over the Track Record Period due to the outbreak of COVID-19 in 2020 and March 2022, which resulted in a lower demand for PNG and decreased revenue from our sale of PNG to commercial PNG end-users. In 2020, revenue from sale of PNG to commercial end-users also decreased due to a temporary price reduction set by the government in the first quarter of 2020.

Gross profit and gross profit margin

The below table sets out our gross profit and gross profit margin by business segment for the periods indicated.

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
	RMB'000	margin %	RMB'000	margin %	RMB'000	margin %	RMB'000	margin %	RMB'000	margin %
	<i>(unaudited)</i>									
Sale of gas										
PNG	50,846	18.0	48,181	19.5	43,740	14.3	11,214	10.7	12,404	9.3
CNG and LNG	11,013	30.9	5,829	25.6	4,718	21.4	1,357	19.1	2,065	22.9
Sub-total	61,859	19.5	54,010	20.0	48,458	14.8	12,571	11.2	14,469	10.2
Construction and installation services	19,528	62.2	30,417	58.0	24,531	40.3	9,501	53.0	7,744	53.5
Sale of gas-burning appliances	1,349	25.0	13,604	52.7	24,228	45.9	3,396	55.8	555	35.6
Total	82,736	23.4	98,031	28.2	97,217	22.0	25,468	18.7	22,768	14.4

In general, our overall gross profit comprises of profit arising from our sales of PNG, CNG and LNG, construction and installation services and sale of gas-burning appliances segments. During the Track Record Period, our largest business segment was the sale of PNG. The gross profit margin of our sale of PNG was generally lower than that of our sale of CNG and LNG, as a portion of our PNG sales made to residential PNG end-users were subject to significantly lower gross profit margins due to the residential PNG end-user selling price restrictions. However, our sale of PNG gross profit margin was generally higher than that of similar companies in the natural gas supply industry, as a significant portion of our PNG sales are made to commercial and industrial PNG-end users. We have some level of flexibility in pricing for sale of PNG to commercial and industrial PNG end-users, as the maximum PNG end-user selling price allowed under relevant laws and regulations is higher than that for residential PNG end-users.

Our construction and installation services and sale of gas-burning appliances segments served as the main growth driver of our Group during the Track Record Period. These two segments, with higher gross profit margins compared to other business segments, formed a major proportion of our gross profit during the Track Record Period. These two segments are generally related, as the installation of gas-burning appliances (carried out as our construction and installation services segment) is usually done together with the purchase of gas-burning appliances by customers (contributing to our sale of gas-burning appliances segment). The implementation of coal-to-gas projects and the Zero-coal Policy led to an increase in volume of our construction and installation services as well as sale of gas-burning appliances. Construction and installation projects carried out pursuant to coal-to-gas projects were generally for industrial and commercial businesses, while projects carried out under the Zero-coal

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Policy were generally for residential households located in the city area of Gaomi City, both of which typically give rise to higher gross profit margin as we have more flexibility in pricing our construction and installation services. In contrast, those carried out for residential households in rural areas under Clean Energy Projects would have lower gross profit margin as the government fixes a package price covering both the construction and installation services and sale of the gas-burning appliances.

We benefited from carrying out Zero-coal Policy related projects and Clean Energy Projects as the local government offered certain subsidies to encourage the use of natural gas in the long term, and compensate us for our commitment and contribution with a view to facilitating the public’s change to use natural gas as clean energy in Gaomi City. In 2021, we received a RMB13.5 million government subsidy granted pursuant to the Zero-coal Policy. For details of subsidies, please refer to “Industry Overview — Market drivers of the city natural gas market — Favourable government policies” and “Business — Government Policies and Subsidies” in this document.

During the Track Record Period, we saw a decreasing trend of our overall gross profit margin, mainly resulting from a decline of the profit margin for our PNG sales to residential PNG end-users caused by our inability to adequately adjust our residential PNG selling price to compensate for the increased cost of PNG. In 2020, gross profit margin for construction and installation services and sale of gas-burning appliances were relatively higher as a result of an increase in sales volume for both segments driven by the implementation of the Zero-coal Policy (i.e. projects for residential households in the city area for which we have more flexibility to set our pricing). In 2021, gross profit margin for both of these segments were comparatively lower than that in 2020, primarily due to our commencement of the Clean Energy Projects (i.e. projects for residential households in the rural area, whereby the government fixes a package price covering both construction and installation fees and selling price of gas-burning appliances at lower levels compared to projects conducted in the city area), such that the proportion of projects with lower gross profit margin increased. Moreover, we experienced temporary suspension of construction and installation services and low sales of gas-burning appliances due to the resurgence of COVID-19 in March to April 2022. During this period, no Clean Energy Project was carried out. Our sale of wall-hung gas boilers, which is our key product with relatively high gross profit margin, experienced a significant drop. Sales of our gas-burning appliances mainly comprised accessories and parts needed for normal repair and maintenance, which was of relatively lower gross profit margin. As a result, gross profit margin of our sale of gas-burning appliances (which would have contributed to an overall higher profit margin) decreased. As a result, our overall gross profit margin decreased. For details, please refer to “Business — Provision of construction and installation services”, “Business — Sale of gas-burning appliances”, “Business — Government Policies and Subsidies”, and “Financial information — Description of major components of our results of operations — Gross profit and gross profit margin” in this document.

The table below sets out a breakdown of our gross profit and gross profit margin from PNG sales by customer type for the periods indicated.

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
	RMB'000	margin %	RMB'000	margin %	RMB'000	margin %	RMB'000	margin %	RMB'000	margin %
	<i>(unaudited)</i>									
Retail customers										
Industrial PNG end-users	44,841	21.8	39,353	20.9	39,160	16.8	9,920	12.9	16,938	18.3
Residential PNG end-users	60	0.2	6,034	13.9	955	2.0	(87)	(0.5)	(6,178)	(20.4)
Commercial PNG end-users	4,970	20.8	2,750	21.2	3,519	18.8	1,360	16.2	1,595	20.4
Wholesale customers	975	5.4	44	2.4	106	2.2	21	2.9	49	2.0
	<u>50,846</u>	<u>18.0</u>	<u>48,181</u>	<u>19.5</u>	<u>43,740</u>	<u>14.3</u>	<u>11,214</u>	<u>10.7</u>	<u>12,404</u>	<u>9.3</u>

SUMMARY

Our gross profit and gross profit margins for the sale of PNG segment are generally driven by our cost of PNG and PNG end-user selling price (which is subject to government pricing control policies). Our cost of PNG includes our direct PNG procurement cost from PetroChina and Shandong Shihua, and may at times also include the cost of conversion of LNG into PNG. Our PNG procurement prices are agreed with our suppliers and determined with reference to the benchmark gate price set by the NDRC, but our LNG procurement prices are subject to market fluctuations.

During the Track Record Period, we derived most of our PNG sales gross profit from our sale of PNG to retail customers, particularly industrial PNG end-users. Our gross profit and gross profit margin for PNG sales to residential PNG end-users were adversely affected for the year ended 31 December 2021 and the four months ended 30 April 2022, when our increased cost of PNG could not be adequately compensated by timely upwards adjustment of our residential PNG selling price. Since our residential PNG selling price is regulated, there is little room for us to improve the gross profit margin of our residential PNG sales. As a measure for managing our PNG cost, we plan to continue to convert LNG to PNG when LNG procurement prices are relatively lower than that of direct PNG procurement beyond the minimum procurement thresholds and during high demand seasons. Nonetheless, our residential PNG sales are generally profitable and stable during summer seasons, as our PNG procurement during that period generally falls within the minimum procurement thresholds with our PNG suppliers at pre-agreed prices. On the other hand, gross profit and gross profit margin for PNG sales to industrial and commercial PNG end-users were less affected as we could adjust our industrial and commercial PNG selling prices to offset the increased cost.

For the year ended 31 December 2020, gross profit and gross profit margin for PNG sales to residential PNG end-users were exceptionally high, because of significantly lower average cost of PNG due to COVID-19 as a result of lower demand for natural gas in the market and hence lower procurement price of PNG and LNG (part of which was converted into PNG for our PNG sales) as a whole. Our PNG sales volume to residential PNG end-users during the first half of 2020 was exceptionally high as most residents stayed at home due to COVID-19. Combined with a relatively low PNG procurement price, the gross profit margin of our residential PNG sales in 2020 as a whole was higher than usual. Our gross profit margin for PNG sales to residential PNG end-users dropped in 2021 as our average procurement price recovered. During the second half of 2021 and up to the first four months of 2022, our residential PNG selling prices were significantly lower than our average cost of PNG, due to tight supplies of PNG in the market which was further exacerbated by the Russia-Ukraine military conflict since February 2022. Since we were not at liberty to adjust our residential PNG selling price due to government policies in place, this gave rise to a net loss from our PNG sales to residential PNG end-users for the four months ended 30 April 2022.

As for our PNG sales to industrial and commercial PNG end-users, in 2020, most of such sales were concentrated in the second half of 2020 when COVID-19 restrictions were gradually lifted, yet PNG procurement price at that time also recovered as economic activities resumed, hence the corresponding gross profit margin of our PNG sales to industrial and commercial PNG end-users in 2020 as a whole remained stable compared to that in 2019. In 2021, while PNG demand from our industrial and commercial PNG end-users generally increased as business activities picked up after COVID-19, it was outweighed by the increase in our average PNG cost. The general delay in our selling price adjustment to compensate for our increased costs led to a slight decline in our gross profit margin in 2021 and the four months ended 30 April 2022.

Other income

During the year ended 31 December 2021, we received a government subsidy of approximately RMB13.5 million pursuant to the Zero-coal Policy. This subsidy was granted on the basis of RMB2,200 per household in the city center area that installed gas-burning appliances.

Profit for the year/period

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our net profit was approximately RMB37.0 million, RMB51.0 million, RMB68.4 million and RMB11.9 million, respectively. The increases in our net profit for the years ended 31 December 2019, 2020 and 2021 were primarily attributable to (i) increases in our gross profit for the reasons described above; (ii) an increase in our other income for the year ended 31 December 2021 due to a government

SUMMARY

subsidy in the amount of approximately RMB13.5 million; and (iii) a decrease in our finance costs as we repaid the principal amount of our ABS and other borrowings. The decrease in our net profit from approximately RMB15.6 million for the four months ended 30 April 2021 to approximately RMB11.9 million for the four months ended 30 April 2022 was primarily attributable to increases in our costs of sales and administrative expenses (mainly resulting from an increase in our [REDACTED] expenses).

Summary of consolidated balance sheets

The following table sets out selected information from our consolidated balance sheets as at the dates indicated, which have been extracted from our audited consolidated financial statements included in the Accountant’s Report set out in Appendix I to this document.

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Total non-current assets	189,435	193,440	226,715	226,856
Cash and cash equivalents	26,281	39,579	37,370	24,393
Total current assets	734,666	365,783	91,500	70,886
Total non-current liabilities	7,400	8,507	16,726	17,063
Contract liabilities	87,827	124,249	101,303	85,814
Total current liabilities	871,745	405,323	192,269	159,601
Net current liabilities	(137,079)	(39,540)	(100,769)	(88,715)
Non-controlling interests	14,493	13,934	14,803	15,343
Total equity	44,956	145,393	109,220	121,078

Our net asset value increased from approximately RMB45.0 million as at 31 December 2019 to approximately RMB145.4 million as at 31 December 2020, primarily attributable to a deemed contribution of approximately RMB50.9 million arising from the declaration of dividend and disposal of Jiaoyun Thermal as part of our Reorganisation. Our net asset value decreased from approximately RMB145.4 million as at 31 December 2020 to approximately RMB109.2 million as at 31 December 2021, primarily attributable to (i) the declaration of dividends by Jiaoyun Gas to its then shareholders in the amount of RMB70.0 million; and (ii) a deemed distribution of approximately RMB60.7 million as a part of the Reorganisation, which was offset by a deemed contribution of RMB25.5 million arising from the disposal of Gaoyun Investment. Our net asset value subsequently increased to approximately RMB121.1 million as at 30 April 2022, primarily attributable to a profit for the period of approximately RMB11.9 million. For details, please see “Consolidated Statements of Changes in Equity” in Appendix I to this document.

We recorded 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 to our related parties and third parties; (ii) payment of finance expenses; and (iii) bank borrowings and other borrowings relating to our financing arrangements. Although we placed security deposits with banks for our financing arrangements, such amount of security deposit was usually lower than the loan amount obtained. 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 a net current liabilities position for the years ended 31 December 2019 and 2020. We recorded net current liabilities of approximately RMB100.8 million as at 31 December 2021, mainly due to our dividend distribution to shareholders of RMB70 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. Please refer to “Risk Factors — Other Risks Relating to Our Group — We had net current liabilities as at 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022” in this document.

We have taken certain measures to improve our liquidity by (i) repaying outstanding bank loans which are not needed for our normal business operations; (ii) ceasing the provision of non-trade, interest-free cash advances and other types of financial assistance to our related parties; and (iii) establishing key parameters for budgeting taking into consideration our business operational needs.

SUMMARY

Summary of consolidated statements of cash flows

The following table sets out our cash flows for the periods indicated.

	For the year ended 31 December			For the four months ended 30 April
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	76,986	136,464	39,897	1,442
Net cash generated from/(used in) investing activities	51,053	320,231	186,268	(2,474)
Net cash used in financing activities	(123,988)	(443,397)	(228,374)	(11,945)

We recorded net cash inflow from our operating activities throughout the Track Record Period. This was primarily attributable to the strong cash generating nature of our main business segment of sales of PNG, which was operated on a prepayment basis. Our net cash generated from operating activities was relatively higher in 2020 resulting from an increased level of contract liabilities from our increased construction and installation projects in city area for residential PNG end-users, most of which also had a relatively higher per project revenue level. This was enhanced by an increased level of sales of PNG during that year. In 2021, we received a government subsidy of approximately RMB13.5 million for our construction and installation projects conducted pursuant to the implementation of the Zero-coal Policy. Without such government subsidy, our net cash generated from operating activities and cash and cash equivalents as at 31 December 2021 would be reduced to approximately RMB26.4 million and RMB23.9 million, respectively. For details of this subsidy, please refer to “Business — Government Policies and Subsidies” and “Industry Overview — Market drivers of the city natural gas market — Favourable government policies” in this document.

We recorded net cash inflow from our investing activities during the years ended 31 December 2019, 2020 and 2021, which was mainly attributable to repayment of loans from related parties. We recorded net cash outflow from investing activities for the four months ended 30 April 2022, mainly attributable to purchases of property, plant and equipment which comprised of pipelines and parts for the expansion of our urban pipeline network.

We recorded net cash outflow from our financing activities throughout the Track Record Period. For the years ended 31 December 2019 and 2020, our net cash used in financing activities were primary attributable to our (i) repayment of bank borrowings; (ii) placement of bank deposits for borrowings; and (iii) repayment of our ABS. Our net cash used in financing activities was relatively higher in 2020, as we decided to lower our liabilities by repaying some of our outstanding debts at the time in preparation for the [REDACTED]. For the year ended 31 December 2021 and the four months ended 30 April 2022, our net cash used in financing activities decreased when compared to previous periods as most of our outstanding bank borrowings had been repaid and we did not drawdown new bank loans.

Key financial ratios

The following table sets out our key financial ratios as at the dates and for the periods indicated. For details, please refer to “Financial Information — Key Financial Ratios” in this document.

	As at or for the year ended 31 December			As at or for the four months ended 30 April
	2019	2020	2021	2022
	Current ratio ⁽¹⁾	84.3%	90.2%	47.6%
Quick ratio ⁽²⁾	83.1%	86.6%	42.7%	38.1%
Return on total assets ⁽³⁾	4.2%	6.9%	15.6%	11.7% ⁽⁸⁾
Return on equity ⁽⁴⁾	133.9%	53.6%	53.7%	31.3% ⁽⁸⁾
Gearing ratio ⁽⁵⁾	1,670.3%	158.2%	36.5%	24.6%
Net debt to equity ratio ⁽⁶⁾	1,158.1%	79.4%	2.3%	4.4%
Net profit margin ⁽⁷⁾	10.5%	14.7%	15.5%	7.5%

SUMMARY

Notes:

- (1) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the year/period.
- (2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of the year/period.
- (3) Return on total assets is calculated by dividing profit for the year/period by the average level of the total assets for the year/period.
- (4) Return on equity is calculated by dividing net profit for the year/period by the average equity for the year/period.
- (5) Gearing ratio is calculated by dividing total debt (borrowings and lease liabilities) by total equity as at the end of the relevant year/period.
- (6) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the year/period. Net debt is calculated as total debt (borrowings and lease liabilities) less cash and cash equivalents and restricted bank deposits as at the end of the year/period.
- (7) Net profit margin is equal to net profit divided by total revenue for the year/period.
- (8) Profit for the year is pro rata annualised for illustrative purposes.

The general decreases in our gearing ratio and net debt to equity ratio over the Track Record Period were mainly due to decreases in our borrowings due to the repayment of our (i) ABS; and (ii) short-term borrowings and notes payable, as well as our collection of other related party receivables as cash advances.

In 2021, we received a government subsidy of approximately RMB13.5 million as aforementioned. For illustrative purposes, without such government subsidy, our current and quick ratios would be reduced to approximately 40.6% and 35.7%, respectively; our return on total assets and return on equity would decline to approximately 12.7% and 45.5%, respectively; our gearing ratio and net debt to equity ratio would increase to approximately 41.6% and 16.6%, respectively; and our net profit margin would be reduced to approximately 12.5% for the year ended 31 December 2021.

DIVIDEND AND DIVIDEND POLICY

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**”). For details, please refer to “Financial Information — Dividend and Dividend Policy” in this document.

In August 2019, Jiaoyun Shihua declared dividends of RMB5.6 million and RMB2.4 million to Jiaoyun Gas and Shandong Shihua, respectively. In September 2020, Jiaoyun Shihua declared dividends of RMB3.5 million and RMB1.5 million to Jiaoyun Gas and Shandong Shihua, respectively. In March 2021, Jiaoyun Gas declared dividends of RMB50 million and RMB20 million to Jiaoyun Group and Jiaoyun Property, respectively. Mr. Luan Linjiang voluntarily gave up his rights to the dividend distribution in March 2021. The above declared dividends were fully paid.

[REDACTED] EXPENSES

The estimated total [REDACTED] expenses (based on the mid-point of the [REDACTED] and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately RMB[REDACTED] (HK\$[REDACTED]), which represents approximately [REDACTED]% of the gross proceeds from the [REDACTED]. Such estimated total [REDACTED] expenses include (i) [REDACTED] expenses, including [REDACTED] commission, of RMB[REDACTED] (HK\$[REDACTED]); (ii) fees and expenses of legal advisers and reporting accountant of RMB[REDACTED] (HK\$[REDACTED]); and (iii) other fees and expenses of RMB[REDACTED] (HK\$[REDACTED]). An estimated amount of RMB[REDACTED] (HK\$[REDACTED]) is expected to be expensed through the statement of profit or loss and the remaining amount of RMB[REDACTED] (HK\$[REDACTED]) is expected to be recognised directly as a deduction from equity upon the [REDACTED].

PROPERTY INTEREST AND PROPERTY VALUATION

As at 30 April 2022, our property interest comprising various buildings located at No. 2268, West Shi'an Road, Mishui Street, Gaomi City and erected on three parcels of land, in aggregate, had a carrying amount of 15% or more of our total assets. The Property Valuer has valued such properties (the “**Valued Properties**”) as at 31 July 2022 and is of the opinion that the market value of the Valued Properties as at such date was RMB77.3 million subject to an estimated land premium of RMB7.2 million, such that its market value after deducting such land premium was RMB70.1 million. For details, please refer to the Property Valuation Report set out in Appendix III to this document. Save and except for the Valued Properties, our Directors confirm that as at 30 April 2022, no single property interest of ours had a carrying amount of 15% or more of our total assets.

SUMMARY

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since the end of the Track Record Period and as at the Latest Practicable Date, we have continued to grow our existing businesses of natural gas sales, construction and installation services and gas-burning appliances sales. In respect of our sale of PNG, our number of residential, commercial and industrial PNG end-users changed from 146,394, 6,149 and 378, respectively, as at 30 April 2022 to 151,241, 6,484 and 387, respectively, as at the Latest Practicable Date. Further, pursuant to a notice issued by the Development and Reform Bureau of Gaomi, the selling price of PNG for non-residential usage has been adjusted from RMB4.36/m³ for the 2021-2022 heating season to RMB4.06/m³ for the 2022 non-heating season, with effect from 1 April 2022. As a result of the Russia-Ukraine military conflict in February 2022, our LNG procurement price increased significantly from approximately RMB5,400/tonne on average in January 2022 to approximately RMB7,400/tonne, RMB8,300/tonne, RMB8,100/tonne, RMB7,400/tonne on average in February, March, April and May 2022, respectively, and partially recovered to approximately RMB6,500/tonne, RMB6,600/tonne, RMB7,100/tonne and RMB7,600/tonne in June, July, August and September 2022, respectively. Although our LNG procurement price remained high due to the Russia-Ukraine military conflict, since the recent few months did not fall within our peak heat supply season in winter, our PNG supply was generally sufficient such that we did not have to procure much LNG for conversion into PNG. From February to September 2022, only approximately 10% of our total procurement volume of PNG and LNG (excluding LNG procured for LNG sales) was converted into PNG from LNG. Therefore, the relatively higher LNG procurement price did not materially impact us subsequent to the Track Record Period. Our PNG procurement price was not materially impacted by the Russia-Ukraine military conflict. Subsequent to the Track Record Period and up to the Latest Practicable Date, there was no material adverse change to our average PNG cost as it was the summer season and our PNG procurement volume generally fell within the minimum procurement thresholds, such that we generally procured PNG at pre-agreed prices. In respect of our construction and installation services, our construction and installation projects increased from 398 as at 30 April 2022 to 419 as at the Latest Practicable Date. For the period after the Track Record Period until the Latest Practicable Date, no lockdown, suspension of businesses or severe restrictions were specifically imposed in Gaomi City. Although residents were generally more cautious, there was no significant drop in business and daily activities within Gaomi City. Supported by government policies generally favourable to the natural gas industry, the gradual recovery of the industrial climate in Gaomi City from the adverse effects of COVID-19, as well as our positive historical results, we believe that our businesses will continue to grow in the foreseeable future. Other than the aforementioned increase in the our average LNG procurement price, for the period after the Track Record Period until the Latest Practicable Date, we believe that the Russia-Ukraine military conflict and the recent resurgence of the COVID-19 outbreak in China has not had any material impact on our sales, procurement and future prospects. In particular, (i) to the best knowledge of our Directors, as at the Latest Practicable Date, we were not engaged in any sale of goods or provision of services to Russian customers; and (ii) we are not sourcing, and do not plan to source in the future, any raw materials or components from any Russian or Ukraine supplier.

Our Directors expect to record a decrease in net profit for the year ending 31 December 2022 compared to the year ended 31 December 2021 primarily due to (i) an increase in [REDACTED] expenses for the year ending 31 December 2022; and (ii) a possible decrease in other income as the Group received a government subsidy of approximately RMB13.5 million for our construction and installation projects conducted pursuant to the implementation of the Zero-coal Policy for the year ended 31 December 2021 which our Group may not necessarily receive for the upcoming year. Save for the above, our Directors confirm that, up to the date of this document, there has been no material adverse change in our Group's financial or trading position since 30 April 2022 (being the date on which the latest audited consolidated financial information of our Group was prepared), and there had been no event since 30 April 2022 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this document.

SUMMARY

EFFECTS OF THE COVID-19 OUTBREAK ON OUR BUSINESS OPERATIONS

From late January to March 2020, our sales of PNG to our industrial and commercial PNG end-users, being our largest business segment, decreased mainly due to the suspension of business operations by some of our PNG end-users as a result of the local government’s measures on the prevention and control of the spread of COVID-19 (the “COVID-19 Measures”). Pursuant to notices issued by the relevant local pricing bureau, the maximum PNG end-user price for industrial and commercial PNG end-users was temporarily adjusted downwards between February 2020 and June 2020. Sales and gross profit from our PNG sales to our industrial and commercial end-users temporarily declined during that period. However, sale of PNG to our residential PNG end-users remained robust during the same period of time. Our Directors consider that overall demands for PNG from our PNG end-users had generally returned to normal levels by the fourth quarter of 2020.

In around March to April of 2022, a temporary suspension of business for certain industries and a partial lockdown was imposed in Gaomi City due to the resurgence of COVID-19. As a result, demand for PNG from our industrial and commercial PNG end-users was lower compared with the same period in 2021. Demand for PNG from our residential PNG end-users was higher than usual in March and April 2022, which was reflected by an increase in our PNG sales volume during this period. Such COVID-19 resurgence also led to a temporary suspension of our construction and installation services and caused a temporary drop in our sales of gas-burning appliances. From January to April 2022, there was a significant decline of approximately 66.5% (in terms of sales volume as compared to the same period in 2021) in our sales of wall-hung gas boilers, which is a main product with high gross margin. Upon the lifting of the COVID-19 temporary lockdown, we gradually recovered our sales of wall-hung gas boilers as our decline narrowed down to approximately 28.7% (in terms of sales volume as compared to the same period in 2021) from May 2022 up to the Latest Practicable Date. The temporary business suspension and pricing adjustments lasted for around two months, and business subsequently recovered in Gaomi City upon lifting of COVID-19 restrictions. Revenue from our sales of PNG to retail customers recovered during May and June 2022, and was over 10% higher than that for the same period in 2021. During the Track Record Period, there was no material adverse impact to our revenue as it remained relatively stable as a whole. Our Directors therefore consider that the COVID-19 outbreak, generally speaking, did not have a material impact on our Group’s financial position and business operations as a whole.

STATISTICS OF THE [REDACTED]

	Based on the minimum [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on the maximum [REDACTED] of HK\$[REDACTED] per [REDACTED]
Market capitalisation of the Shares	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited adjusted consolidated net tangible assets per Share	HK\$[REDACTED]	HK\$[REDACTED]

Note:

- (1) All statistics in this table are based on the assumption that the [REDACTED] is not exercised.
- (2) The market capitalisation is calculated based on [REDACTED] Shares expected to be in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (assuming that the [REDACTED] is not exercised).
- (3) The unaudited pro forma consolidated adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this document and on the basis of a total of [REDACTED] Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue (assuming that the [REDACTED] is not exercised).

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] stated in this document) (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].

SUMMARY

Our Directors intend to apply the net proceeds from the [REDACTED] for the following purposes:

- 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 in our Operating Area in the coming three years after [REDACTED].
- 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.
- 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.
- approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for the construction of an aggregate of approximately 18.0 km PNG end-user pipelines that connect to our urban pipeline network for implementing the Clean Energy Projects to serve over 5,500 households in our Operating Area.
- 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.

For details, please refer to “Future Plans and Use of Proceeds” in this document.

[REDACTED]

RISK FACTORS

We believe that the following are some of the major risks that could have a material adverse effect on our business: (i) our Concession Agreement 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 operation; (ii) we may encounter difficulties in growing our business within the Operating Area under the Concession Agreement; (iii) any shortage of, disruption or suspension to our natural gas supplies could materially and adversely affect our sale of natural gas business; (iv) our sale of PNG is subject to pricing policies at various levels which will affect our profitability; (v) gross profit margin of our PNG sales to residential PNG end-users may be affected by a number of socioeconomic factors typically beyond our control; (vi) we may not always meet our minimum procurement obligations with PetroChina and Shandong Shihua; and (vii) we had net current liabilities as at 31 December 2019, 2020 and 2021 and 30 April 2022. Please refer to “Risk Factors” in this document carefully before making any [REDACTED] decision in the [REDACTED].

NON-COMPLIANCE INCIDENTS

During the Track Record Period and up to the Latest Practicable date, our Group was involved in certain incidents which did not fully comply with the PRC laws and regulations. These include, but are not limited to, the Non-compliant Bill Financing Arrangements and the Deviation. For details, please refer to “Business — Regulatory Compliance — Non-compliance incidents” in this document.