

BUSINESS

OVERVIEW

We are a natural gas operator in Gaomi City, Weifang Municipality of Shandong Province. 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.

Gaomi City is under the administration of Weifang Municipality of Shandong Province, with an area of approximately 1,523.5 km² and a residential population of approximately 895,000 people as of 2021. 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. In 2021, approximately 17,500 industrial enterprises and approximately 100,000 commercial enterprises were located in Gaomi City. According to the CIC Report, the consumption volume of natural gas in Gaomi City is expected to maintain its current growth trend in the foreseeable future, reaching 254.4 million m³ in 2026 with a CAGR of 12.8% between 2021 and 2026. This is supported by the Gaomi City People’s Government’s target of reducing fuel emissions by implementing initiatives to expedite the replacement of coal-fired boilers with clean energy-powered boilers, as well as the ongoing transformation of shantytowns. The sales value of Gaomi City’s natural gas supply market is expected to reach RMB996.5 million by 2026, representing a CAGR of 13.1% between 2021 and 2026. This is mainly driven by a steady increase in natural gas consumption within the industrial fuel, construction and city natural gas sectors.

We have over 16 years of experience of operating in the natural gas sector, and are committed to providing the general public in Gaomi City with high quality and safe supplies of natural gas. We have been designated as an Outstanding Enterprise (優秀企業) in Gaomi City for five consecutive years. During the Track Record Period and up to the Latest Practicable Date, we primarily generated revenue from the sale of natural gas. Natural gas which we sell includes PNG, CNG and LNG. The sale of PNG is our principal business. Our PNG suppliers are PetroChina and Shandong Shihua (which is owned by Sinopec as to 50%), with each of whom we have entered into master agreements and a series of actual purchase contracts for the procurement of PNG. These agreements ensure that we have a stable supply of PNG. As at the Latest Practicable Date, our urban pipeline network was comprised of approximately 685.2 km of completed urban pipelines in our Operating Area. Our urban pipeline network provides us with a foundation for our sale of PNG business. Our PNG is primarily sold to retail customers consisting of residential, commercial and industrial PNG end-users. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had 119,389, 129,978, 149,027 and 152,921 PNG end-users, respectively. During the Track Record Period, we also sold PNG through our urban pipeline network to two wholesale customers, with one being a natural gas supplier in Changyi City (a neighbouring city), and the other being a natural gas refuelling station operator in Gaomi City. These customers procured PNG from us for their onwards sales. We also sell CNG and LNG as vehicle fuel to retail customers at our CNG and LNG refuelling stations.

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For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, revenue generated from our sale of PNG was approximately RMB281.8 million, RMB247.0 million, RMB305.2 million and RMB133.2 million, representing approximately 79.5%, 71.0%, 69.2% and 84.2% of our total revenue, respectively. During the Track Record Period, in addition to our sale of natural gas, we were also engaged in the provision of construction and installation services and the sale of gas-burning appliances.

The table below sets out a breakdown of our revenue 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>									
Revenue										
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

Our business performance remained stable during the Track Record Period. Our revenue decreased from approximately RMB354.2 million for the year ended 31 December 2019 to approximately RMB347.9 million for the year ended 31 December 2020, and subsequently increased to approximately RMB440.9 million for the year ended 31 December 2021. Our revenue was approximately RMB158.3 million for the four months ended 30 April 2022. Our net profit for the year increased from approximately RMB37.0 million for the year ended 31 December 2019 to approximately RMB51.0 million for the year ended 31 December 2020, and further increased to approximately RMB68.4 million for the year ended 31 December 2021. Our net profit was approximately RMB11.9 million for the four months ended 30 April 2022. Our adjusted net profit (non-HKFRS measure) was approximately RMB50.3 million, RMB59.8 million, RMB74.2 million and RMB16.1 million for the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, respectively. For details, please refer to “Financial Information — Non-HKFRS Measure” in this document.

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OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths as set out below set us apart from other operators of natural gas in the region which we operate.

We have an exclusive right under our Concession to sell PNG in the Operating Area for an effective term of 30 years.

We specialise in natural gas operations under our Concession. Our Concession is effective for a term of 30 years from 18 August 2009. It allows us access to a large base of potential customers within the Operating Area (now representing approximately 70% of the administrative area of Gaomi City) on an exclusive basis. To be granted the Concession, we needed to be capable of supplying natural gas to our customers and have sufficient capital to make significant initial investments for the establishment of an urban pipeline network. According to the CIC Report, obtaining a concession in the city natural gas supply market is a major entry barrier for new market entrants, as it gives existing city natural gas suppliers an edge over their competitors. A successful candidate needs to have sufficient gas management experience, capital for significant initial investments and natural gas supply directly from Big-3 Noc. Companies with a concession from local governments are entitled to operate exclusively in the business of procuring and selling gas in their respective operating areas.

Our Concession covers an extensive operating area within Gaomi City. 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 Operating Area is located across both the urban and rural areas of Gaomi City. These areas are expected to experience significant and rapid growth in terms of natural gas consumption. As the extent of our urban pipeline network coverage in the Operating Area is relatively low compared with that in other cities, there is a lot of scope for us to grow and develop our sale of PNG business in the foreseeable future. For the consumption volume of natural gas in Gaomi City, please refer to “Industry Overview” in this document for details. We generate most of our revenue from non-residential PNG end-users within our Operating Area. The PNG selling price for non-residential PNG end-users is usually higher than the PNG selling price for residential PNG end-users due to government subsidies on the price of residential PNG, according to the CIC Report.

Gaomi City is a relatively developed city that has been undergoing continuous development in recent years. As a result, the industrial consumption volume of natural gas in Gaomi City has grown significantly in the past five years. The Gaomi City People’s Government has been promoting the coal-to-gas project (煤改氣工程) in relation to both residential and industrial uses of natural gas since the beginning of the “13th Five-Year Plan” (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》), which has led to the implementation of various coal-to-gas conversion policies. Going forward, Gaomi City will further implement clean energy transmission related projects, in accordance with the Comprehensive Work Plan for Energy Conservation and Emission Reduction (節能減排工作方案). This will have a positive impact on the natural gas consumption levels in Gaomi City, especially for industries within the industrial fuel and construction sectors, many of which are supported by government subsidies. We believe that the demand for PNG from our non-residential PNG end-users will continue to increase in the future.

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We benefit from governmental policies relating to environmental protection.

Natural gas is perceived to be a relatively clean source of energy which gives rise to less dust and SO₂ emissions than coal. We believe that our natural gas operation benefits from the PRC Government’s increasingly stringent environmental protection requirements. Governmental policies that favour our business include but are not limited to the “*Mid-to-Long Term Development Plan of Crude and Oil in Shandong Province (2016-2030)*” (《山東省石油天然氣中長期發展規劃(2016-2030年)》) issued by Shandong Provincial Development and Reform Commission in February 2017, the “*Three-year Action Plan for Cleaner Air*” (《打贏藍天保衛戰三年行動計劃》) issued by the State Council in July 2018, and the Zero-coal Policy promulgated by the Gaomi City government in June 2020. For details of these regulations and policies, please refer to “Regulatory Overview” and “Industry Overview” in this document.

According to the “*Shandong Province Clean Heating Plan in Winter Notice (2018-2022)*” (《山東省人民政府關於印發山東省冬季清潔取暖規劃(2018-2022年)的通知》), the Shandong Provincial People’s Government has been promoting the use of cleaner heating methods with a view to reducing dust and SO₂ emissions from coal-burning. As a result, wall-hung gas boilers are expected to become widely utilised in Shandong Province given their burning efficiency and zero-dust characteristics. In light of the above, we expect that our sale of gas-burning appliances business will continue to grow in the future.

According to the CIC Report, the sales value of the city natural gas supply market in Gaomi City grew from RMB223.0 million in 2016 to RMB538.1 million in 2021, representing a CAGR of 19.7% between 2016 and 2021. Such sales value is expected to reach RMB996.5 million in 2026, representing a CAGR of 13.1% between 2021 and 2026. The overall growth in the sales value of Gaomi City’s city natural gas supply market from 2016 to 2021 was mainly driven by economic growth in Shandong Province, sufficient supply of natural gas after the “West-East Gas Pipeline Project” (“西氣東輸工程”), the local government’s promotion of the coal-to-gas project (煤改氣工程) and the target of realising “natural gas coverage to each village and town” (“村村通和鎮鎮通”), all of which collectively contributed to an increase in natural gas consumption in Shandong Province. The expected increase from 2021 to 2026 is likely to be driven by the rapidly developing natural gas-powered electricity generation industry and steadily increasing natural gas consumption in the industrial fuel and construction sectors, as well as increasing city natural gas consumption. According to the CIC Report, the Gaomi City People’s Government has been promoting the coal-to-gas project (煤改氣工程) for both residential and industrial uses of natural gas since the beginning of the “*13th Five-Year Plan*” (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》), which has led to the implementation of various coal-to-gas conversion policies. Gaomi City will further implement clean energy transmission related projects, especially in rural areas of Gaomi City, in accordance with the Comprehensive Work Plan for Energy Conservation and Emission Reduction (節能減排工作方案). This will have a positive impact on natural gas consumption levels in Gaomi City, especially for industries within the industrial fuel and construction sectors, many of which are supported by government subsidies.

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We also benefit from a number of favourable government policies that provide for government subsidies to us and/or to PNG end-users. For details, please refer to “— Government policies and subsidies” in this section and “Industry Overview — Market drivers of the city natural gas market — Favourable government policies” in this document. We believe that we will continue to benefit from government policies relating to China’s natural gas industry, which will provide us with significant market opportunities and growth potential.

We have a long-term relationship with each of PetroChina and Shandong Shihua, which will provide us with stable supplies of natural gas.

Our primary business is the sale of natural gas. Accordingly, securing a stable and continuous supply of natural gas from natural gas production companies is crucial to the sustainability of our business operation and future success. We have entered into long-term contractual arrangements for the procurement of PNG with each of PetroChina and Shandong Shihua (which is owned by Sinopec as to 50%). We have established good relationships with both suppliers as a result of many years of cooperation. Our main business of selling and distributing natural gas is generally considered to be downstream in the energy sector value chain. The exploration and production of natural gas is upstream, and the transmission and trading of natural gas is midstream. Big-3 Noc mainly focus on upstream and midstream activities. City natural gas suppliers, including us, focus on downstream activities. Being one of the few natural gas operators in Gaomi City, and considering our well-established relationships with PetroChina and Shandong Shihua, we are well-positioned to continue operating our natural gas sales and related businesses in the long term. Our Directors believe that our close relationship with Shandong Shihua, which holds a 30% equity interest in our subsidiary, Jiaoyun Shihua, will support our long-term growth prospects.

We aim to maintain a stable and long-term relationship with each of PetroChina and Shandong Shihua. We believe that this will give us access to sufficient and continuous supplies of natural gas for the purpose of sustaining our business on an ongoing basis.

We have stable operating cash inflow from our sale of natural gas business.

Our principal business of selling PNG provides us with stable operating cash inflow. Revenue derived from our sale of PNG accounted for approximately 79.5%, 71.0%, 69.2% and 84.2% of our total revenue for the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, respectively. We require all of our PNG customers to make prepayments to us, either by topping up their payment cards or user accounts, prior to our supply of PNG to them. PNG supply to a customer will be suspended if any deduction of payment fails due to insufficient funds in that customer’s payment card or user account. As a result, we did not experience any non-payment from our customers in respect of our sale of PNG during the Track Record Period. For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, we recorded positive net cash flow from operating activities of approximately RMB77.0 million, RMB136.4 million, RMB39.9 million and RMB1.4 million, respectively. During the Track Record Period, we did not have any material overdue receivables. Our average trade receivable turnover days in respect of our sale of PNG were approximately 3.6 days, 0.3 days, 0.1 days and 0.1 days for the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, respectively.

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We place great emphasis on natural gas supply safety and efficiency.

Natural gas operation is subject to complex safety risks. We strictly comply with all relevant PRC laws and regulations on natural gas supply safety and place great emphasis on ensuring that our raw materials and services, standardised management, maintenance of facilities and equipment, as well as gas usage safety, meet all national, local and industrial standards. We have a team that is dedicated to ensuring normal gas supply, as well as managing emergency requirements. We also have a professional quality control team responsible for implementing and maintaining service standards, standardising service procedures and supervising service quality through our operational process. Our improvement and remedial measures are comprehensive and usually promptly implemented. During the Track Record Period and up to the Latest Practicable Date, we complied with all relevant safety and health regulations in all material respects and were not subject to any fines or penalties. During the same period, we were not involved in any material safety accidents which had a material adverse impact on our business, results of operations and financial condition. We have invested significantly in the safety aspects of our natural gas operations. We are committed to proactively identifying the major safety risks related to our business. We endeavour to take all necessary steps to mitigate any such risks. For more information, please refer to “— Occupational Health and Safety” in this section.

Our management team is experienced and committed to the operation of natural gas businesses.

Our management team is experienced and committed, with in-depth knowledge of the natural gas industry. Mr. Luan Linjiang, our Chairman and executive Director, has served our Group since July 2003 and is responsible for the overall direction, management and supervision of our Group. Mr. Luan Xiaolong, our executive Director and chief executive officer, has been the deputy manager of Jiaoyun Gas since January 2016 and is principally responsible for implementing our corporate development strategies. Mr. Luan Linxin, our executive Director, has been the legal representative, executive director and general manager of Jiaoyun Gas since February 2016, and is mainly responsible for its overall leadership, management and supervision. For details of our management team, please refer to “Directors and Senior Management” in this document. Over the years, our management team has enabled us to attain and strengthen our abilities in public relationship management, particularly in our communication, coordination and cooperation with government authorities.

Our management team places great emphasis on efficiency, effectiveness and quality, which helps maintain our competitiveness in the industry. We are able to effectively form and despatch local execution teams during our operations. We believe that our experienced management team has provided and will continue to provide us with invaluable strategic direction and knowledge to stay ahead of the competitive environment, enabling us to achieve our business goals.

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OUR BUSINESS STRATEGIES

We intend to increase our market penetration in Gaomi City by implementing our key growth strategies as set out below.

Continue to expand our pipeline network and invest in clean energy transmission in the rural areas within our Operating Area

We plan to strengthen our market position through further expanding our pipeline network within our Operating Area. Pipeline construction requires a significant amount of initial investment, technology and technical qualifications. According to the CIC Report, the PRC Government began to promote the coal-to-gas project (煤改氣工程) in 2017, and a series of clean energy transmission related projects will also be carried on until 2025 in accordance with the Comprehensive Work Plan for Energy Conservation and Emission Reduction (節能減排工作方案). The consumption volume of natural gas in Gaomi City, particularly within the industrial fuel and construction sectors, has since substantially increased. The PRC Government has also introduced various policies discouraging coal-burning, including an initiative to replace coal-fired boilers with clean energy boilers (such as wall-hung gas boilers). As at the Latest Practicable Date, our urban pipeline network was comprised of approximately 685.2 km of completed mid-pressure pipelines. Given that the coverage of our urban pipeline network in the Operating Area is relatively low, there is a lot of scope for us to continue expanding it to reach a wider base of customers in Gaomi City.

In China, rapid urbanisation has led to a notable increase in energy consumption from coal, oil and natural gas. Such increase in energy consumption is the result of, amongst others, (i) erection of new buildings; (ii) urban motorisation and energy-intensive transportation; and (iii) an increase in energy-intensive lifestyles. Urban household gas consumption per capita was 161.4 m³ in 2021, representing a significant increase from 89.3 m³ in 2016. In Gaomi City, as a result of the government’s efforts in expanding natural gas coverage and the popularisation of clean energy boilers, we have already constructed our main PNG pipelines to reach all town centers within Gaomi City. We are therefore well-positioned to increase our coverage by further expanding our pipeline network from the town centers to smaller areas within each town. We believe that Gaomi City’s current relatively low urbanisation level gives rise to a lot of scope for the further construction of new gas pipelines in the near future. All of the above give rise to significant opportunities for natural gas operators like us that have a strong track record of successful regional operation and performance.

We intend to proactively capture market opportunities arising from the increase of natural gas consumption in the industrial fuel and construction sectors of Gaomi City. In May 2021, the Gaomi City People’s Government issued the “*Notice of Gaomi City Year 2021 Winter Clean Heating Implementations*” (《高密市人民政府辦公室關於印發〈高密市2021年冬季清潔取暖工作實施方案的通告〉》), which was aimed at promoting the elimination of coal consumption in Gaomi City with a view to ultimately achieving the city’s clean energy objectives. Given that natural gas is a relatively low cost and highly efficient source of clean energy, our Directors believe that the government’s implementation of clean energy policies, such as the one described above, will continue to drive the consumption of natural gas in Gaomi City, particularly in the industrial fuel and construction sectors.

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Motivated by and in order to benefit from various government policies and increasing market demand for natural gas in Gaomi City as described above, we plan to construct mid-pressure pipelines of approximately 101.0 km along roads in the rural areas and remote industrial areas in our Operating Area which our urban pipeline network does not reach. We believe that expanding our urban pipeline network as such will enable us to cover a wider base of potential PNG end-users located in these relatively under-developed areas.

As at the Latest Practicable Date, we had 151,241, 6,484 and 387 residential, commercial and industrial PNG end-users, respectively. According to CIC, based on the latest publicly available data issued by the government, in 2021, there were approximately 895,000 residents, and in 2020, 360 industrial businesses and 1,800 commercial shops in Gaomi City. Such available data have only included those industrial businesses and commercial shops with sizeable operations. In particular, industrial businesses and commercial shops that do not currently use PNG usually use LPG in cylinder form or coal-fired appliances as energy sources for their business operations. According to CIC, use of PNG is relatively cheaper for residential end-users (at approximately RMB2.6/m³), as compared to use of LPG (at approximately RMB10.9/m³). Moreover, use of PNG is generally considered to be safer and more convenient as compared to the use of LPG cylinders and coal-fired boilers. This represents huge potential for us to expand our coverage within our Operating Area to reach these entities which are all our potential customers.

In line with coal-to-gas conversion and clean energy transmission policies, and our significant investment into the expansion of our pipeline network in rural areas in our Operating Area, we plan to accelerate our implementation of the Clean Energy Projects which we commenced in 2021. These Clean Energy Projects are government subsidised construction projects in the rural areas of Gaomi City. Such projects involve the construction of PNG end-user pipelines, connection of these pipelines to our urban pipeline network, procurement of relevant pipelines, parts and equipment, and installation of gas-burning appliances in residential households. These works are carried out as an extension to the coal-to-gas project (煤改氣工程) in line with coal-to-gas conversion and clean energy transmission policies promulgated by the PRC Government. The PRC Government subsidises a large portion of the construction and installation costs for the set up and connection of natural gas supply facilities to residential households. As a result, fees payable by residential PNG end-users for construction and installation under the Clean Energy Projects are lower than those payable by residents which do not fall within the ambit of such projects. Under the Clean Energy Projects, residential PNG end-users located in rural areas are expected to benefit from the relatively low set up costs for natural gas access. This is likely incentivise rural residents and encourage a shift from the use of coal-burning for residential heating to the use of natural gas heating. Since winter in Jiaodong Peninsula is long, coal-burning for residential heating results in severe environmental pollution. Coal-burning is also unsuitable for residential usage due to the risk of gas poisoning and the increasing shortage of coal supply globally since the second half of 2021. Since the promulgation of the coal-to-gas project (煤改氣工程) in 2017, rural residents of Gaomi City have welcomed the installation of clean energy gas-burning appliances in their homes. In response to “*Shandong Province Clean Heating Plan in Winter Notice (2018-2022)*” (《山東省人民政府關於印發〈山東省冬季清潔取暖規劃〉(2018-2022年)的通知》), the Gaomi City People’s Government has strongly supported the promotion of clean energy transmission. We believe that we can fully utilise the potential of our sale of PNG business in the rural areas of our Operating Area in the future, specifically taking into account the Comprehensive Work Plan for Energy Conservation and Emission Reduction (節能減排工作方案) which allows us to continue our related works until 2025.

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We intend to align the further development of our natural gas business with the PRC Government’s laws, regulations and policies that encourage the growth of the natural gas industry. We believe that our PNG end-user base will continue to grow as we expand our urban pipeline network coverage, further enhancing our competitiveness and market position. For details of the capital expenditure required for our planned pipeline network expansion and investment in clean energy transmission by way of constructing PNG end-user pipelines and connecting these pipelines to our urban pipeline network, please refer to “Future Plans and Use of Proceeds” in this document.

Enhance our operational safety

We intend to upgrade our pipeline network to reduce gas leakage and enhance safety. As at the Latest Practicable Date, our mid-pressure pipelines had an average age of approximately 20 years. We believe that an update to our urban pipeline network is crucial as the biggest natural gas supplier in Gaomi City. For more details of the longevity of our mid-pressure pipelines, please refer to “— Sale of PNG — Our PNG Supply Facilities — Urban pipeline network” in this section. We plan to upgrade our mid-pressure pipelines of over 15 years with an aggregate length of approximately 43.4 km, covering both urban and rural areas of Gaomi City, within three years upon [REDACTED]. We believe such upgrade will improve the stability of our PNG supply, enhance our operational safety and reduce our operational and maintenance costs in the long run.

Optimise our operational efficiency

We aim to modernise our natural gas operations through the increased use of Goldcard Meters. We intend to replace existing gas meters with Goldcard Meters for approximately 70.0% of our PNG end-users in our Operating Area within three years after [REDACTED]. A cost-benefit analysis of replacing our existing gas meters with Goldcard Meters is set out in “Future Plans and Use of Proceeds — Use of Proceeds” in this document. Goldcard Meters enable the use of IoT technology and remote access, and can be linked to our customer service centre. Goldcard Meters are facilitated by an automatic meter reading and reporting system without the need for any additional hardware. Through replacing our existing gas meters with Goldcard Meters, our PNG end-users can have their gas meter readings automatically transmitted to our data service centre to ensure our accurate and real-time reading and recording of their gas consumption volume, and as a result, our accurate billing. Goldcard Meters are Wi-Fi-supported, and our PNG end-users can read their volume of gas consumption through a mobile app that can be linked to Goldcard Meters. This mobile app can detect and notify the PNG end-users of problems with our PNG supply and facilities, enabling them to promptly lodge repair requests to us and make reservations for the resolution of problems and PNG facilities maintenance. The mobile app may also be used by our PNG end-users to recharge their user accounts. Goldcard Meters are expected to significantly reduce our manpower in conducting manual gas meter readings, thereby improving the efficiency of our workforce. The IoT technology applied in our Goldcard Meters and corresponding mobile app enables our PNG end-users to interact with us smoothly, which in turn allows us to better understand each of their gas consumption needs, and cater to their special requests where necessary. For details of the capital expenditure required for our planned roll-out of the Goldcard Meters, please refer to “Future Plans and Use of Proceeds” in this document. We believe that such technologies will optimise our operational efficiency.

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OUR BUSINESS MODEL

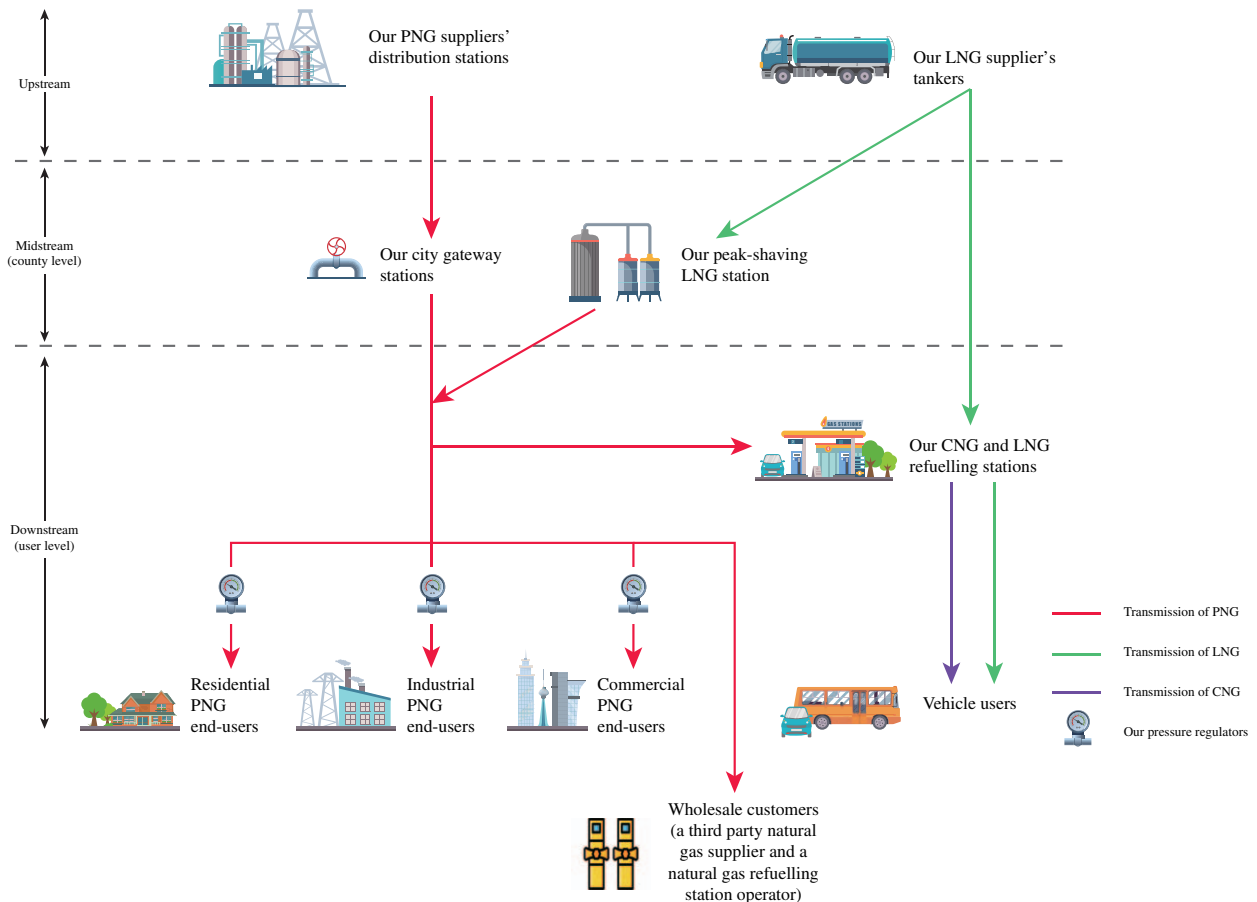
We are an operator of natural gas distribution and related businesses in Gaomi City. Gaomi City is a hub located in the region in Shandong Province through which the Taiqingwei Pipeline* (泰青威管道) and Kunlun Pipeline* (昆侖管道) run. Our sale of natural gas business started in 2005. In recent years, the PRC Government has been consistent in its efforts to reduce emission of pollutants from energy consumption such as coal burning. In particular, the PRC Government has continuously encouraged the use of diversified and clean sources of energy such as natural gas. We have a Concession right under our Concession Agreement with Gaomi City Bureau of Municipal Affairs Administration to exclusively operate PNG sales and related businesses within the Operating Area. As at the Latest Practicable Date, our Operating Area under our Concession represented approximately 70.0% of the total administrative area, including both urban and rural areas, of Gaomi City. Subject to the relevant PRC laws and regulations, our Concession Agreement is valid for an effective term of 30 years until August 2039. The renewal of our rights under the Concession upon expiration is subject to negotiation between us and Gaomi City Bureau of Municipal Affairs Administration prior to the expiry of the Concession Agreement.

We generate our revenue from (i) the sale of PNG mainly through our urban pipeline network to our PNG end-users in the Operating Area under the Concession, and on an occasional basis to two wholesale customers; (ii) the sale of CNG and LNG to vehicle users at our CNG and LNG refuelling stations; (iii) the provision of construction and installation services, such as the construction of PNG end-user pipeline network and the connection of them to our urban pipeline network, and the installation of pipelines and gas meters; and (iv) the sale of gas-burning appliances to our customers. For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, our revenue was approximately RMB354.2 million, RMB347.9 million, RMB440.9 million and RMB158.3 million, respectively.

During the Track Record Period and up to the Latest Practicable Date, our principal business was the sale of PNG. Our PNG is primarily sold to retail customers consisting of residential, commercial and industrial PNG end-users. We also sell PNG to two wholesale customers, one being a third party natural gas supplier operating in Changyi City (a neighbouring city), and the other being a natural gas refuelling station operator in Gaomi City, for their onward sales. For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, our revenue generated from the sale of PNG was approximately RMB281.8 million, RMB247.0 million, RMB305.2 million and RMB133.2 million, representing approximately 79.5%, 71.0%, 69.2% and 84.2% of our total revenue, respectively. During the Track Record Period and up to the Latest Practicable Date, we also sold CNG and LNG as vehicle fuel to vehicle users at our CNG and LNG refuelling stations. As at the Latest Practicable Date, we operated three CNG and LNG refuelling stations which are open to vehicle users. For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, our revenue generated from the sale of CNG and LNG was approximately RMB35.7 million, RMB22.7 million, RMB22.0 million and RMB9.0 million, representing approximately 10.1%, 6.5%, 5.0% and 5.7% of our total revenue, respectively.

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



Notes:

- (1) LNG is vaporised into PNG at our peak-shaving LNG station. In addition to selling LNG to vehicle users, we also maintain an inventory of LNG as a back-up for our PNG sales business. For more information regarding the vaporisation process and capacity of our peak-shaving LNG station, please refer to “— Sale of PNG — Our PNG Supply Facilities — Peak-shaving LNG station” in this section.
- (2) LNG received from our LNG supplier's tankers is stored at our CNG and LNG refuelling stations. PNG is also compressed into CNG at our CNG and LNG refuelling stations, which are equipped with pressure regulating functions, on an actual-need basis.

CONCESSION OPERATION

There are high entry barriers to the natural gas supply industry, such as capital commitment, infrastructure capability and management capability, according to the CIC Report. In August 2009, we entered into the Concession Agreement with Gaomi City Bureau of Municipal Affairs Administration, pursuant to which we were granted an exclusive right to sell PNG and provide related services in our granted area (now representing approximately 70% of the administrative area of Gaomi City). The rights granted to us under the Concession are for an effective term of 30 years from August 2009, during which we can participate in natural gas operation in Gaomi City in accordance with Gaomi

BUSINESS

City’s overall municipal planning. This allows us to undertake significant long-term investments into our PNG business while enjoying an exclusive right to operate such business and benefiting from the corresponding investment returns. In 2010, we consented to the operation of PNG sales and related businesses by Gaomi Haojia in Gaomi City, please refer to “— Operating Area” in this section below for more details.

As at the Latest Practicable Date, we had been exercising our rights under the Concession to exclusively operate PNG sales and related businesses in the Operating Area, which covered approximately 70.0% of the administrative area of Gaomi City.

Key stages giving rise to our current Concession Operation

We went through the following stages before reaching the current status of our operations under the Concession. These stages include (i) obtaining the Concession; (ii) design, construction and procurement; and (iii) operation and maintenance.

Obtaining the Concession

Prior to obtaining the Concession, we had been operating our sale of PNG business in Gaomi City under a gas operation licence since September 2005, and was effectively the sole PNG distributor in Gaomi City at the time. Between September 2005 and August 2009, the Gaomi City Bureau of Municipal Affairs Administration decided to first observe the operations and performance of Jiaoyun Gas when it operated its natural gas business under the gas operation licence, before deciding whether it should be granted a concession for its operations. We believe the Gaomi City Bureau of Municipal Affairs Administration was satisfied with the performance of Jiaoyun Gas as a natural gas operator. Subsequently, in order to formalise our operations in accordance with the “*Measures for the Administration of the Franchise of Municipal Public Utilities*” (《市政公用事業特許經營管理辦法》) (the “**Concession Measures**”), we signed the Concession Agreement with Gaomi City Bureau of Municipal Affairs Administration in August 2009, and obtained an exclusive Concession right to operate our PNG sales and related businesses in our Operating Area.

Prior to obtaining, and in support of our negotiation for, the Concession, we proactively sought opportunities to secure suitable natural gas sources. As at the Latest Practicable Date, most of our PNG was supplied by PetroChina and Shandong Shihua. All of our LNG was sourced through other Independent Third Party suppliers.

Design, construction and procurement

Our design proposals included various project blueprints such as conceptual designs for the technology and equipment required for our PNG facilities, construction and installation plans and the materials necessary for construction. In September 2003, after our design and implementation plans had been finalised and approved by the relevant government authorities, we began procuring equipment, instruments and the necessary components and parts needed for construction. We engaged contractors where necessary during this stage. From September 2003 to August 2005, we were in the process of these preparation works for our subsequent sale of PNG since August 2005.

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Operation and maintenance

In August 2005, upon satisfactory checks and acceptance of our PNG facilities by the relevant authorities, we submitted an application for a gas operation licence for the sale of PNG. We commenced our sale of PNG as an interim test run (試運行) (“**Interim Test Run**”) pending the issuance of a gas operation licence for the sale of PNG as authorised by Gaomi City Bureau of Municipal Affairs Administration. The Interim Test Run also served as a procedural check for our PNG transmission capacity and safety. During the one-month period of the Interim Rest Run, no operational or safety deficiency was detected by Gaomi City Bureau of Municipal Affairs Administration or us. On 30 September 2005, we obtained a gas operation licence for the sale of PNG. Accordingly, we formally commenced our sale of PNG. We are responsible for the repair and maintenance of our PNG facilities. We continued our gas operations on this basis until August 2009, when Gaomi City Bureau of Municipal Affairs Administration implemented the Concession Measures to regulate natural gas operations in Gaomi City. Following the implementation of the Concession Measures, we officially entered into the Concession Agreement upon completion of all relevant governmental and internal procedures. Gaomi City Housing and Urban-Rural Development Bureau has confirmed that it was fully aware of the Interim Test Run, which did not violate any laws and regulations in relation to our initial natural gas operations and subsequent operations under our Concession.

Key Terms of Concession Agreement

The key arrangements under our Concession Agreement are set out below.

Concession grantor	Gaomi City Bureau of Municipal Affairs Administration (高密市市政管理局)
Concession grantee	Jiaoyun Gas
Concession right	We are entitled to operate exclusively within the granted area (now representing approximately 70% of the administrative area of Gaomi City), including (i) the sale of PNG to PNG end-users, including but not limited to industrial PNG end-users, commercial PNG end-users, public institutions, organisations, residential PNG end-users and PNG end-users in the transportation sector; (ii) the provision of natural gas engineering design, installation, construction, operation, management and maintenance; or (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.

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Concession term	It is stated in the Concession Agreement that the term of the Concession is 50 years from 18 August 2009 to 18 August 2059. However, pursuant to a written confirmation issued by Gaomi City Housing and Urban-Rural Development Bureau, which is the competent authority to issue such confirmation, the effective term of the Concession is 30 years, which is the maximum term permitted under the applicable PRC laws and regulations. For further details, please refer to “— Effective Concession Term” in this section.
Transfer, lease and pledge of Concession right	Unless otherwise agreed with Gaomi City Bureau of Municipal Affairs Administration, we are not allowed to transfer, lease or pledge the Concession right and its associated interests to any third party.
Cancellation of Concession right	Our 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. In the event that we are considered to have engaged in acts that could result in the cancellation of our Concession right, we may take remedial measures within 180 days of written notice issued by Gaomi City Bureau of Municipal Affairs Administration notifying us of such act.
Construction, operation and maintenance	Within the granted area, we are responsible for investing into and constructing our pipeline network and facilities in accordance with municipal planning and professional planning relating to natural gas operations. During the term of the Concession, we are responsible for the construction, operation and maintenance of our natural gas facilities in accordance with relevant national and local standards, as well as other applicable rules and regulations.

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Natural gas supply safety	We are required to strictly comply with PRC laws and regulations on natural gas supply safety and shall ensure that our natural gas supply, operations, quality, safety and services meet the national, local and industrial standards. Furthermore, we are required to develop and maintain safety management, accident prevention and publicity policies and a comprehensive emergency response mechanism for accidents and emergencies. We are also required to maintain insurance policies relating to natural gas facility safety, public safety and PNG end-user safety.
Ownership and transfer	Assets including but not limited to pipelines, equipment, facilities and machinery invested into, purchased, installed and constructed by us are currently owned by us. All supply of natural gas related assets in use or under construction shall be transferred to Gaomi City Bureau of Municipal Affairs Administration in exchange for appraisal-based compensation upon the expiration of the Concession Agreement.
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. Natural gas fees shall be calculated by multiplying our unit price of PNG per m ³ /thermal unit by consumption volume. In the event that our operating cost changes significantly due to reasons outside of our control, we may apply for an adjustment to our PNG end-user selling prices. Gaomi City Bureau of Municipal Affairs Administration shall issue their opinion on our application for such adjustment to the relevant governmental department after their verification.
Breach of agreement	Generally, in the event of a breach of the Concession Agreement, the non-defaulting party is entitled to seek damages against the defaulting party for any actual loss suffered.
Termination	The Concession Agreement shall terminate upon the expiration of the Concession term (i.e. 30 years) or by mutual agreement by the parties thereto. The Concession Agreement shall also terminate if our Concession right is cancelled before the expiry of the Concession term.

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According to the Concession Measures, government authorities are usually required to select investors or operators of municipal public utilities projects through public selection methods such as public tendering, and enter into concession agreements to grant concession rights with the selected investors or operators. The Concession, however, was not granted to us through a public selection method. For details, please refer to “— Regulatory compliance — Non-compliance incidents” in this section.

As our Concession Agreement does not include any renewal clause, our rights under the Concession will, unless otherwise agreed, cease after the expiry of the effective Concession term. According to a written confirmation from the Gaomi City Housing and Urban-Rural Development Bureau, which is the competent authority in charge of all matters in relation to the Concession, it was confirmed that Jiaoyun Gas (as the existing concession grantee) will be given priority in renewing the Concession upon expiry. It was also confirmed that Jiaoyun Gas had not breached any terms of the Concession Agreement, and had not been involved in any non-compliance incidents which would give rise to the right for our Concession to be canceled according to the terms of the Concession Agreement. As we are the only PNG distributor in the Operating Area and the largest natural gas operator in Gaomi City with a market share of approximately 70% in terms of sales revenue from 2016 to 2021, given our historical record of and familiarity with natural gas operations in Gaomi City, taking into consideration the circumstances as a whole, our Directors believe that it is unlikely for our Group to have any material impediment to renew the Concession and continue to exclusively operate our natural gas sales and related businesses within the Operating Area after August 2039.

Operating Area

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 discussing with us and with consent, decided to engage Gaomi Haojia to supply PNG to approximately 30.0% of the administrative area of Gaomi City. Since 2010, Gaomi Haojia has been operating its PNG sales and related businesses in Gaomi City. Consequently, the size of our Operating Area was reduced to approximately 70% of the administrative area of Gaomi City. Our Directors have confirmed that at the time of the aforementioned discussion, Gaomi City Housing and Urban-Rural Development Bureau instructed that there would not be any overlap between our urban pipelines and those of Gaomi Haojia. We have not owned and do not own urban pipelines in the area to which Gaomi Haojia supplies PNG (i.e. approximately 30% of the administrative area of Gaomi City) as confirmed by our Directors and according to a written confirmation from Gaomi City Housing and Urban-Rural Development Bureau.

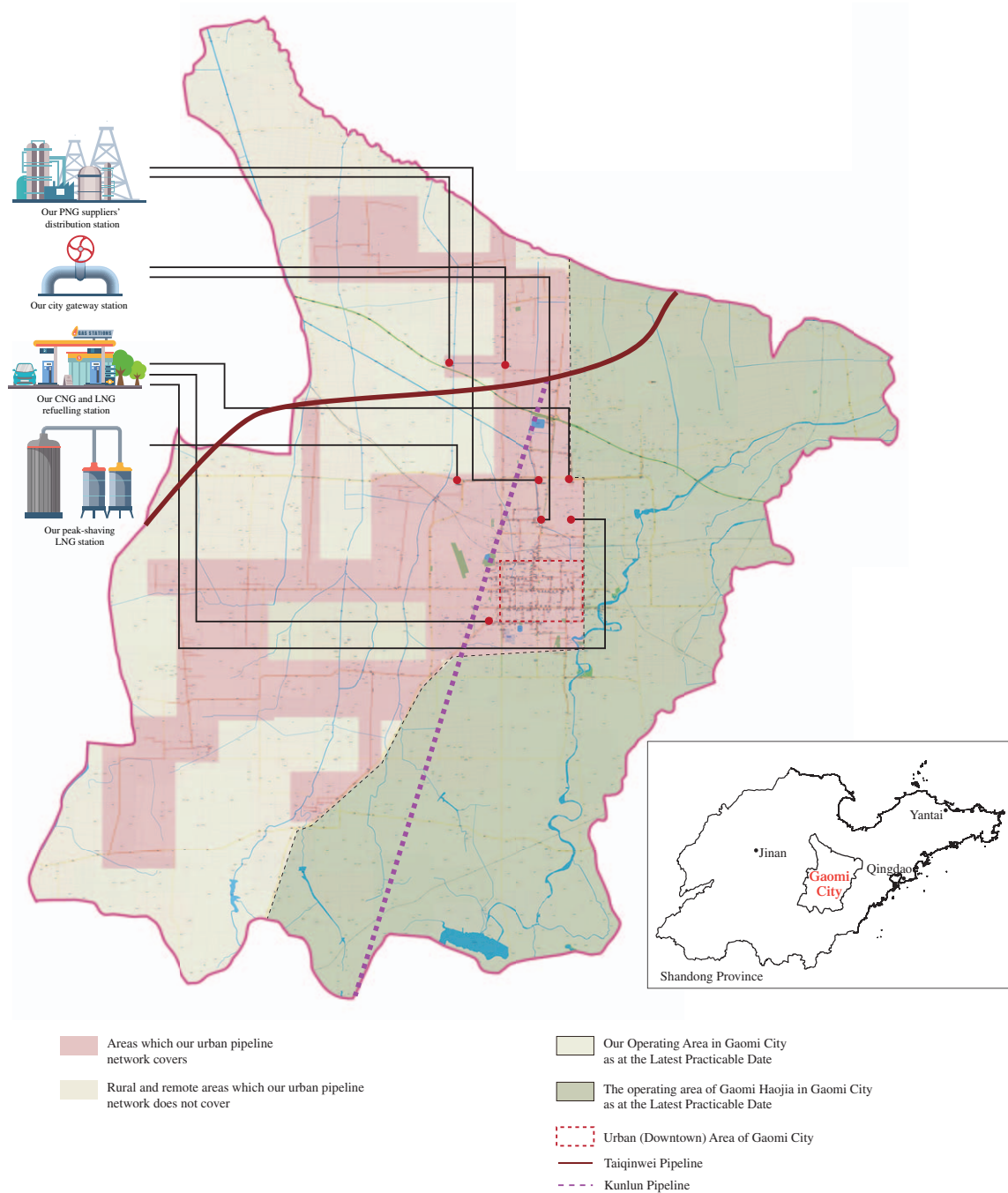
BUSINESS

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. Considering the significant initial capital expenditure required for the construction of natural gas supply facilities, as well as the town planning policy of the Gaomi City People's Government and prospect of the natural gas industry at the time, the decision to reduce our original operating area was the outcome of amicable discussions and negotiations among the relevant competent authority (being Gaomi City Bureau of Municipal Affairs Administration), Gaomi Haojia and us. Gaomi City Housing and Urban Rural Development Bureau has confirmed that we possess the necessary experience for, and are fully capable of, operating our sale of natural gas business under our Concession in the Operating Area. It has also confirmed that the aforementioned reduction was one-off event and there will be no further reduction of our Operating Area and our Concession prior to expiration of our Concession Agreement.

We consented to this change as we were given to understand at the time that there was a need to expedite the construction process of PNG facilities in order to provide the local residents and commercial and industrial operators in Gaomi City with sufficient energy resources. Since then, there has been no dispute or disagreement among the three parties as to our Operating Area and the operating area of Gaomi Haojia. Since the aforementioned reduction of our original operating area occurred over 10 years ago, our business operations have remained stable and we are considered to be a competent natural gas operator, according to a written confirmation issued by Gaomi City Housing and Urban-Rural Development Bureau. Based on the above, our Directors consider that Gaomi Haojia's operation of PNG sales and related businesses within Gaomi City, resulting in a reduction in the size of our Operating Area, is one-off and final.

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The map below illustrates our Operating Area in Gaomi City, urban (downtown) area and the rural and remote industrial areas demarcated within our Operating Area as at the Latest Practicable Date.



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

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The table below sets out the population in the Operating Area currently covered by our pipeline network at the end of 2021, as compared to the expected coverage upon completion of our Expansion Plan. For details, please refer to “Future plans and use of proceeds — Use of proceeds” in this document.

	<u>FY2021E</u>		<u>FY2025E</u>	
	<i>households</i>	<i>%</i>	<i>households</i>	<i>%</i>
Total population covered under our pipeline network	124,000	46%	204,000	76%
Total population without our pipeline network	<u>144,000</u>	<u>54%</u>	<u>64,000</u>	<u>24%</u>
Total population in the Operating Area	<u><u>268,000</u></u>	<u><u>100%</u></u>	<u><u>268,000</u></u>	<u><u>100%</u></u>

Effective Concession Term

Our Concession term is specified to be 50 years under our Concession Agreement. However, the Concession Measures (which are applicable to our operation) provide that the term of any concession of this nature must not exceed 30 years.

To clarify such inconsistency between the Concession Measures and our Concession Agreement, Gaomi City Housing and Urban-Rural Development Bureau, which is the competent authority, issued a written confirmation clarifying that (i) the Concession term of 50 years prescribed in the Concession Agreement is subject to the Concession Measures, meaning that the effective term of the Concession is 30 years; (ii) the initially granted Concession term of 50 years pursuant to our Concession Agreement does not affect the validity and enforceability of the Concession Agreement during the effective term of 30 years; and (iii) it will not withdraw the Concession until the expiry of the effective term of 30 years as a result of such inconsistency.

As advised by our PRC Legal Advisers, according to the Concession Measures and the aforementioned confirmation, our Concession is validly binding on the parties thereto and effective for a term of 30 years from 18 August 2009, despite the fact that the Concession term was specified to be 50 years under the Concession Agreement.

Upon the expiry of the Concession, we will need to go through a prescribed public selection process, such as public bidding process, in order to renew our Concession under the Concession Measures. According to the Concession Measures, our Group, as the existing Concession grantee, will be given priority in renewing the Concession. In the unlikely event that our Concession Agreement is terminated before the expiry of the currently effective Concession term, or we are unable to renew the Concession upon its expiry for whatever reason, our business, financial condition and operating results will be materially and adversely affected. Please also refer to “Risk Factors — Risks Relating to Our Business — Our Concession Agreement under which we are entitled to operate our PNG sales business is subject to an effective term of 30 years from 18 August 2009. Early termination of or

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inability to renew the term of our Concession Agreement, or any illegality or invalidity of our Concession, will materially and adversely affect our business, financial condition and results of operations” in this document. Our Directors confirm that the Concession Agreement has not been terminated, rescinded or rectified as at the Latest Practicable Date.

Cancellation or Termination of Concession Right

According to the Concession Agreement, our Concession right will be cancelled and/or subject to temporary takeover by Gaomi City Bureau of Municipal Affairs Administration in the event where (i) we transfer or dispose of our Concession right without authorisation; (ii) we become unable to continue our business operation due to our mismanagement or the occurrence of any extremely serious quality or production safety incidents; (iii) we cease or suspend our operation under our Concession right, which in turn materially affects public interest and gives rise to safety issues; (iv) we fail to invest in mid-pressure pipeline construction in accordance with the municipal construction planning for two consecutive years; and/or (v) we are engaged in any illegal acts (the “**Cancellation Clause**”). If we are involved in the aforementioned act(s), we are required to take remedial measures within 180 days immediately upon the receipt of a written notice issued by Gaomi City Bureau of Municipal Affairs Administration notifying us of such act. Our Directors have confirmed that as at the Latest Practicable Date, we have not been involved in the aforementioned acts and we have not received the notice issued by relevant authority notifying us of such act.

Gaomi City Housing and Urban-Rural Development Bureau has confirmed in writing that it is fully aware of our non-compliance incidents including but not limited to (1) shortfall in historical tax filings; (2) Non-compliant Bill Financing Arrangements and Deviation; (3) failure to obtain requisite permits or complete relevant inspection procedures for several construction projects; (4) failure to conduct environmental protection inspection for construction projects; (5) failure to comply with fire safety procedures; and (6) failure to complete social insurance and housing provident fund registration within the statutory deadline, and fully contribute to the social insurance and housing provident fund for the benefit of employees (particulars of which are disclosed in “— Non-compliance incidents” in this section) in relation to our Concession Agreement. We have obtained a written confirmation from Gaomi City Housing and Urban-Rural Development Bureau, confirming that (i) our non-compliance incidents did not invoke the Cancellation Clause and we have never been involved in the acts in the Cancellation Clause such as failure to invest in mid-pressure pipeline construction in accordance with the municipal construction planning for two consecutive years; (ii) we did not violate any relevant provisions as stipulated in the Concession Agreement and the Concession Measures; (iii) it had never imposed any sanction or penalty on us and made any investigation in relation to our concession operation; and (iv) our Concession would not be cancelled, terminated or diminutised prior to the expiration of our concession term due to our non-compliance incidents. Our Directors confirm that Gaomi City Housing and Urban-Rural Development Bureau was fully informed of the details of our non-compliance incidents before it provided such written confirmation. Our Directors have confirmed that the Concession Agreement has not been cancelled or terminated as at the Latest Practicable Date.

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Inapplicability of HK(IFRIC 12)

Pursuant to the Concession Agreement which the Group entered into with Gaomi City Bureau of Municipal Affairs Administration and based on the subsequent written confirmations issued by Gaomi City Housing and Urban-Rural Development Bureau, Jiaoyun Gas is entitled to operate natural gas related businesses within the administrative area of Gaomi City for the period up to August 2039. Upon the expiry of the Concession, the Group will need to go through certain prescribed processes to renew the Concession under “Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) (the “**Concession Measures**”).

Although renewal of the Concession Agreement will be subject to future negotiation and agreed to be reached between Jiaoyun Gas and Gaomi City Bureau of Municipal Affairs (or Gaomi City Housing and Urban-Rural Development Bureau or other competent government authority where appropriate, hereinafter referred to as the “**Grantor**”), pursuant to the Concession Measures the Group, as the existing concession grantee, will enjoy a preferential right when considered for renewal of the Concession upon expiry. According to a written confirmation from Gaomi City Housing and Urban-Rural Development Bureau (the competent authority), Jiaoyun Gas as the existing concession grantee will be given priority for the renewal of the Concession upon expiry.

Based on the following, there are good grounds to conclude that Jiaoyun Gas controls the residual interest of the PNG pipeline network assets and the Concession:

- Jiaoyun Gas has the preferential right for renewal of the Concession;
- Jiaoyun Gas is the only operator for engineering design, installation, construction, operation, management and maintenance of the natural gas pipeline network in the Operating Area of Gaomi City. All such infrastructures required for natural gas operations are designed and self-built by Jiaoyun Gas. Jiaoyun Gas is familiar with the structure of such infrastructure in detail, which is critical to maintain the safety and efficiency of PNG supply; and
- Pursuant to the Concession Agreement, the Grantor would be required to compensate Jiaoyun Gas at a appraised value determined by a third-party assets valuer jointly appointed by the Grantor and Jiaoyun Gas if in the extremely unlikely circumstance that the Group is required to transfer the PNG pipeline network assets to the Grantor or other parties instructed by the Grantor. Therefore, appointing a new operator instead of engaging Jiaoyun Gas upon the expiry of the Concession would give rise to added financial burden to Gaomi Municipal Government. It is also estimated that the internal rate of return of this business would essentially not attractive if any new operator is required to pay Jiaoyun Gas for the PNG pipeline network assets at the appraised value, given the PNG end-user selling prices must follow the benchmark rates determined and approved by the local pricing authorities and National Development and Reform Commission.

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Based on the analysis performed above, it is believed that it is highly likely that Jiaoyun Gas can meet the relevant governmental bureau’s renewal requirements in the future. There is no indication that Jiaoyun Gas will not be able to renew the Concession Agreement. Accordingly, our Group is considered to be able to control the significant residual interests in our gas pipeline facilities at the expiry of the Concession.

As such, the Group’s Concession do not fully meet all conditions set out in Paragraph 5 of HK(IFRIC) 12, and therefore the gas pipeline facilities and the Concession do not fall within the scope of HK(IFRIC) 12. The accounting treatment of the gas pipeline facilities and the Concession was reviewed by the Reporting Accountant during its engagement to issue the accountant’s report as set out in Appendix I to this document in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant’s opinion on the historical financial information of the Group for the Track Record Period, as a whole, is set out on page I-2 of Appendix I to this document.

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PROCUREMENT OF NATURAL GAS

During the Track Record Period, we procured two types of natural gas, namely PNG and LNG. The table below sets out a breakdown of our procurement volume, average procurement cost per unit (without VAT) and procurement cost of natural gas for the periods indicated.

	For the year ended 31 December				For the four months ended 30 April										
	2019	2020		2021		2022									
	Average procurement cost per unit without VAT	Average procurement cost per unit without VAT	Average procurement cost per unit without VAT	Average procurement cost per unit without VAT	Average procurement cost per unit without VAT	Average procurement cost per unit without VAT	Average procurement cost per unit without VAT								
	(RMB/unit)	(RMB/unit)	(RMB/unit)	(RMB/unit)	(RMB/unit)	(RMB/unit)	(RMB/unit)	(RMB '000)							
PNG ('000 m ³)	104,345.3	2,185.9	228,092.0	93,718.6	2,000.0	187,436.4	104,242.1	2,256.3	235,196.2	35,276.4	2,189.2	77,253.2	35,473.2	2,617.4	92,847.9
(Note)															
LNG (tonnes)	3,355.0	3,747.7	12,574.0	4,998.1	2,902.7	14,508.0	6,113.4	4,950.7	30,265.4	3,422.5	5,200.2	17,797.8	5,023.3	6,144.2	30,864.4
Total			<u>240,666.0</u>			<u>201,944.4</u>			<u>265,461.6</u>			<u>95,051.0</u>			<u>123,712.3</u>

Note: The PNG procurement cost per unit is arithmetically the same for all PNG end-users (regardless of whether they are industrial, commercial or residential end-users).

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PROCUREMENT OF PNG

PNG is the major raw material supporting our sale of PNG and CNG. During the Track Record Period and up to the Latest Practicable Date, PNG was delivered by our suppliers through our urban pipeline network to our city gateway stations in Gaomi City. Our city gateway stations (i) regulate the pressure of PNG received from high pressure to sub-high pressure or mid-pressure; (ii) quantify and verify the amount of PNG procured from our suppliers; (iii) filter the PNG; and (iv) odorise the PNG before distributing it into our urban pipeline network so that our PNG end-users and the general public may be alerted to gas leakages. During the Track Record Period and up to the Latest Practicable Date, our PNG was sourced from PetroChina and Shandong Shihua (a company owned by Sinopec as to 50%) with whom we have entered into long-term contractual arrangements. We have entered into a master agreement with each of PetroChina and Shandong Shihua, the one with PetroChina being valid for 20 years from March 2011 to February 2031; and the one with Shandong Shihua being valid for five years and nine months from April 2020 to December 2025. We also entered into a series of actual purchase contracts with each of PetroChina and Shandong Shihua from time to time and on an as-needed basis, which stipulate specifically the procurement volume, payment arrangement, PNG unit price and PNG quality for the relevant periods. For the years ended 31 December 2019, 2020, 2021 and the four months ended 30 April 2022, our total volume of PNG procured was approximately 104.3 million m³, 93.7 million m³, 104.2 million m³ and 35.5 million m³, respectively. During the Track Record Period, Shandong Shihua was our primary supplier of PNG.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any shortage of PNG supply suspension, emergency supply state or any other incident arising from our contractual relationship with PetroChina and Shandong Shihua, which had a material adverse impact on our business operations.

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Our key contractual arrangements with PetroChina and Shandong Shihua are set out below.

	Key contractual arrangements with PetroChina	Key contractual arrangements with Shandong Shihua
Contract term	<p>We established our contractual relationship with PetroChina in 2011. Natural gas from PetroChina was first transmitted to us in 2012. Since then, we have been procuring PNG therefrom under long-term contractual arrangements. We have entered into a master agreement with PetroChina which has a term of 20 years from March 2011 to February 2031. We also entered into a series of actual purchase contracts with PetroChina, from time to time and on an as-needed basis, which stipulate the procurement volume, payment arrangement, PNG unit price and PNG quality for the relevant periods.</p>	<p>We established our contractual relationship with Shandong Shihua in 2004 for the preparation of our sale of PNG business in 2005. Since then, we have been procuring PNG therefrom under long-term contractual arrangements. We have entered into a master agreement with Shandong Shihua which has a term of five years and nine months from April 2020 to December 2025. We also entered into a series of actual purchase contracts with Shandong Shihua, from time to time and on an as-needed basis, which stipulate the procurement volume, payment arrangement, PNG unit price, PNG quality and gas usage safety for the relevant periods.</p>
Procurement volume	<p>Under our existing master agreement with PetroChina, the supply of PNG to us is subject to an annual base volume, a daily ceiling supply volume and an annual ceiling supply volume. We are required to submit annual, quarterly and monthly procurement projections to PetroChina, subject to adjustments of +/-5%. We enter into actual purchase contracts from time to time and on an as-needed basis, with PetroChina; and these actual purchase contracts stipulate the monthly minimum procurement volume for the relevant periods.</p>	<p>Under our existing master agreement with Shandong Shihua, the supply of PNG to us is subject to an annual base volume, a monthly base volume, a daily base volume, a daily ceiling supply volume and a daily floor supply volume. We are required to submit annual, quarterly and monthly procurement projections to Shandong Shihua. We enter into actual purchase contracts from time to time and on an as-needed basis, with Shandong Shihua; and these actual purchase contracts stipulate the monthly minimum procurement volume for the relevant periods.</p>

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	Key contractual arrangements with PetroChina	Key contractual arrangements with Shandong Shihua
Take-or-pay obligations	<p>Under the current overall contractual arrangement, if our actual monthly procurement volume falls short of the agreed minimum monthly procurement volume which we agree to from time to time, we may have to pay a penalty calculated according to the penalty clause as stipulated in the relevant actual purchase contracts which specify the minimum monthly procurement volume for the relevant periods. We are entitled to apply a set of pre-determined discounting factors to the minimum monthly procurement volume for calculating the difference from our actual procurement volume. Such difference can be used as a supply quota in the following year free of charge provided that such supply quota is not more than 5% of the annual base volume.</p>	<p>Under the current overall contractual arrangement, if our actual monthly procurement volume falls short of the minimum monthly procurement volume which we agree to from time to time, we may have to pay a penalty calculated according to the penalty clause as stipulated in the relevant actual purchase contracts which specify the minimum monthly procurement volume for the relevant periods.</p>
Pricing	<p>Our PNG procurement price comprises pre-determined ex-plant price and pipeline transmission tariff. The pricing of PNG shall follow the relevant guidance published by the NDRC. In the event that the relevant pricing requirements are cancelled or revoked, the price of PNG charged to us shall be agreed based on (i) the costs of PetroChina, including procurement, transportation and storage costs; (ii) reasonable profit of PetroChina; and (iii) our market condition.</p>	<p>Our PNG procurement price comprises pre-determined ex-plant price and pipeline transmission tariff. The pricing of PNG is determined with reference to market prices and specified in the annual purchase contracts and supplementary purchase contracts which we enter into with Shandong Shihua. Such pricing shall be adjusted if there is any change in the relevant policies, regulations and guidelines issued by the government.</p>

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	Key contractual arrangements with PetroChina	Key contractual arrangements with Shandong Shihua
Payment terms	Prepayment shall be made within three working days of the billing statement (invoice notification) based on the pre-determined minimum volume for the relevant period by telegraphic transfer or via any methods otherwise agreed, to the designated account of PetroChina China.	Payment shall be made within two or three working days of the billing statement and invoice by bank transfer or via any other method as agreed with the Shandong Shihua in advance.
Emergency supply state	If the supply of natural gas is insufficient to meet the needs of all PNG end-users, we are required to allocate our supply in the following order: (i) residential PNG end-users; (ii) public institutions and organisations; (iii) commercial PNG end-users; (iv) industrial PNG end-users with city gas transfer; (v) industrial PNG end-users with direct transfer; and (vi) industrial PNG end-users to which the supply of PNG may be suspended in accordance with the relevant contractual arrangements.	None
Termination	The master agreement may be terminated (i) by mutual agreement, provided that the termination does not result in damage to national or public interests; (ii) upon breach of agreement by one party, which renders the performance of the agreement impossible or meaningless; or (iii) where force majeure events have lasted for 30 days.	We have the right to immediately terminate the master agreement where (i) Shandong Shihua fails to deliver PNG for three consecutive months; (ii) Shandong Shihua enters into liquidation by reason of bankruptcy or insolvency; or (iii) during the term of the agreement, Shandong Shihua no longer possesses the licenses and qualifications required to operate the PNG business, provided that Shandong Shihua cannot remedy any such event within 30 days of our written notice of the same.

BUSINESS

**Key contractual arrangements
with PetroChina**

**Key contractual arrangements
with Shandong Shihua**

Shandong Shihua has the right to immediately terminate the master agreement where (i) we materially breach the agreement; (ii) we fail to extract the delivered PNG for three consecutive months; (iii) we enter into liquidation by reason of bankruptcy or insolvency; or (iv) during the term of the agreement, we no longer possess the licenses and qualifications required to operate the PNG business, provided that we cannot remedy such any event within 30 days of Shandong Shihua’s written notice of the same.

Exclusivity

None

None

PNG procured during the Track Record Period

Our actual purchase contracts with each of PetroChina and Shandong Shihua stipulate the monthly minimum procurement volume for the relevant periods, which were determined according to the minimum monthly procurement volume projections submitted by us and subsequently approved by them. Such projections would take into account our monthly or daily gas consumption estimation during the relevant periods, which is primarily based on the market conditions in that corresponding period and taking into account historical procurement volume. The minimum monthly procurement volume projections are submitted in the form of a projection for the annual base volume, with details of each month in sequence, for the coming year. We generally sign actual purchase contracts (under which the annual base volume and minimum monthly procurement volume are agreed) with PetroChina and Shandong Shihua every year. Our master agreements and actual purchase contracts with PetroChina and Shandong Shihua impose on us certain take-or-pay obligations.

There may be situations where we would not be required to make payment pursuant to the take-or-pay obligations despite having incurred procurement shortfalls. For instance, in February 2020, the Shandong Provincial Development and Reform Commission (山東省發展和改革委員會) issued an official notice which stipulated that, in light of COVID-19, no upstream natural gas supplier shall enforce take-or-pay arrangements against any downstream natural gas supplier for any procurement shortfalls from February to June 2020 (the “**COVID-19 Exemption**”). Our PRC Legal Advisers have confirmed that the COVID-19 Exemption is applicable to us and binding on PetroChina and Shandong Shihua.

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For the years ended 31 December 2019, 2020 and 2021, the aggregated procurement shortfall with PetroChina (the “**PetroChina Shortfall**”), after applying the COVID-19 Exemption, were approximately 1.0 million m³, 0.8 million m³ and 1.0 million m³; and the aggregated procurement shortfall with Shandong Shihua (the “**Shandong Shihua Shortfalls**”), after applying the COVID-19 Exemption, was 9.9 million m³, 3.1 million m³, and 1.6 million m³, respectively (collectively, the “**Procurement Shortfall**”). We did not experience any procurement shortfall for the four months ended 30 April 2022. Our total PNG sales volume was approximately 85.6 million m³, 87.2 million m³ and 99.9 million m³ for the years ended 31 December 2019, 2020 and 2021, respectively. As advised by CIC, our Directors are of the view that our Procurement Shortfall for each of the years ended 31 December 2019, 2020 and 2021 was immaterial, considering our shortfall amount as a percentage of our total sales amount. According to CIC, our Procurement Shortfall was mainly attributable to normal demand-and-supply changes in Gaomi City and did not deviate from the industry norm.

If PetroChina had enforced the relevant take-or-pay obligation against us in relation to the PetroChina Shortfall, we would have had to additionally pay approximately RMB0.6 million, RMB0.5 million and RMB0.6 million to it during the years ended 31 December 2019, 2020 and 2021, respectively; and if Shandong Shihua had enforced the relevant take-or-pay obligation against us in relation to the Shandong Shihua Shortfall, we would have had to additionally pay approximately RMB6.2 million, RMB2.1 million and RMB1.1 million to it for the years ended 31 December 2019, 2020 and 2021, respectively. If both PetroChina and Shandong Shihua enforced the relevant take-or-pay obligations against us in relation to the Procurement Shortfall, the maximum amount we would have had to additionally pay is approximately RMB6.8 million, RMB2.6 million and RMB1.7 million for the years ended 31 December 2019, 2020 and 2021, respectively. The take-or-pay obligations or related penalties are contracted in nature, and not stipulated by any specific PRC laws or regulations.

We did not make any provision on our financial statements in respect of the Procurement Shortfall during the Track Record Period because (i) we have obtained a written confirmation from each of PetroChina and Shandong Shihua, confirming that all sums payable under our contractual arrangements with them, or any sums relating to the terms thereunder, had been settled in full and there was no other outstanding sum payable during the Track Record Period; (ii) our PRC Legal Advisers have confirmed that the aforementioned written confirmations are legally binding on the parties thereto and based on such confirmations, the risk that PetroChina and/or Shandong Shihua would make a claim against us for the respective shortfalls is low; and (iii) it is unlikely that PetroChina and/or Shandong Shihua would make a claim against us for the respective shortfalls as take-or-pay obligations are an industry norm used to align our interests with those of PetroChina and/or Shandong Shihua, and which reflect the sustainability and reciprocity of natural gas market in the PRC, as advised by CIC. Based on the written confirmations obtained from PetroChina and Shandong Shihua, the advice from our PRC Legal Advisers as aforementioned, and our long-term amicable relationship with each of PetroChina and Shandong Shihua, our Directors are of the view that the risk of PetroChina and/or Shandong Shihua making a claim against us for the respective shortfalls is low.

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In any event, pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify our Group against any losses, claims, charges or expenses should PetroChina and Shandong Shihua enforce the relevant take-or-pay obligations against us.

There were such Procurement Shortfall during the Track Record Period because we failed to accurately predict the actual demand and supply of PNG. Generally speaking, we consider that the events which gave rise to the Procurement Shortfall during the Track Record Period were mostly beyond our control.

Each year, we set and agree with PetroChina and Shandong Shihua in advance a pre-determined annual base volume with specific minimum monthly procurement volumes for the following year - at the time we enter into annual purchase contracts with them. These volume projections are generally estimated with reference to the actual volumes of PNG we procured in previous years, as well as a range of other relevant factors considered by our procurement team, including the anticipated economic outlook, local demographics and business conditions, weather conditions and our procurement team's overall industry experience. When we submit a procurement volume projection for a particular year, our respective minimum monthly procurement volumes with PetroChina and Shandong Shihua are usually determined for the entire upcoming year, it is not possible to precisely account for all factors that may affect our actual procurement volume. In the event of an unexpected surge of demand by our customers (especially in winter), there is a risk that PetroChina and Shandong Shihua will not be able to fulfil our additional procurement needs (which exceed the pre-determined procurement volume) in a timely manner. In order to ensure we can meet the demands of our end-users, we tend to err on the side of caution when determining such volume projections.

Once agreed, we cannot change the monthly minimum procurement volumes unless otherwise agreed. At the time we agree the minimum procurement volumes, there is no certainty of what demand there might be in the following year. We could only use our best commercial efforts to determine what is appropriate. Any over-estimation of demand will result in the minimum procurement volume being set too high, which will then result in a Procurement Shortfall for that year.

In 2019, our procurement shortfall volume was relatively high as a result of (i) unanticipated government initiatives which were introduced to promote the reduction of carbon and dust emissions, which encouraged us to procure less gas with a view to keeping our emissions at a relatively lower level; and (ii) a downturn of the textile manufacturing sector in Gaomi City, which resulted in a significant decrease in PNG consumption by textile manufacturing factory operators, which are our important industrial PNG end-users.

In 2020, our Procurement Shortfall came about mainly as a result of the unexpected outbreak of COVID-19. It was necessary for us to reduce our PNG procurement volume because of a significant drop in downstream demand resulting from the closure of many commercial and industrial premises and suspension of works and production relating to the COVID-19 outbreak.

In 2021, COVID-19 pandemic continued and the uncertainties that came about as a result of COVID-19 made it very difficult to predict what was to come. Globally, there were ongoing restrictions and lockdowns imposed by governments of different countries and there as a lot of uncertainty as to if and when economic recovery would take place. Further, demand for our PNG is

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affected by both local business and social activities in Gaomi City as well as global economy and other geopolitical factors, given many of our industrial PNG end-users were engaged in manufacturing of goods for export. As a result, there was very little basis for us to accurately anticipate the level PNG consumption demand for that year during such unprecedented times.

When we prepared our annual purchase contract for 2021, we assumed that the general COVID-19 situation would improve and downstream end-user demand would recover relatively rapidly, and that there would be significant demand from our PNG end-users. Further, we took the view that provision of natural gas is a basic necessity which can severely affect the livelihood of the population of Gaomi, and as required under our Concession Agreement, we have an obligation to ensure a continuous supply of PNG to all of our PNG end-users. Our key consideration was therefore to ensure there was ample supply of PNG at a reasonable cost. After taking into consideration that the price of purchasing additional PNG beyond the minimum procurement threshold would be quite high, we opted to err on the side of caution and decided to predict a relatively high demand with reference to the actual usage volume for the pre-COVID years of 2018 and 2019.

However, the actual demand turned out to be much less and resulted in another Procurement Shortfall. According to our Directors and procurement team, the PetroChina Shortfall in 2021 was partly caused a shortage of upstream PNG supply faced by PetroChina itself. There were certain months in 2021 when PetroChina could not supply us such volume of PNG which fell within our minimum monthly procurement volumes.

On the supply side, our supply of PNG is subject to a pre-determined annual base volume, with details setting out the minimum monthly procurement volumes for the relevant upcoming year under our master agreements and actual purchase contracts with each of PetroChina and Shandong Shihua. Such annual base volume are estimated according to the actual volumes of PNG we procured in previous years, as well as a range of other factors considered by our procurement team, including the anticipated economic outlook, local demographics and business conditions, weather conditions and our procurement team’s overall industry experience. When we submit a procurement volume projection for the upcoming year, our respective minimum monthly procurement volumes with PetroChina and Shandong Shihua are usually determined for the entire upcoming year, it is impossible to precisely account for all factors that may affect our actual procurement volume. In the event of an unexpected surge of demand by our customers (especially in winter), there is a risk that PetroChina and Shandong Shihua will not be able to fulfil our additional procurement needs (which exceed the pre-determined procurement volume) in a timely manner. Furthermore, according to our Directors and procurement team, the PetroChina Shortfall in 2021 was partly due to a shortage of upstream PNG supply faced by PetroChina itself. There were certain months in 2021 when PetroChina had repeatedly failed to supply us the amounts of PNG we requested, even though such amount fell within our minimum monthly procurement volumes. This resulted in us not being able to meet the minimum procurement volumes for those affected months. These factors which gave rise to our Procurement Shortfall were beyond our control when the relevant annual base volume of procurement was agreed with PetroChina and Shandong Shihua.

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According to CIC, the inclusion of take-or-pay obligations in contractual arrangements is an industrial practice used to align the interests of upstream and midstream natural gas suppliers. The take-or-pay obligation reflects the sustainability and reciprocal nature of the natural gas market in the PRC. As advised by CIC and based on the above, our Directors consider that the occurrence of the Procurement Shortfall was not an uncommon phenomenon in the natural gas market and was beyond our control.

As advised by our PRC Legal Advisers, our master agreements and actual purchase contracts with PetroChina and Shandong Shihua are legally binding on the parties thereto. During the Track Record Period and up to the Latest Practicable Date, save for the Procurement Shortfall, we have strictly performed our contractual obligations in accordance with the terms of our master agreements and actual purchase contracts with each of PetroChina and Shandong Shihua. The Procurement Shortfall does not constitute a breach of, and nothing else has occurred which resulted in the breach or early termination of, any of these agreements.

Our Directors have confirmed that no take-or-pay obligation has been enforced by either PetroChina or Shandong Shihua against us during the Track Record Period and up to the Latest Practicable Date. Moreover, we have obtained written confirmations from each of PetroChina and Shandong Shihua, confirming that all sums payable under the contractual arrangements or any sums relating to the terms thereunder had been settled in full and there was no other outstanding sum payable during the Track Record Period, respectively.

Our PRC Legal Advisers have confirmed that the aforementioned written confirmations are legally binding on the parties thereto and based on such confirmations, the risk that PetroChina and/or Shandong Shihua would make a claim against us for the respective shortfalls is low.

Based on the above, the Procurement Shortfall is therefore not expected to give rise to any material adverse impact on our business, financial condition, operating results, and our relationship with each of PetroChina and Shandong Shihua.

To minimise the possibility of any future procurement shortfall, we now (i) closely monitor and analyse our monthly sales volume of PNG to our PNG end-users and their consumption patterns; (ii) proactively identify the circumstances which may potentially lead to a decrease in PNG demand from our PNG end-users from time to time, and liaise with our suppliers as early as possible for any modification of the minimum procurement volume accordingly; and (iii) actively cooperate with the relevant governmental authorities for the implementation of coal-to-gas project (煤改氣工程), other clean energy transmission related projects and relevant energy-saving or emission reduction initiatives.

Relationship with our PNG Suppliers

During the Track Record Period and up to the Latest Practicable Date, we procured most of our PNG from PetroChina and Shandong Shihua, with the latter being our primary PNG supplier.

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Our Group’s relationship with Shandong Shihua

We have a long-standing and close relationship with Shandong Shihua, which is owned as to 50% by Sinopec. In 2013, we partnered with Shandong Shihua to establish Jiaoyun Shihua for our natural gas procurement and sales, 51% of which was owned by Shandong Shihua and 49% by Jiaoyun Gas upon its establishment. Subsequently, on 25 May 2015, Shandong Shihua transferred 21% of its equity interest in Jiaoyun Shihua to Jiaoyun Gas, as a result of which Jiaoyun Shihua became our subsidiary. This transfer was made in order to improve managerial and operational efficiency of Jiaoyun Shihua. As at the Latest Practicable Date, Jiaoyun Shihua was directly owned as to 70% by Jiaoyun Gas and 30% by Shandong Shihua. For details of the history of Jiaoyun Shihua, please refer to “History, Reorganisation and Corporate Structure — Our Corporate Development — 2. Our Operating Subsidiaries — Jiaoyun Shihua” in this document.

Moreover, in November 2014, an employee of Shandong Shihua at the time was nominated by Shandong Shihua and appointed as a director of Jiaoyun Shihua. This employee is experienced in matters relating to natural gas operational safety and engineering through his employment with Shandong Shihua, and advised Jiaoyun Shihua on its business operations from time to time. Since November 2014 and up to the Latest Practicable Date, this employee remained as a director of Jiaoyun Shihua and continued to advise and support Jiaoyun Shihua. During the Track Record Period and up to the Latest Practicable Date, there were also two seconded employees from Shandong Shihua to support our business operation. These seconded employees worked on a part-time basis, mainly responsible for supervision of our Group’s accounting and operational safety matters. For the details of our secondment arrangement with Shandong Shihua, please refer to “— Employees” in this section. We believe that our long-term support from and shareholding relationship with Shandong Shihua will provide us with a stable supply of natural gas for the foreseeable future.

Our Group’s relationship with PetroChina

We source PNG from PetroChina under a master agreement which is valid for 20 years from March 2011. PetroChina is an upstream and mid-stream natural gas transmission company in the PRC and stays closely connected with natural gas operators that are operating under concessions pursuant to the relevant PRC laws and regulations. We expect that PetroChina will continue to be a stable and one of our major PNG suppliers for the foreseeable future.

We believe that our relationships with each of PetroChina and Shandong Shihua are of mutual reliance and mutually beneficial, as a result of which they are unlikely to materially adversely change or terminate for the following reasons:

- (1) according to the CIC Report, 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 materially rely on one or more of the Big 3-Noc companies. Moreover, PetroChina and Shandong Shihua are the only two upstream PNG suppliers in Gaomi City;

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- (2) the PRC government considers natural gas as basic necessity of the people, and distribution of natural gas is public utility business that the PRC government considers crucial to people's livelihood. As such, in terms of policy reasons and social responsibility, it is necessary for upstream natural gas suppliers such as PetroChina and Shandong Shihua to ensure continuous and stable supply of natural gas to local distributors for the ultimate benefit of end-users. Hence, the risk of suspension of natural gas from our PNG suppliers is extremely low;
- (3) it is difficult for each of PetroChina and Shandong Shihua to find alternative sizeable customers with operating scale comparable to us for procurement of PNG in Gaomi City given (i) we are the exclusive PNG distributor in our Operating Area; (ii) we are the largest natural gas operator in Gaomi City with approximately 70% market share in terms of sales revenue from 2016 to 2021; and (iii) the high entry barrier of the natural gas industry due to the exclusive Concession granted to us in our Operating Area, as well as intensive capital commitment requirements and infrastructure capability;
- (4) there is a mutually beneficial relationship between each of Shandong Shihua, PetroChina and our Group, as they have to rely on government authorised local distributors with concession rights to distribute PNG to end-users in the respective areas throughout China. Concession right is the essential requirement for any legitimate downstream natural gas distributor;
- (5) we have entered into long-term contractual agreements for PNG supply with each of PetroChina and Shandong Shihua, for a term up to February 2031 and December 2025, respectively. Our PRC Legal Advisers have confirmed that such contractual agreements are legally valid and binding;
- (6) we have long-standing and close relationships with each of PetroChina and Shandong Shihua, beginning from 2004 and 2013, respectively. There has not been any material disputes, legal proceedings, or complaints between the Group and Shandong Shihua and PetroChina, and our cooperative relationship have not ceased or been suspended since then. Our relationship with Shandong Shihua (our largest PNG supplier during the Track Record Period) is particularly close, given our joint investment in Jiaoyun Shihua (a subsidiary of our Company), of which Shandong Shihua holds 30% equity interest; and
- (7) each of PetroChina and Shandong Shihua confirmed that it expects to continue its business relationship with us based on interviews conducted.

Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that there are no red flags to our relationships with PetroChina and Shandong Shihua, and our relationship with each of them is unlikely to materially adversely change or terminate.

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PROCUREMENT OF LNG

Zhonghui Energy

During the Track Record Period, we procured LNG from Zhonghui Energy, which is directly held as to 100% by Li Shi Xing (李世興), an Independent Third Party, for our sale of LNG at our CNG and LNG refuelling stations located in Gaomi City. Li Shi Xing (李世興) (“**Li Shi Xing**”) first became acquainted with Jiaoyun Gas in around 2013 when Li Shi Xing worked as deputy general manager and director of Gaomi Minsheng Energy Co., Ltd* (高密民生能源有限公司) (“**Gaomi Minsheng Energy**”), a company which operates a gas refuelling station in Gaomi City and procured PNG from us. During the Track Record Period, Gaomi Minsheng Energy was our customer. Li Shi Xing was also a 10% shareholder, deputy general manager and director of Weifang Minsheng Energy Co., Ltd* (濰坊民生能源有限公司) (“**Weifang Minsheng Energy**”), which is the parent company of Gaomi Minsheng Energy. As confirmed by Gaomi Minsheng Energy and Weifang Minsheng Energy, Li Shi Xing resigned from the positions as deputy general manager of Gaomi Minsheng Energy and Weifang Minsheng Energy in April 2016, respectively, and Li Shi Xing ceased to be involved in the day-to-day management of Gaomi Minsheng Energy and Weifang Minsheng Energy since then. Li Shi Xing established Zhonghui Energy in December 2017. Li Shi Xing also ceased to be a 10% shareholder of Weifang Minsheng Energy Co., Ltd* (濰坊民生能源有限公司) after a capital reduction conducted in April 2022. As confirmed by Gaomi Minsheng Energy and Weifang Minsheng Energy, Li Shi Xing resigned from the positions as the director of both Gaomi Minsheng Energy and Weifang Minsheng Energy in April 2016, and the corresponding corporate filings for such resignations as director have not yet been made. Zhonghui Energy is principally engaged in new energy technology research and development, technology promotion, technical services as well as sales of natural gas, electronic products and special equipment for environmental protection. Given our previous amicable cooperation and working relationship with Li Shi Xing when he worked at Gaomi Minsheng Energy, Zhonghui Energy was invited to participate in our LNG supplier selection process even though it was only established in 2017, and became our LNG supplier in 2018.

Save as disclosed, to the best knowledge information and belief of our Directors based on all reasonable enquiries, Zhonghui Energy, its director(s) and ultimate beneficial owner do not have any other past or present relationship (including, without limitation, business, employment, family, trust, financing, shareholding or otherwise) with our Company, its subsidiaries, Directors, senior management or the Controlling Shareholders, or any of their respective associates.

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The below table sets out the revenue contribution and gross profit of our PNG sales to Gaomi Minsheng Energy during the Track Record Period:

	For the year ended 31 December			For the four months ended 30 April	
	2019	2020	2021	2021	2022
				<i>(unaudited)</i>	
Revenue (<i>RMB '000</i>)	12,229	1,816	4,868	718	2,463
Percentage of total revenue from					
PNG sales	4.3%	0.7%	1.6%	0.7%	1.8%
Gross profit (<i>RMB '000</i>)	456	44	106	21	49
Gross profit margin	3.7%	2.4%	2.2%	2.9%	2.0%

During the Track Record Period, we procured LNG from Zhonghui Energy on an as-needed basis prior to entering into a fixed-term supply agreement with them. Our decision of engaging Zhonghui Energy as our sole LNG supplier was made based on the following factors: (i) LNG is usually transported and delivered to us by tankers. As Zhonghui Energy is based in Weifang Municipality where Gaomi City is located, it was able to commit to quick turnaround and delivery time for LNG transportation given the proximity to us; (ii) Zhonghui Energy is known for quick delivery service as it has its own fleet of delivery tankers; (iii) since its establishment in 2017, Zhonghui Energy has consistently performed well in respect of LNG quality and supply stability according to CIC; (iv) we have compared fee quotes from various LNG suppliers based in Weifang Municipality, and having considered a range of factors including LNG pricing, transportation fee, delivery time, quality and service generally, we concluded that the fee quote from Zhonghui Energy was the more commercially justifiable as compared to that quoted by other LNG suppliers that offered similar prices. LNG prices are generally quite transparent and publicly accessible on the market. Accordingly, we considered that Zhonghui Energy’s strength of having its own fleet of delivery tankers (that rarely any other LNG supplier at Weifang Municipality had) was an imperative deciding factor; and (v) there has seldom been complaint from our LNG customers (i.e. vehicle users) on the quality of our LNG. Our Directors have confirmed that the selection of Zhonghui Energy as our LNG supplier was in full compliance with our internal procurement procedure.

Given our past working relationship with Li Shi Xing as mentioned above, we believe that Zhonghui Energy would try to prioritise our LNG supply orders where possible. Our procurement team considered this to be crucial to our sale of gas business as we may have ad hoc demands for LNG supply from time to time. This was also one of the reasons for us entering into a fixed-term LNG supply agreement with Zhonghui Energy subsequently. Based on our existing stable business relationship and with a view to securing stable LNG source as well as enhancing our operational efficiency, since 6 January 2020, we entered into a LNG supply agreement with Zhonghui Energy. Our existing LNG supply agreement with Zhonghui Energy is valid for three years from September 2021 to August 2024.

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The key terms of that LNG supply agreement are set out below.

Contract term	Three years from September 2021 to August 2024.
Procurement volume	Jiaoyun Gas shall notify Zhonghui Energy of our procurement volume from time to time, at least three days before delivery.
Payment terms	Payment is required to be made in full at least two days before the first delivery date as specified in our LNG supply and sale plans.
Quality	LNG supplied by Zhonghui Energy is required to strictly meet the prescribed national quality standard.
Exclusivity	None.

We expect that Zhonghui Energy will be a stable LNG supplier for us during the remainder of the term of the existing LNG supply agreement and our strategic LNG supplier for the foreseeable future.

Reliance on Zhonghui Energy

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our cost of LNG procurement from Zhonghui Energy was approximately RMB12.6 million, RMB14.5 million, RMB30.3 million and RMB30.9 million, respectively. As mentioned in “- Procurement of LNG — Zhonghui Energy” in this section above, we became acquainted with the sole shareholder of Zhonghui Energy, Li Shi Xing, in around 2013 when he was the deputy general manager and director of Gaomi Minsheng Energy, which operated a gas refuelling station and procured PNG from our Group. Li Shi Xing subsequently ceased to be involved in Gaomi Minsheng Energy and established Zhonghui Energy in 2017, which then became our sole LNG supplier since 2018. To the best of our knowledge after making reasonable enquiries, there is no competition between Zhonghui Energy and our Group in respect of the sale of LNG, as Zhonghui Energy does not directly sell LNG to end-users. We do not sell LNG to any other gas distributors as wholesale customers, but only sell LNG to end-users at our refuelling stations.

As aforementioned, our decision to engage Zhonghui Energy as our sole supplier of LNG was based on a combination of factors, with the most imperative one being its quick LNG delivery service as it has its own fleet of delivery tankers (that rarely any other LNG supplier at Weifang Municipality had). During the Track Record Period, Zhonghui Energy was able to meet our requirements and demands for LNG in a timely manner, hence we did not engage other LNG suppliers.

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Although we relied on Zhonghui Energy as our sole supplier of LNG during the Track Record Period, we consider that such reliance had no material adverse effect on our business operations as a whole, and it is unlikely that our reliance on Zhonghui Energy will threaten our business sustainability, for the following reasons:

- (a) according to CIC, it is an industry norm that LNG are usually procured from LNG suppliers of close geographical proximity, given that LNG are typically transported on land by tankers. Moreover, since we regard LNG as a supplemental source for our PNG sales especially during peak seasons in winter, we highly value the transportation capability and prompt delivery by our LNG supplier, particularly when we encounter unanticipated demands from our customers. As aforementioned, our decision to engage Zhonghui Energy as our sole supplier of LNG was based on a combination of factors, with the most imperative one being its quick LNG delivery service as it has its own fleet of delivery tankers (that rarely any other LNG supplier at Weifang Municipality had);
- (b) from 2019 to 2021, our LNG procurement cost only accounted for around 5% to 11% of our annual total LNG and PNG procurement costs under our sale of gas business segment. During the same period, our LNG retail business accounted for around 5% to 10% of our total revenue. On the other hand, Zhonghui Energy regarded us as one of its major customers in terms of LNG sales volume in 2021 based on interviews conducted. Therefore, we believe Zhonghui Energy is mutually dependent on us and it is in its interest to maintain its business relationship with us;
- (c) we have established a close business relationship with Zhonghui Energy since 2018 and entered into a long-term LNG supply agreement with it as aforementioned. Zhonghui Energy also confirmed it expects to continue its business relationship with us based on interviews conducted. In light of all the above, we consider it is unlikely that our relationship with Zhonghui Energy will materially adversely change or terminate; and
- (d) LNG prices are generally quite transparent and publicly accessible on the market, hence LNG procurement prices do not vary largely among different LNG suppliers from the same region, as advised by CIC. In the unlikely event that our business relationship with Zhonghui Energy changes or terminates, as alternative LNG suppliers based in Weifang Municipality are readily available, we believe we will be able to approach and engage other suitable LNG suppliers as replacement with comparable terms in a matter of days, so that our LNG supply will unlikely be disrupted or materially affected. Therefore, any change in our relationship with Zhonghui Energy is not expected to have a material adverse impact on our business as a whole, because we believe we will be able to effectively mitigate our exposure.

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Our LNG procurement

According to the CIC Report, Weifang Municipality is close to one of the largest LNG receiving stations in China in terms of receiving capacity. Our CNG and LNG refuelling stations are located close to that receiving station and we therefore have convenient access to LNG. Our CNG and LNG refuelling stations and peak-shaving LNG station receive LNG transported through tankers of Zhonghui Energy. At our CNG and LNG refuelling stations, LNG is distributed directly to vehicle users; at our peak-shaving LNG station, LNG is converted into PNG to supplement our PNG sales. Our CNG and LNG refuelling stations had a total storage capacity of approximately 76.5 tonnes as at the Latest Practicable Date.

LNG procured from Zhonghui Energy is either sold to our LNG customers (being vehicles users who purchase LNG to refuel their vehicles) or subsequently converted into PNG, on an as-needed basis, to ensure stability of our sale of PNG business.

The table below sets out a breakdown of LNG sales volume, LNG conversion (into PNG) volume, LNG procurement volume and LNG procurement costs during the Track Record Period.

	For the year ended 31 December			For the four months ended
				30 April
	2019	2020	2021	2022
LNG sales volume (<i>tonnes</i>)	2,612.6	3,297.3	2,119.0	335.1
LNG sales volume as a % of procurement volume	77.9	66.0	34.7	6.7
Volume of LNG converted into PNG (<i>tonnes</i>)	742.4	1,700.8	3,994.4	4,688.2
% of LNG converted into PNG	22.1	34.0	65.3	93
LNG procurement volume (<i>tonnes</i>)	3,355.0	4,998.1	6,113.4	5,023.3
LNG procurement cost (<i>RMB million</i>)	12.6	14.5	30.3	30.9

Conversion of LNG to PNG

We only convert LNG into PNG when we are certain we have adequate supply of LNG to be sold to our LNG customers. Such LNG conversion usually takes place (i) when the atmospheric pressure in our urban pipeline network become unstable during PNG supply peak seasons, thereby affecting the stability of PNG transmission. In such circumstances, LNG is converted into PNG at our peak-shaving LNG station, and we subsequently inject the converted PNG into our urban pipeline network to stabilise the atmospheric pressure therein. As advised by CIC, such LNG conversion for the purpose of stabilising atmospheric pressure in mid-pressure pipelines during PNG supply peak seasons is a practicable solution adopted by natural gas operators to ensure the continuity of PNG supply; or (ii)

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at the time when we are scheduled to repair our urban pipeline network, which leads to temporary suspension of PNG transmission through our urban pipeline network in some areas in our Operating Area. In such circumstances, we convert LNG into PNG to ensure the continuity of our sale of PNG business.

During the Track Record Period, we also converted LNG into PNG in two unanticipated situations in 2020 on top of those mentioned above. Firstly, from around February to April 2020 when there was a slowdown of the transportation sector and traffic generally in Gaomi City, and our CNG and LNG refuelling stations were put into limited operations due to the outbreak of COVID-19, which resulted in an unexpected surplus of LNG. However, PNG demand remained relatively robust as our residential PNG end-users had to observe mandatory home quarantine during the same period. Therefore, we converted LNG into PNG to ensure we had sufficient PNG to meet the PNG demand as well as to stabilise the atmospheric pressure in our urban pipeline network. Secondly, from around May to June 2020 when economic activities picked up given the resumption of normal business operations of our commercial and industrial PNG end-users upon the lifting of COVID-19 restrictions, the PNG supply peak season in 2020 was prolonged.

In the first half of 2020, due to the outbreak of COVID-19, LNG prices were generally much lower than that normally in the same period, and the cost of converting LNG into PNG for subsequent sale were generally comparably lower than the outright procurement of PNG from PetroChina and Shandong Shihua during the same period. During that period, the cost savings from converting LNG into PNG instead of directly procuring PNG from PetroChina and/or Shandong Shihua was approximately RMB0.3/m³, representing a discount of approximately 14.1%. Moreover, as mentioned in “— Procurement of PNG — PNG procured during the Track Record Period” in this section, the government issued the COVID-19 Exemption which waived our take-or-pay obligations under our PNG procurement contracts from February to June 2020, such that we will not be liable for any procurement shortfall during this period. This allowed us greater flexibility in managing our cost of sales. Given the relatively low LNG procurement price at the time, and benefitting from the government’s COVID-19 Exemption, we decided to convert LNG to PNG for our sale of PNG. This helped lower our cost of PNG sales and better manage our business profitability under the exceptional circumstances brought about by COVID-19.

Further, in early 2022, an unexpected surge in our average cost of PNG was caused by the outbreak of the Russia-Ukraine military conflict, which resulted in the tightened supply of PNG globally. As we had exceeded or almost reached our contracted procurement volume with PetroChina and Shandong Shihua for the four months ended 30 April 2022, any direct procurement of additional PNG from them during this period would be at a higher price than that where our procurement falls within the contracted minimum volume. Although our per unit cost of PNG converted from LNG was relatively high at approximately RMB6,175.6/tonne for the four months ended 31 December 2022, it was still cheaper than the average per unit cost of PNG directly procured from these suppliers at the time.

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During the four months ended 30 April 2022, the cost savings from converting LNG into PNG instead of directly procuring additional PNG from PetroChina and/or Shandong Shihua was approximately RMB5.0/m³, representing a discount of approximately 53.3%. We therefore decided to partially use PNG converted from LNG for our sales of PNG in order to increase profitability by better manage our costs of sales increasing our costs of sales for the period. The decision to convert LNG to PNG for our sale of PNG during the aforementioned periods was in line with our Group’s LNG conversion policy, which takes into account various factors including pricing, cost efficiency and operational viability.

Our Directors have confirmed that, at the time when we submitted the minimum monthly procurement volume projections, we were not able to account for the aforementioned two situations that could not be reasonably foreseen. Since the minimum monthly procurement volume projections were submitted to PetroChina and/or Shandong Shihua in the form of a projection for the annual base volume, with details of each month in sequence, for the coming year, we were not able to adjust the minimum monthly procurement volume despite the occurrence of the aforementioned two situations. Therefore, our conversion of LNG into PNG did not, jointly and/or severally, attribute to the Procurement Shortfall. Instead, such LNG conversion demonstrated our capability of and resilience in managing our sale of natural gas business as a whole.

Our sale of LNG was in line with the market conditions and socio-economic development in Gaomi City. During the Track Record Period, there were instances when our LNG procurement volume was larger than LNG sales volume, resulting from our practice of converting LNG to PNG. As explained above, our LNG procured was not solely used for our sale of CNG and LNG business, as not all the LNG we procured was consumed by our CNG and LNG customers (being vehicle users which purchased CNG and LNG to refuel their vehicles). We convert LNG into PNG to maintain stable atmospheric pressure in our urban pipeline network when demand for PNG increases during the PNG supply peak seasons. There may also be circumstances where we reach our PNG procurement monthly upper limits, or when there are unexpected situations of PNG demand exceeding our PNG supply. In such cases, we will convert surplus LNG to PNG to fulfil the demands by our PNG end-users and ensure the stability of our sale of PNG business.

LNG procurement price

Our procurement price of LNG is subject to prevailing market rates. According to the CIC Report, the procurement price of LNG in Shandong Province as at 31 December 2019, 2020 and 2021 and 30 April 2022 was approximately RMB4,000/tonne, RMB5,300/tonne, RMB4,800/tonne and RMB8,700/tonne; and the average procurement price of LNG in Shandong Province was approximately RMB4,000/tonne, RMB3,200/tonne, RMB4,800/tonne and RMB7,500/tonne for the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, respectively. Such average procurement price of LNG in Shandong Province represents a simple average of the daily LNG market price in Shandong Province for the year/period. For the same periods, our procurement of LNG amounted to approximately RMB12.6 million, RMB14.5 million, RMB30.3 million and RMB30.9 million, representing approximately 4.6%, 5.8%, 8.8% and 22.8% of our total cost of sales for the corresponding periods, respectively. Our average LNG procurement unit price was approximately RMB3,700/tonne, RMB2,900/tonne, RMB5,000/tonne and RMB6,100/tonne for the same respective periods.

BUSINESS

The market price of LNG fluctuates throughout the year, and our average LNG procurement unit price takes into account our actual procurement volume at different times of the year. Hence, our average LNG procurement unit price represents a weighted average for the year/period. Our average LNG procurement unit price was significantly lower than the average procurement price of LNG in Shandong Province in 2020 and 2022, mainly because we procured less when the price was relatively high and due to the different basis of calculating such average price. As advised by CIC, it is not uncommon that natural gas operators procure more LNG at the time when the LNG procurement unit price is relatively low so that procurement costs can be better controlled.

We generally keep a small amount of LNG as inventory when we procured surplus LNG, though our storage capacity is limited. Due to the space and cost required to store LNG, as advised by CIC, natural gas operators usually do not store large quantities of LNG for a long time. As advised by CIC, the ex-factory price of LNG is published by the Shanghai Petroleum and Natural Gas Exchange (the “**SHPGX**”). When the SHPGX calculates an ex-factory price of LNG for each day, it takes into consideration of the LNG procurement and sales activities in 14 regions only, which is an established practice. It is an industry norm that the average actual procurement price of LNG differs from an ex-factory price of LNG published by SHPGX given different economic conditions and balance of demand and supply in a specific region. CIC has further advised that, during the Track Record Period, our average procurement price of LNG was in line with the prevailing market rates at the time.

According to the CIC Report, procurement prices for LNG are not subject to guidance by the relevant authorities and therefore fluctuate according to supply and demand dynamics. We have adopted various internal control measures to lower the impact of any fluctuations in our LNG procurement prices. Such measures include (i) regularly assessing the quality of LNG supplier; (ii) regularly monitoring fluctuations in LNG procurement price and conducting analyses of historical LNG prices accordingly; and (iii) requiring our employees to strictly adhere to our guidance when handling LNG transmitted from our suppliers as to maximise efficiency and minimise costs. During the Track Record Period, fluctuations in our LNG procurement prices did not have any material effect on our total cost of sales for the corresponding years.

SALE OF PNG

Our PNG Supply Facilities

We supply PNG to our PNG end-users through our PNG supply facilities. We own the proprietary rights to our PNG supply facilities and are responsible for their maintenance. In the event that our Concession Agreement is terminated prior to or not renewed upon the expiry of our Concession term, our PNG supply facilities shall be transferred to Gaomi City Bureau of Municipal Affairs Administration in exchange for appraisal-based compensation.

Urban pipeline network

As at the Latest Practicable Date, we owned and operated mid-pressure pipelines in Gaomi City with an aggregate length of approximately 685.2 km.

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Our mid-pressure pipelines have an average age of approximately 20 years. The table below sets out a breakdown of our mid-pressure pipelines by age group as at the Latest Practicable Date.

<u>Years of usage</u>	<u>Length</u> (km)
0-15	597.3
15-20	87.9
Over 20	—
Total	<u>685.2</u>

In order to receive PNG, our urban pipeline network is connected at our city gateway stations to the Second West-East Natural Gas Transmission Pipeline* (西氣東輸貳線) operated by PetroChina. PNG is processed at our city gateway stations, namely, Xianjia City Gateway Station and Jiaoyun Shihua City Gateway Station. We then transmit the PNG through our pressure regulators and distribute it to our PNG end-users through our urban pipeline network.

PNG stations

Our PNG stations are connected to our urban pipeline network and consist of our city gateway stations and peak-shaving LNG station.

City gateway stations



Our city gateway stations, through which we receive PNG from our suppliers via long-distance transmission pipelines, are located in our Operating Area. At our city gateway stations, we measure and verify the volume of PNG received from our suppliers. We also reduce the gas pressure of the PNG from sub-high pressure to mid-pressure for safety purposes before its transmission into our urban pipeline network, which operates at lower pressure levels. The PNG is then cleansed and filtered to eliminate impurities, and odourised with an easily detectable but harmless substance to alert our PNG end-users and the general public against gas leakages. Our city gateway stations are equipped with filters, gas meters, pressure regulators, odourisers and valves.

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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. Our city gateway stations are designated for gas transmission and are not used for gas supply and storage purposes. The designated PNG processing capacity of our two city gateway stations is approximately 35,500 m³ per hour and 30,000 m³ per hour, respectively. Our Directors believe that our two existing city gateway stations are capable of accommodating the PNG demand from all the residents and commercial and industrial enterprises in Gaomi City and there is no imminent need to construct any additional city gateway station within our Operating Area for the future expansion of our sale of PNG business.

Peak-shaving LNG station



In order to ensure an accessible and continuous supply of PNG to our PNG end-users, we maintain a peak-shaving LNG station as a back-up source of PNG in the event of emergencies, unexpected incidents, sudden demand surges, suspension or disruption. As advised by CIC, the conversion of LNG into PNG for stabilising the atmospheric pressure in mid-pressure pipelines in PNG supply peak seasons is a practicable solution adopted by natural gas operators to ensure the continuity of the sale of PNG. Our peak-shaving LNG station receives LNG from the tankers of our LNG supplier and vaporises the LNG into PNG. The PNG is then transmitted through our pressure regulators before entering into our urban pipeline network for onwards transmission to our PNG end-users. The maximum gasification capacity of our peak-shaving LNG station is, after taking into consideration factors including pipeline pressure, user demand and seasonality, approximately 10,000.0 m³/hour. For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, approximately 742.4 tonnes, 1,700.8 tonnes, 3,994.4 tonnes and 4,688.2 tonnes of LNG were converted to PNG and supplied to our PNG end-users. The average conversion rate of LNG to PNG is approximately one tonne per 1,400.0 m³.

BUSINESS

Gas meters

We own and install gas meters at the properties of our PNG end-users in order to measure the volume of PNG used by such PNG end-users. Currently, such measurements of PNG usage volume are predominantly taken manually by our personnel to confirm the amount of PNG fee to be charged to our PNG end-users on a regular basis. We conduct periodic safety inspections of our gas meters and are responsible for their repair and maintenance where necessary. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we owned approximately 119,389, 129,978, 149,027 and 152,921 gas meters, respectively, which were installed at the units, properties and premises of our PNG end-users.

Our Goldcard Meters are supported by an automatic meter reading and reporting system without the need for any additional hardware. We aim to roll out the Goldcard Meters to approximately 70.0% of our PNG end-users within three years after [REDACTED]. For details of our Goldcard Meters, please refer to “— Our Business Strategies — Optimise our operational efficiency” in this section.

Pressure regulators

Pressure regulators are located along our urban pipeline network in each location where our PNG end-users are located. These regulators are responsible for carrying key processes including pressure regulation, volume measurement and filtering before the PNG reaches our PNG end-users. As at the Latest Practicable Date, we owned a total of approximately 1,893 pressure regulators, in the form of either pressure regulating cabinets or wall-hung pressure regulating boxes.

PNG customer service centre



As at the Latest Practicable Date, we operated four customer service counters at our PNG customer service centre in Gaomi City. Our staff at the customer service centre are responsible for handling (i) account opening applications from PNG end-users; (ii) customer enquiries; and (iii) payments.

BUSINESS

Our PNG Customers

During the Track Record Period, our PNG customers were comprised of PNG end-users and wholesale customers.

PNG end-users

During the Track Record Period and up to the Latest Practicable Date, we served a broad PNG end-user base within our Operating Area. Most of our residential PNG end-users are residents of households which are connected to our pipeline network. Our residential PNG end-users mainly use PNG for cooking and heating. Our commercial PNG end-users included companies engaged in the catering and hospitality service industries, schools and welfare organisations. Our commercial PNG end-users use PNG to support their manufacturing and sales services, and also for cooking and heating. Our major industrial PNG end-users included companies engaged in the wood processing, fabric manufacturing and agriculture industries, to name a few. Our industrial PNG end-users use PNG for their manufacturing and sales, waste-burning and bleaching and dyeing fabrics, among others.

During the Track Record Period, our sale of PNG to industrial PNG end-users accounted for the majority of our revenue from our sale of PNG to PNG end-users. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had a total of 119,389, 129,978, 149,027 and 152,921 PNG end-users, respectively. For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, revenue from our sale of PNG to PNG end-users represented approximately 93.5%, 99.3%, 98.4% and 98.2% of our total revenue from PNG sales, respectively.

The table below sets out a breakdown of sales volume for our sales of PNG to industrial, residential and commercial PNG end-users for the periods indicated.

Sales volume	For the year ended 31 December			For the four months ended 30 April	
	2019	2020	2021	2021	2022
	(’000 m ³)	(’000 m ³)	(’000 m ³)	(’000 m ³)	(’000 m ³)
Industrial	64,434	66,078	75,603	25,535	23,962
Textile	28,499	28,313	31,277	9,998	8,703
Manufacturing	26,543	25,020	30,085	9,551	8,827
Food processing	6,313	8,352	9,009	3,924	4,361
Others	3,079	4,393	5,232	2,062	2,071
Residential	13,573	16,610	18,372	7,201	11,578
Commercial	7,572	4,526	5,892	2,676	1,966
Total	85,579	87,214	99,867	35,412	37,506

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The table below sets out a breakdown of revenue contribution from our sales of PNG to industrial, residential and commercial PNG end-users and the percentage of our total revenue derived from such end-users for the periods indicated.

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
Revenue contribution	(RMB'000)	% to PNG end-users	(RMB'000)	% to PNG end-users	(RMB'000)	% to PNG end-users	(RMB'000) (unaudited)	% to PNG end-users	(RMB'000)	% to PNG end-users
Industrial	205,806	78.0%	188,630	77.0%	233,468	77.7%	76,915	73.8%	92,615	70.8%
Textile	93,856	45.6%	80,382	42.6%	97,935	41.9%	30,364	39.5%	34,059	36.8%
Manufacturing	82,410	40.0%	71,375	37.8%	90,986	39.0%	28,027	36.4%	32,990	35.6%
Food processing	19,844	9.6%	24,453	13.0%	28,395	12.2%	12,123	15.8%	17,272	18.6%
Others	9,696	4.7%	12,420	6.6%	16,152	6.9%	6,401	8.3%	8,294	9.0%
Residential	33,935	13.0%	43,537	18.0%	48,135	16.0%	18,793	18.1%	30,334	23.2%
Commercial	23,884	9.0%	12,976	5.0%	18,679	6.3%	8,394	8.1%	7,803	6.0%
Total	263,625	100.0%	245,143	100.0%	300,282	100.0%	104,102	100.0%	130,752	100.0%

The table below sets out a breakdown of the gross profit and gross profit margin of our sales of PNG to industrial, residential and commercial PNG end-users for the periods indicated.

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
Gross profit	(RMB'000)	margin (%)	(RMB'000)	margin (%)	(RMB'000)	margin (%)	(RMB'000) (unaudited)	margin (%)	(RMB'000)	margin (%)
Industrial	44,841	21.8%	39,353	20.9%	39,160	16.8%	9,920	12.9%	16,938	18.3%
Textile	22,662	24.1%	16,421	20.4%	17,550	17.9%	4,133	13.6%	6,572	19.3%
Manufacturing	16,101	19.5%	14,852	20.8%	13,665	15.0%	2,969	10.6%	5,112	15.5%
Food processing	4,073	20.5%	5,586	22.8%	5,240	18.5%	1,828	15.1%	3,500	20.3%
Others	2,005	20.7%	2,494	20.1%	2,705	16.8%	990	15.5%	1,754	21.1%
Residential	60	0.2%	6,034	13.9%	955	2.0%	(87)	(0.5%)	(6,178)	(20.4%)
Commercial	4,970	20.8%	2,750	21.2%	3,519	18.8%	1,360	16.2%	1,595	20.4%
Total	49,871	18.9%	48,137	19.6%	43,634	14.5%	11,193	10.8%	12,355	9.4%

The gross profit margin of PNG end-users across different industries varies as a result of the overall PNG supply and demand situation during the Track Record Period. On an overall basis for our sale of PNG, the small increase in gross profit margin from approximately 18.9% in 2019 to approximately 19.6% in 2020 resulting from a decrease in our average cost of PNG which resulted from a decrease in our average procurement price for both PNG and LNG (a part of LNG was converted into PNG for our PNG sales). The significant decrease of the gross profit margin from approximately 19.6% in 2020 to approximately 14.5% in 2021 resulting from an increase of our average cost of PNG from the supply side (while our PNG end-user selling price could not be adjusted adequately and correspondingly). The further decrease of the gross profit margin to approximately 9.4% for the four months ended 30 April 2022 was primarily due to an unexpected surge in our average cost of PNG which resulted from the outbreak of the Russia-Ukraine military conflict since February 2022, which caused a tightened supply of PNG globally, which had a knock-on effect on PNG procurement expenses in the PRC. During this period, our average PNG selling price increased for industrial and commercial PNG end-users, but remained the same for residential PNG end-users. As such, the extent of the overall increase in our PNG selling price was less than the extent of the increase in our average cost of PNG.

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There are variations in the gross profit margins of our PNG sales to different types (i.e., industrial, residential or commercial) of PNG end-users, and more specifically, for industrial and commercial PNG end-users engaging in different industries. This is due to the combined effect of the pricing mechanism governing our PNG procurement and end-user selling prices, market fluctuations of LNG prices for PNG converted from LNG, seasonality, as well as market cycles and specific circumstances of each industrial and commercial PNG end-users.

On one side, our average cost of PNG includes our direct PNG procurement cost from PetroChina and Shandong Shihua, and may at times also include the cost of LNG converted into PNG. Our PNG procurement prices were agreed with our suppliers and determined with reference to the benchmark gate price set by the NDRC. Our LNG procurement prices are subject to market fluctuations. As PNG from direct purchases and from LNG conversions are centrally supplied through our gas distribution network, it cannot be readily discerned once fed into our pipeline network. Therefore, the average cost of PNG per unit is arithmetically the same for all our PNG end-users (regardless of whether it is residential, industrial or commercial PNG end-users).

On the other side, our PNG end-user selling prices for both residential and non-residential end-users are subject to guidance prices set by Gaomi City Development and Reform Commission:

- Our non-residential PNG end-user selling prices are usually adjusted twice a year to cater for the summer and winter seasons, and there may be additional price adjustments stipulated by the government. Once adjusted, our non-residential PNG end-user selling price will be fixed, such that at any one point in time, all types of non-residential PNG end-users will be subject to the same selling price, therefore the gross profit margin across all industries should theoretically be the same at the same average cost of PNG and end-user selling prices at any point in time. Nevertheless, in any given year, PNG end-users may have various usage volumes in summer and winter seasons according to weather conditions, production life-cycles or different market circumstances. In particular, even the industrial PNG end-users in the same industry may also have different PNG usages, subject to specific circumstances. As a result, our gross profit margins presented in the above table varies across different types and industries of PNG end-users for each year.
- Our residential PNG end-user selling price is fixed according to the tiered pricing system for residential PNG regulatory prices, and as weighted by our residential end-users’ annual usages. As a result, the gross profit margin also varies each year. The gross profit margin of our sale of PNG to residential PNG end-users increased from approximately 0.2% in 2019 to approximately 13.9% in 2020, primarily attributable to a decrease in our average cost of PNG as a result of decreases in both our average procurement prices of PNG and LNG (part of which was converted into PNG for our PNG sales). In 2021, the gross profit margin of our sale of PNG to residential PNG end-users fell back to approximately 2.0% as our average cost of PNG recovered. In early 2022, an unexpected surge in our average cost of PNG was caused by the Russia-Ukraine military conflict, while our selling price of PNG to residential PNG end-users remained fixed according to the tiered system as described above. As a result, the gross profit margin of our sale of PNG to residential PNG end-users was (20.4%) for the four months ended 30 April 2022.

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The table below sets out a breakdown of our total and active PNG end-users during the Track Record Period.

	As at 31 December		As at 30 April	
	2019	2020	2021	2022
	Total PNG end-users	Active PNG end-users ^(Note)	Total PNG end-users	Active PNG end-users ^(Note)
Residential	113,899	105,533	142,714	124,354
Commercial	5,182	3,503	5,968	3,476
Industrial	308	305	345	325
Total	119,389	109,341	149,027	128,155
			146,394	128,237
			6,149	3,694
			378	360
			152,921	132,291

Note: Active PNG end-users are our PNG end-users which have added value to their payment cards or user accounts for the prepayments of PNG in the two years up to the end of relevant periods indicated.

BUSINESS

For the sale of PNG to residential PNG end-users, we generally enter into usage agreements with such PNG end-users upon their registration of an account with us, usually when they move into a residential unit. We provide either payment cards or user accounts to such PNG end-users so that they can make prepayments for our PNG supply. Please refer to “— Sale of PNG — Payment” in this section. For the sale of PNG to non-residential PNG end-users, we generally enter into usage agreements with such end-users. The key terms of the aforementioned usage agreements are set out below:

Address and nature of use	The usage agreements specify the PNG end-user’s address and nature of use.
Quality	Supply of PNG shall be on a continuous basis and is subject to the applicable laws and regulations and industrial standards.
Pricing and measurement	PNG is charged at a pre-determined rate, subject to adjustments resulting from new pricing policies issued and implemented by the local pricing authorities from time to time. Usage of PNG is measured by gas meters, which is adjustable to account for differences resulting from disagreements or inaccuracies of the gas meters.
Ownership of facilities, maintenance and upgrade	Save for PNG end-user pipeline network, we own all of the supply facilities and natural gas appliances, and are responsible for their maintenance and upgrade. Our PNG end-users own their PNG facilities and appliances in their units, properties and premises, and our PNG end-users are responsible for their maintenance, management, repair and replacement.
Our rights and obligations	We have the right to inspect and monitor supply conditions and operation of the PNG end-users’ appliances and devices on a regular basis to ensure proper service quality. We are entitled to request the PNG end-users to cease any unauthorised usage of PNG and make proper rectifications in accordance with the relevant procedures to ensure supply safety. We need to inform the PNG end-users in advance if supply of PNG will be interrupted due to planned or ad hoc inspections and maintenance. We are required to make timely responses and repair if PNG supply is suspended due to force majeure events, and ensure that supply can be resumed as soon as possible.

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PNG end-users’ rights and obligations

PNG end-users have the right to monitor our supply of PNG in accordance with the usage agreements. PNG end-users need to comply with the relevant safety rules and report potential safety incidents in a timely manner, and are responsible for the maintenance and repair of their own appliances and devices when the warranty period ends. PNG end-users also need to cooperate with us for the purpose of gas meter reading, safety inspection, rectifications and facilities maintenance. PNG end-users are prohibited from changing the usage of natural gas, supply appliances, gas meters and pipelines and committing unauthorised usage.

Termination

The usage agreement will be terminated if (i) we are unable to supply PNG in accordance with the usage agreements resulting from force majeure events or requirements of the relevant government authorities; (ii) the parties agree to terminate due to changes in the operating environment or for other reasons; or (iii) PNG end-users wind up their business and have no outstanding payments to be made to us.

Wholesale Customers

During the Track Record Period, we sold PNG to two wholesale customers, 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, for their onward sales. For more information relating to the target customers of the natural gas refuelling station operator and its extent of competition with the Group in Gaomi City, please refer to “— Competition” in this section. We supplied PNG to our wholesale customers through our urban pipeline network or by connecting our urban pipeline network to theirs.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue from our wholesale customers was approximately RMB18.2 million, RMB1.8 million, RMB4.9 million and RMB2.5 million, representing approximately 6.5%, 0.7%, 1.6% and 1.8% of our total revenue for the same periods, respectively. For the same periods, our wholesale volume was approximately 7.9 million m³, 0.8 million m³, 2.2 million m³ and 1.0 million m³, respectively. For details, please refer to “Financial Information — Description of Major Components of Our Results of Operations — Revenue — Sale of gas” in this document.

According to the wholesale arrangements with our wholesale customers, we supplied PNG to them at pre-agreed prices. We require our wholesale customers to notify us of their monthly usage so that we can make reasonable adjustments to ensure a stable supply of PNG to them. Our wholesale customers are required to make prepayments to us, and we are entitled to suspend PNG supply to them if we do not receive sufficient prepayments as agreed under our wholesale arrangements.

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We only supply PNG to our wholesale customers after we have ascertained the demands of our PNG end-users have been fully satisfied. Given the rise in PNG demand in our Operating Area, we now focus on supplying PNG to our PNG end-users within the Operating Area. Going forward, we intend to continue prioritising the demands of our PNG end-users in Gaomi City.

Pricing

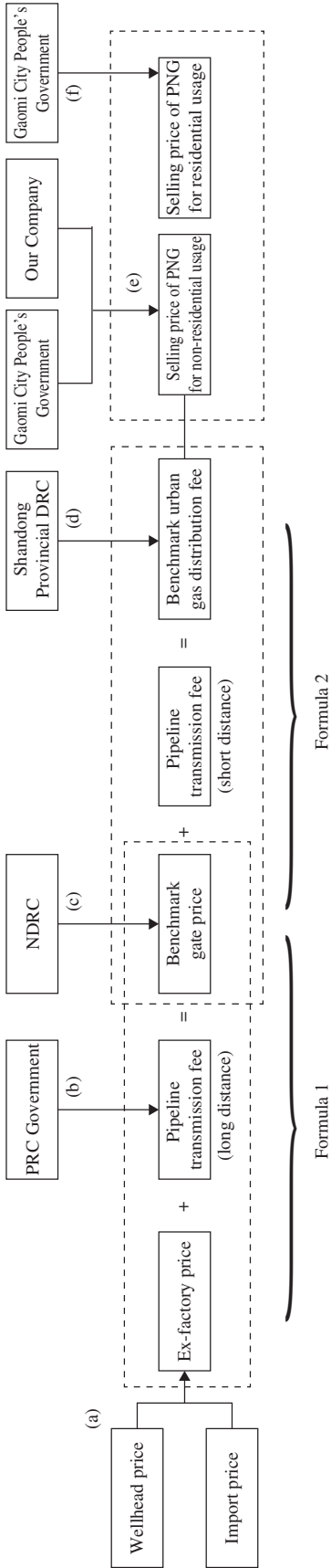
The pricing of PNG is subject to regulatory control. According to the *PRC Pricing Law* (《中華人民共和國價格法》) and relevant pricing regulations and rules, the PRC Government may direct, guide or determine the pricing of PNG, including both PNG procurement prices and PNG end-user selling prices. During the Track Record Period and up to the Latest Practicable Date, our PNG procurement prices were agreed with our suppliers and determined with reference to the benchmark gate price set by the NDRC. Our residential PNG end-user selling prices are fixed, whereas commercial and industrial PNG end-user selling prices are agreed between us and the PNG end-users, up to the highest PNG end-user selling price permitted by the relevant pricing authorities. According to the written confirmation obtained from Development and Reform Bureau of Gaomi, we have complied with all relevant pricing laws and regulations in relation to pricing of natural gas in all material aspects and no administrative penalty was imposed on us in respect of pricing during the Track Record Period. For details of the regulatory regime governing the pricing of natural gas in the PRC, please refer to “Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas” and “Industry Overview — Analysis of the City Gas Supply Industry in Gaomi City” in this document.

From time to time, the relevant pricing authority may adopt price adjustments to residential PNG end-user selling price in order to compensate natural gas operators for losses recorded from their sale of PNG to residential PNG-end users. According to “Regulations on Weifang City Pipeline Natural Gas Price (《濰坊市城鎮管道天然氣配氣價格監管規則》)” promulgated by Weifang NDRC in June 2020, the Weifang Municipality has set out the principle of ensuring the profitability of the city gas operators which sell PNG based on cost plus reasonable earnings. On this basis, and pursuant to the “Measures for the Hearing of Government Pricing 《政府制定價格聽證辦法》” promulgated in December 2018, the Gaomi City government typically arranges annual PNG selling price hearing sessions involving natural gas distributors and representatives from the community. Such hearings are used to discuss and determine adjustments to PNG selling price for the upcoming seasons. In deciding whether to make an adjustment, the government considers whether or not reasonable earnings can be made by the city gas operators such that they can sustain their business operations. Due to the aforementioned policy, our Group’s residential PNG sales segment is expected to breakeven in the long run. This is because we are able to rely on routine price adjustments that can compensate the losses made during peak gas supply seasons when the upstream PNG procurement cost exceeds the then prevailing residential PNG selling price.

During the Track Record Period, we also sold PNG through our urban pipeline network to two wholesale customers. As advised by CIC, the pricing of PNG sold to wholesale customers is not subject to any regulatory regime. During the Track Record Period, our selling prices of PNG to wholesale customer were negotiated between us and the wholesale customers, on normal commercial terms and in good faith.

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The diagram below illustrates how our PNG procurement and PNG end-user selling prices are generally determined.



Formula 1: Ex-factory price + Pipeline transmission fee at long-distance pipeline level = Benchmark gate price

Formula 2: Benchmark gate price + Pipeline transmission fee at short-distance pipeline level = Benchmark urban gas distribution fee

Notes:

- (a) Ex-factory price is the upstream source price of PNG. According to CIC, it mainly includes production costs plus reasonable profit margins taking into account the wellhead price and import price.
- (b) The PRC Government guides the pipeline transmission fee at provincial level, which is also subject to the pricing method based on the cost and reasonable income of gas sales companies.
- (c) The NDRC determines the benchmark gate price, also known as the government-guided price, which adopts the “market netback” pricing method. This means that the upstream supply price is determined based on the PNG end-user unit price. It can increase by no more than 20% and there is no lower limit.
- (d) The Shandong Provincial DRC determines the benchmark urban gas distribution price according to the benchmark gate price and pipeline transmission fee of short-distance.
- (e) According to CIC, non-residential selling PNG price is not fixed by the Gaomi City People’s Government or the Pricing Bureau of Gaomi City, and is usually higher than residential selling PNG price. It is jointly determined by the Gaomi City People’s Government or the Pricing Bureau of Gaomi City and our Company, subject to market conditions.
- (f) According to CIC, the selling price of PNG for residential usage price is fixed and determined by the Development and Reform Bureau of Gaomi City or the Pricing Bureau of Gaomi City. Before adjusting such price, hearings need to be held.

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PNG end-users selling price and regulatory PNG selling price

The table below sets out our PNG end-user selling prices and regulatory PNG selling prices in Gaomi City set by the relevant regulatory authorities for residential PNG end-users (inclusive of VAT) for the periods indicated during the Track Record Period.

	Residential PNG end-user selling price	Applicable maximum residential regulatory PNG selling price^(Note)
	<i>(RMB/m³)</i>	<i>(RMB/m³)</i>
Year 2019		
1 January - 27 July		
Annual volume per household of less than 360m ³	2.50	2.50
Annual volume per household of 360m ³ -960m ³	3.00	3.00
Annual volume per household of more than 960m ³	3.75	3.75
28 July - 31 December		
Annual volume per household of less than 1,000m ³	2.83	2.83
Annual volume per household of 1,000m ³ -1,200m ³	3.40	3.40
Annual volume per household of more than 1,200m ³	4.24	4.24
Year 2020		
Annual volume per household of less than 1,000m ³	2.83	2.83
Annual volume per household of 1,000m ³ -1,200m ³	3.40	3.40
Annual volume per household of more than 1,200m ³	4.24	4.24
Year 2021		
Annual volume per household of less than 1,000m ³	2.83	2.83
Annual volume per household of 1,000m ³ -1,200m ³	3.40	3.40
Annual volume per household of more than 1,200m ³	4.24	4.24
Year 2022		
1 January - 30 April		
Annual volume per household of less than 1,000m ³	2.83	2.83
Annual volume per household of 1,000m ³ -1,200m ³	3.40	3.40
Annual volume per household of more than 1,200m ³	4.24	4.24

Note: For more details, please refer to “Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas — End-user price of natural gas — 1. Selling Price of Natural Gas for Residential Usage and Public Service Usage” in this document.

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The table below sets out our PNG end-user selling prices and regulatory PNG selling prices in Gaomi City set by the relevant regulatory authorities for commercial and industrial PNG end-users (inclusive of VAT) for the periods indicated during the Track Record Period.

	Commercial PNG end-user selling price	Industrial PNG end-user selling price	Applicable maximum non-residential regulatory PNG selling price^(Note)
	<i>(RMB/m³)</i>	<i>(RMB/m³)</i>	<i>(RMB/m³)</i>
Year 2019			
1 January - 31 March	3.62	3.62	3.78
1 April - 31 October	3.30	3.30	3.32
1 November - 5 November	3.30	3.30	3.83
6 November - 31 December	3.70	3.60	3.83
Year 2020			
1 January - 21 February	3.70	3.60	3.81
22 February - 31 October	3.00	3.00	3.00
1 November - 31 December	3.44	3.44	3.44
Year 2021			
1 January - 31 March	3.44	3.44	3.44
1 April - 30 June	3.00	3.00	3.00
1 July - 31 October	3.25	3.25	3.25
1 November - 31 December	4.36	4.36	4.36
Year 2022			
1 January - 31 March	4.36	4.36	4.36
1 April - 30 April	4.06	4.06	4.06

Note: The maximum regulatory price allowed means the higher of either the PNG benchmark selling price or the interim regulatory PNG selling price during a specific period of time. According to the *Notice on Adjusting the Benchmark Selling Prices of Natural Gas for Non-residential Usage (Gao Jia Zi [2017] No. 10)* (《關於調整非居民用天然氣基準銷售價格的通知》(高價字[2017]10號)) promulgated by the Price Bureau of Gaomi City on 15 September 2017, PNG end-user selling prices may be determined based on the benchmark selling price and within the range up to 10% above the benchmark selling price, and PNG end-users selling price is allowed to temporarily exceed the limit of PNG benchmark selling price in certain situations where an interim regulatory PNG selling price set by the relevant regulatory authorities is in force. For more details, please refer to “Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas — End-user price of natural gas — 1. Selling Price of Natural Gas for Non-residential Usage (Excluding Public Service Usage)” in this document.

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Our commercial and industrial PNG end-user selling price was adjusted downwards in 2020, primarily due to the government’s measures to deter potential economic deterioration as a result of COVID-19.

Based on the foregoing and according to a confirmation issued by Development and Reform Bureau of Gaomi, our PNG end-users selling prices during the Track Record Period did not exceed the range of aforementioned regulatory selling price set by relevant local government authorities. Therefore, as advised by our PRC Legal Advisers, we did not violate the applicable PRC laws and regulations in the aspect of PNG end-users selling pricing.

For details of the fluctuation of our PNG end-user selling prices, please refer to “Financial Information — Description of Major Components of Our Results of Operations — Revenue — Sale of gas — (i) Sale of PNG” in this document.

PNG end-user selling prices are guided by the relevant pricing authorities. It is possible that demand from our PNG end-users significantly exceeds the supply of PNG from our PNG suppliers. It is also possible that PNG procurement costs significantly increase whereas PNG end-user price is adjust downwards, we may not be able to transfer all our costs, including procurement and transmission costs, to our PNG end-users. For details of the risks that we may be exposed as a result of pricing restrictions, please refer to “Risk Factors — Risks Relating to Our Business — Our sale of PNG is subject to pricing policies adopted by the PRC Government at various levels and thus our profitability may be materially and adversely affected if these pricing policies become unfavourable to us” in this document. We believe that we are exposed to minimal credit risk as we generally require our PNG end-users to make prepayments before we supply to them.

Selling price of PNG to wholesale customers

During the Track Record Period, we negotiated our PNG wholesale prices with our wholesale customers based on arm’s length negotiations and on normal commercial terms. The table below sets out our average selling prices of PNG (without VAT) to our two wholesale customers for the periods indicated.

	For the year ended 31 December			For the four
	2019	2020	2021	months ended
	(RMB/m ³)	(RMB/m ³)	(RMB/m ³)	30 April 2022
				(RMB/m ³)
Gaomi Minsheng Energy Co., Ltd* (高密民生能源有限公司)	2.3	2.3	2.2	2.8
Changyi Mei’ao ^(Note)	2.4	nil	nil	nil

Note: Changyi Mei’ao is a natural gas supplier in Changyi City (a neighbouring city). Our wholesale relationship with Changyi Mei’ao was on an ad-hoc basis, due to PNG end-users’ demands and available PNG supply. We sold PNG to Changyi Mei’ao in some months of 2018 and 2019 primarily due to Changyi Mei’ao’s temporary PNG supply shortage, and Changyi Mei’ao also supplied PNG to us in certain other months in 2018 when we faced PNG supply shortage. At the same time, we prioritised the demands of our own PNG end-users as we expected PNG demand in our Operating Area would rise as a result of the growth of our customer base.

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Payment

We charge our PNG end-users according to their PNG consumption volume. Our residential, commercial and industrial PNG end-users need to register with us. Depending on the type of gas meter that they use, we provide them with either a payment card or a user account. We require all PNG end-users to make prepayments by topping up their payment cards or a user accounts. Revenue is recognised at the point in time when control of the PNG is transferred to our PNG end-users, generally on transmission. It is the responsibility of our PNG end-users to ensure that they have sufficient value in their payment cards or user accounts. We will temporarily suspend PNG supply to a PNG end-user if any deduction of payment fails due to insufficient funds in their payment cards or user accounts.

The payment cards of our PNG end-users have no validity period so long as they are registered in our PNG end-users information system, regardless of whether the PNG end-users are active or not. Where PNG end-users decide to terminate their registration with us, we will (i) proceed with the deregistration process upon notification; (ii) invalidate their designated payment cards or close their accounts; and (iii) transfer prepayments, if any.

We charge our wholesale customers according to pre-agreed contractual prices. Our wholesale customers are required to make prepayments to us. The prepayments are deducted on a fixed term according to the volume of gas actually consumed and metered. The responsible persons, which are jointly nominated by our wholesale customers and us, confirm the volume of PNG transmitted and recorded on a daily basis. Revenue is recognised when control of the PNG is transferred to our wholesale customers, generally on transmission. It is the responsibility of our wholesale customers to ensure that they make prompt prepayments to us for the supply of PNG. We will temporarily suspend PNG supply to our wholesale customers if any deduction of payment fails.

SALE OF CNG AND LNG

During the Track Record Period, we sold CNG and LNG at our CNG and LNG refuelling stations located in Gaomi City. For the years ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, revenue generated from our sale of CNG and LNG was approximately RMB35.7 million, RMB22.7 million, RMB22.0 million and RMB9.0 million, representing approximately 10.1%, 6.5%, 5.0% and 5.7% of our total revenue, respectively. For the same periods, our CNG sales volume was approximately 6.7 million m³, 3.4 million m³, 3.6 million m³ and 2.1 million m³; and our LNG sales volume was approximately 2,612.6 tonnes, 3,297.3 tonnes, 2,119.0 tonnes and 335.1 tonnes, respectively. Most of our CNG and LNG customers were vehicle users which purchased CNG and LNG to refuel their vehicles.

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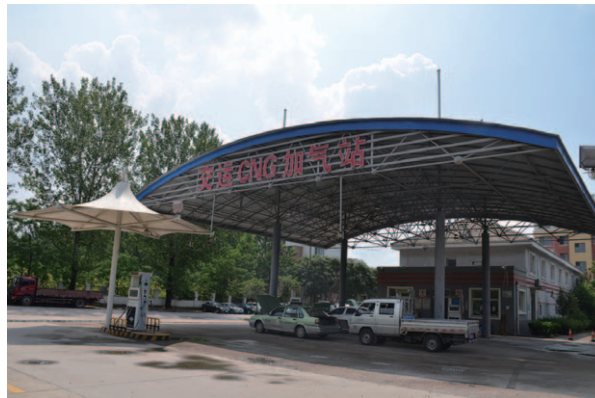
CNG and LNG refuelling stations



No. 1 Refuelling Station



Longtan Road LNG and CNG Refuelling Station



No. 2 Refuelling Station

Our CNG and LNG refuelling stations are situated in three locations in Gaomi City. LNG is directly received from the tankers of our LNG supplier. CNG is compressed from PNG through our pressure regulating units which are located adjacent to our CNG and LNG refuelling stations. PNG is transmitted to such pressure regulating units through our urban pipeline network. Our CNG and LNG refuelling stations are generally equipped with gas dispensers, storage wells, compressors and cleansing equipment, and are supported by control systems.

Pricing and Payment

Our CNG and LNG pricing is subject to supply and demand dynamics in our Operating Area. The primary factor is the adequacy of natural gas supply in Gaomi City, which could result in the fluctuation of our sales price.

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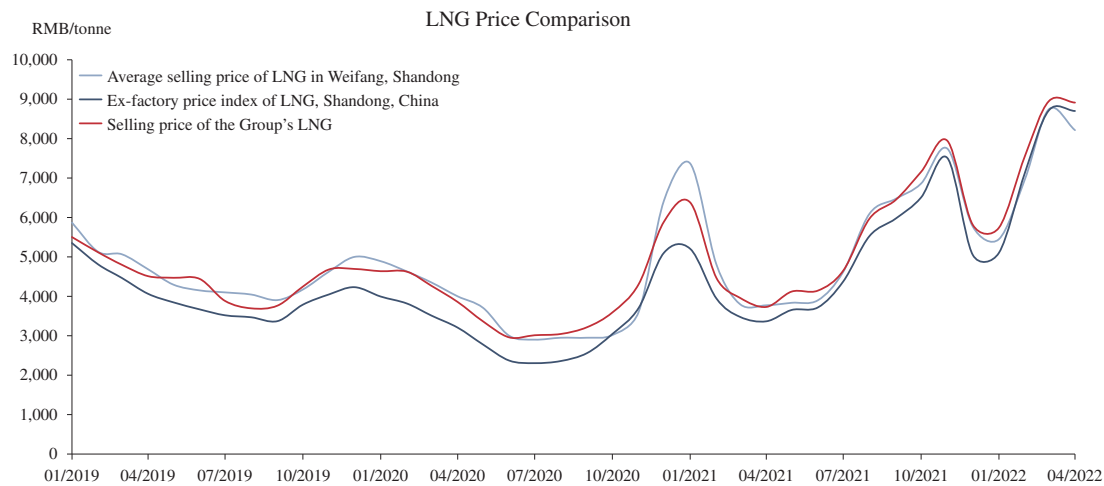
Our sales price of CNG and LNG for vehicle use (without VAT) on a daily basis are set out in the below table.

	For the year ended 31 December			For the four months ended 30 April 2022
	2019	2020	2021	
CNG:				
Average selling price (RMB/m ³)	4.3	4.0	4.2	5.0
Range of selling price (RMB/m ³)	4.2-4.5	4.0-4.2	4.0-5.0	5.0-5.2
LNG:				
Average selling price (RMB/tonne)	4,534	3,654	5,012	7,486
Range of selling price (RMB/tonne)	3,800-5,600	2,800-10,000	3,800-11,000	5,570-10,080

Our sales price of CNG and LNG for vehicles varies on a daily basis, subject to market factors including prevailing market rates and procurement price of LNG set by our LNG supplier. Demand from our CNG and LNG customers also affects the daily fluctuation of our sales price of CNG and LNG. Specifically, these customers purchased CNG and LNG to refuel their vehicles for both personal and business activities, including but not limited to, community and transportation. Therefore, our daily sales price of CNG and LNG are affected by and determined on the basis of a range of factors including economic conditions of the area, robustness of logistics and transportation, and frequency of commutes by people. As advised by CIC, it is an industry norm in the natural gas industry that sales price of CNG and LNG varies from day to day, which commensurates with our procurement price of LNG. According to the statistics published by the SHPGX, the market price of LNG fluctuated widely from 2019 to 2021, and as advised by CIC, the fluctuation of our sales price of LNG during the Track Record Period was in line with the market situation and the average sales price in the industry.

The range of selling price of our sales of LNG mentioned above are presented on a daily basis, and the prices at the top range for the year ended 31 December 2021 and the fourth months ended 30 April 2022 were outliers. Due to relatively tight supply conditions in winter seasons, the supplies of LNG are usually stretched, which drive up the short-term price spikes. For instance, during the winter heating supply peak seasons, there were 0 day, 3 days, 2 days and 7 days for the year ended 31 December 2019, 2020 and 2021 and four months ended 30 April 2022, respectively, when the daily LNG selling prices reached or went beyond RMB10,000 per tonne. For comparison of our Group’s LNG selling price (without VAT) against the market price, the following table sets out the average market price of LNG on a monthly basis for each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022.

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Source: Shanghai Petroleum and Gas Exchange, CIC report

According to CIC, LNG prices are largely driven by market demand and supply. The peak selling price for LNG in 2019 was not affected by a tight supply condition in winter season (i.e. no significant short-term price spikes in 2019 as compared to other years/period) due to a relatively low demand as compared to 2020 and 2021. According to the China Meteorological Administration, the 2020-2021 winter season was the coldest winter since 2017. The temperature in December 2020 observed by around 20 weather stations located in several cities (including Beijing, Shanghai, Changsha and others) reached the lowest point of historical record in recent years. Due to the extreme cold weather, LNG demand was relatively high across various parts of China. Moreover, the general recovery of industrial and business activities in China after the easing of COVID-19 lockdowns and restrictions also contributed to relatively high LNG demand during the 2020-2021 and 2021-2022 winter seasons. According to data published by the Weifang Municipality government, annual consumption of LNG by industrial enterprises in Weifang Municipality in 2020 increased by around 60% as compared to that in 2019. The high demand in 2020-2021 winter season resulted in tight LNG supplies. In the 2021-2022 winter season, the tight LNG supply situation was further exacerbated by unanticipated fluctuations of LNG supply due to the Russia-Ukraine military conflict since February 2022. Moreover, our Group's LNG importing price is affected by LNG CIF. Due to the tightened supply situation in the global LNG market during the 2020-2021 and 2021-2022 winter seasons, there were significant short-term price spikes, which also led to the significant increase in the LNG selling price.

The peak selling price for LNG in 2019 was lower than that in 2020 but the average selling price was higher than that in 2020. This was mainly because there was higher fluctuation in LNG prices in 2020 due to COVID-19. For the year ended 31 December 2020, most of our LNG sales occurred during the second half of 2020 when COVID-19 lockdown measures and restrictions were lifted and business activities recovered, while the market price of LNG recovered from exceptionally low levels in the first half of 2020, and was further driven up due to tight supplies in winter. This led to a higher peak selling price of LNG towards the end of 2020.

Vehicle users are generally required to settle their payments for our CNG and LNG upon the refuelling of CNG or LNG to their vehicles at our CNG and LNG refuelling stations. Payment can be made by cash or through mobile payment or, for our registered members, by deduction from their prepaid stored value cash cards.

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PROVISION OF CONSTRUCTION AND INSTALLATION SERVICES

During the Track Record Period and up to the Latest Practicable Date, we provided one-stop services to our PNG end-users for the provision of natural gas-related products and requisite construction and installation services. Our one-stop services were package services including construction and installation services and sale of gas-burning appliances. For information relating to our sales of gas-burning appliances, please refer to “— Sale of Gas-burning Appliances” in this section.

The construction and installation services which we provide include constructing PNG end-user pipeline network and connecting 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. Our construction services represent the construction of PNG end-user pipelines and PNG supply facilities, the ownership of which belongs to our customers. Our installation services cover the installation of natural gas facilities, equipment and devices, the ownership of which belongs to our customers. During the Track Record Period and up to the Latest Practicable Date, we provided construction and installation services to customers including (i) property developers; (ii) residential PNG end-users; and (iii) non-residential PNG end-users.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue generated from our provision of pipeline construction and installation services was approximately RMB31.4 million, RMB52.4 million, RMB60.9 million and RMB14.5 million, representing approximately 8.9%, 15.1%, 13.8% and 9.1% of our total revenue for the same periods, respectively. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had 1,065, 1,246, 1,480 and 1,420 customers, respectively.

We commenced the Clean Energy Projects in 2021 as part of our construction and installation services. For the year ended 31 December 2021 and the four months ended 30 April 2022, approximately RMB12.8 million and nil, or approximately 21.1% and nil to our revenue from construction and installation services, respectively, were contributed by the Clean Energy Projects. For details of the Clean Energy Projects, please refer to “— Provision of Construction and Installation Services — Our construction and installation agreements — Clean Energy Project agreements” and “— Government Policies and Subsidies” in this section, and “Industry Overview — Market drivers of the city natural gas market — Favourable government policies” in this document.

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The following table sets out the number and outstanding contract sum of our construction and installation projects during the Track Record Period.

	Starting balance of the outstanding contract sum	Projects on hand at the beginning of the period	New projects awarded	Projects completed	Projects on hand at the end of the period	Ending balance of the outstanding contract sum
	<i>(RMB'000)</i>					<i>(RMB'000)</i>
For the year ended						
31 December 2019	20,953.0	448	715	531	632	27,107.0
For the year ended						
31 December 2020	27,107.0	632	689	675	646	40,114.0
For the year ended						
31 December 2021	40,114.0	646	493	736	403	12,386.0
For the four months ended 30 April 2022	12,386.0	403	52	57	398	6,711.0

Our construction and installation service agreements

We enter into construction and installation services agreements with our construction and installation services customers. Such agreements generally include terms such as scope of work, contract sum, payment methods, payment terms, construction period and safety requirements. We generally require property developers to make full payment of the construction and installation services fee at a fixed price per unit of the newly developed buildings and/or infrastructures immediately upon or within ten days of signing the construction and installation services agreement. Subject to safety requirements and depending on the complexity of work, we require residential PNG end-users to make full payment of the construction and installation services fee upon signing the construction and installation services agreement. For construction and installation services provided to residential PNG end-users under the Clean Energy Projects, which are partially subsidised by the government, residential PNG end-users under such Clean Energy Projects are required to make full payment of the portion of fees payable by them before commencement of the project, while the government subsidies shall generally be settled by instalments over the course of three years after completion of construction and installation. We only started carrying out Clean Energy Projects in 2021. For details of the Clean Energy Projects, please refer to “— Our Business Strategies — Continue to expand our pipeline network and invest in clean energy transmission in the rural areas within our Operating Area” in this section and “Future Plan and Use of Proceeds — Use of Proceeds” in this document. Depending on the customer types, project scale and work nature, we either require non-residential PNG end-users to make full payment within two days upon completion of the construction and installation services, or before transmission of PNG to them through the newly-constructed PNG end-user pipelines.

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Clean Energy Project agreements

We enter into specific agreements for our Clean Energy Projects with the relevant local authorities. Key terms of the Clean Energy Project agreements are set out as follows:

Term:	Fixed terms designated according to the scale of the project
Scope of work:	(i) procurement of gas-burning appliances which will be installed within the premises of residential households; (ii) installation of such gas-burning appliances; (iii) procurement of PNG end-user pipelines which will be constructed within the premises of residential households; and (iv) construction of such pipelines.
Contract amount:	RMB6,600 per household multiplied by number of households under that specific project, of which: <ul style="list-style-type: none">• RMB4,600 per household to be subsidised by the government.• RMB2,000 per household to be borne by the households, subject to a discount of RMB800 if that household already has natural gas access for purposes other than heating.
Payment schedule of government subsidies:	The relevant local authority shall pay the subsidised amount according to the schedule as follows: <ul style="list-style-type: none">• 40% of the total subsidised amount payable within 12 months after satisfactory inspection;• 70% of the total subsidised amount payable within 24 months after satisfactory inspection;• 95% of the total subsidised amount payable within 36 months after satisfactory inspection; and• the remaining 5% of the total subsidised amount shall be regarded as quality guarantee deposit, payable within 6 years after satisfactory inspection if no problem as to the quality of construction and installation were identified.

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Obligations of the local governmental authority:

The relevant local authority shall provide the list of households qualified to participate in the Clean Energy Projects according to relevant governmental notices. In case of participation from any unqualified households which results in failure to receive government subsidies by Jiaoyun Gas, the relevant local authority shall pay such shortfall to Jiaoyun Gas within seven days and arrange for the participation of another qualifying household for rectification.

The relevant local authority shall be responsible for the liaison with households to ensure their cooperation. In case the construction and installation works have been delayed due to uncooperating households, the relevant local authority shall bear the costs of such delay.

Quality inspection:

The relevant government authority shall carry out inspection of the construction and installation works upon completion in accordance with national standards stipulated by the government. If the construction and installation works fall short of such required standards, the government may terminate the agreement, and all damages and losses suffered by the relevant local authority shall be borne by Jiaoyun Gas.

Breach:

If the relevant local authority is responsible for any delay of the project, the term of the agreement shall be extended accordingly.

If Jiaoyun Gas is unable to complete the project by the specified date, Jiaoyun Gas shall bear responsibility accordingly.

If the project fails its quality inspection, the relevant local authority may request rectification, and all resulting costs and delay shall be borne by Jiaoyun Gas.

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Pricing

Our construction and installation services fees for property developers, residential PNG end-users and non-residential PNG end-users are not regulated by governmental authorities. They are generally agreed on a project basis, taking into account factors such as the type of equipment purchased, the construction and installation plan, the amount and complexity of the necessary pipeline construction, the relevant estimated costs (such as our subcontracting fees), pricing in the nearby areas, the raw materials specified by the customer and project size. In normal circumstances, our construction and installation services fees chargeable to industrial PNG end-users are higher compared with the fees chargeable to other construction and installation services customers, primarily due to the complexity of construction and installation works conducted on industrial premises and complex. For details of the applicable laws and regulations in relation to the pricing mechanism of our construction and installation services, please refer to “Regulatory Overview — Regulation on Installation Fees for Connection and Installation Projects” in this document.

As for pricing of Clean Energy Projects, we charge a package price that includes our construction and installation services as well as sales of gas-burning appliances, and such price is fixed by the government at a lower price than normal so as to encourage rural residents to adopt natural gas heating.

The table below sets out the average prices of our construction and installation services per household by customer type for the periods indicated.

	For the year ended 31 December			For the four months ended 30 April
	2019	2020	2021	2022
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Property developers (without VAT)	2,477	2,477	2,477	2,477
Residential PNG end-users (without VAT)	2,826	2,826	2,826	2,826
Commercial PNG end-users (without VAT)	13,240	18,548	26,179	28,521
Industrial PNG end-users (without VAT)	161,095	94,465	97,166	94,582

During the Track Record Period, the average prices per household for commercial PNG end-users increased significantly due to a difference of scale of business of such commercial PNG end-users. In 2019 and 2020, the majority of commercial PNG end-users that required our construction and installation services carried on small-scale retail businesses such as restaurants. In 2021, more of our commercial PNG end-users carried on larger scale businesses or businesses which require heavy usage of natural gas, such as staff canteen of chemical factories which require construction and installation of a larger scale than normal retail businesses. As such, the amount and type of pipelines and equipment constructed and installed increased for those businesses that carry on

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businesses requiring heavy usage, which gave rise to the relatively higher average price per household. For the four months ended 30 April 2022, we provided more complicated construction and installation services for some of our commercial PNG end-users. These services included installation of pressure regulators and gas meters.

During the Track Record Period, the average prices per household for industrial PNG end-users decreased significantly due to the smaller scale and size of each installation project required of such industrial PNG end-users. In 2019, many installation projects of our industrial PNG end-users were of a large size and scale; while in 2020 and 2021, the installation projects of our industrial PNG end-users were of a smaller size and scale. Therefore, we recorded a relatively higher average price per household in 2019. For the four months ended 30 April 2022, the average prices per household for industrial PNG end-users remained relatively stable. During the same period, some of our industrial PNG end-users requested us to install more accessories to their in-house facilities, which generally have a lower profit margin compared with the installation of other natural gas facilities.

According to the written confirmations received from Gaomi City Administration for Market Regulation, we have not been subject to any penalty in relation to our construction and installation service fees as at the Latest Practicable Date.

We typically engage subcontractors to undertake our construction and installation works. For details, please refer to “— Our Suppliers — Subcontractors of Pipeline Construction and Installation of Natural Gas Supply Facilities” in this section.

Key steps of our construction and installation services

We handle PNG usage requests from our construction and installation services customers in relation to their newly-developed properties, residential units, and commercial and industrial premises. Depending on the length of pipelines and complexity of construction, a typical construction and installation project generally took from one week to approximately one year to complete during the Track Record Period.

Safety is our priority. Prior to the commencement of our construction and installation works, we make reasonable inspections of the units, properties and premises of our construction and installation services customers to ensure safety.

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Our construction and installation projects generally follow the key steps set out below:

Customer’s responsibility	Key steps^(Note)	Our responsibility
<ul style="list-style-type: none"> • Fill in application form • Arrange for on-site inspection 	<div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Application by customer (1 working day)</div> <p style="text-align: center;">↓</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">On-site inspection, initial design and budgeting (2 working days, or 5 working days if external pipeline construction is required)</div> </div>	<p>User application:</p> <ol style="list-style-type: none"> 1. Determine whether the location is within our Operating Area 2. Arrange for on-site inspection and provide project estimate
<ul style="list-style-type: none"> • Go through internal review procedures, enter into the construction and installation services agreement and arrange for payment • Grant us access for conducting on-site work 	<div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Signing of the construction and installation services agreement</div> <p style="text-align: center;">↓</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Design of construction plan and issue of construction drawings</div> <p style="text-align: center;">↓</p> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Construction and installation</div> </div>	<p>Project confirmation:</p> <ol style="list-style-type: none"> 1. Go through our internal review procedures and enter into the construction and installation services agreement 2. Complete the design of construction drawings 3. If necessary, coordinate with the government authority and seek administrative approvals in order to proceed with construction and installation, such as application for road excavation and tree cutting
<ul style="list-style-type: none"> • Perform inspection before acceptance 	<div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Inspection, acceptance and commencement of gas supply (1 working day and an extra working day for network connection if external pipeline construction is required)</div> <p style="text-align: center;">↓</p> </div>	<p>Inspection and acceptance of construction and installation:</p> <ol style="list-style-type: none"> 1. An acceptance inspection will be organised, and an inspection and acceptance opinion shall be issued one working day after passing the inspection 2. Set up customer accounts before commencing gas supply
<ul style="list-style-type: none"> • Perform post-installation routine inspection 	<div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;">Follow-up visits and after-sale services</div> </div>	<p>After gas supply commences, we conduct follow-up visits and provide customer services</p>

Note: The above timeline does not include the time required for certain special requests such as construction design, issue of drawings, contract negotiation, construction and completion of relevant administrative approvals.

Subcontracting

During the Track Record Period, we engaged three subcontractors to carry out our construction and installation works. For details, please refer to “— Our Suppliers — Subcontractors of Pipeline Construction and Installation of Natural Gas Supply Facilities” in this section. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our subcontracting costs in relation to the provision of construction and installation services were approximately RMB0.4 million, RMB3.4 million, RMB11.6 million and RMB1.3 million, representing approximately 0.1%, 1.4%, 3.4% and 0.9% of our total cost of sales, respectively.

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Raw materials for our construction and installation services

Raw materials for our construction and installation services mainly include equipment and machinery. We mainly source these raw materials from reliable suppliers which are selected based on their price quotations, quality of products and services and our business relationships with them. For details, please refer to “— Our Suppliers” in this section.

SALE OF GAS-BURNING APPLIANCES

During the Track Record Period and up to the Latest Practicable Date, we engaged in the sale of gas-burning appliances, such as gas stoves, wall-hung gas boilers and water heaters of third party brand names. We sell gas-burning appliances at our PNG customer service centre. The customers of our gas-burning appliances include property owners and property occupiers. Our sale of gas-burning appliances business is supported by the Gaomi City People’s Government’s mission to reduce fuel emissions and promote the replacement of coal-fired boilers with clean energy-powered boilers, as well as the general trend of increasing property development projects in both urban and rural areas of Gaomi City. Our Group targets our sale of gas-burning appliances at the residents of newly developed residential properties, as well as existing properties in villages located in Gaomi City’s rural shantytowns.

During the Track Record Period and up to the Latest Practicable Date, we primarily sold gas-burning appliances to our retail customers. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue generated from our sale of gas-burning appliances was approximately RMB5.4 million, RMB25.8 million, RMB52.8 million and RMB1.6 million, representing approximately 1.5%, 7.4%, 12.0% and 1.0% of our total revenue for the same periods, respectively. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, nil, nil, approximately RMB28,429,000 and nil, or nil, nil, approximately 53.8% and nil to our revenue from sales of gas-burning appliances, respectively, were contributed by the Clean Energy Projects. We believe that the growth of our sale of gas-burning appliances business will lead to an increase in the number of our PNG end-users, which will in turn propel the growth of our sale of PNG business.

The table below sets out a breakdown of the sales volume, average selling price, gross profit and gross profit margin from our sales of gas-burning appliances during the Track Record Period.

	For the year ended 31 December			For the four months ended 30 April	
	2019	2020	2021	2021	2022
Revenue (<i>RMB’000</i>)	5,392	25,813	52,834	6,089	1,559
Sales volume (<i>Units</i>)	2,261	10,174	14,780	3,449	16,890
Average selling price (<i>RMB/Unit</i>)	2,385	2,537	3,575	1,765	92
Gross profit (<i>RMB’000</i>)	1,349	13,604	24,228	3,396	555
Gross profit margin (%)	25.0	52.7	45.9	55.8	35.6

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The gross profit margin of our sale of gas-burning appliances increased from approximately 25.0% for the year ended 31 December 2019 to approximately 52.7% for the year ended 31 December 2020, primarily attributable to an increase in our proportion of wall-hung gas boilers sales, which generally has a higher gross profit margin compared to the sale of other gas-burning appliances. Such increase in wall-hung gas boilers sales was propelled by the implementation of the Zero-coal Policy in Gaomi City, which encourages the replacement of coal-burning appliances with gas-burning alternatives. The gross profit margin of our sale of gas-burning appliances decreased to approximately 45.9% for the year ended 31 December 2021 as we recorded an increase in sales volume mainly due to implementation of the Clean Energy Projects, for which the price for wall-hung gas boilers sold pursuant to the Clean Energy Projects was lower than that we charge normally, hence leading to an overall decrease in our gross profit margin.

During the Track Record Period, fluctuations in the average selling price of our sale of gas-burning appliances was attributable to changes in the need for various types of gas-burning appliances from our retail customers. Pursuant to the Clean Energy Project agreements, we charge a package price that includes our construction and installation services as well as sales of gas-burning appliances, and such price is fixed by the government at a lower price than normal so as to encourage rural residents to adopt natural gas heating. Accordingly, the prices allocated to our sales of gas-burning appliances is generally lower than that we charged to customers who did not fall under the Clean Energy Projects. Our sales volume of gas-burning appliances increased significantly from 3,449 units for the four months ended 30 April 2021 to 16,890 units for the four months ended 30 April 2022 as we sold a greater proportion of accessories and parts (as opposed to wall-hung gas boilers) because demand for large-size appliances decreased, hence, we did not substantially conduct construction and installation activities related to the Clean Energy Projects due to COVID-19. Meanwhile, our average selling price of gas-burning appliances decreased from approximately RMB1,765 per unit for the four months ended 30 April 2021 to approximately RMB92 per unit for the four months ended 30 April 2022 for the same reason.

The gas-burning appliances which we sell are mostly sourced from Independent Third Party suppliers in the PRC (except those sourced from Yuanhua Trading). These suppliers are responsible for providing product warranty for the gas-burning appliances that we sell to our customers. The selling price of our gas-burning appliances are determined and regularly reviewed based on the costs (including but not limited to costs of sourcing and labour costs) and our expected profit margin from our sale of gas-burning appliances. As an after-sales service included in the selling price of our gas-burning appliances, we offer installation services in respect of the gas-burning appliances sold. We charge our customers for the provision of door-to-door maintenance services on a fixed-fee basis and the costs of replacement.

During the Track Record Period and up to the Latest Practicable Date, we did not encounter any refund of our gas-burning appliances sold due to product defects.

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GOVERNMENT POLICIES AND SUBSIDIES

The PRC Government had announced a number of policies to promote and encourage use of clean energy sources. Please see “Industry Overview — Market drivers of the city natural gas market — Favourable government policies” in this document. Such policies are favourable to our business as natural gas is perceived to be a relatively clean source of energy. There are a number of action plans and guidance which stipulate the use of natural gas as alternative energy sources in place of traditional energy sources such as coal.

Coal-to-gas projects (煤改氣工程) — targeted at industrial and commercial PNG end-users

Following the promulgation of the “Clean Winter Heating Plan for Northern China (2017-2021)” (《北方地區冬季清潔取暖規劃(2017-2021年)》) in 2017 which aimed to promote clean winter heating by phasing out coal-fired appliances in northern China by 2021, coal-to-gas projects (煤改氣工程) have become increasingly popular as industrial and commercial businesses opted for installation of gas-burning appliances to generate energy for their business operations.

Zero-coal Policy — targeted at residential PNG end-users in the city area

The Zero-coal Policy was promulgated in June 2020 and implemented in Gaomi City since then. It aims to encourage residents in the city area of Gaomi City to install gas-burning appliances for their homes by providing RMB2,200 per household as subsidy for their installation fees. This subsidy is payable by the Gaomi City government directly to natural gas provider (i.e. for those located within our Operating Area, the subsidy is directly payable to us). During the year ended 31 December 2021, we recorded a government subsidy of approximately RMB13.5 million for our construction and installation projects conducted pursuant to the implementation of the Zero-coal Policy.

Clean Energy Projects — targeted at residential PNG end-users in rural areas

Clean Energy Projects are government subsidised construction projects in rural areas of Gaomi City pursuant to the “Implementation plan for rural clean heating in Gaomi City in 2021” (《高密市2021年農村清潔取暖工作實施方案》). Clean Energy Projects comprise the construction of PNG end-user pipelines, connection of these pipelines to our urban pipeline network, procurement of relevant pipelines, parts and equipment, and installation of gas-burning appliances in residential households, which are carried out as an extension to the coal-to-gas project (煤改氣工程) in line with coal-to-gas conversion and clean energy transmission policies promulgated by the PRC government. A separate Clean Energy Project agreement is usually signed between the relevant local authority and us for the installation of gas-burning appliances for each specified village or area. Each Clean Energy Project agreement stipulates that the connection and installation fee of gas-burning appliances shall be RMB6,600 per household, of which a fixed amount of RMB4,600 will be subsidised by the government, whilst the remaining RMB2,000 per household will be paid upfront by the residents. The subsidised portion shall generally be settled by the government over three years after completion of the Clean Energy Project. Also, up to RMB1,000 of the annual natural gas tariff per household can be subsidised by the Gaomi City People’s Government for each heat supply season in winter.

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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》 — targeted at PNG operators

Under this measure, Gaomi City’s Bureau of Finance will provide temporary gas price subsidies at RMB2/m³ for gas purchased by natural gas companies to ensure gas supply for end-users under the coal-to-gas projects (煤改氣工程). This subsidy is payable to the natural gas providers at the end of the 2021-2022 heat supply season. As at the Latest Practicable Date, we have not yet received this subsidy from the government.

SALES AND MARKETING

We generally do not conduct extensive large-scale promotional activities. Property developers, residential PNG end-users and non-residential PNG end-users generally approach us for our PNG and construction and installation services.

We sell gas-burning appliances at our PNG customer service centre. Our staff at the centre are responsible for selling and marketing our gas-burning appliances to customers. For more information, please refer to “— Sale of Gas-burning Appliances” in this section.

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During the Track Record Period, we generally experienced a higher demand for PNG from our residential and commercial PNG end-users in the winter. We believe that PNG demand and consumption is seasonal for such PNG end-users as they usually consume more gas to generate heat in winter (usually from November of the current year to March of the next year). During the Track Record Period, approximately 50% of our revenue was attributable to our PNG sales during the winter season from November to March of next year. Our industrial PNG end-users, which are our major customers, mainly use natural gas as a source of industrial fuel or raw material during the production process, which is less affected by seasonal change over the course of the year. As a result, their PNG consumption is relatively stable throughout all seasons. However, extreme cold weather may result in higher procurement prices generally due to higher demand and tighter supply in the market generally, which may lead to an increase in our cost of sales. We did not experience any significant seasonality for our other operations during the Track Record Period.

OUR CUSTOMERS

Overview

During the Track Record Period, our major customers included (i) retail customers of our PNG, which included residential, commercial and industrial PNG end-users; (ii) two wholesale customers of our 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; (iii) vehicle users to whom we sold CNG and LNG at our CNG and LNG refuelling stations; (iv) retail customers which had a demand for our gas-burning appliances; and (v) property developers, residential PNG end-users and non-residential PNG end-users who required our pipeline construction and installation services on an

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as-needed basis. 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.

The table below sets out the main types of customers for each of our business segments and their respective major usages of our products or services.

<u>Business segment</u>	<u>Key customer types</u>	<u>Major usages</u>
Sale of PNG	Retail customers	
	<i>Residential PNG end-users</i> Residential property owners and occupiers	Heating Cooking
	<i>Commercial PNG end-users</i> Schools Hospitals Shops Restaurants Government agencies Commercial property owners and occupiers	Heating Energy production Cooking
	<i>Industrial PNG end-users</i> Factories Manufacturing companies Other industrial PNG end-users	Heating Industrial energy production Industrial waste-burning
	Wholesale customers	Onward sales
Sale of CNG and LNG	Vehicle users	Refuelling of vehicles
Construction and installation services	Property developers Residential PNG end-users Non-residential PNG end-users	Connecting residential units and commercial and industrial premises to our urban pipeline network for transmission of PNG
Sale of gas-burning appliances	Retail customers	Heating Furnishing and renovation

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Our Top Five Customers

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. The natural gas purchased by our five largest customers (excluding those which purchased gas-burning appliances and installation services in 2021) was PNG during the Track Record Period. For the same periods, 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.

The following tables set out certain information with respect to our five largest customers during the Track Record Period.

Year ended 31 December 2019

Rank	Customer	Relationship with us	Business Type	Products/ services sold/ provided by our Group	Transaction amount	% of our total revenue	Payment method	Credit term	Approximate length of relationship with our Group
<i>(RMB'000)</i>									
1	Customer A	Independent Third Party	Sale and processing of chemical materials	Sale of PNG	20,184	5.7	Bank transfer	Prepayments	Since 2014
2	Customer B	Independent Third Party	Sale and production of greasy products	Sale of PNG	10,296	2.9	Bank transfer	Prepayments	Since 2017
3	Customer C	Independent Third Party	Wood plastic material research	Sale of PNG	7,109	2.0	Bank transfer	Prepayments	Since 2016
4	Customer D	Independent Third Party	Livestock breeding	Sale of PNG and installation services	6,151	1.7	Bank transfer	Prepayments	Since 2018
5	Customer E	Independent Third Party	Fabric dyeing and processing	Sale of PNG	4,574	1.3	Bank transfer	Prepayments	Since 2017
Total					48,314	13.6			

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Year ended 31 December 2020

Rank	Customer	Relationship with us	Business Type	Products/ services sold/ provided by our Group	Transaction amount	% of our total revenue	Payment method	Credit term	Approximate length of relationship with our Group
<i>(RMB '000)</i>									
1	Customer A	Independent Third Party	Sale and processing of chemical materials	Sale of PNG	18,401	5.3	Bank transfer	Prepayments	Since 2014
2	Customer B	Independent Third Party	Sale and production of greasy products	Sale of PNG	13,238	3.8	Bank transfer	Prepayments	Since 2017
3	Customer C	Independent Third Party	Wood plastic material research	Sale of PNG	9,327	2.7	Bank transfer	Prepayments	Since 2016
4	Customer D	Independent Third Party	Livestock breeding	Sale of PNG and installation services	6,689	1.9	Bank transfer	Prepayments	Since 2018
5	Customer E	Independent Third Party	Fabric dyeing and processing	Sale of PNG	4,406	1.3	Bank transfer	Prepayments	Since 2017
Total					52,061	15.0			

Year ended 31 December 2021

Rank	Customer	Relationship with us	Business Type	Products/ services sold/ provided by our Group	Transaction amount	% of our total revenue	Payment method	Credit term	Approximate length of relationship with our Group
<i>(RMB '000)</i>									
1	Customer B	Independent Third Party	Sale and production of greasy products	Sale of PNG	25,359	5.7	Bank transfer	Prepayments	Since 2017
2	Customer A	Independent Third Party	Sale and processing of chemical materials	Sale of PNG	17,884	4.0	Bank transfer	Prepayments	Since 2014
3	Customer C	Independent Third Party	Wood plastic material research	Sale of PNG	12,602	2.9	Bank transfer	Prepayments	Since 2016
4	Customer F	Independent Third Party	Government agency	Sale of gas-burning appliances and installation services	10,079	2.3	Bank transfer	Progress payments in accordance with the contract	Since 2021
5	Customer G	Independent Third Party	Government agency	Sale of gas-burning appliances and installation services	9,550	2.2	Bank transfer	Progress payments in accordance with the contract	Since 2021
Total					75,474	17.1			

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Four months ended 30 April 2022

Rank	Customer	Relationship with us	Business Type	Products/ services sold/ provided by our Group	Transaction amount	% of our total revenue	Payment method	Credit term	Approximate length of relationship with our Group
					<i>(RMB '000)</i>				
1	Customer B	Independent Third Party	Sale and production of greasy products	Sale of PNG	9,524	6.0	Bank transfer	Prepayments	Since 2017
2	Customer A	Independent Third Party	Sale and processing of chemical materials	Sale of PNG	6,511	4.1	Bank transfer	Prepayments	Since 2014
3	Customer D	Independent Third Party	Livestock breeding	Sale of PNG and installation services	6,142	3.9	Bank transfer	Prepayments	Since 2018
4	Customer C	Independent Third Party	Wood plastic material research	Sale of PNG	5,256	3.3	Bank transfer	Prepayments	Since 2016
5	Customer H	Independent Third Party	Natural gas operator	Sale of PNG	2,463	1.6	Bank transfer	Prepayments	Since 2015
Total					29,896	18.9			

OUR SUPPLIERS

In conducting our core businesses, we generally procure (i) natural gas; (ii) gas-burning appliances; (iii) equipment and machinery, including pipelines and other parts and components such as valves and gas meters; and (iv) pipeline construction and installation services, from our suppliers.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material lack of capacity, supply shortages, fluctuation in procurement price, delays or disruptions in our operations relating to our suppliers or any material product claims attributable to our suppliers.

Suppliers of Natural Gas

During the Track Record Period, we procured (i) PNG from PetroChina and Shandong Shihua (which is owned by Sinopec as to 50%); and (ii) LNG from Zhonghui Energy. According to CIC, it is an industry norm in the PRC that the majority of county-level natural gas operators procure PNG from Big-3 Noc. For details, please refer to “— Procurement of Natural Gas” in this section.

Suppliers of Gas-burning Appliances

During the Track Record Period, our suppliers for gas-burning appliances were mostly Independent Third Party suppliers in the PRC (except for Yuanhua Trading). We mainly sourced gas-burning appliances through tenders and selected our suppliers for gas-burning appliances based on their product quality, price competitiveness, product safety and after-sales services offering. Suppliers of gas-burning appliances are required to pass an initial qualification assessment which usually includes accreditation and certification. We will only accept the products of our gas-burning appliances suppliers upon satisfactory quality inspection and receipt of the required quality proof, and such suppliers are required to provide after-sales services and product warranty.

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In general, we enter into specific supply agreements with our suppliers for gas-burning appliances for specific models of wall-hung gas boilers required under the Clean Energy Project agreements. These supply agreements provide for special settlement mechanism and credit periods for us, so as to align our settlement schedule with the government subsidy payment schedule under our Clean Energy Project agreements. During the year ended 31 December 2021 and the four months ended 30 April 2022, generally, around one-third of our total procurement fees shall be payable within five working days after acceptance of the gas-burning appliances by us, while the remaining two-thirds of our total procurement fees shall be settled by instalments over three years after completion of the Clean Energy Project upon our receipt of the government subsidies. Hence, the upfront payment would usually be paid out from the portion of fees received from participating households under the Clean Energy Projects, or from our operating cash flows generated from our ordinary and usual course of business.

During the Track Record Period, we engaged two suppliers of gas-burning appliances for our Clean Energy Projects.

Suppliers of Equipment and Machinery

During the Track Record Period and up to the Latest Practicable Date, our suppliers of equipment and machinery, including pipelines and other parts and components such as valves and gas meters, were mostly Independent Third Party suppliers in the PRC (except for Yuanhua Trading). Our suppliers of equipment and machinery are mainly sourced through tenders and are required to go through certain selection processes as required by our internal policies on the selection and management of suppliers. In particular, we take into account several factors in selecting our preferred suppliers, including product quality, price competitiveness, relevant quality certifications and after-sales services offering. We will only accept the products of our equipment and machinery suppliers upon satisfactory quality inspection and receipt of the required quality proof, and such suppliers are required to provide after-sales services and product warranty.

In respect of our Clean Energy Projects, we did not enter into specific supply agreements with our suppliers of equipment and machinery for our Clean Energy Projects. The same suppliers were responsible for supplying the equipment and machinery required under the Clean Energy Projects. Costs for such equipment and machinery are generally payable in full within one to three months upon delivery. Hence, any upfront payment would usually be paid out from the portion of fees received from participating households under the Clean Energy Projects, or from our operating cash flows generated from our ordinary and usual course of business. During the Track Record Period, we engaged two suppliers of equipment and machinery, which supplied pipelines and gas meters respectively, for our Clean Energy Projects.

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Our Top Five Suppliers

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. For the same periods, 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. 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 (except for Yuanhua Trading and Jiaoyun Property) during the Track Record Period.

The following tables set out certain information with respect to our five largest suppliers during the Track Record Period.

Year ended 31 December 2019

Rank	Supplier	Relationship with us	Business Type	Products/ services purchased	Transaction amount	% of the total purchases of our Group	Payment method	Credit term	Approximate length of relationship with our Group
<i>(RMB'000)</i>									
1	Shandong Shihua ⁽¹⁾	Connected person	Sale of PNG	Natural gas	168,609	65.9	Bank transfer	Prepayments	Since 2004
2	PetroChina	Independent Third Party	Oil and natural gas pipeline operation	Natural gas	59,482	23.3	Bank transfer	Prepayments	Since 2012
3	Zhonghui Energy	Independent Third Party	Sale of natural gas	Natural gas	12,574	4.9	Bank transfer	Prepayments	Since 2018
4	Yuanhua Trading ⁽²⁾	Connected person	Sale of composite commodity	Pipes and gas-burning appliance	4,417	1.7	Bank transfer/ Bank acceptance notes	nil	Since 2017
5	Shandong Boda Pipes Industry Co., Ltd.* (山東博大管業有限公司)	Independent Third Party	Sale of pipes	Pipes	3,170	1.2	Bank transfer/ Bank acceptance notes	1 month	Since 2016
Total					248,252	97.0			

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Year ended 31 December 2020

Rank	Supplier	Relationship with us	Business Type	Products/ services purchased	Transaction amount	% of the total purchases of our Group	Payment method	Credit term	Approximate length of relationship with our Group
<i>(RMB'000)</i>									
1	Shandong Shihua ⁽¹⁾	Connected person	Sale of PNG	Natural gas	137,760	58.7	Bank transfer	Prepayments	Since 2004
2	PetroChina	Independent Third Party	Oil and natural gas pipeline operation	Natural gas	49,676	21.2	Bank transfer	Prepayments	Since 2012
3	Jinan Chuangerte HVAC Equipment Co., Ltd.* (濟南創爾特暖通設備有限公司)	Independent Third Party	Natural gas equipment sales	Gas-burning appliances	16,658	7.1	Bank transfer/ Bank acceptance notes	Prepayments	Since 2005
4	Zhonghui Energy	Independent Third Party	Sale of natural gas	Natural gas	14,508	6.2	Bank transfer	Prepayments	Since 2018
5	Yuanhua Trading ⁽²⁾	Connected person	Sale of composite commodity	Pipes and gas-burning appliances	4,987	2.1	Bank transfer/ Bank acceptance notes	nil	Since 2017
Total					<u>223,589</u>	<u>95.3</u>			

Year ended 31 December 2021

Rank	Supplier	Relationship with us	Business Type	Products/ services purchased	Transaction amount	% of the total purchases of our Group	Payment method	Credit term	Approximate length of relationship with our Group
<i>(RMB'000)</i>									
1	Shandong Shihua ⁽¹⁾	Connected person	Sale of PNG	Natural gas	177,517	53.8	Bank transfer	Prepayments	Since 2004
2	PetroChina	Independent Third Party	Oil and natural gas pipeline operation	Natural gas	57,679	17.5	Bank transfer	Prepayments	Since 2012
3	Zhonghui Energy	Independent Third Party	Sale of natural gas	Natural gas	30,265	9.2	Bank transfer	Prepayments	Since 2018
4	Supplier A	Independent Third Party	Household electric appliances and gas fired boilers sales	Gas-fired boilers	16,078	4.9	Bank transfer	Progress payments in accordance with the contracts	Since 2021
5	Jiangxi Wangpai	Independent Third Party	Engineering construction	Construction services	9,075	2.8	Bank transfer	Progress payments in accordance with the contracts	Since 2021
Total					<u>290,614</u>	<u>88.2</u>			

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Four months ended 30 April 2022

Rank	Supplier	Relationship with us	Business Type	Products/ services purchased	Transaction amount	% of the total purchases of our Group	Payment method	Credit term	Approximate length of relationship with our Group
<i>(RMB'000)</i>									
1	Shandong Shihua ⁽¹⁾	Connected person	Sale of PNG	Natural gas	70,739	54.1	Bank transfer	Prepayments	Since 2004
2	Zhonghui Energy	Independent Third Party	Sale of natural gas	Natural gas	30,864	23.6	Bank transfer	Prepayments	Since 2018
3	PetroChina	Independent Third Party	Oil and natural gas pipeline operation	Natural gas	22,109	16.9	Bank transfer	Prepayments	Since 2012
4	Jiaoyun Property ⁽³⁾	Connected person	Real estate development and operation	Outsourced construction labour	1,847	1.4	Bank transfer	nil	Since 2006
5	Shandong Start Measurement and Control Equipment Co., Ltd* (山東思達特測控設備有限公司)	Independent Third Party	Gas meters	Gas meters	1,301	1.0	Bank transfer	1 month	Since 2009
Total					<u>126,860</u>	<u>97.0</u>			

Notes:

- (1) Shandong Shihua holds 30% of the equity interest in our subsidiary, Jiaoyun Shihua, and is a connected person of our Company.
- (2) Yuanhua Trading is directly held as to 100% by Ms. Sun Meiling (孫美玲女士) (wife of Mr. Li Wanmin, one of the senior management of our Company), who in turn held such equity interest on entrustment for Jiaoyun Group pursuant to an entrustment agreement dated 10 June 2015 between Jiaoyun Group and Ms. Sun Meiling. Jiaoyun Group is held as to approximately 75.06% by Mr. Luan Xiaolong and 24.94% by Mr. Luan Linjiang, respectively. Hence Yuanhua Trading is a connected person of our Company. During the Track Record Period, Yuanhua Trading acted as our agent, on an as-needed basis, to procure pipes, gas-burning appliances and other relevant parts for our natural gas distribution and related businesses. During the Track Record Period, Yuanhua Trading was also involved in certain financing arrangements with related parties, for details, please refer to “— Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing” in this section and “Financial Information — Related Party Transactions” in this document. Such entrustment arrangement was put in place to enable Yuanhua Trading to act as a procurement agent for the entire Private Group (which our Group was a member of prior to the Reorganisation). It was a commercial decision for Yuanhua Trading to adopt such an entrustment arrangement, such that suppliers would not be aware that the procurement was made on behalf of any particular member of the Private Group. As confirmed by our Company and as advised by CIC, usually, suppliers charge reputable and sizeable customers higher prices. Members of the Private Group are generally considered reputable and sizeable in Gaomi City. Through this entrustment arrangement, Yuanhua Trading would be viewed as unrelated to the Private Group from the perspective of the ultimate suppliers, hence Yuanhua Trading could procure supplies at lower prices as compared to the price originally offered to a member of the Private Group when it procured supplies directly. Furthermore, Yuanhua Trading could source supplies at relatively cheaper prices as all orders by the Private Group are pooled together under this bulk purchase arrangement, instead of each member of the Private Group procuring its supplies separately and directly with each supplier. The participation in such bulk purchase arrangement by all members in the Private Group through Yuanhua Trading was commercially beneficial to us. As we, together with certain other members of the Private Group, procure materials through Yuanhua Trading, the procurement costs could be lowered by buying in bulk. We could save transportation

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costs of the materials procured by Yuanhua Trading, as such materials would be directly transported to Jiaoyun Property (another member of the Private Group) who acted as our subcontractor in carrying out our construction and installation services. However, in preparation for the [REDACTED], to demonstrate operational independence from the Private Group and improve corporate governance of our Group, we have opted to forgo the marginal benefits of procurement through Yuanhua Trading in order to reduce our related party transactions. We have therefore ceased all transactions involving Yuanhua Trading since 30 June 2021.

- (3) Jiaoyun Property is owned as to 99.98% by Mr. Luan Linjiang and as to 0.02% by Mr. Luan Xiaolong, and is a connected person of our Company.

Subcontractors of Pipeline Construction and Installation of Natural Gas Supply Facilities

During the Track Record Period and up to the Latest Practicable Date, we engaged three subcontractors to carry out our pipeline construction and installation of natural gas supply facilities.

Our pipeline construction includes (i) the construction of PNG end-user pipeline network; and (ii) the construction of urban pipeline network. Construction of PNG end-user pipeline network constitutes a part of the construction and installation services which we provide to residential and non-residential PNG end-users. The PNG end-users to which we provide such services typically own the corresponding constructed part of the PNG end-user pipeline network. On the other hand, construction of urban pipeline network enhances and expands our PNG supply capabilities. We own the urban pipeline network. Installation of natural gas supply facilities involves the installation of gas meters, equipment and devices into the properties, buildings or premises of our PNG end-users. Such installation works constitute a part of our construction and installation services. The installed natural gas supply facilities are typically owned by the relevant PNG end-users. For details of our construction and installation services, please refer to “— Provision of Construction and Installation Services” in this section.

In general, we did not enter into specific supply agreements with our subcontractors for construction and installation works for our Clean Energy Projects. The same subcontractors for our normal construction and installation projects were responsible for carrying out the required work under the Clean Energy Projects. Costs for construction of PNG end-user pipelines under the Clean Energy Projects are payable by the Company by phases according to the construction progress. Hence, any upfront payment would usually be paid out from the portion of fees received from participating households under the Clean Energy Projects, or from our operating cash flows generated from our ordinary and usual course of business. During the Track Record Period, we engaged two subcontractors which conducted the construction and installation work for our Clean Energy Projects.

Our Directors consider that outsourcing labour-intensive construction and installation work minimises labour directly employed by us. This allows us to focus our resources on other parts of our natural gas businesses.

(i) Jiaoyun Property

Since 2018, we have engaged Jiaoyun Property, a connected person, as one of our subcontractors primarily for pipeline construction and installation of natural gas supply facilities. Our subcontracting agreements with Jiaoyun Property are usually for a term of one year, subject to renewal. Under the terms of these subcontracting agreements, Jiaoyun Property is permitted to further subcontract the relevant pipeline construction and installation services to Shandong Province Xiantong Installation

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Co., Ltd.* (山東省顯通安裝有限公司) (formerly known as Feicheng Equipment Installation Engineering Company* (肥城市設備安裝工程公司) and Shandong Feicheng Equipment Installation Engineering Company* (山東省肥城縣設備安裝工程公司)) (“**Shandong Xiantong**”), which is owned as to approximately 54.7% by Lei Yin Feng (雷印峰), 2.0% by Lei Ming Tao (雷明濤), while the remaining are held by 38 individuals who each hold less than 2% equity interest. To the best knowledge, information and belief of our Directors, Lei Yin Feng is the founder of Shandong Xiantong, Lei Ming Tao is the son of Lei Yin Feng, each of these 38 individuals is an employee of Shandong Xiantong, and each of Lei Yun Feng, Lei Ming Tao and the 38 individuals is an Independent Third Party. Shandong Xiantong is a renowned engineering, construction and installation service provider based in Shandong Province and provides pipeline construction and installation services nationwide. To the best of the knowledge, information and belief of our Directors based on all reasonable enquiries, it is confirmed that (i) none of the directors and ultimate beneficial owners of Shandong Xiantong had any past or present relationships with our Group, our Directors and senior management and our Controlling Shareholders or any of their respective associates; and (ii) the operation (including any subcontracting arrangements) of Shandong Xiantong is supervised by its independent management team. We are responsible for paying to Jiaoyun Property, and not for any direct payment to Shandong Xiantong. This contractual arrangement is beneficial to us as Shandong Xiantong possesses the requisite licence needed for certain construction works which we require. This part of natural gas pipeline construction and installation work is a niche area and there are not many other suppliers on the market who possess such licenses. We engaged Jiaoyun Property as our subcontractor primarily because as a property developer, Jiaoyun Property has close connections with and easy access to construction workers who can carry out our construction and installation services, which involves the construction of PNG end-user pipelines and installation of gas-burning appliances within the household premises of a property. In particular, for real estate development projects of Jiaoyun Property, it is commercially beneficial to engage its construction workers for construction and installation work of our natural gas supply facilities so as to ensure continuity and consistency of the construction as a whole. Moreover, since both our Group and Jiaoyun Property were members of the Private Group prior to the Reorganisation, Jiaoyun Property acted as the main party responsible for liaison and arrangement of construction workers for all types of construction work conducted by members of the Private Group. We believe that the intra-group relationship between Jiaoyun Property and us facilitated our engagement and communication, thereby ensuring the efficiency, punctuality and quality of our pipeline construction and installation of natural gas supply facilities. The subcontracting fees paid by us to Jiaoyun Property were determined based on the labour fees of workers needed for carrying out the construction and installation services. Such labour fees were in turn determined according to the salaries of workers involved. Based on our interview with Jiaoyun Property, our Directors have confirmed that Jiaoyun Property earned a commercially reasonable margin in respect of the subcontracting works undertaken for our Group. Please also refer to “Financial Information — Related Party Transactions” in this document.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our subcontracting costs attributable to Jiaoyun Property were approximately RMB1.4 million, RMB1.2 million, RMB6.4 million and RMB2.0 million, representing approximately 0.5%, 0.5%, 1.9% and 1.6% of our total purchases, respectively. From January 2019 to June 2021, subcontracting fees paid by our Group to Jiaoyun Property were generally lower than that charged by Independent Third Parties. In July 2021, there has been an adjustment of per unit labour fees to better align with the prevailing market rate and the prices charged by independent suppliers engaged. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the subcontracting fees

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paid by our Group to Jiaoyun Property were generally approximately 71.9%, 70.0%, 6.1% and 4.8% lower than those charged by independent subcontractors. The cost-savings enjoyed by our Group as a result of our engagement of Jiaoyun Property as our subcontractor amounted to approximately RMB3.5 million, RMB2.7 million, RMB0.4 million and RMB0.1 million for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively.

In preparation for the [REDACTED], to demonstrate operational independence from the Private Group to the extent possible and improve corporate governance of our Group, we could directly engage the subcontractor (instead of Jiaoyun Property further subcontracting such work) to carry out our pipeline construction works. Transactions with Jiaoyun Property in respect of pipeline construction are therefore not expected to continue after [REDACTED]. As we will directly engage the subcontractor that actually carried out the subcontracting works in respect of pipeline construction, such termination of subcontracting arrangements with Jiaoyun Property is not expected to have material adverse impact on our Group’s business and financial performance. Transactions with Jiaoyun Property in respect of installation services however are expected to continue after [REDACTED] and will constitute a continuing connected transaction of our Company under the Listing Rules. We therefore entered into a subcontracting framework agreement with Jiaoyun Property on 22 October 2022. Jiaoyun Property will be engaged in respect of installation services after [REDACTED] primarily due to its close connections with and easy access to construction workers as mentioned above, as well as our historically amicable cooperation. Although we are able to procure installation services from suppliers other than Jiaoyun Property at comparable market terms and quality of services, after considering our past business cooperation as well as other factors relevant in our Group’s selection process of suppliers such as pricing and quality, we consider Jiaoyun Property to be an appropriate and capable supplier for carrying out our installation services. For details, please refer to “Connected Transactions — (C) Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders’ Approval Requirement — 3. Subcontracting Framework Agreement” and “Relationship with Our Controlling Shareholders — Independence from Our Controlling Shareholders — Operational independence” in this document.

During the Track Record Period, Jiaoyun Property was also a customer of our Group. For details, please refer to “— Overlapping of Customer and Supplier” in this section.

(ii) Shandong Guangzhi

Since 2020, we have engaged Shandong Guangzhi Construction Co., Ltd.* (山東廣志建設有限公司) (“**Shandong Guangzhi**”), an Independent Third Party, as our subcontractor primarily for carrying out the installation of natural gas supply facilities and construction of PNG end-user pipelines, specifically for our residential customers. Our subcontracting agreements with Shandong Guangzhi are usually project-based. We engaged Shandong Guangzhi primarily because it possesses the Qualification of General Contracting on Construction (Grade 3) (建築工程施工總承包參級) required for construction of PNG end-user pipeline and installation of natural gas supply facilities. We anticipate an increase in the number of PNG end-user pipeline network projects to be undertaken by us, mainly relating to the need to install a large number of wall-hung gas boilers as a result of the promulgation of provincial plans which promote the use of cleaner heating methods.

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For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our subcontracting costs attributable to Shandong Guangzhi were approximately nil, RMB3.2 million, RMB3.5 million and nil, representing approximately nil, 1.4%, 1.1% and nil of our total purchases, respectively.

(iii) Jiangxi Wangpai

Since 2021, we have engaged Jiangxi Wangpai Construction Engineering Group Co., Ltd. Lu Zhong Branch* (江西王牌建設工程集團有限公司魯中分公司) (“**Jiangxi Wangpai**”), an Independent Third Party, as another subcontractor primarily for carrying out pipeline construction and installation of natural gas supply facilities. Our subcontracting arrangements with Jiangxi Wangpai are project-based. We started engaging Jiangxi Wangpai recently in anticipation of the increase in demand for installation services from our PNG end-users.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our subcontracting costs attributed to Jiangxi Wangpai were approximately nil, nil, RMB8.6 million and nil, representing approximately nil, nil, 2.6% and nil of our total purchases, respectively.

Selection and management of our subcontractors

Our procurement department is responsible for supervising and reviewing the selection and evaluation of our subcontractors. They decide on the allocation of these subcontractors to our pipeline construction and installation services projects. Our security and quality control department supervises and reviews the pipeline construction and installation works carried out by our subcontractors to ensure compliance with the relevant safety standards and regulations. We have a pre-approved list of subcontractors. When determining which subcontractor to engage for a project, we assess their suitability based on criteria including service quality, timeliness of completion, price and execution ability. We only engage subcontractors which possess the requisite licenses and qualifications necessary for carrying out our required construction services in our Operating Area.

We generally oversee our projects to ensure that the construction and installation works carried out by our subcontractors are in full compliance with all the relevant standards and regulations. Our internal engineers and external qualified third-party inspection companies monitor the construction process to ensure that each stage of the construction meets our quality and safety standards, as well as all relevant legal requirements. The subcontracting agreements that we enter into with our subcontractors require our subcontractors to (i) cooperate with the construction site management to comply with the relevant safety procedures at the construction site; (ii) carry out the construction work in accordance with the relevant quality standards and be subject to our supervision and inspection; and (iii) make full compensation for all losses suffered by us as a result of the services provided by them (other than losses for which we are responsible).

In addition to the above, we may also directly engage other Independent Third Party subcontractors which possess the requisite licenses and qualifications to carry out our required pipeline construction and installation services in the future when necessary.

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Key terms of our subcontracting agreements

Our subcontracting agreements typically include the following key terms:

Term	Varies depending on the duration of the construction period of the project, but our subcontracting agreements typically have a term of one year.
Performance standards	Our subcontracting agreements set out the scope of the construction works to be carried out by our subcontractors and the expected standards of our subcontractors' services.
Our rights and obligations	Generally, we have both the right and obligation to supervise and evaluate the construction works of our subcontractors. We are responsible for providing them with the support necessary for the completion of their services, which may include access to and use of our equipment and machinery, where necessary. We shall make timely payment of subcontracting fees in accordance with the subcontracting agreements.
Subcontractors' obligations	Our subcontractors shall take all safety measures necessary to comply with all safety standards in the performance of their services. They are also responsible for damages to, or losses of, any person or property arising out of their own default in the course of providing their services.
Pricing	The subcontracting fees payable by us are determined on an arm's length basis and with reference to the duration of the construction period and the scale and complexity of the work carried out.
Payment	We generally pay the subcontracting fees on a project basis, or in accordance with the payment schedule stipulated in our subcontracting agreements.

Inventory Control

Our inventories mainly consist of LNG, construction materials and gas-burning appliances. We have adopted a comprehensive inventory control system. Our inventory officer is principally responsible for all inventory-related matters, including receiving and dispatching inventory, logistics and inventory verification. Our financial controller is responsible for supervising the implementation of our inventory control policies.

Since we distribute the PNG that we purchase from our suppliers to our PNG end-users directly, we rarely record the inventory levels of our PNG, except for the PNG in our city gateway stations and urban pipeline network. PNG is also compressed into CNG at our CNG and LNG refuelling stations on an as-need basis, and thus we do not record inventory of CNG. We regularly monitor the usage and

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inventory levels of the LNG at our CNG and LNG refuelling stations. We also regularly monitor the pricing trends of LNG in the local market. This enables us to estimate the amount of LNG which we may be required to procure from time to time in order to control our LNG inventory level. We recorded insignificant balances of LNG as at each of the balance sheet dates during the Track Record Period.

Construction materials mainly consist of pipeline components, valves and other materials necessary for our supply of PNG. We generally determine the amounts of parts and components to be purchased by us based on our existing inventory and estimated production requirements. We order such inventory based on our current inventory level and on an as-needed basis. We generally keep material and supply inventory at a low level.

Our Directors understand the importance of minimising operational costs and risks. We constantly monitor our supply and demand levels, current inventory level, prevailing market condition and availability of raw materials in order to balance our operational needs and our exposure to changes in construction material prices. We also review and adjust our inventory control policy from time to time.

OVERLAPPING OF CUSTOMER AND SUPPLIER

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, Jiaoyun Property was both a customer and subcontractor of our Group.

Jiaoyun Property

During the Track Record Period and up to the Latest Practicable Date, one of our customers, Jiaoyun Property, was also our subcontractor. We provided construction and installation services to Jiaoyun Property. We also engaged Jiaoyun Property as a subcontractor for the provision of construction workers to carry out our construction and installation services. Jiaoyun Property is directly held as to approximately 99.98% by Mr. Luan Linjiang and approximately 0.02% by Mr. Luan Xiaolong. It is an associate of Mr. Luan Linjiang, our Chairman and executive Director, and hence a connected person of our Company.

Since we are the exclusive distributor of PNG in our Operating Area, property developers require our construction and installation services for the construction of PNG end-user pipelines within their real estate developments, the connection of PNG end-user pipeline network to our urban pipeline network and the installation of natural gas supply facilities in the properties newly-developed by them. The construction and installation services that we provide include engineering design and feasibility planning services, and the procurement of appropriate gas pipelines, gas meters and relevant parts for various real estate developments located in the Operating Area (the “**non-labour intensive work**”), as well as the installation of the necessary natural gas supply equipment and devices in the relevant properties (the “**labour-intensive work**”). We act as the project manager for carrying out the non-labour intensive work and supervise the performance and quality of the labour-intensive work.

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Jiaoyun Property is a property developer in Gaomi City. During the Track Record Period and up to the Latest Practicable Date, Jiaoyun Property procured construction and installation services from us for the construction of PNG end-user pipelines, the connection of PNG end-user pipeline network to our urban pipeline network and the installation of natural gas supply facilities. Revenue derived from Jiaoyun Property for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, amounted to approximately RMB0.5 million, RMB0.9 million, RMB0.7 million and nil, representing approximately 0.1%, 0.3%, 0.2% and nil of our total revenue for the same periods, respectively. Gross profit generated from Jiaoyun Property for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, amounted to approximately RMB0.3 million, RMB0.5 million, RMB0.4 million and nil, representing approximately 0.3%, 0.5%, 0.4% and nil of our gross profit for the same periods, respectively.

During the Track Record Period and up to the Latest Practicable Date, we engaged Jiaoyun Property as our subcontractor for providing construction workers to carry out (i) the labour-intensive work, as part of our construction and installation services provided to all property developers in Gaomi City; and (ii) construction and maintenance work for our urban pipeline network, the ownership of which belongs to us. Jiaoyun Property and its own subcontractor, Shandong Xiantong, hold the requisite qualifications and licenses for carrying out certain construction works according to the requirements of general contracting on municipal public utility construction engineering prescribed by the competent authority in Shandong Province. Jiaoyun Property, making use of its close relationship with other construction subcontractors, subcontracted some of the labour-intensive work to such other subcontractors. Our Directors consider that our subcontracting arrangement with Jiaoyun Property helps reduce our costs for directly maintaining a large labour force of construction workers. This enables us to focus our resources on other aspects of our natural gas business. The cost of sales attributable to our subcontracting arrangement with Jiaoyun Property for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 was approximately RMB0.4 million, RMB0.2 million, RMB2.9 million and RMB1.3 million, representing approximately 0.1%, 0.1%, 0.8% and 0.1% of our total cost of sales for the same periods, respectively.

For further details of our Group’s subcontracting arrangements with Jiaoyun Property, please refer to “— Our Suppliers — Subcontractors of Pipeline Construction and Installation of Natural Gas Supply Facilities” in this section.

Transactions with Jiaoyun Property similar to those mentioned above are expected to continue after the [REDACTED] and will constitute continuing connected transactions of our Company under the Listing Rules. For further details, please refer to “Connected Transactions — (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but exempt from the Independent Shareholders’ Approval Requirement — 2. Construction and Installation Services Framework Agreements”, “Connected Transactions — (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but exempt from the Independent Shareholders’ Approval Requirement — 3. Subcontracting Framework Agreement” and “Relationship with Our Controlling Shareholders — Independence from our Controlling Shareholders — Operational independence” in this document.

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Our trade payables to Jiaoyun Property and trade receivables from Jiaoyun Property were settled separately. Those sales and purchases were neither inter-connected nor inter-conditional with each other. All of the transactions involving Jiaoyun Property were conducted in the ordinary course of business under normal commercial terms and on an arm's length basis. The terms of transactions with Jiaoyun Property were separately negotiated with us and are comparable to the terms of transactions with our other customers and suppliers. The prices of the transactions with Jiaoyun Property were no less favourable than from other customers and suppliers who are not overlapping customers and suppliers.

Save as disclosed above, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued capital, has any interest in Jiaoyun Property during the Track Record Period and up to the Latest Practicable Date.

QUALITY CONTROL AND SAFETY MAINTENANCE

We prioritise the quality of our services and believe that quality control is crucial to our long-term success. We place significant emphasis on quality control on our raw materials and services, standardised management, maintenance of our facilities and equipment as well as gas usage safety. Our professional quality control team is responsible for quality control and safety maintenance matters arising from different operation processes. As at the Latest Practicable Date, our professional quality control team consisted of four employees, all of which possess more than five years of quality control experience. Their responsibilities mainly include: (i) commanding the relevant regulatory and industry standards regarding safety maintenance and quality control; (ii) formulating and reviewing our internal safety inspection, facilities maintenance and quality control procedures and standards; (iii) overseeing the implementation of the above procedures and standards in our day to day operation; (iv) maintaining detailed records of related matters; and (v) providing safety training for our employees.

We have established a comprehensive quality control system, which includes (i) a professional quality control team primarily responsible for implementing and maintaining service standards, standardising service procedures and supervising service quality throughout our operational processes to ensure consistent adherence to such standards; (ii) quality control protocols and standardised service procedures on natural gas operations and related business operations, customer service and safety control; and (iii) scheduled quality checks conducted by follow-up phone calls, on-site inspections and review of feedback in our internal claim report system and customer information system.

Quality control

We source materials and equipment that meet the relevant quality standards from our selected suppliers and engage qualified contractors for the construction of our PNG pipelines and facilities and/or the provision of construction and installation services. We maintain a registry of qualified contractors and suppliers for our construction materials, equipment and gas sources. In particular for our PNG supply, during the Track Record Period, we sourced most of our PNG from PetroChina and Shandong Shihua (which is owned as to 50% by Sinopec). PNG supplied by Shandong Shihua to us is sourced from Sinopec. As PetroChina and Sinopec are both nationwide oil/gas suppliers in the PRC, our Directors consider that the PNG supplied by them can meet our demand for gas supply and quality

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requirements. We will return any source of natural gas that does not comply with the standards. Our Directors confirm that we did not return any natural gas to our suppliers during the Track Record Period. Moreover, we take measures including pressure regulating, purification and addition of odourising substance at our city gateway stations, so as to ensure safety of gas usage, cleanliness of the gas and immediate detection of gas leakages. We hire qualified engineers and also engage qualified contractors to perform our construction works. Our quality inspectors are required to conduct interim and final checks on the quality of the facilities as well as keep record of the supervision results. In particular, they are responsible for preventing pipelines which are below standard from being further used or put into operation. We engage independent experts to conduct chemical or physical tests on the pipeline networks that we construct and connect to ensure that the pipelines fulfil all the standards set out in our quality control manuals and are compliant with the relevant regulations before being put into operation.

Safety maintenance

Depending on the nature and type of our facilities, our staff are required to regularly patrol and examine our operation facilities, comprising our urban pipeline network and natural gas stations, for the purpose of repair and maintenance. We have a dedicated team to ensure normal natural gas supply and carry out emergency repair works. However, maintenance and repair projects can be complex in nature and require specific expertise. On that front, those more complicated projects are undertaken by equipment manufacturers and construction contractors outsourced by us. Pursuant to certain procedures set out in our quality control manuals, we record daily examinations results in registry. Our quality control manuals set out the common malfunctions, so that those who possess the necessary qualifications may perform the corresponding maintenance works. We also visit the properties of our customers, to conduct on-site safety examination. If any safety problems regarding the PNG end-user pipeline network or gas-burning appliances of our customers are detected or reported, we provide improvement and remedial measures promptly. As safety is our priority, our Group has missioned to respond to issues related to our natural gas operations as quickly as we can.

We perform daily safety checks on most of our natural gas supply facilities and inspect PNG end-user's facilities every three years. We have established and implemented a monitoring system to record accidents, by which we can promptly make repairs. Furthermore, we attach equal importance to the provision of natural gas usage trainings to our PNG end-users to raise our PNG end users' safety awareness. Such trainings are conducted both prior to releasing PNG supply and from time to time while they are using our PNG supply. We also post safety notices and warnings at our CNG and LNG refuelling stations for the information of our CNG and LNG customers. During the Track Record Period, we did not experience any material accidents.

Our major maintenance and repair works are typically carried out annually from April to October. We maintain schedules and procedures for routine maintenance, inspection and repairs, and our pipelines are subject to maintenance and repair throughout the year. The maintenance and repair plan is formulated based on the condition of the facilities and equipment.

Apart from our natural gas supply facilities, we also carry out other minor maintenance and repair works such as computer system maintenance and vehicle repairs that are complementary to our business operations.

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Our total maintenance and repair expenses for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 were approximately RMB3.2 million, RMB2.6 million, RMB0.5 million and RMB0.1 million, accounting for approximately 1.2%, 1.1%, 0.2% and 0.1% of our total cost of sales for the same periods, respectively.

REPORTING AND EMERGENCY RESPONSE PLAN

To maintain a sound and stable supply of natural gas, we have established an efficient emergency response mechanism to cope with supply suspension, damage to supply facilities and other accidents during our supply of natural gas. Led by Mr. Luan Linjiang, our Chairman and executive Director, we have set up a designated team to coordinate emergency responses in relation to transmission and distribution pipeline network accidents. The designated team is primarily responsible for (i) the formulation and review of our emergency response plans; (ii) the supervision of rescue teams as well as the implementation of emergency response plans and drills; (iii) on-site command in the event of emergency incidents; (iv) reporting the accidents to higher authorities and notifying the community, and coordinating with the relevant parties when necessary; and (v) assisting in the investigation of the accidents, if any. We have also adopted a comprehensive internal notification system, specifying different reporting procedures for different levels and scales of accidents. To ensure effectiveness, we have established an emergency reacting team comprising five sub-teams responsible for handling any natural gas accidents. In addition, a 24-hour emergency hotline is in place to provide timely guidance on the emergency response to the reported accidents. Considering that potential natural gas leakage in transmission and distribution may be caused by various reasons, we have established an emergency response scheme to cope with different situations:

Type of accidents	Causes of accidents	Emergency response
General accidents	Minor gas leakage in the equipment and pipelines	General accidents can usually be discovered in time by our staff or line inspectors who can handle them in accordance with the corresponding operating procedures.
Major accidents	A large amount of gas leakage in the pipelines or loss of control for the gas leakage in the city gateway stations as a result of the construction works by other companies	Immediately report the major accident to us and cut off the source of the accident. The emergency repair team will arrive in time at the site for repair. Our designated team shall promptly report the accident to the relevant authorities, such as the municipal gas office, public security, safety supervision, labour union, health and environmental protection authorities.

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<u>Type of accidents</u>	<u>Causes of accidents</u>	<u>Emergency response</u>
Extraordinary accidents	A large amount of gas leakage in the pipelines or loss of control for the gas leakage in the city gateway stations as a result the construction works by other companies, while an ignition source causes fire, explosion and casualties	Immediately report the extraordinary accident to us or call 110 to report to the police and cut off the source of the accident. The command team, as well as professional teams, will be in place to carry out timely emergency rescue. Our designated team shall promptly report the accident to the relevant authorities, such as the municipal gas office, public security, safety supervision, labour union, health and environmental protection authorities.

In addition, we have implemented a set of emergency response procedures to ensure that appropriate measures or steps have been adopted for: (i) rescue in case of fire or explosion; (ii) emergency repair in case of natural gas leakage; (iii) emergency repair of our urban pipeline network and the PNG end-user pipeline network; (iv) emergency repair of indoor pipelines; and (v) emergency repair of leakage in pressure regulating stations and boxes.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, we recorded seven, seven, seven and three incidents of PNG supply disruption, respectively. Such incidents resulted from pipeline damages due to pavement engineering. We were not the responsible party for the pipeline damage. To the best knowledge of our Directors, there has been no personal injury or property damage for which we shall be held liable. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption or suspension to our CNG or LNG supply.

During the Track Record Period and up to the Latest Practicable Date, we had fully discharged our obligations in terms of reporting to the authority and informing our PNG end-users of PNG supply disruption or suspension under the relevant laws and regulations, as the case may be, and we were not subject to any compensation to our PNG end-users due to the aforementioned PNG supply disruption or suspension incidents. Our Directors confirm that we had not experienced any natural gas supply interruption and suspension which had a material adverse impact on our business operation during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

AWARDS AND RECOGNITION

We obtained the following landmark awards during the Track Record Period and up to the Latest Practicable Date in recognition of the quality of our sale of PNG, which we believe are important to our business operations.

<u>Year</u>	<u>Award / Accreditation</u>	<u>Awarding Organisation</u>	<u>Awarded Entity / Product</u>
2022 (First Quarter)	Outstanding Enterprise (優秀企業)	Gaomi City Housing and Urban-Rural Development Bureau (高密市住房和城鄉建設局)	Jiaoyun Gas
2021	Outstanding Enterprise (優秀企業)	Gaomi City Housing and Urban-Rural Development Bureau (高密市住房和城鄉建設局)	Jiaoyun Gas
2020	Honorary President Enterprise (名譽會長單位)	Gaomi City Liquan Avenue Chamber of Entrepreneurs (1st Council) (高密市醴泉街道企業家商會第一屆理事會)	Jiaoyun Gas
2020	Outstanding Enterprise (優秀企業)	Gaomi City Housing and Urban-Rural Development Bureau (高密市住房和城鄉建設局)	Jiaoyun Gas
2019	Award of Enterprise with Outstanding Contribution of Tax (企業納稅突出貢獻獎)	Liquan Avenue Office of Liquan Avenue Party Working Committee (醴泉街道黨工委醴泉街道辦事處)	Jiaoyun Gas
2019	Outstanding Enterprise (優秀企業)	Gaomi City Housing and Urban-Rural Development Bureau (高密市住房和城鄉建設局)	Jiaoyun Gas

COMPETITION

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 (now representing approximately 70% of the administrative area of Gaomi City) for an effective term of 30 years from 18 August 2009. According to the CIC Report, we were the largest natural gas operator in the Gaomi City’s natural gas market in terms of sales revenue from 2016 to 2021. For the year ended 31 December 2021, our sales revenue was approximately RMB440.9 million.

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During the Track Record Period and up to the Latest Practicable Date, one natural gas refuelling station operator (which is also our wholesale customer) sold CNG and LNG to vehicle users to refuel their vehicles at its CNG and LNG refuelling station located at a suburban area in Gaomi City. The location of its refuelling station does not overlap with our three CNG and LNG refuelling stations which are located in our Operating Area in Gaomi City. As advised by CIC, since we benefit from various government initiatives to expand our sales of PNG exclusively in our Operating Area, this local natural gas refuelling station operator is unlikely to access our PNG end-users' base and constitute material competition against us in the natural gas market in Gaomi City given its limited business operating scale and the geographical location of its refuelling station in Gaomi City.

While the natural gas industry in the PRC is relatively fragmented, natural gas distribution at regional level, such as in Gaomi City, is relatively more concentrated. According to the CIC Report, the overall market share of the natural gas industry in Gaomi City was taken up by two natural gas suppliers in 2020, with us taking up the market share of approximately 70%.

New entrants to the city natural gas supply market in Gaomi City may face several major entry barriers as (i) a concession is required to be obtained from the local government to ensure that market participants are qualified in terms of gas management experience, distribution safety and stable gas supply; (ii) the monopoly status of giant natural gas distributors operation in the industry; (iii) substantial initial capital investments are required for the construction of new distribution facilities and gas pressure regulating stations; and (iv) competition for the lock-in of natural gas supplies from the few upstream suppliers such as PetroChina and Sinopec is steep.

As the largest natural gas supplier in Gaomi City in terms of sales revenue (with a market share of around 70% in 2020) and the sole supplier of LNG, we benefit from the economic development of Gaomi City and the implementation of various policies by the Gaomi City People's Government to reduce fuel emissions and promote the replacement of coal-fired boilers with clean energy-powered boilers, as well as the ongoing transformation of shantytowns. The consumption volume of natural gas in Gaomi City increased from approximately 54.9 million m³ in 2016 to approximately 139.1 million m³ in 2021, and is expected to reach approximately 254.4 million m³ in 2026 with a CAGR of 12.8% between 2021 and 2026. With our exclusive right within our Operating Area under the Concession, supportive government policies, specialised and experienced management team and 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 further details on the markets in which we operate and a discussion of our competition, please refer to “Industry Overview — Analysis of the City Gas Supply Industry in Gaomi City” in this document.

RESEARCH AND DEVELOPMENT

Due to our business nature, we do not engage in research and development activities. As such, we did not incur any research and development expenses during the Track Record Period, and our Directors do not expect to incur any significant expenses of such in the near future.

BUSINESS

INTELLECTUAL PROPERTY

We primarily rely on laws and regulations on trademarks and trade secrets, as well as our employees’ and third parties’ contractual commitments to confidentiality and non-competition, to protect our intellectual property rights. As at the Latest Practicable Date, our Group had two registered trademarks, one registered copyright and one registered domain name in the PRC. For details of the intellectual property rights that are material to our business and operations, please refer to “Statutory and General Information — B. Further Information About Our Business — 2. Intellectual property rights of our Group” in Appendix V to this document.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement of any third party or by any third party which had a material impact on our Group, and we were not aware of any infringement which could have a material adverse effect on our business operations by our Group against any intellectual property rights of any third party or by any third party against any intellectual property rights of our Group, or any disputes with third parties with respect to intellectual property rights.

INSURANCE

As at the Latest Practicable Date, we maintained several policies that cover potential losses or damages in respect our operations. These policies cover (i) safety production liability insurance in respect of personal injury or asset loss arising from accidents at our CNG and LNG refuelling stations; (ii) motor vehicles owned by us; and (iii) third party liability insurance to cover claims in respect of personal injury or asset loss arising from accidents at our operational facilities or relating to natural gas operation. Our PNG end-users may opt to purchase natural gas insurance products in respect of personal injury or asset loss arising from natural gas usage, of their own accord, offered by third-party insurance companies. The insurance coverage varies at entity level to accord with local and industry practice. Based on our past experience and understanding of the prevailing industry practice in Gaomi City, we believe that the coverage of our property insurance is adequate to cover any material property damage and is in line with the industry norm. As we operate in a high risk industry given the flammable and explosive nature of natural gas, we may not be adequately insured against all unanticipated risks and losses that may arise. For details, please refer to “Risk Factors — We may not have adequate insurance to cover all of the hazards associated with the natural gas industry to which our operations are subject” in this document.

We are required to maintain mandatory social security insurance policies for our employees in the PRC pursuant to the applicable PRC laws. For details, please refer to “— Employees” in this section. In addition, we expect that we will maintain directors’ and officers’ liability insurance for the executive Directors and executive officers of our Company on or before [REDACTED].

We believe that our insurance coverage is adequate and in line with the industry practice in the places where we have business operations. With the expansion of our business and the potential new risks that we may be exposed to as a result, we may take out further insurance as our Directors deem appropriate. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material business interruptions or material insurance claims.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had a total of 99 employees, amongst which 23.2% were female. All of our employees are located in Gaomi City. The table below sets out a breakdown of employees, by function, and the corresponding percentage of each category of our total employees as at the Latest Practicable Date:

Function	Number of employees	Approximate percentage of our total employees
Management	4	4.0%
Administration	4	4.0%
Sales and Customer Services	29	29.3%
Procurement	1	1.0%
Finance	7	7.1%
Operation	9	9.1%
Engineering, Security and Quality Control	44	44.5%
Legal and Compliance	1	1.0%
Total:	99	100%

As at the Latest Practicable Date, we had a total of 99 employees, of whom over approximately 70.0% have five years or more experience in natural gas operations. Approximately 20.0% of our employees as at 30 April 2022 held professional title certificates in areas such as engineering, accounting and safety production management.

Prior to the Reorganisation when our Group was considered part of the Private Group, some of our personnel at Jiaoyun Gas were seconded from Jiaoyun Property, another member of the Private Group. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the average number of seconded employees under the secondment arrangement between Jiaoyun Gas and Jiaoyun Property was 167, 125, 55 and nil, respectively. For the same periods, secondment expenses of approximately RMB10.7 million, RMB8.1 million, RMB1.9 million and nil, consisting of the secondment fees. Such secondment fees were calculated based on the salaries of the seconded employees without allocation or sharing of such costs between Jiaoyun Property and us. Our Directors consider the secondment fees to be fair and reasonable as they were comparable to the cost of staff with similar capabilities and experience. After the Reorganisation and since 30 June 2021, all seconded personnel from Jiaoyun Property who continue to work in our Group have been transferred to our Group and are now our employees. Upon the completion of such transfer, we entered into direct employment with all our personnel.

During the Track Record Period, there were two seconded employees under the secondment arrangement between Jiaoyun Shihua and Shandong Shihua. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, secondment expenses of approximately RMB0.2 million, RMB0.2 million, RMB0.2 million and RMB0.1 million, were paid by us to

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Shandong Shihua as secondment fees, respectively. Through the secondment arrangement between Jiaoyun Shihua and Shandong Shihua, we were able to obtain valuable advice from Shandong Shihua (who is our largest PNG supplier during the Track Record Period) on our business operations from time to time. Please also refer to “— Procurement of PNG — Relationship with our PNG Suppliers — Our Group’s relationship with Shandong Shihua” in this section.

For secondment of employees, please also refer to “Financial Information — Related Party Transactions” in this document.

Save for the interest-free advances to related parties as disclosed in “— Non-compliance Incidents — Non-compliant bill financing” and “— Non-compliance Incidents — Deviation” in this section, none of the costs or expenses relating to our Group’s operations during the Track Record Period were borne by the Private Group, our related parties or our connected persons, or any other third parties, without being recharged to our Group in full.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our labour costs were approximately RMB12.2 million, RMB10.7 million, RMB9.4 million and RMB2.7 million, representing approximately 4.5%, 4.3%, 2.7% and 2.0% of our total cost of sales for the corresponding periods, respectively.

Training

We highly value our employees and place emphasis on the development of our employees. In order to advance the skills and knowledge of our employees as well as to explore new potential from our workforce, we invest in continuing education and training programs for our management and ordinary staff members to update their skills and knowledge periodically. Generally, our training focuses on matters relating to technical knowledge, work safety standards and financial management.

We believe that our quality personnel are our key to success and future development. In the future, we will recruit talent from various sources, such as universities, online platforms, third-party recruitment agencies, and other companies, and provide ongoing training and promotion opportunities to our staff members of our own accord.

Remuneration

The remuneration package of our employees includes basic salary, performance salary and allowances. We generally determine employee remuneration based on factors such as qualifications, positions and years of experience. We must comply with PRC laws and regulations relating to social welfare. In accordance with the applicable PRC regulations, we currently participate in social insurance contribution plan organised by the relevant local government. We currently provide employees with a pension insurance program, medical insurance program, unemployment insurance program, individual work injury program, maternity insurance contributions and employee public housing reserve contributions and other welfare benefit. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total amount of our welfare contribution was approximately RMB0.5 million, RMB0.5 million, RMB2.1 million and RMB0.8 million, respectively.

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As at the Latest Practicable Date, save as disclosed below about social insurance and housing provident fund contributions, we believe we have complied with all applicable national and local laws and regulations relating to social welfare and have paid in full the social security premiums and contributions payable as required by PRC laws and regulations and have never been penalised for any violation of these laws.

During the Track Record Period and up to the Latest Practicable Date, our employees did not negotiate their terms of employment through any labour union or by way of collective bargaining agreements nor did we have any material disputes with our employees, or experience any strike, labour disputes or industrial actions that may have a material adverse effect on our business, financial condition and results of operations. We believe that our senior management has maintained a good relationship with our staff members.

Gender Diversity in the Workforce

We recognise gender diversity in the workplace as a major factor in our continuous development and success. We promote gender equality within our Group. All of our female employees are entitled to paid leave on International Women’s Day. We have a transparent decision-making mechanism to encourage more female employees to participate in ordinary affairs of our Company and invite them to freely express their suggestions and concerns in internal meetings. In addition, we are committed to grow our female leaders organically and we plan to promote suitable female employees to management level in accordance with our gender diversity policy.

Social Insurance and Housing Provident Fund Contributions

According to the relevant PRC laws and regulations, we are required to make contributions to the social insurance fund and housing provident fund for the benefit of our employees in China. During the Track Record Period, Jiaoyun Gas and Jiaoyun Shihua did not complete their social insurance and housing provident fund registration within the statutory deadline, or fully contribute to the social insurance fund and housing provident fund for the benefit of their employees as required under the Social Insurance Law of the PRC, the Regulations on Administration of Housing Provident Fund and other relevant regulations. We estimate that the maximum amounts of the outstanding social insurance fund and housing provident fund contributions owed by us for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, were approximately RMB0.2 million, RMB0.2 million, RMB0.4 million and RMB0.2 million, respectively. Although we did not complete the social insurance and housing provident fund registration within the statutory deadline and make full contributions of the same, as at the Latest Practicable Date, we have taken remedial measures to rectify the under-contributions.

Reasons for not completing registration and not making contributions

We did not complete the social insurance and housing provident fund registration within the statutory deadline or fully contribute to the social insurance fund and housing provident fund during the Track Record Period, primarily because our responsible staff who was in charge of human resources matters at the relevant time did not fully comprehend the relevant regulatory requirements.

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Legal Consequences and Potential Maximum Penalties

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), (i) for social insurance registrations that we fail to complete before the prescribed deadlines as required by orders for rectification, we may be subject to a fine ranging from one to three times of the relevant social insurance contribution; and (ii) for outstanding social insurance fund contributions that we fail to make full payment within the prescribed deadlines as ordered by relevant authorities, the relevant PRC authorities may order us to pay the outstanding social insurance contributions within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding contribution amount for each day of delay; and if we fail to make such payments, we may be liable to a fine of one to three times of the outstanding contribution amount.

Under the Regulations on Administration of Housing Provident Fund (住房公積金管理條例), (i) for housing provident fund registrations that we fail to complete before the prescribed deadlines as required by orders for rectification, we may be subject to a fine ranging from RMB10,000 to RMB50,000; and (ii) for housing provident fund contributions that we fail to pay within the prescribed deadlines as ordered by relevant authorities, we may be subject to any order by the relevant people's court to make such payments.

We made provisions in the amounts of RMB0.2 million, RMB0.2 million, RMB0.4 million and RMB0.2 million on our financial statements in respect of such potential liabilities for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. Such provisions are sufficient without any partial settlement of unpaid social security contribution as at the Latest Practicable Date. In the event that the relevant administrative departments order us to pay for the underpaid amount of social insurance fund and housing provident fund contributions, the potential maximum payment of an additional late fees which we may be subject to is approximately RMB130,000 during the Track Record Period and up to the Latest Practicable Date.

Views of our PRC Legal Advisers

As at the Latest Practicable Date, we have completed social insurance and housing provident fund registrations for our employees. According to the written confirmation we obtained from Human Resource and Social Security Bureau of Gaomi City, (i) no administrative penalties had been imposed on us resulting from violating relevant PRC laws and regulations concerning social insurance; and (ii) the said authority would not pursue social insurance premiums against us, compel us to make supplementary contributions, or impose any penalties on us.

According to the confirmation we obtained from Weifang Municipality Housing Provident Fund Management Center Gaomi City Sub-centre, it will not take administrative action against us for our failure to fully contribute to the housing provident fund during the Track Record Period. Moreover, based on the Enterprise Credit Information Publicity Reports (企業信用信息公示報告) of Jiaoyun Gas and Jiaoyun Shihua we obtained from National Enterprise Credit Information Publicity System, no penalties in relation to the housing provident fund were imposed on us.

Our Directors confirm that Human Resource and Social Security Bureau of Gaomi City and Weifang Municipality Housing Provident Fund Management Center Gaomi City Sub-centre were fully informed of the details of the non-compliances before they provided the above confirmations.

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On 21 September 2018, the Ministry of Human Resources and Social Security of the PRC issued the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilisation the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》), which promotes the reduction in the amount of social insurance contributions by companies to avoid overburdening enterprises, and prohibits local authorities from requiring enterprises to make up for historically underpaid or unpaid social insurance contributions in one go.

Based on the above and as advised by our PRC Legal Advisers, (i) Human Resource and Social Security Bureau of Gaomi City and Weifang Municipality Housing Provident Fund Management Center Gaomi Sub-center are the competent authorities to provide the above confirmations; (ii) unless laws and regulations to the contrary are newly promulgated, the risk that the relevant authorities which have provided aforementioned confirmations will take initiative to recover the historical unpaid social insurance fund from us and impose any administrative penalty on us in respect of the under-contribution of social insurance incurred during Track Record Period is low; and (iii) we had not been subject to material administrative penalties by Weifang Municipality Housing Provident Fund Management Center Gaomi Sub-center during the Track Record Period.

As at the Latest Practicable Date, we have completed the registration of social insurance and housing provident fund. Pursuant to local requirements of Gaomi City, the relevant window for adjusting the applicable bases for calculation of the social insurance and housing provident fund contributions with relevant competent authorities is only available at the end of each year. We undertake that, we will make contributions for the underpaid social insurance and housing provident fund contributions in line with the relevant PRC laws and regulations, in the next earliest window allowed by the relevant competent authorities for adjusting the applicable bases for calculation. If we receive any order from the relevant authorities requiring us to settle the underpaid social insurance or housing provident fund contributions within a time limit, we will fulfil the relevant requirements in a timely manner.

We have also adopted a set of enhanced internal control policies to ensure that we continue to make full contribution payments to the social insurance fund and the housing provident fund in compliance with the applicable PRC laws and regulations. Please refer to “— Risk Management and Internal Control” in this section for further details. Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify our Group against any losses, claims, charges or expenses arising from our potential liabilities in relation to social insurance and housing provident fund contributions.

In view of the above, our Directors are of the view that based on the advice from our PRC Legal Advisers and having made provisions for the underpaid social insurance and housing provident fund, this incident will not have any material adverse effect on the operations or financial conditions of our Group during the Track Record Period and up to the Latest Practicable Date and after [REDACTED].

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OCCUPATIONAL HEALTH AND SAFETY

We are subject to various PRC laws and regulations regarding labour, safety and work related incidents. For more information, please refer to “Regulatory Overview” in this document. We are committed to maintaining a safe working environment and promoting the awareness of occupational health and safety. We place significant emphasis on quality control on our raw materials and services, proper maintenance of our facilities as well as maintenance of operation and gas usage safety. Our engineering, security and quality control department is responsible for the quality control and safety maintenance matters arising from different operation processes. As at the Latest Practicable Date, our engineering, security and quality control department consisted of 44 staff (including technicians and engineers), a majority of whom had over five years of experience in the natural gas industry. Their responsibilities mainly include: (i) keeping track of the relevant regulatory and industry standards regarding safety, maintenance and quality control; (ii) formulating and reviewing our internal safety inspection, facilities maintenance and quality control procedures and standards; (iii) monitoring the implementation of the above procedures and standards in our day to day operation and reporting high-level issues to senior management for instructions; (iv) maintaining detailed records for related matters; and (v) delivering safety training for our employees.

We have established strict quality control standards on various aspects of our raw materials supply, pipeline construction, facilities repairs and maintenance to ensure gas safety and stable supply of natural gas. We have internal procedure manuals and policies to cover the maintenance of our operation facilities. We strictly follow government regulations when adopting our own safety rules and emergency recovery plans, which are imposed on all of our employees. Failure to comply with those regulations may result in penalties, fines and sanctions. For more information, please refer to “Risk Factors — We are subject to various environmental, safety and health regulations in the PRC, compliance with which may be difficult or expensive, and any failure to comply with such regulations may give rise to penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business” in this document. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) we did not have any fatality incident arising from our operations and none of our employees had been involved in any major accident in the course of our operations; (ii) we complied with all applicable national, provincial and municipal health and safety laws and regulations in all material respects; (iii) the relevant PRC authorities had not imposed any sanction, penalty, fines or punishment on our Group for any non-compliance with any health and safety laws or regulations in the PRC; and (iv) our Group was not subject to any claims of material importance for personal injury and/or property damages, and for compensation paid to employees.

We consider that a safe working environment for our employees is important. Hence, we conduct regular inspections and maintenance checks on our equipment to ensure that they meet the relevant national or industrial standards in respect of their design, manufacturing, installation and use in order to ensure the safety of our staff. During the Track Record Period, we have purchased safety liability insurance for our CNG and LNG refuelling stations to cover potential losses and injuries resulting from accidents. We have also engaged a special equipment inspection institution in Shandong Province to conduct regular inspections of our natural gas pipelines as to produce a pipeline inspection report in accordance with the “*Pressure Pipe Safety Technology Supervision Regulation for Industrial Pressure Pipes*” (《壓力管道安全技術監察規程—工業管道》) and “*Periodic Inspection*

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Regulation for Industrial Pressure Piping (《壓力管道定期檢驗規則—工業管道》). Such inspections take place every three years. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our safety-related expenses were approximately RMB3.0 million, RMB2.4 million, RMB0.1 million and RMB0.1 million, respectively.

In view of the outbreak of COVID-19 in the PRC and to ensure continuous business operations of our Group, we have adopted enhanced hygiene and precautionary measures since January 2020 whereby our employees shall take all practicable steps to maintain a hygienic and safe working environment, which include the following measures:

- requiring our employees to report their travel history and the health conditions of themselves and their close family members;
- screening visitors to our offices through temperature check and inquiry on their exposure history;
- regularly cleaning and disinfecting the properties owned and leased by us (including our offices, service counters, and warehouses, etc.) and our operational facilities;
- monitoring symptoms of our employees by checking their body temperatures on a daily basis;
- requiring our employees to wear face masks at all times during work and report to us promptly whenever they feel unwell;
- requiring our front-line workers to wear face masks when they perform onsite works at our customers' premises, and promoting personal hygiene among our employees.

Our Directors believe that the additional costs associated with the enhanced measures have no significant impact on our Group's financial position for the years ended 31 December 2020 and 2021 and the four months ended 30 April 2022, respectively. For more information relating our response towards the COVID-19, please refer to “— Effects of the COVID-19 Outbreak — Our Response Towards the COVID-19 Outbreak” in this section.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Incorporating environmental, social and governance (“**ESG**”) considerations into our Group's daily operation is a crucial factor in enabling us to manage sustainability challenges. Our Board's approach to effective governance is reflected in the commitment across our Group to ensure that we have the right culture and are capable of managing risks in an increasingly complex environment. Our Board is also committed towards lawful, ethical and responsible operation of our business by monitoring and evaluating our corporate culture from time to time.

Our ESG Strategy and Policy

To strengthen our leadership position in public utility industry in Gaomi City and as advised by our ESG consultant, we have developed our ESG Strategy and Policy (the “**ESG Strategy and Policy**”), which sets out our governance structure for handling all ESG and climate-related matters, as well as measures for environmental protection, career development and operating practices.

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Our ESG Committee

According to the ESG Strategy and Policy, our Board has established an ESG Committee (the “**ESG Committee**”) with well-defined duties and responsibilities to oversee our Group’s ESG and climate-related matters. Directed and supervised by our Board, the ESG Committee is mainly responsible for supporting our Board in formulating ESG policy and strategies, monitoring ESG issues, reviewing and evaluating sustainability performance, setting metrics and targets, preparing ESG report and making recommendations to our Board. Each department and office has been assigned a specific duty to implement specific ESG strategies and shall submit reports with respect to the implementation of ESG within its unit to the ESG Committee, which is obligated to assess and evaluate the effectiveness of our ESG Strategy and Policy. Our Board recognises the great importance of stakeholders’ opinion and engagement during the management of environmental, social and climate-related issues, and is willing to involve different stakeholders when dealing with said issues. The ESG committee will examine and manage material environmental, social and climate-related issues by way of collecting opinions from various stakeholders while our Board is obligated to monitor our Group’s environmental, social and climate-related performance and its related impacts towards different stakeholders. The ESG Committee will assist all departments and offices of our Group to explore and develop key performance indicators (“**KPIs**”) and measures in accordance with our Group’s goals and targets, so as to avoid any potential negative impacts brought by the ESG and climate-related risks which may pose threats to our business operation and financial performance. Our ESG Committee comprises two executive Directors and two independent non-executive Directors, namely Mr. Luan Xiaolong, Mr. Luan Linjiang, Mr. Wei Yi and Mr. Tian Qiang. Mr. Luan Xiaolong is the chairman of the ESG Committee. From time to time, the chairman of the ESG Committee may, upon the recommendations of the head of departments, invite employees to attend the ESG meetings so that we can ensure we address all ESG-related concerns from each level of our Group.

Our ESG Committee will closely monitor the latest requirements regarding ESG and climate-related disclosure from the Stock Exchange of Hong Kong, and any applicable recommendations from the Stock Exchange. To ensure our compliance with these requirements, our ESG Committee will recommend updates of our ESG Strategy and Policy to our Board for approval. Our ESG Committee will also prepare the ESG report in accordance with the ESG reporting guide subject to further review of our Board. Our Board will also keep track of the latest market and international trends in relation to ESG and climate-related matters. As advised by our ESG consultant, we believe our ESG Committee is well-structured for the purpose of implementing our ESG Strategy and Policy.

Environmental, Social and Climate-related Matters

We have identified material environmental, social and climate-related issues relevant to our Group’s business operation through various channels, namely (i) analysis from materiality maps such as ESG Industry Materiality Map and SASB Materiality Map provided by well-known external institutions, (ii) judgement from our Group’s management, and (iii) assistance from third-party ESG consultants. It is possible that environmental, social and climate-related issues identified from time to time may give rise to various risks and opportunities to our Group, thereby impacting our Group in various manners.

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Material Issues	Potential Risks, Opportunities and Impacts
GHG Emissions	Inefficient management of GHG emissions sources used in business operations, such as vehicle usage and indirect emission from electricity consumption, may potentially increase operational costs due to the need to upgrade equipment to meet the stringent GHG emissions standards by regulators in the future. Whilst effective GHG emissions management can meet the compliance requirement and potentially boost the brand image of the Group.
Air Emissions	Inefficient car engines and vehicles with high emissions used for the normal course of our business may potentially increase operational costs, primarily attributable to the enhancement of low-emission standards prescribed by the relevant competent regulators (such as environment bureau) going forwards.
Ecological Impacts	The occurrence of major environmental accidents in the supply chain such as gas leakage and fire accidents will seriously pollute and impact the ecosystem. Effective supply chain risk management can minimise negative impacts in respect of environmental protection and protect our reputation.
Health and Safety	Inadequate health care and poor working conditions may lead to loss of productivity and reputation risks among our employees due to work injuries and work-related incidents and fatalities. Dedication to a safe and healthy working environment can minimise the risk of work injuries and maintain high productivity of employees.
Competitive Behaviour	Companies with comprehensive management and practices of anti-competitive and business integrity may be able to avoid risks of corruptive and non-competitive behaviours, potentially lowering chances of regulatory scrutiny and legal actions and protecting the market value of our Group.
Critical Incident Risk Management	Major environmental incidents such as gas leakage and pipeline rupture resulted from the improper operation of fuel and tank suppliers may cause serious damages to the environment, which in turn, gives rise to unnecessary costs in respect of compensation in cases of litigation to our Group.

In addition to the above, we have identified several climate-related risks that may bring about potential impacts to the Group, including physical risks and transitional risks. We believe that there may be higher chance of more severe extreme weather events such as more intense heatwaves and rainfall. These events might result in the increase of our Group’s operating costs, pipeline construction and installation costs. These events might also reduce the operating capacity of the refuelling stations of the Group as a result of extreme weathers. Also, the potential injuries to employees may lower the productivity and damage to properties will increase the insurance premiums.

BUSINESS

During the transformation to a sustainable business, transitional risks related to enhanced emissions-reporting obligations and regulations of sale of business to natural gas end-users may arise. As a result, the compliance costs and capital expenditure on purchasing energy-efficient and gas-burning appliances may increase.

Management of Environmental, Social and Climate-related Risks and Opportunities

We have put in place various measures to mitigate and manage the risks and opportunities from environmental, social and climate-related issues. For instance, in view of climate change and the risk of frequent occurrence of extreme weather conditions like typhoons, we have implemented specific arrangements for typhoon and rainstorm warnings to safeguard the health, safety and well-being of employees, as an attempt to reduce and mitigate the potential impacts from extreme weather conditions, such as unnecessary increases in insurance premiums for employees and properties as well as potential injuries on employees that may negatively impact the productivity.

Also, we make great effort in mitigating the potential risk from GHG emissions. For example, our Group commits to use high energy efficient electrical and electronic appliances and switch off unnecessary lighting in offices to avoid energy wastage. Also, our ESG committee assesses and monitors the electricity consumption on a regular basis. Such practice facilitates our Group to quantitatively monitor on our Group’s adherence to environmental commitments, thereby establishing a brand image in terms of its transparent disclosure of our Group’s performance on ESG-related issues to all stakeholders.

Furthermore, our Group places importance on protecting health and safety of employees as well as their well-being in order to minimise the risks of work injury. Our Group is committed to maintaining a safe working environment and promoting the awareness of occupational health and safety. Our Group places significant emphasis on quality control on raw materials and services, proper maintenance of the facilities as well as maintenance of operation and gas usage safety. The engineering, security and quality control department is responsible for the quality control and safety maintenance matters arising from different operation processes. We have also established a set of strict quality control standards on various aspects of raw materials supply, pipeline construction, facilities repairs and maintenance to ensure safety and stability of sale of natural gas. In addition, we have codified our own internal procedure manuals and policies to cover the maintenance of the gas operation facilities, and strictly follow government regulations when adopting safety rules and emergency recovery plans, which are imposed on all of our employees. Such measures aim to minimise the chance of occupational injuries, illnesses or diseases at work. In case of any emergency situation, the Group is well prepared to respond swiftly to protect the employees. Please also refer to “ — Occupational health and safety” in this section.

In order to minimise the risk of critical incidents such as gas leakage or pipeline rupture, our Group has placed significant effort in its supply chain management. We manage our suppliers through stringent selection criteria of new suppliers and regular environmental and social risk assessment of suppliers. Special consideration will be given to suppliers who have the minimum environmental and social risks and comply with relevant laws and regulations with the purpose of minimising the probability of critical incident.

BUSINESS

Metrics and Targets on Environmental, Social and Climate-related Risks

We are aware of a variety of environmental impact that we may induce during daily operations, therefore we have set environmental targets and formulate policy in achieving targets. The environmental policies are reviewed by senior management and implemented by the responsible department to ensure timely improvement and follow up. We are committed to minimising emissions of air pollutants as far as practicable. We target to reduce our greenhouse gas emission per revenue, energy consumption per revenue and water consumption per revenue by approximately 8%, 20% and 20% respectively by 2025 as compared to that in 2020. We will also continue to properly manage and minimise both hazardous and non-hazardous waste (such as leftover pipes for the construction of mid-pressure pipelines) produced during our operations.

We have taken into account the quantitative information that reflects the our management on environmental and climate-related risks. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, we have incurred ESG-related costs of approximately RMB0.4 million, RMB0.1 million, RMB0.1 million and RMB0.05 million, respectively. The costs were mainly related to our Group’s measures to reduce GHG emissions and resource consumption. These measures include enhancing equipment energy efficiency through periodic maintenance, infrastructure greening, as well as compliance costs associated with ESG and climate-related issues.

Going forward, we will continue to manage the environmental and climate-related matters that are material to the Group and we will strictly implement our ESG Strategy and Policy. The expected expenses for managing ESG issues (including maintaining PNG supply facilities’ efficiency, conducting inspections on relevant devices and equipment and ESG-related compliance fees) are RMB162,000, RMB208,000 and RMB259,000 for the years ended 31 December 2022, 2023 and 2024, respectively.

We have also accounted for its environmental performance, namely greenhouse gas emissions and resource consumption, which also reflects our Group’s management for environmental, social and climate-related risks. Greenhouse gas emissions consists of Scope 1 and Scope 2 emissions. Scope 1 direct emissions include the greenhouse gas emissions from the use of vehicles. Scope 2 energy indirect emissions include the greenhouse gas emissions from usage of purchased electricity. We have taken all our operating locations into consideration for quantitative information calculation.

The table below shows the material air pollutant emissions of our Group during the Track Record Period.

	Year ended 31 December			Four months ended 30 April
	2019	2020	2021	2022
Nitrogen oxides (NOx) (kg)	9.86	10.16	12.42	3.44
Sulphur oxides (SOx) (kg)	0.27	0.28	0.34	0.10
Particulate matter (PM) (kg)	0.73	0.75	0.91	0.25
Carbon monoxide (CO) (tonnes)	1.92	2.06	1.38	0.54

BUSINESS

The table below shows the greenhouse gas emissions of our Group during the Track Record Period.

	For the year ended 31 December			For the four months ended 30 April
	2019	2020	2021	2022
	(tonnes CO ₂ equivalent)	(tonnes CO ₂ equivalent)	(tonnes CO ₂ equivalent)	(tonnes CO ₂ equivalent)
Greenhouse gas emissions	192	173	213	64
Scope 1 direct emissions ⁽¹⁾	44	45	55	16
Scope 2 indirect emissions ⁽²⁾	148	128	158	48
Intensity of greenhouse gas emissions (per million RMB revenue)	0.54	0.50	0.48	0.41

The table below sets out the latest key resource consumption data of our Group during the Track Record Period.

	For the year ended 31 December			For the four months ended 30 April
	2019	2020	2021	2022
	Water consumption (m ³)	2,705	2,408	853
Intensity of water consumption (m ³ /million RMB revenue)	7.64	6.92	1.93	1.76
Energy consumption (MWh)	346	329	402	120
Direct consumption (MWh)	178	184	224	65
Indirect consumption (MWh)	168	145	178	55
Intensity of energy consumption (MWh/million RMB revenue)	0.98	0.94	0.91	0.76

Notes:

- (1) Scope 1 direct emissions include the greenhouse gas emissions from the use of vehicles.
- (2) Scope 2 energy indirect emissions include the greenhouse gas emissions from usage of purchased electricity.

BUSINESS

Air pollutants and greenhouse gas emissions

We continuously seek to reduce our greenhouse gas emission. We endeavour to reduce our energy consumption and integrate energy saving into our operations. For example, we plan to enhance our equipment efficiency for our PNG supply infrastructure and equipment by performing regular inspections to ensure they are operated in optimised condition.

To reduce GHG emissions, we make use of technology such as video conferences or virtual meetings to replace unnecessary business trips. For business trips that cannot be avoided, our Group will choose direct and non-stop flights to the destination to minimise emission from taking multiple flights. We strive to cultivate environmental consciousness among our staff. For instance, they are encouraged to adopt low-carbon lifestyle by taking public transport and using carpooling services.

Resource consumption

Our Group acknowledges the fact that resources are limited and are depleting rapidly, and that it has become an essential matter for corporate to manage resource usage as efficiently as possible. Our Group aims to operate the business with maximum resource efficiency by minimising the water and material consumption throughout the process. The usage of water, electricity and paper are closely monitored to prevent resource wastage and make timely improvement when appropriate. The resource consumption is generally related to our office operation. Our administration department reviews consumption of water, electricity and paper on a monthly basis, with reference to costs of public utility services and office expenses. The administration department is required to give a notice to alert all member of our Group once there is any unreasonable level of resource consumption.

To reduce overall energy consumption, we adopt energy-saving light bulbs are used. We ensured lighting and electronic appliances such as air-conditioners, computers and printers are switched off when standing idle.

We strive to foster conservation culture in our Group through a variety of initiatives and intend to reduce water consumption per revenue. We conduct regular water pipe leak checks and tests to locate problematic parts to avoid potential water wastage. Water pressure is set to the lowest possible level to lower water flow and achieve water conservation purpose. To promote water conservation and prevent unnecessary water consumption, we have put up water saving postages and reminders at our workplace to remind employees to turn off the faucet completely after use.

Solid waste

We target to maintain 100% compliance rate in relation to the waste handling PRC laws and guidelines. We also encourage our staff to perform waste sorting at our workplace across all departments. Our Group has engaged suppliers to collect and reuse materials to reduce waste being disposed. Our Group also encourages employees to reuse envelopes, files and other reusable stationaries, such as refillable pens, reusable toner and cartridge to reduce waste generation at workplace. Hazardous waste is collected and handled by the qualified hazardous waste companies to minimise the environmental impacts and enhance our level of safety.

BUSINESS

Save as disclosed and as advised by our ESG consultant, our Directors have confirmed that we have identified all material environmental and climate-related issues with reference to the analysis from materiality maps provided by well-known external institutions.

During the Track Record Period up to the Latest Practicable Date, saved as disclosed in “— Regulatory Compliance — Other non-compliance incidents” in this section, no material fines or penalties were imposed on us for non-compliance of PRC environmental laws and regulation. We did not encounter any material environmental protection incidents and we had not received any claims for failing to comply with the relevant licencing and environmental requirements in material respects; we did not receive any material claims from our customers or residents in the areas we operate for failing to comply with the relevant environmental requirements. We will continue to strictly implement our environmental protection measures to ensure compliance with the applicable PRC laws and regulations.

Social Matters

Our Group has policies on compensation, dismissal, equal opportunities, diversity and anti-discrimination. Our Group respects the gender, age and ethnicity of each person. Accordingly, our Group gives each job applicant an equal job opportunity and we have an internal policy in place to ensure that there is no discrimination as to gender, age and ethnicity.

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision and target of our Group, identifying the KPIs and the relevant measurements and evaluating, determining and addressing our ESG-related risks in accordance with Appendix 27 to the Listing Rules, together with other applicable recommendations from the Stock Exchange. Our Board will assess, evaluate the ESG risks and review our existing strategy, target and internal controls. If necessary, improvement will be implemented to mitigate the risks that are material to our business operation and Shareholders from time to time. After [REDACTED], we will publish an ESG report annually in accordance with Appendix 27 to the Listing Rules to qualitatively and quantitatively analyse and disclose important ESG matters, risk management and the accomplishment of key performance objectively.

For details relating to occupational health and safety, please refer to “— Occupational Health and Safety” in this section.

PROPERTIES

Owned Properties

As at the Latest Practicable Date, we have obtained the immovable property rights of seven parcels of land with an aggregate site area of approximately 59,568.7 sq.m. in the PRC, which are mainly used for one of our city gateway stations, two of our CNG and LNG refuelling stations, and our peak-shaving LNG station.

BUSINESS

As at the Latest Practicable Date, we have obtained the immovable property rights of six buildings or units, with an aggregate gross floor area of approximately 19,801.3 sq.m. in the PRC.

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. For details, please refer to the Property Valuation Report set out in Appendix III to this document for such properties valued by the Property Valuer (the “**Valued Properties**”). 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.

Land use rights

A summary of our owned land use rights as at the Latest Practicable Date is set out below:

No.	Location	Land User	Usage	Expiry Date	Approximate site area (sq.m.)
1	Southwest to Shi’an Road and Gucheng Road, Gaomi City	Jiaoyun Gas	Public facilities	18 February 2051	1,857
2	No. 3888, Xuxin Road, Xianjia Industrial Park, Gaomi City	Jiaoyun Gas	Public facilities/ office	18 December 2062	6,676
3	Kangcheng Avenue West and south to Shi’an Road, Gaomi City	Jiaoyun Gas	Industrial use	6 April 2027	17,223.6
4	Kangcheng Avenue West and south to Shi’an Road, Gaomi City	Jiaoyun Gas	Industrial use	4 April 2027	17,391.5
5	Chang’an Avenue West and south to Fada Freezer Factory, Gaomi City	Jiaoyun Gas	Industrial use	14 April 2027	10,245.6
6	Suite 2, Block 2, No. 3589, Ze’an Avenue, Xiazhuang Town, Gaomi City	Jiaoyun Shihua	Wholesale and retail/business service	22 January 2058	3,022
7	South to Ze’an Avenue and west to Liuhe Avenue, Gaomi City	Jiaoyun Shihua	Public facilities	6 July 2071	3,153

Land use right certificate for the peak-shaving LNG station

During the Track Record Period, Jiaoyun Shihua occupied a parcel of land collectively owned by farmers of Village Committee* (大屯村村委會) in Gaomi City with a site area of 3,153 sq.m. (the “**Relevant Property**”) on which we had erected a peak-shaving LNG station. Since the head of our relevant department responsible for handling certificates and licenses was not familiar with the relevant laws and regulations, and there was a requirement for us to ensure stable gas supply to residents in our Operating Area by putting the peak-shaving LNG station into operation immediately due to the unexpected surge in gas demand at that time, we did not obtain the land use right certificate within the stipulated time before constructing the peak-shaving LNG station on that land. As stable gas supply was a major issue concerning the government, local residents and enterprises, we were required proceed with the construction without first obtaining the land use right certificate.

BUSINESS

Nevertheless, on 23 October 2019, Municipal Comprehensive Administrative Law Enforcement Bureau of Gaomi City, which is the relevant competent authority to supervise land use activities in Gaomi City, issued an administrative penalty decision, requesting the return of the illegally occupied land, confiscation of the buildings erected thereon and an administrative fine in the amount of RMB92,505. Upon receipt of the administrative penalty decision, Jiaoyun Shihua settled the administrative fine in November 2019 and proceeded to negotiate with the relevant authority for its lawful continued use of the Relevant Property. This was mainly because the operation of our peak-shaving LNG station (which was constructed on the Relevant Property) was for social and public benefit of preventing shortage of gas supply and ensuring continuous supply of natural gas to our customers. Any cessation of operation would greatly affect the people’s livelihood. Hence, Jiaoyun Shihua engaged in continuous efforts and related procedures to properly obtain the land use right certificate for its legal occupation of the Relevant Property. Subsequently, Jiaoyun Shihua obtained the land use right certificate for the Relevant Property on 6 July 2021.

According to the Land Administration Law of the PRC (中華人民共和國土地管理法) (“**Land Administration Law**”) last amended on 26 August 2019 and effective since 1 January 2020, with regard to the use of land without approval, the competent departments for natural resources shall order that the land illegally occupied be returned, or impose administrative penalties including confiscating or demolishing the buildings and other facilities on the land occupied.

We obtained a written confirmation from Municipal Comprehensive Administrative Law Enforcement Bureau of Gaomi City, confirming that (i) Jiaoyun Shihua’s historical illegal occupation of the Relevant Property was attributed to the compelling need of the newly-constructed peak-shaving LNG station’s immediate operation to prevent shortage of gas supply; and (ii) Jiaoyun Shihua would not be penalised in any administrative means except for the RMB92,505 administrative fine which was already settled pursuant to the penalty decision in November 2019. As advised by our PRC Legal Advisers, the Municipal Comprehensive Administrative Law Enforcement Bureau of Gaomi City is the law enforcement authority which imposed the aforementioned penalty on us, thus being the competent authority to provide the confirmation. Our Directors confirm that Municipal Comprehensive Administrative Law Enforcement Bureau of Gaomi City was fully informed of the details of Jiaoyun Shihua’s historical illegal occupation of the Relevant Property before it provided the above written confirmation. Since Jiaoyun Shihua (a) subsequently acquired the land use right certificate for the Relevant Property; and (b) obtained the relevant confirmation from Municipal Comprehensive Administrative Law Enforcement Bureau of Gaomi City, the risk of us being imposed additional fines by the Municipal Comprehensive Administrative Law Enforcement Bureau of Gaomi City is remote. Based on the above, our Directors believe that our Group will not receive any additional administrative penalties for our previous occupation of the Relevant Property.

To prevent similar incidents from happening in the future, we have implemented a set of internal control policies to ensure compliance with the relevant laws and regulations in the future. For details, please refer to “— Risk Management and Internal Control” in this section.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify our Group against all losses, claims, charges or expenses arising from our historical failure to obtain the relevant certificates. On the basis of the above, our Directors do not expect the aforementioned issue to have any material adverse effect on our operations and financial conditions.

BUSINESS

Owned buildings

A summary of our owned buildings as at the Latest Practicable Date is set out below:

No.	Location	Land User	Usage	Approximate gross floor area <i>(sq.m.)</i>
1	No. 2268, West Shi'an Road, Mishui Street, Gaomi City	Jiaoyun Gas	Commercial use	7,682.6
2	#1 Yard, No. 2268, West Shi'an Road, Mishui Street, Gaomi City	Jiaoyun Gas	Commercial use	2,201.1
3	#2 Yard, No. 2268, West Shi'an Road, Mishui Street, Gaomi City	Jiaoyun Gas	Commercial use	8,496
4	Block 1 &2, No. 2366, South Gucheng Road, Mishui Street, Gaomi City	Jiaoyun Gas	Commercial use and others	872.62
5	Suite 2, Block 2, No. 3589, Ze'an Avenue, Xiazhuang Town, Gaomi City	Jiaoyun Shihua	Wholesale and retail/business service	295.84
6	No. 3888, Xuxin Road, Xianjia Industrial Park, Gaomi City	Jiaoyun Gas	Public facilities/office	253.15

Owned pipeline networks

As at the Latest Practicable Date, we owned pipeline networks with a total length of approximately 685.2 km in Gaomi City, Shandong Province, which comprised our urban pipeline network in our Operating Area under the Concession. As advised by the PRC Legal Advisers, we have the right to use our own pipeline networks according to the Concession Measures and the Concession Agreement. For details of the financial treatment of all the supply of natural gas related assets in use or under construction, please refer to “— Concession Operation — Key Terms of Concession Agreement” in this section.

Leased Properties

As at the Latest Practicable Date, we leased three properties, with an aggregate gross floor area of approximately 16,855 sq.m. in the PRC. These leased properties are primarily for CNG and LNG refuelling station, warehouse and office use. Our tenancy agreements typically have an initial term of three years. Our Directors confirm that we did not encounter any material obstacles when renewing our tenancy agreements during the Track Record Period. The contents of the tenancy agreements do not violate the mandatory provisions of laws and administrative regulations.

BUSINESS

A summary of our leased properties as at the Latest Practicable Date is set out below:

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate gross floor area (sq.m.)
1	South to Liqun Avenue and west to Xiaoxin River, Chaoyang Street, Gaomi City	Mr. Luan Linjiang	Jiaoyun Gas	1 January 2021 to 31 December 2023	CNG and LNG refuelling station	8,845
2	South to Liqun Avenue and west to Xiaoxin River, Chaoyang Street, Gaomi City	Mr. Luan Linjiang	Jiaoyun Gas	1 January 2021 to 31 December 2023	Warehouse	2,160
3	No. 2568, West Shi'an Road, Mishui Street, Gaomi City	Jiaoyun Car Transport	Jiaoyun Gas	1 January 2021 to 31 December 2023	Office	5,850

Please also refer to “Relationship with Our Controlling Shareholders — Transactions Entered Into Before [REDACTED] Which Would Otherwise Constitute Connected Transactions — Tenancy Agreements” in this document.

Land use right of the leased properties

The two leased properties located at south to Liqun Avenue and west to Xiaoxin River, Chaoyang Street, Gaomi City are situated on a parcel of land (the “**Relevant Land**”) owned by Chaoyang Street Gejiazhuang Rural Collective* (朝陽街道葛家莊村集體) (the “**Gejiazhuang Rural Collective**”) (an Independent Third Party). The Land Administrative Law of the PRC and the relevant regulations at the time when the leases were executed only stipulated that the land use right of collective land could be granted or transferred to a third party, but did not explicitly stipulate who could authorise the land use right of collective land on behalf of the rural collective. Hence, it was uncertain whether the lease of the Relevant Land to Jiaoyun Gas by Mr. Luan Linjiang was approved as required by the Land Administrative Law of the PRC. Mr. Luan Linjiang was granted the land use right for Jiaoyun Gas to conduct its industrial activities in July 2006 upon the approval of Gaomi City People’s Government. Subsequent to the grant, Mr. Luan Linjiang obtained a land use certificate of the Relevant Land in September 2006.

We have obtained confirmations from the Gaomi City Chaoyang Street Gejiazhuang Community Residents Committee* (高密市朝陽街道葛家莊社區居民委員會) and the Natural Resources and Planning Bureau of Gaomi City (the competent authority), confirming that (i) they would not require the land use right of the Relevant Land to be returned and will not require Gaomi Jiaoyun Natural Gas Co., Ltd. The First Gas Station* (高密市交運天然氣有限公司第一加氣站) and Jiaoyun Shihua City Gateway Station to be relocated; and (ii) Natural Resources and Planning Bureau of Gaomi City would not impose any administrative penalties on us. As advised by our PRC Legal Advisers, based on the aforementioned confirmations, it is unlikely that the Natural Resources and Planning Bureau of Gaomi City would request Gaomi Jiaoyun Natural Gas Co., Ltd. The First Gas Station* (高密市交運天然氣有限公司第一加氣站) and Sinopec City Gateway Station to be relocated, and/or impose any administrative penalties on us.

BUSINESS

Our Directors confirm that, as at the Latest Practicable Date, we have not received any demand or order from relevant government authorities (i) requiring us to relocate Gaomi Jiaoyun Natural Gas Co., Ltd. The First Gas Station* (高密市交運天然氣有限公司第一加氣站) and Jiaoyun Shihua City Gateway Station; or (ii) imposing any administrative penalties on Jiaoyun Gas. Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us for all penalties or any costs, expenses and losses in relation to the above-mentioned matter. Based on the above, our Directors are of the view that it will not have a material adverse effect on the business operation of our Group.

Non-registration of tenancy agreements

As at the Latest Practicable Date, the tenancy agreements we entered into with our landlords for the three leased properties set out above had not been registered with the relevant local housing administrative authorities, as we were not able to register the non-residential tenancy contracts according to the prevalent local administrative procedures. According to the *Civil Code of the People's Republic of China* (《中華人民共和國民法典》), our PRC Legal Advisers have advised that absence of registration will not affect the validity of the tenancy agreements. However, relevant local governments may require us to rectify the non-registration within a certain period of time. If we fail to make rectifications within the specified time, we may face a fine of up to RMB10,000 for each unregistered lease agreement.

Based on the above, our Directors are of the view that it is unlikely that our business operations would be materially and adversely affected by the non-registration of our tenancy agreements, considering that (i) during the Track Record Period, no administrative penalty has been imposed by the relevant housing administrative authorities for non-registration of tenancy agreements; (ii) in the event that we are notified by the relevant competent authority to rectify such non-registration of tenancy agreements, we would follow the requisite procedures immediately; and (iii) the maximum amount of potential penalties, should it be levied, would merely account for a minimal portion of our total revenue during the Track Record Period. Furthermore, pursuant to the Deed of Indemnity, our Controlling Shareholders will indemnify our Group against any claims, fines and other liabilities from such non-registration of tenancy agreements.

REGULATORY COMPLIANCE

License, Permits and Certificates

We are subject to laws, regulations and supervision by different levels of regulatory authorities and are required to maintain various licenses, permits and certificates in order to operate our projects and conduct our business. A summary of such relevant PRC laws and regulations which our business operations are subject to is set out in “Regulatory Overview” in this document. As at the Latest Practicable Date, we had obtained all requisite licenses, permits, certificates material to our business operations in the PRC and such licenses, permits and certificates are valid and remain in effect.

BUSINESS

The following table sets out details of our licenses, permits and certificates material to our operations.

No.	Date of First Award	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity (Note 1)
1	30 September 2005	Gas Operation Licence (PNG and natural gas vehicle refuelling station) (燃氣經營許可證 (管道天然氣、燃氣汽車加氣站))	Lu* (魯) 201207090008GJ	Gaomi City Administrative Approval Service Bureau (高密市行政審批服務局)	Jiaoyun Gas	29 October 2021	28 October 2024
2	29 August 2017	Gas Burners and Gas-burning Appliances Installation and Repair Enterprise Qualification (gas burners and gas-burning appliances installation and repair) (燃氣燃燒器具安裝維修企業資質 (燃氣燃燒器具安裝維修))	Weiranju* (濰燃具) 201709010	Weifang Municipality Urban Administration Bureau (濰坊市城市管理局)	Jiaoyun Gas	29 August 2017	28 August 2022 ^(Note 2)
3	2 November 2010	Gas (Supply Station) Operation Licence (CNG refuelling station) (燃氣(供應站)經營許可證 (壓縮天然氣加氣站))	Weirangong* (濰燃供) 201009001C	Gaomi City Administrative Approval Service Bureau (高密市行政審批服務局)	Gaomi Jiaoyun Natural Gas Co., Ltd The First Gas Station* (高密市交運天然氣有限公司第一加氣站)	8 April 2022	7 April 2025

Note: 1. The relevant PRC laws and regulations currently in effect do not specify when an application for renewal can be made prior to the expiry of the licenses and permits listed. Our internal legal manager reviews the renewal procedures and notifications regularly to ensure that our Group is in full compliance with the relevant regulations. Generally, we file applications for renewal of the licenses and permits one month prior to the relevant expiry dates.

2. Jiaoyun Gas has, prior to the expiry date, submitted the application for renewing the license, and is in the process of renewing the license with Weifang Municipality Urban Administration Bureau (濰坊市城市管理局). According to an interview with the officer of Weifang Municipality Urban Administration Bureau, it was confirmed that, (i) the Regulations on Installation and Repair of Gas Burners and Gas-burning Appliances (燃氣燃燒器具安裝維修管理規定) has been abolished since 6 September 2019, pursuant to which any renewal application for the “Gas Burners and Gas-burning Appliances Installation and Repair Enterprise Qualification” licence (“**Installation Licence**”) issued prior to then has been temporarily suspended until further notice; (ii) our continued operation of gas-burning appliances installation and repair services despite the expiry of such Installation Licence did not constitute non-compliance of relevant PRC laws and regulations, and it would not impose penalties and/or fines on us or take legal actions against us in this regard; and (iii) the relevant government authorities are in the process of formulating new regulations governing the renewal or application of such Installation Licence, therefore the approval process for the Installation Licence is expected to resume in due course, and it is expected that Jiaoyun Gas would be able to renew its Installation Licence by around December 2022, and upon the new regulations becoming effective. Our PRC Legal Advisers confirmed that the officer interviewed was competent and authorised to provide the aforementioned confirmation.

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No.	Date of First Award	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity (Note 1)
4	25 January 2014	Gas Operation Licence (natural gas vehicle refuelling station (CNG/LNG)) (燃氣經營許可證(燃氣汽車加氣站(CNG/LNG)))	Lu* (魯) 201407090101J	Gaomi City Administrative Approval Service Bureau (高密市行政審批服務局)	Jiaoyun Shihua	8 April 2022	7 April 2025
5	23 November 2018	Gas (Supply Station) Operation Licence (CNG refuelling station/LNG refuelling station) (燃氣(供應站)經營許可證(壓縮天然氣加氣站/液化天然氣加氣站))	Weirangong* (濰燃供) 201809001CL	Gaomi City Administrative Approval Service Bureau (高密市行政審批服務局)	Gaomi Jiaoyun Shihua Natural Gas Co., Ltd Longtan Road Gas Station* (高密市交運實華天然氣有限公司龍潭路加氣站)	29 December 2021	28 December 2024
6	26 March 2014	Gas (Supply Station) Operation Licence (CNG refuelling station) (燃氣(供應站)經營許可證(壓縮天然氣加氣站))	Weirangong* (濰燃供) 201609001C	Gaomi City Administrative Approval Service Bureau (高密市行政審批服務局)	Gaomi Jiaoyun Shihu Natural Gas Co., Ltd The Second Gas Station* (高密市交運實華天然氣第二加氣站)	8 April 2022	7 April 2025
7	16 October 2012	Filing Licence of Cylinder (氣瓶充裝許可證)	TS4237ZD9-2025	Shandong Provincial Market Supervision Bureau (山東省市場監督管理局)	Jiaoyun Shihua	10 March 2021	9 March 2025
8	29 January 2019	Filling License for Transportable Pressure Vessel (移動式壓力容器充裝許可證)	TS937D01-2023	Shandong Provincial Market Supervision Bureau (山東省市場監督管理局)	Jiaoyun Shihua	29 January 2019	28 January 2023

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Non-compliance incidents

Non-compliant bill financing

For the years ended 31 December 2018 and 2019 and the period from 1 January 2020 to 17 June 2020 (the “**Issuance Period**”), Jiaoyun Gas entered into arrangements with eight commercial banks in Shandong Province (the “**Issuing Banks**”) to issue bank acceptance notes (the “**Relevant Bills**”) with a term of three, six or twelve months to the following three entities. Some of the Relevant Bills were issued in 2018, prior to the Track Record Period, and were only repaid in 2019. The total face value of the Relevant Bills issued was as follows:

Face value (RMB million)	For the year ended		
	2018	2019	2020
Yuanhua Trading (connected supplier)	370.1	440.8	205.6
Jiaoyun Shihua (our subsidiary)	66.7	—	3.6
Changyi Mei’ao (independent third party customer and supplier)	40.0	—	—
Total	476.8	440.8	209.2

As at 31 December 2019 and 2020 and 30 June 2021, the balance of the Relevant Bills was approximately RMB400.8 million, RMB146.8 million and nil, respectively. As at 17 June 2021, all of the Relevant Bills had been repaid.

During the Issuance Period, the issuance of a certain portion of the face value of the Relevant Bills with Yuanhua Trading were supported by actual underlying transactions, but as to the remaining portion, there was no actual underlying transaction between Jiaoyun Gas and each of Yuanhua Trading, Changyi Mei’ao and Jiaoyun Shihua as the basis for issuance of the Relevant Bills (the “**Non-compliant Bill Financing Arrangements**”). As advised by our PRC Legal Advisers, the Non-compliant Bill Financing Arrangements did not comply with the relevant provisions of: (i) the PRC Negotiable Instruments Law (《中華人民共和國票據法》) (the “**PRC Negotiable Instruments Law**”); (ii) the Measures for the Implementation of the Administration of Negotiable Instruments (《票據管理實施辦法》); (iii) the Measures for the Payment and Settlement (《支付結算辦法》) (the “**Measures for the Payment and Settlement**”); (iv) the Notice of the People’s Bank of China on Certain Improvements of the Negotiable Instruments Systems (《中國人民銀行關於完善票據業務制度有關問題的通知》); and (v) the Notice of the People’s Bank of China and the China Banking Regulatory Commission on Strengthening the Administration of Negotiable Instrument Business and Promoting the Sound Development of Negotiable Instrument Market (《中國人民銀行、中國銀行業監督管理委員會關於加強票據業務監管促進票據市場健康發展的通知》).

Reasons for the Non-compliant Bill Financing Arrangements

Our Group did not intend to principally use the Non-compliant Bill Financing Arrangements to finance our principal operations. Instead, during the year ended 31 December 2019 and the six months ended 30 June 2020 (the “**Relevant Period**”), a considerable amount of cash generated from the Non-compliant Bill Financing Arrangements was directly transferred or subsequently advanced to

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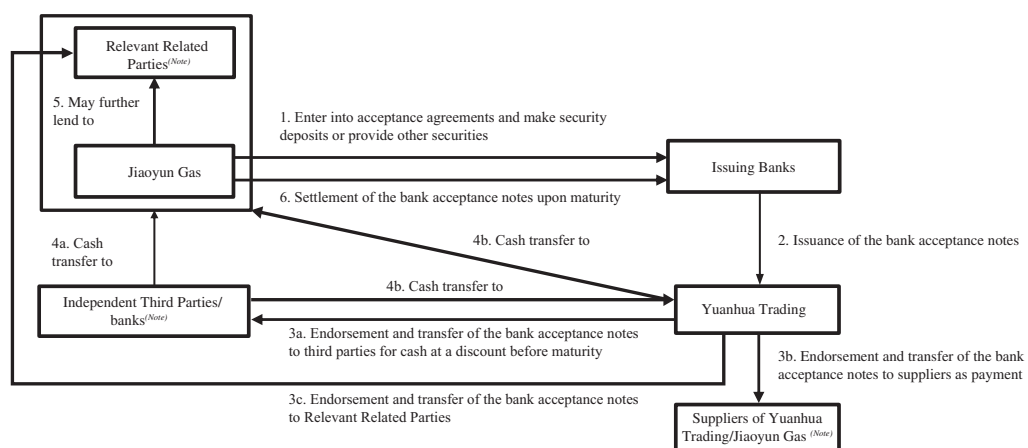
companies within the Private Group (the “**Relevant Related Parties**”) for their daily operations. We involved in the Non-compliant Bill Financing Arrangements mainly because of our stronger credibility and relationship with the Issuing Banks, and our more stable financial position, compared to the Relevant Related Parties and the overall Private Group as a whole.

Under the Non-compliant Bill Financing Arrangements, we agreed with the Issuing Banks to issue bank acceptance notes to Yuanhua Trading. Being our connected person, the interests of Yuanhua Trading align with our provision of financial assistance to the Relevant Related Parties for the benefit of the Private Group as a whole. Additionally, we entered into a one-time arrangement with an Issuing Bank to issue bank acceptance notes to Changyi Mei’ao, an Independent Third Party which was our supplier and customer at that time.

Our Directors confirm that at the time of entering into the Non-compliant Bill Financing Arrangements, they were unaware that such arrangements were incompliant with the relevant PRC laws and regulations, nor were they or the relevant person handling this matter advised by any professionals at that time. We inadvertently handled such arrangements in a non-compliant manner, as poorly advised by a former financing manager of the Private Group responsible for overseeing financing matters for Jiaoyun Gas at the time (“**Former Responsible Person**”). This Former Responsible Person was responsible for arranging the issuance of the Relevant Bills, liaising with the Issuing Banks and handling subsequent advances to Relevant Related Parties from proceeds obtained from the Relevant Bills. Upon becoming aware of the non-compliant nature of such arrangements, we promptly ceased to conduct all of the Non-compliant Bill Financing Arrangements by 17 June 2020 and had fully settled all corresponding bank acceptance notes by 17 June 2021. Except for the Non-compliant Bill Financing Arrangements, we were not involved in any similar bill financing arrangements during the Track Record Period. Our Directors confirm that they did not receive any rebate or benefits in connection with the Non-compliant Bill Financing Arrangements during the Track Record Period.

Non-compliant Bill Financing Arrangements involving Yuanhua Trading

The diagram below summarises the roles of Jiaoyun Gas and other parties involved in the Non-compliant Bill Financing Arrangements involving Yuanhua Trading.



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Note: Pursuant to the terms and conditions of the bank acceptance notes and the relevant PRC laws and regulations, the bearers of the bank acceptance notes can (i) present those notes for payment to the Issuing Banks upon maturity; or (ii) endorse and transfer those notes to anyone for cash at a discounted rate before maturity.

- Steps 1 to 2: Jiaoyun Gas would enter into acceptance agreements with the Issuing Banks for the issuance of bank acceptance notes to Yuanhua Trading. Jiaoyun Gas was required to pledge certain security deposits with, or provide certain other securities such as guarantees to, the Issuing Banks in the amounts ranging between 50% and 100% of the face value of the bank acceptance notes to be issued.
- Step 3: Yuanhua Trading endorsed and transferred those notes to: (a) Independent Third Parties or third party banks (including the Issuing Banks), for cash at a discounted rate; (b) its suppliers or suppliers of Jiaoyun Gas as payment; or (c) the Relevant Related Parties.
- Steps 4 to 5: the cash collected after discount from third parties was fully transferred (a) directly, or (b) via Yuanhua Trading, to Jiaoyun Gas or the Relevant Related Parties on an interest-free basis to fund their business operations; or (ii) incidentally funding its own business operations.
- Step 6: upon maturity of the relevant bank acceptance notes, Jiaoyun Gas would repay the face value of the bank acceptance notes to the Issuing Banks. During the Issuance Period, we did not default in our repayment of any such notes.

Non-compliant Bill Financing Arrangements involving Jiaoyun Shihua and Changyi Mei’ao

During the Relevant Period, Jiaoyun Gas also entered into acceptance agreements with two and one Issuing Banks for the issuance of bank acceptance notes to (a) Jiaoyun Shihua; and (b) Changyi Mei’ao respectively. The terms of the acceptance agreements were similar to those of the acceptance agreements that we entered into for the issuance of bank acceptance notes to Yuanhua Trading. After such issuance of bank acceptance notes to us, Jiaoyun Shihua or Changyi Mei’ao would endorse and transfer the bank acceptance notes to Independent Third Parties for cash at a discounted rate before maturity. Cash collected after discount from the Independent Third Parties or banks was either (i) advanced to the Relevant Related Parties on an interest-free basis; or (ii) incidentally used for our business operations. Upon maturity of the relevant bank acceptance notes, Jiaoyun Gas would repay the face value of the bank acceptance notes to the Issuing Banks in its accounts maintained with the Issuing Banks. During the Issuance Period, we did not default in our repayment of any bank acceptance notes issued to Jiaoyun Shihua or Changyi Mei’ao.

Confirmations from the relevant competent PRC government authorities

CBIRC Supervision Sub-office in Weifang has provided a written confirmation that regarding the financing arrangements of Jiaoyun Gas and Jiaoyun Shihua, it was unaware of any administrative penalty in connection with the Non-compliant Bill Financing Arrangements imposed on Jiaoyun Gas and Jiaoyun Shihua within its sphere of accountability, from 1 January 2018 up to 4 July 2022.

We conducted an interview with the Section Chief of CBIRC Supervision Sub-office in Weifang, who is responsible for the supervision of bank and insurance activities in Gaomi City on behalf of CBIRC Supervision Team in Gaomi, hence, our PRC Legal Advisers have confirmed that the officer interviewed was competent and authorised to provide the below confirmation. Such officer confirmed on behalf of CBIRC Supervision Sub-office in Weifang and CBIRC Supervision Team in Gaomi that

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(a) they did not consider there to be any actual malice of Jiaoyun Gas, fraudulent activities or forgery of documents involved in the Non-compliant Bill Financing Arrangements; and (b) the Non-compliant Bill Financing Arrangements did not constitute material non-compliance with the relevant laws and regulations. Therefore, they have not initiated, and will not initiate, any legal action against our Group, our Directors or the senior management of Jiaoyun Gas in connection with the Non-compliant Bill Financing Arrangements.

Furthermore, CBIRC Supervision Office of Shandong Province has provided a written confirmation that, according to the *Provisions on the Regulatory Duties of the Local Offices of the China Banking and Insurance Regulatory Commission (Order No. 9 [2021] of the China Banking and Insurance Regulatory Commission)* (《中國銀行保險監督管理委員會派出機構監管職責規定》(銀保監會令[2021]9號)), the CBIRC Supervision Sub-office in Weifang is the competent authority for regulating the banking and insurance industry in Weifang Municipality. The CBIRC Supervision Sub-office in Weifang is entitled to independently exercise supervisory and regulatory powers within its jurisdiction according to relevant laws and regulations, as jointly authorised by CBIRC and the CBIRC Supervision Office of Shandong Province. Accordingly, our PRC Legal Advisers confirm that the CBIRC Supervision Sub-office in Weifang and the CBIRC Supervision Team in Gaomi are competent and appropriately authorised to give the aforementioned confirmations in relation to the Non-compliant Bill Financing Arrangements. Hence, the risk of such confirmations being challenged by the CBIRC Supervision Office of Shandong Province is low.

On 10 March 2003, the First Session of the Tenth National People's Congress approved the Plan for Restructuring the State Council, pursuant to which the State Council established the China Banking Regulatory Commission (the predecessor of CBIRC). Since such restructuring of the State Council in 2003, the PBOC was designated with main functions of formulating and implementing monetary policies and performing macro-control functions over the financial industry, while the function of supervision and administration over the financial industry, such as regulating the loan arrangements, has been transferred to the CBIRC. It was confirmed at an interview with the Vice-President of the PBOC of Gaomi that the PBOC does not have the regulatory authority in respect of bill financing arrangements. The PBOC of Gaomi also confirmed in writing that there is no evidence or record that Jiaoyun Gas, Jiaoyun Shihua, their shareholders, directors and senior management have been subject to any administrative penalty, litigation, dispute or potential dispute. According to our PRC Legal Advisers, the officer interviewed at the PBOC of Gaomi was competent and appropriately authorised to provide the above confirmation given his role as Vice President of the PBOC of Gaomi, in charge of the overall work of the PBOC of Gaomi.

Furthermore, the PBOC of Jinan (the PBOC branch that exercises the supervisory and regulatory powers within Shandong Province) has provided a written confirmation that, during the Track Record Period, the PBOC of Jinan has not imposed any administrative penalty on Jiaoyun Gas and Jiaoyun Shihua. Such confirmation given by the PBOC of Jinan is considered a reaffirmation of the aforementioned confirmation given by the PBOC of Gaomi. Our PRC Legal Advisers has confirmed that both PBOC of Gaomi and PBOC of Jinan are competent and appropriately authorised to give confirmations.

Our Directors confirm that the abovementioned authorities were fully informed of the details of the Non-compliant Bill Financing Arrangements before it provided the above confirmations.

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Confirmations from the Issuing Banks

Regarding the Non-compliant Bill Financing Arrangements, the Issuing Banks confirmed that (a) all the relevant bank acceptance notes have been fully settled; (b) they have not suffered any losses because of the Non-compliant Bill Financing Arrangements; (c) no fraudulent activities or forgery of documents were involved; (d) there were no existing or potential disputes between the Issuing Banks and us; (e) the Non-compliant Bill Financing Arrangements would not directly or indirectly affect our loans, credits, credit ratings in the Issuing Banks or any other relevant policies or treatments applicable to it; and (f) the Issuing Banks have not initiated, and will not initiate, any administrative investigation or legal action against Jiaoyun Gas, the Relevant Related Parties, our Directors or the senior management in connection with the Non-compliant Bill Financing Arrangements. Such confirmations from the Issuing Banks were at the Weifang Municipality or Gaomi City branch level, and have been given by those banks' branch manager, deputy branch manager, assistant branch manager, principal of finance department, head of customer services, or the key person in charge for the arrangement of such Non-compliant Bill Financing Arrangements. As advised by our PRC Legal Advisers, the Issuing Banks are competent to give such confirmations as the direct entities that issued the Relevant Bills; and the corresponding bank representatives who gave such confirmations have the appropriate authority on behalf of their respective Issuing Banks.

Views of our PRC Legal Advisers

Our PRC Legal Advisers have advised that the Non-compliant Bill Financing Arrangements did not constitute dishonest activities such as fraud with negotiable instruments for the purpose of illegal possession under the PRC Negotiable Instruments Law and Article 194 of the PRC Criminal Law (《中華人民共和國刑法》) (the “**PRC Criminal Law**”), and the risk of any administrative penalty or criminal liability for the Non-compliant Bill Financing Arrangements being imposed on our Group is low. Their advice was made on the basis that:

- (a) our Group, Directors and senior management have confirmed, in good faith, that the Non-compliant Bill Financing Arrangements did not involve any fraudulent or dishonest activities with negotiable instruments for the purpose of illegal possession;
- (b) the CBIRC Supervision Sub-office in Weifang and CBIRC Supervision Team in Gaomi are the competent authorities and have confirmed that (i) Non-compliant Bill Financing Arrangements did not constitute material non-compliances with the relevant laws and regulations, and they did not and will not initiate any legal action against us in connection with the Non-compliant Bill Financing Arrangements; (ii) the Non-compliant Bill Financing Arrangements did not constitute fraudulent activities, and Jiaoyun Gas, our Directors or the senior management of Jiaoyun Gas would not be subject to any administrative or criminal liabilities. The CBIRC Supervision Office of Shandong Province has confirmed and recognised that the CBIRC Supervision Sub-office in Weifang has appropriate authority to give confirmations in connection with bill financing activities of enterprises in Gaomi City. Further, the PBOC of Gaomi has confirmed, and the PBOC of Jinan, a senior level supervisory body of PBOC in Shandong Province, has reaffirmed, that no administrative penalty was given to Jiaoyun Gas and Jiaoyun Shihua during the Track Record Period;

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- (c) we have ceased all Non-compliant Bill Financing Arrangements since 17 June 2020 and fully settled all bank acceptance notes since 17 June 2021. No administrative penalties have been imposed on our Group or our relevant personnel as at the Latest Practicable Date;
- (d) there is no specific provision in the PRC Negotiable Instruments Law or the Measures for the Payment and Settlement prescribing definitive administrative penalties in respect of the Non-compliant Bill Financing Arrangements. Pursuant to PRC Administrative Penalties Law (《中華人民共和國行政處罰法》), provisions on administrative penalties imposed for unlawful acts shall be published, the unpublished ones are not effective as the basis for an administrative penalty; and
- (e) as set out above, the Issuing Banks have confirmed that (i) all the relevant bank acceptance notes have been fully settled; (ii) no fraudulent activities or forgery of documents were involved in the Non-compliant Bill Financing Arrangements; and (iii) Jiaoyun Gas, our Directors or the senior management of Jiaoyun Gas would not be subject to any legal claims from the relevant Issuing Banks.

Remedial measures

We have ceased all Non-compliant Bill Financing Arrangements since 17 June 2020 and fully settled all corresponding bank acceptance notes by 17 June 2021. Pursuant to the Deed of Indemnity, our Controlling Shareholders undertook to fully indemnify us against, amongst others, all of our liabilities in relation to the Non-compliant Bill Financing Arrangements. As advised by an internal control consultant, we implemented a specific set of internal control policies to ensure future compliance. For details, please refer to “— Enhanced internal control measures” in this section below.

Effect on our financial position

For illustrative purposes, the below table sets out some financial data relating to the Non-compliant Bill Financing Arrangements during the periods set out below.

	For the year ended/as at 31 December		For the six months ended/ as at 30 June
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Face value of bank acceptance notes under the Non-compliant Bill Financing Arrangements	440,760	209,230	—
Balance of bank acceptance notes under the Non-compliant Bill Financing Arrangements as at the end of the year/period	400,760	146,800	—

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Under the Non-compliant Bill Financing Arrangements, the bill discounting cost, being the difference between (i) the face value of the bank acceptance notes (which we were required to repay upon maturity); and (ii) the cash collected after discount from third parties pursuant to the endorsement and transfer of bank acceptance notes to them, was fully borne by the Relevant Related Parties. During the Relevant Period, the interest income we received from our pledged security deposits with the Issuing Banks was minimal. Given the above, our Directors consider that the Non-compliant Bill Financing Arrangements have no material negative impact on our liquidity during the Track Record Period.

Funds derived from the Non-compliant Bill Financing Arrangements were primarily used to satisfy ad hoc short-term needs of the Relevant Related Parties. Our Group’s operating activities did not rely on the Non-compliant Bill Financing Arrangements materially during the Relevant Period. The Non-compliant Bill Financing Arrangements had no material operational impact on our Group during the Track Record Period.

As at the Latest Practicable Date, we have not experienced any difficulty in obtaining new loans or banking facilities from banks or terminations of existing bank loans and banking facilities as a result of our involvement in the Non-compliant Bill Financing Arrangements. As such, our Directors consider that our position would not be adversely affected materially without the Non-complaint Bill Financing Arrangements. There has been no material adverse change on our working capital sufficiency and liquidity after the cessation of the Non-compliant Bill Financing Arrangements.

Deviation from Intended Use of Loan Proceeds

From 1 January 2019 to 17 December 2020 (the “**Relevant Loan Period**”), we obtained a series of loan facilities from eight banks (the “**Lending Banks**”) to facilitate Jiaoyun Gas’ procurement of raw materials, which were secured by, amongst others, personal guarantees by Mr. Luan Xiaolong and Mr. Luan Linjiang, corporate cross-guarantees by other related companies controlled by Mr. Luan Xiaolong and/or Mr. Luan Linjiang, third party financial guarantees, and pledges by Jiaoyun Gas. The proceeds from such loans were not used in accordance with their designated use under the terms of the relevant loan agreements (the “**Relevant Bank Loans**”). For the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, the outstanding loan amount under such Relevant Bank Loans amounted to approximately RMB152 million, RMB81 million and nil, amounting to 68.1%, 100.0% and 0% of the total bank loans for the same periods, respectively. We fully settled these Relevant Bank Loans by 29 June 2021.

Some of the Relevant Bank Loans contained an entrusted payment (受託支付) arrangement under their respective loan agreements, pursuant to which the drawdown proceeds from the Relevant Bank Loans shall be paid directly by the Lending Banks to the designated recipient for the purpose of settling the sums payable by Jiaoyun Gas according to the stipulated use of loan (the “**Loans with Entrusted Payment Arrangement**”). Details of such designated recipient were to be provided in the drawdown request. The underlying supply contracts for such Loans with Entrusted Payment Arrangement were entered into between Jiaoyun Gas and: (i) Yuanhua Trading, our connected person and supplier during the Track Record Period; (ii) Gaomi City Dalong Trading Co., Ltd.* (高密市達隆貿易有限公司), our related party; (iii) Jiaoyun Shihua, our subsidiary; and (iv) Changyi Mei’ao, an Independent Third Party that was our supplier and customer in 2018.

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The loan drawdown proceeds were first transferred to Jiaoyun Gas before being transferred onwards to the designated recipients, instead of being transferred directly from the Lending Banks to the designated recipients. The Lending Banks we interviewed have each indicated that it was not concerned with practice and considered it to be in line with the bank’s policies and industry practice.

Proceeds obtained from the Deviation were applied to assist several of our related parties on an interest-free basis instead of using the proceeds according to the stipulated use of loan under the relevant loan agreements. For details, please refer to Note 32(g) of Appendix I to this document.

In preparing for the [REDACTED], we were advised by our PRC Legal Advisers that the Deviation was not in strict compliance with relevant PRC regulations: (a) Article 19(iii) of the Lending General Provisions (《貸款通則》) promulgated by the People’s Bank of China (“PBOC”) in 1996 (the “**Lending General Provisions**”), which states that “obligations of a borrower are to: use a loan for the purposes as agreed in the loan contract”; (b) Article 9 of the Interim Measures for the Administration of Working Capital Loans (《流動資金貸款管理暫行辦法》), which states that “the lender and the borrower shall clearly stipulate the legal uses of the loan; and working capital loans may not be used for other purposes. The lender shall check and oversee the uses of working capital loans according to the loan contract”; and (c) Article 73 of Lending General Provisions, which states that “In the case of lending activities conduct between enterprises without authorization, the PBOC may impose a fine on the lending party in an amount equal to one to five times of the illegal income generated from the lending activity, and concurrently invalidate such lending activity”.

Upon becoming aware of such non-compliance, Jiaoyun Gas ceased all Deviation since 18 December 2020, and fully settled all outstanding principal amounts of the Relevant Loans by 29 June 2021. No penalty has been imposed on us up to the Latest Practicable Date.

Reasons for the Deviation

Rather than financing the principal operations of our Group, loan proceeds from the Relevant Bank Loans were transferred or subsequently advanced to certain of our related parties for their daily operations. It was arranged inadvertently due to our lack of familiarity with the relevant regulatory requirements which restrict private lending. We did not seek advice from, nor were we advised by, any professionals at that time. We inadvertently handled such arrangements in a non-compliant manner, as poorly advised by the same Former Responsible Person. Upon becoming aware of the non-compliant nature of such arrangements, our Directors promptly procured us to cease any further drawdown of any Relevant Bank Loans for this purpose from 18 December 2020. We subsequently fully repaid and settled all outstanding principal amounts under the Relevant Bank Loans by 29 June 2021.

Our Directors confirm that, except for the Deviation, we were not involved in any similar loan arrangements for the remainder of the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that they did not receive any rebate or benefits in connection with the Deviation.

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Confirmations from the relevant competent PRC government authorities

In its written confirmation, CBIRC Supervision Sub-office in Weifang stated that it was unaware of any administrative penalty in connection with the Relevant Bank Loans imposed on Jiaoyun Gas and Jiaoyun Shihua within its sphere of accountability from 1 January 2018 up to 4 July 2022.

Based on an interview with the Section Chief of CBIRC Supervision Sub-office in Weifang, the competent person who had the appropriate authority to provide the confirmation on behalf of CBIRC Supervision Sub-office in Weifang and CBIRC Supervision Team in Gaomi, (a) the Deviation did not constitute financial fraud, illegal financing or material non-compliance with the relevant laws and regulations; (b) the Deviation did not render Jiaoyun Gas, its shareholders, directors and senior management involved in any fraudulent, dishonest act or violation of criminal laws and regulations that will lead to criminal penalties, or constitute a violation of laws or material non-compliance of them; (c) the loan contracts relating to the Deviation will not be considered invalid; (d) no record of administrative penalties has been found against Jiaoyun Gas, Jiaoyun Shihua, any of its shareholders, directors and senior management; and (e) no administrative investigations, administrative penalties (including but not limited to levy of any loan interest or imposition of any penalty) or legal action will be initiated against Jiaoyun Gas, Jiaoyun Shihua and any of their relevant personnel in connection with the Deviation.

Based on the written confirmation issued by the CBIRC Supervision Office of Shandong Province, our PRC Legal Advisers confirm that the CBIRC Supervision Sub-office in Weifang and the CBIRC Supervision Team in Gaomi are the competent governing authorities and have the appropriate authority to give the aforementioned confirmations in relation to the Relevant Bank Loans, and hence the risk of such aforementioned confirmations being challenged by the CBIRC Supervision Office of Shandong Province is low.

The PBOC of Gaomi and the PBOC of Jinan (which is the branch of PBOC that exercises the supervisory and regulatory powers within Shandong Province) have provided written confirmations which state that the conclusions which apply to the Non-compliant Bill Financing Arrangements also apply to the Deviation.

Our Directors confirm that the abovementioned authorities were fully informed of the details of the Deviation before it provided the above confirmations.

Confirmations from the Lending Banks

Each of the Lending Banks has confirmed that: (a) it was not aware of any arrangement that constitutes a change of purpose or use of loan proceeds for the Relevant Bank Loans; (b) it did not consider such arrangements to be material non-compliance or fraudulent acts for the purpose of obtaining bank loans; (c) it would not claim any liability for breach of contract, levy default interest, initiate any legal action or impose other penalties against Jiaoyun Gas in connection with the Deviation; and (d) the Deviation did not affect its assessment of the creditworthiness of Jiaoyun Gas, its directors or senior management. Such confirmations from the Lending Banks were at the Weifang Municipality or Gaomi City branch level, and have been given by those banks' relationship manager for Jiaoyun Gas or the key person in charge for the arrangement of such Relevant Bank Loans. As

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advised by our PRC Legal Advisers, the Lending Banks are the competent entities to give such confirmations, as they were the direct entities that entered into the relevant loan agreements and arranged for the Relevant Bank Loans; and the corresponding bank representatives who gave such confirmations have the appropriate authority to do so on behalf of their respective Lending Banks.

Views of our PRC Legal Advisers

Our PRC Legal Advisers have advised that the Deviation did not involve dishonest activities such as fraud to obtain loans from the Lending Banks under Article 82 of the Commercial Bank Law (《商業銀行法》) and Article 175 of the PRC Criminal Law, we did not obtain any illegal benefits from such arrangements, and the risk of any administrative penalty or criminal liabilities for the Deviation (which would be regarded as fraudulent activities for the purpose of obtaining bank loans) being imposed on us is low; and the Deviation did not constitute material non-compliance. Their advice was made on the basis that:

- (a) our Group, Directors and senior management have confirmed, in good faith, that the relevant advances made to our related parties under the Deviation did not involve any fraud, dishonesty or illegality to obtain the Relevant Bank Loans and did not bring any illegal benefits to our Group;
- (b) we have ceased all Deviation from Intended Use of Loan Proceeds since 18 December 2020, the we have fully repaid and settled all outstanding amounts under the Relevant Bank Loans by 29 June 2021;
- (c) no administrative penalties have been imposed on us or relevant personnel up to the Latest Practicable Date;
- (d) the CBIRC Supervision Sub-office in Weifang and CBIRC Supervision Team in Gaomi are the competent authorities and have confirmed that (i) the Deviation did not constitute material non-compliances with the relevant laws and regulations, and they did not and will not initiate any legal action against us in connection with the Deviation; and (ii) the Deviation did not involve fraud or any illegal intent to obtain loans from the Lending Banks, and Jiaoyun Gas and its relevant personnel would not be subject to any administrative or criminal liabilities. The CBIRC Supervision Office of Shandong Province has confirmed that the CBIRC Supervision Sub-office in Weifang has the appropriate authority to give the aforementioned confirmations in connection with loan activities of enterprises in Gaomi City. Further, the PBOC of Gaomi has confirmed, and the PBOC of Jinan, a senior level supervisory body of PBOC in Shandong Province, in its capacity, has reaffirmed, that no administrative penalty was given to Jiaoyun Gas and Jiaoyun Shihua during the Track Record Period; and
- (e) on the basis of the confirmation from the Lending Banks of the matters stated above, our Company, Directors or the senior management would not be subject to any legal claims from the relevant Lending Banks.

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In addition, on the basis that (i) the Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Laws in the Hearing of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) stipulates that, in the case of a private lending contract concluded between legal persons and unincorporated associations for the purpose of production or business operation, if the party claims the validity of the private lending contract, the People’s Court shall uphold such claim, and (ii) the Deviation of Jiaoyun Gas was for daily operation of certain related parties of our Group and did not bring any illegal benefits to our Group, our PRC Legal Advisers have advised that, the risk of Jiaoyun Gas being imposed any fine, ranging from one time to five times of illegal income, pursuant to the Lending General Provisions for the abovementioned advances, is low.

Effect on our financial position

The Deviation were not principally used to finance the principal operations of our Group. Our Group’s natural gas business generates sufficient cash flow from operations, which we utilise to fulfil our financial needs. Our Directors confirmed that, during the year ended 31 December 2019 and the six months ended 30 June 2020, our Group’s operating activities did not rely on the Relevant Bank Loans in any material respect and the funds obtained could have been sourced elsewhere. Moreover, our Group has demonstrated its ability to raise funding from commercial banks, trust companies and asset management companies by providing self-owned properties as security without any credit support from the Private Group. Based on the foregoing, our Directors confirm that our Group’s financial position would not be adversely affected in any material respect without such Relevant Bank Loans, and our Directors consider that the Deviation have not had, and are not reasonably likely to have in the future, a material adverse impact on our business and operations. Taking into account the reasons for, nature and extent of the Deviation as set out in this section, the Directors consider, and the Sole Sponsor does not have any reservation that suggests otherwise, that it was an immaterial non-compliance incident. As such, the Deviation are not expected to have any material adverse legal impact on our Group.

Remedial measures

We ceased all Deviation since 18 December 2020 and fully settled all outstanding principal amounts with the Lending Banks under the Relevant Bank Loans by 29 June 2021. As at 30 June 2021, all relevant related party advances were fully settled by our related parties to our Group. We and our Directors have further undertaken that our Group will not continue or engage in any new bank loan transfer arrangements and lending activity for related parties.

Furthermore, upon our Directors becoming aware of the non-compliant nature of the Deviation, the Former Responsible Person became no longer responsible for overseeing financing matters for our Group.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to fully indemnify us against, among other things, all of our liabilities in relation to the Deviation. We have been advised by an internal control consultant and implemented a specific set of internal control policies to ensure future compliance.

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Enhanced internal control measures for the Non-compliant Arrangements

As at the Latest Practicable Date, we have already fully implemented the following enhanced internal control measures to ensure strict compliance in the future with the relevant laws and regulations with respect to bill financing and use of loan proceeds:

- we have appointed an internal legal specialist who will be responsible for monitoring legal and regulatory compliance and the control environment of our Group;
- we have formulated and implemented detailed internal control policies, procedures and guidelines in relation to issuance, acceptance, endorsement, transfer and settlement of bank acceptance notes, and approving, reporting and monitoring bill financing arrangements;
- application for issuance of and/or payment by bank acceptance notes shall be submitted to the finance department with proof of actual underlying transactions to be reviewed by our financial controller and general manager, and approved by the chairman of our Board;
- we have formulated and implemented detailed internal control policies, procedures and guidelines in relation to approving, reporting and monitoring our loans or credit facilities, loan drawdowns, use of loan proceeds and advances to related parties, as well as issuance, acceptance, endorsement, transfer and settlement of bank acceptance notes;
- where there arises a need to obtain financing, our financing manager shall prepare a proposal setting out details including the amount required, use of funds obtained, financing method, parties and risks involved, repayment plan, and regulatory requirements. Such financing proposal, as well as any subsequent loan drawdown request, together with proof of actual underlying transaction or intended use of loan proceeds, shall be submitted for approval by our financial controller, general manager, chief executive officer and the chairman of our Board. The finance department will ensure that the terms of the signed loan agreement will be the same as that in the approved financing proposal, and the loan agreement shall be signed by the chairman of our Board or his authorised representative;
- our finance department has been instructed to ensure that there is no bill financing arrangement without actual underlying transactions and track the status of bill financing arrangement and bill endorsement to confirm the bank acceptance notes are not used for providing financing assistance to any third party or related party;
- our finance department shall keep and verify the authenticity and legality of all bank acceptance notes, corresponding supplier contracts and invoices, and keep record of details of such notes and transactions in our internal register;
- exchange of bank acceptance notes for cash shall be subject to review by our financial controller and approval by our general manager;

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- our finance department has been instructed to ensure that all loan proceeds will be used according to the specified use under the relevant loan agreement, and that they are not used for providing financing assistance to any third party or related party. Our finance department shall maintain a control list covering the specified use of proceeds under each loan agreement. All use of loan proceeds will be monitored by a dedicated audit personnel who will keep track of all payments to ensure they are made in accordance with the specified use stated in the loan agreements;
- our finance department shall keep all loan agreements, drawdown requests, corresponding underlying supplier contracts and invoices, loan repayment records, and record of important details of such loans and transactions in our internal register. Any repayment of the loan principal amount and interest shall be recorded and double-checked by the financing manager;
- our PRC Legal Advisers have conducted trainings to our Directors and senior management in relation to, among other things, relevant rules under bill financing, Lending General Provisions and loan financing matters;
- we have established (i) an audit committee consisting of all of our independent non-executive Directors to review and supervise our financial reporting progress and internal control system, including, amongst other things, loan financing matters, and (ii) a risk management committee to review, assess and make recommendations on various risks and compliance;
- we will seek external legal advisers’ views if they have uncertainties in respect of the legality of certain transactions involving bill financing, the use of loan proceeds and potential non-compliances in relation to loan financing; and
- we will engage external legal advisers to provide legal trainings to our Directors and senior management on a regular basis in order to keep pace with the latest legal developments concerning bill financing, loan financing matters and other dealings with banks.

Our internal control consultant performed an initial review on our internal control system in October 2020 and identified certain deficiencies about the internal control measures in relation to the loan financing arrangements. Since then, we have fully implemented the remedial measures as suggested by the internal control consultant. Our internal control consultant completed a follow-up review on the above internal control measures in July 2021, and did not see the need to make further recommendation on our internal control measures relating to bill financing arrangements and loan financing matters.

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To further ensure that implementation of the our internal control measures, we engaged another internal control adviser, SHINEWING Risk Services Limited (“**Shinewing Risk**”), to review the effectiveness of our enhanced internal control measures regarding the Non-compliant Bill Financing Arrangements and the Deviation to cover the period from July 2021 to December 2021. Based on its review of our internal control system, particularly with regards to the Non-compliant Bill Financing Arrangements and the Deviation, Shinewing Risk did not find any major defect in our Group’s current internal control system, and have no further recommendation as to internal control measures for addressing the Non-compliant Bill Financing Arrangements and the Deviation. Shinewing Risk is of the view that our Group will be able to reasonably, adequately and effectively prevent the occurrence of future Non-compliant Bill Financing Arrangements and the Deviation if we continue the implementation of its enhanced internal control measures.

Taking into account the enhanced internal control measures implemented by us in relation to the Deviation, and the reviews of such enhanced measures conducted by our internal control consultant as well as the review that will be conducted by Shinewing Risk, our Directors are of the view that we have taken reasonable steps to establish internal control systems and procedures to enhance the control environment at both working and monitoring levels. Should the control system and procedures be consistently upheld, the enhanced internal control measures should be adequate and effective in preventing future non-compliance by us with legal and regulatory requirements in connection with the use of bill financing and loan proceeds.

Impact of Non-compliant Arrangements on our operations and financial position

The following table sets out the potential financial impact owing to the Non-compliant Bill Financing Arrangements and Deviation (together, the “**Non-compliant Arrangements**”) to our Group’s income statement for the years indicated.

	For the year ended 31 December		
	2019	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Non-compliant Bill Financing Arrangements			
Interest income from pledge of security deposits received			
by our Group	3,129	2,477	274
Handling fees paid to Issuing Banks paid by our Group	(220)	(105)	—
Deviation			
Interest expenses from bank borrowings borne by our			
Group	(10,139)	(11,408)	(2,787)

The majority of the funds obtained from the Non-compliant Arrangements was used by our related parties: RMB826.1 million was used by our related parties and only RMB1.3 million was incidentally used for our operations. Considering the above, our Directors are of the view that the Non-compliant Arrangements should not and indeed did not have any material adverse impact on our

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Group’s operation and financial position during the Track Record Period. Operationally, on a prepayment basis, we had a strong cash flow generated from our ordinary business operations during the relevant periods. The Non-compliant Arrangements did not therefore have any material operational impact on our Group during the Track Record Period. Financially, during the relevant periods, the interest income from our pledged security deposits with the Issuing Banks in respect of the Non-compliant Bill Financing Arrangements was immaterial, amounting to approximately RMB5.9 million in aggregate. Such interest income was partially set off by the handling fees which we paid to the Issuing Banks which amounted to approximately RMB0.3 million in aggregate. The net amount, together with the interest expenses from bank borrowings arising from the Deviation of approximately RMB24.3 million in aggregate during the Track Record Period which were fully borne by us, resulted in a deduction from our operating profit during the Track Record Period. Therefore, the exclusion of such expenses would yield in a positive impact on our Group’s profit before tax and therefore financial position.

Our net current liabilities position as at 31 December 2021, 30 April 2022 and 31 August 2022 did not arise as a result of the Non-compliant Arrangements during the relevant periods. For details, please refer to “Financial Information — Discussion of Certain Items of Consolidated Balance Sheets — Current Assets and Current Liabilities” in this document. Nevertheless, in order to improve its net current liability position, we have secured a credit facility from a commercial bank in the amount of RMB200.0 million. We will be able to utilise such credit facility, together with the cash generated from its operations, for its future expansion plan and any general working capital needs.

Suitability for listing and Directors’ suitability

Considering the reasons set out above and actions taken by us, our Directors consider, and the Sole Sponsor has not made any observation that suggests otherwise, that the Non-compliant Arrangements do not affect our suitability for listing under Rule 8.04 of the Listing Rules. Further, given that there was no fraud, bribery or other illegal activities involved, the Non-compliant Arrangements do not constitute integrity non-compliances which impugn the Directors’ character and integrity, and do not affect our Directors’ suitability to act as directors of a listed issuer required under Rules 3.08 and 3.09 of the Listing Rules. In particular:

- (a) the Former Responsible Person in charge of arranging or liaising for the Non-compliant Arrangements was not aware that the Non-compliant Arrangements constituted non-compliance of any PRC laws or regulations, as such person was not adequately advised by any professionals, nor did he/she seek advice from any professionals on bill financing and loan financing at that time. The Former Responsible Person confirmed that the non-compliance was not intentional nor entered into as a result of dishonesty, recklessness or negligence on the part of him/her. He/she is no longer in charge of any financing matters of our Group as at the Latest Practicable Date;
- (b) immediately after becoming aware of the non-compliance, we sought advice from professional advisers and have since taken steps to implement the enhanced internal control measures and have ceased all Non-compliant Arrangements as set out above. We will continue to implement and act according to the enhanced internal control measures;

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- (c) we have ceased all Non-compliant Bill Financing Arrangements and fully settled all bank acceptance notes. We have been operating in compliance with the PRC Negotiable Instruments Law for more than 12 months as at the Latest Practicable Date. We have also ceased all Deviation and fully repaid and settled all Relevant Bank Loans;
- (d) our Directors confirmed that the Non-compliant Arrangements did not constitute or involve any element of fraud, as supported by the opinion of our PRC Legal Advisers that such Non-compliant Arrangements did not constitute dishonest activities such as fraud with negotiable instruments for the purpose of illegal possession under the PRC Negotiable Instruments Law and Article 194 of the PRC Criminal Law, and that the risk of any legal liability or administrative penalty to be imposed on us for the Non-compliant Arrangements is low;
- (e) the funds obtained from the Non-compliant Arrangements were used primarily to satisfy the funding needs of our related parties, which were part of the Private Group as our Group originally was prior to the reorganisation conducted for the purpose of the [REDACTED]. Our operating activities did not rely on the Non-compliant Arrangements in any material respect during the corresponding periods. Our Directors are not aware that such Non-compliant Arrangements benefited us in any material way, or contributed to our profit;
- (f) as supported by confirmations received from the competent government authorities and Issuing Banks, the Non-compliant Bill Financing Arrangements did not constitute fraudulent or dishonest activities with negotiable instrument for the purpose of illegal possession prescribed under article 194 of the PRC Negotiable Instruments Law and the PRC Criminal Law. Also, as supported by confirmations received from the competent government authorities and Lending Banks, the Deviation did not involve fraud or dishonest acts that would constitute fraudulent or dishonest activities;
- (g) we have obtained confirmations from the competent government authorities, the Issuing Banks and Lending Banks that no legal action or administrative penalty will be taken or imposed against it as mentioned above;
- (h) as supported by the confirmations from the relevant government authorities, the Issuing Banks and Lending Banks, the Non-compliant Arrangements did not reveal any fraudulent or illegal act or behaviour on the part of our Directors;
- (i) our Directors confirm that neither they nor any of their associates received any rebate in connection with the Non-compliant Arrangements during the Track Record Period;
- (j) our Group’s operations and financial position would not be adversely affected and our business and financial performance could be sustained without such Non-compliant Arrangements;
- (k) our Group would still be able to meet the profit requirements under Rule 8.05(1)(a) of the Listing Rules even after excluding the impact of the Non-compliant Arrangements;

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- (l) our Controlling Shareholders and Directors have undertaken to procure our Group not to engage in or permit the engagement in the Non-compliant Arrangements in the future; and
- (m) our Controlling Shareholders have undertaken to fully indemnify us from all liabilities that may arise in the future in relation to the Non-compliant Arrangements.

Sole Sponsor’s views

Based on the Sole Sponsor’s due diligence works and finding, as well as taking into account (i) the enhanced internal control measures implemented by our Group in relation to the Non-compliant Arrangements; (ii) the reviews of such enhanced measures conducted by our internal control consultant; and (iii) the review conducted by Shinewing Risk, the Sole Sponsor is of the view that the Group has taken reasonable steps to establish internal control systems and procedures to enhance the control environment at both working and monitoring levels. Should the control system and procedures be continuously upheld, the enhanced internal control measures should be adequate and effective in preventing future non-compliance by our Group with legal and regulatory requirements in connection with bill financing and use of loan proceeds.

On the basis of the above, the Sole Sponsor is of the view that the Non-compliant Arrangements do not affect our Company’s suitability for listing under Rule 8.04 of the Listing Rules. Further, given that there was no fraud, dishonesty, bribery or other illegal activities involved, the Non-compliant Arrangements do not constitute integrity non-compliances which impact the Directors’ character and integrity, and do not affect the Directors’ suitability to act as directors of a listed issuer required under Rules 3.08 and 3.09 of the Listing Rules.

Absence of any public selection prior to the grant of our Concession

We did not acquire our Concession through public selection methods as required under the Concession Measures. According to the Concession Measures, government authorities are usually required to select investors or operators of municipal public utilities projects through public selection methods such as public tendering, and enter into concession agreements to grant concession rights with the selected investors or operators.

The government of Weifang Municipality promulgated Measures for the Administration of the Concession of Municipal Public Utilities of Weifang Municipality (《潍坊市市政公用事业特许经营管理辦法》) on 14 June 2004, which was applicable to the implementation, supervision and management of the concession of municipal public utilities within Weifang Municipality, given that as advised by our PRC Legal Advisers, Legislation Law of the PRC (《中華人民共和國立法法》) stipulates that the people’s government of a districted city may promulgate rules in accordance with laws and administrative regulations with respect to specific administrative matters of the administrative region on urban and rural development and administration. Whether a public selection method is appropriate for a certain city or municipality depends on a range of factors, including the number of existing market participants, competence of each market participant and other specific local circumstances. Local governments, subject to local rules and regulations, are entitled to select a qualified public utility operator based on the aforementioned factors without going through public selection methods. Therefore, the absence of any public selection method before entering into a concession agreement is not uncommon in the PRC. In particular, prior to 2013, it was generally

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considered to be an industry norm for government authorities to enter into concession agreements with non-state-owned public utilities operators without going through public selection. The absence of public selection methods will not necessarily affect the business operation of these non-state-owned public utilities operators.

Reasons for the absence of the public selection

According to the confirmation issued by Gaomi City Housing and Urban-Rural Development Bureau, the relevant government authority did not require our Group to go through such a process considering the local circumstances and demographics of Gaomi City at that time (given the relatively small size and population, and low urbanisation rate of Gaomi City). There are two main reasons why Gaomi City Bureau of Municipal Affairs Administration did not and could not adopt a competitive process prior to granting the Concession to our Group in August 2009. Firstly, according to the aforementioned confirmation and to the best knowledge of the Directors and as advised by CIC, Jiaoyun Gas was effectively the only operator with a gas operation licence which could have satisfied and qualified under the concession requirements in Gaomi City between September 2005 and August 2009. Secondly, Jiaoyun Gas was effectively the sole PNG distributor in Gaomi City at the time, the Liquan Avenue Gate PNG gasification station (which was the only city gateway station for Gaomi City at the time) and other PNG distribution facilities in Gaomi City constructed by Jiaoyun Gas were already in operation. It was also confirmed in the aforementioned confirmation that Jiaoyun Gas was at the time considered the sole natural gas operator in Gaomi City by the government. Gaomi City Bureau of Municipal Affairs Administration needed to ensure smooth continuation of provision of natural gas to Gaomi City. At that time, there was a general policy to expedite the development of Gaomi City's PNG distribution network. PNG distribution was considered to increasingly become a key energy source to the public of Gaomi City. A continuous steady and reliable supply of and distribution of PNG distribution was considered to be increasingly critical to the overall benefit of the people of Gaomi City, and the economic growth of the city. Should the government decide to grant the Concession to any other entity to replace Jiaoyun Gas as the sole PNG distributor in Gaomi City, this could give rise to significant additional cost, and possibly disrupt Gaomi City's natural gas distribution. Gaomi City Housing and Urban-Rural Development Bureau took charge of the functions (including gas management and concession) of Gaomi City Bureau of Municipal Affairs Administration since the institutional reform of Gaomi City People's Government in 2011 and is the relevant competent authority to issue the confirmation.

Legal consequences

As advised by our PRC Legal Advisers, the Concession Measures provide no penalty for acquisition of concession rights without adopting competitive methods. And according to *the Administrative Procedures Law of the PRC* (《中華人民共和國行政訴訟法》), third parties may only initiate any administrative review or legal proceedings within five years after signing of the Concession Agreement, and any such instigation of legal proceedings will not be accepted by the court thereafter. The time has now elapsed. Each of Gaomi City Housing and Urban-Rural Development Bureau and the Group has confirmed that it is not aware of any claims, challenges or legal proceedings instigated against it by third parties (including potential competitors) in respect of the Concession up to the Latest Practicable Date.

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Confirmations from relevant PRC government authorities

According to written confirmations issued by Gaomi City Housing and Urban-Rural Development Bureau, and our interview with the Section Chief (科長) of Public Utilities Department (公共事業科), which is responsible for the management and supervision of public utilities including gas supply in Gaomi City, of Gaomi City Housing and Urban-Rural Development Bureau, (i) we were not requested to go through any public selection method before we were granted the Concession and, instead, we were selected as a capable natural gas operator and authorised to invest, construct and operate PNG facilities in Gaomi City by the Gaomi City People's Government; (ii) Gaomi City Bureau of Municipal Affairs Administration was unable to organise the public selection procedure as Jiaoyun Gas was the only operator with a gas operation licence which would qualify under the concession requirements in Gaomi City at that time, and there was no conduct of fraud, deceit or bribery in the grant of the Concession to Jiaoyun Gas; (iii) Jiaoyun Gas did not violate the Concession Measures subjectively or deliberately; (iv) the actual implementation of the Concession Measures did not immediately take effect in Gaomi City following its promulgation; (v) for the aforementioned matters, the fact that Jiaoyun Gas did not go through any public selection method does not affect the validity and enforceability of its Concession Agreement, nor will it affect its chance of renewing the Concession; (vi) the Concession Agreement is valid and legally binding on the parties thereto and will not be reduced or even withdrawn before the expiration of the concession term due to it not being granted through a public selection method; (vii) it has not and will not conduct any administrative investigation or impose any administrative penalty on Jiaoyun Gas and it is not aware of any claims, challenges or legal proceedings instigated against it or Jiaoyun Gas by third parties (including potential competitors) in respect of the Concession; and (viii) as Gaomi City Housing and Urban-Rural Development Bureau is the relevant competent authority to govern natural gas operations in Gaomi City and supervise Jiaoyun Gas, all confirmations in relation to our Concession Agreement are not subject to revocation or challenge by Weifang Municipality Administration Bureau. Our Directors confirm that Gaomi City Housing and Urban-Rural Development Bureau was fully informed of the details of the non-compliance of the grant of our Concession before it provided the above written confirmations.

According to a written confirmation issued by Weifang Municipality Administration Bureau, which is a higher level authority of Gaomi City Housing and Urban-Rural Development Bureau in terms of municipal public utilities such as water and gas supply, (i) Gaomi City Housing and Urban-Rural Development Bureau has the authority to grant gas concession rights and sign concession agreements independently and the bureau only plays a guidance role to Gaomi City Housing and Urban-Rural Development Bureau; (ii) Gaomi City Housing and Urban-Rural Development Bureau has the authority to confirm the legality and validity of the Concession Agreement and the concession rights on its own; (iii) Gaomi City Housing and Urban-Rural Development Bureau is in charge of the relevant legal proceedings in relation to concession rights, hence, no other third party is entitled to initiate any lawsuits and claims on our Concession rights; and (iv) the bureau will not revoke or withdraw the Concession Agreement and Concession right.

According to a written confirmation issued by Shandong Province Housing and Urban-Rural Development Department, it was confirmed that (i) according to the Concession Measures, the municipal public utilities authorities of municipalities directly under the central government, municipalities, and counties would, upon the authorization of the people's governments be responsible for the specific implementation of the concession of municipal public utilities within their

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own administrative regions; (ii) the Concession matters of Jiaoyun Gas would be subject to the confirmations issued by relevant authorities of Gaomi City and Weifang Municipality, and (iii) in the view that the Concession matters do not fall within its jurisdiction, it would not revoke the Concession. Our Directors confirm that the Shandong Province Housing and Urban-Rural Development Department is fully informed of the details of the non-compliance of the grant of our Concession before it provided such written confirmation.

Views of our PRC Legal Advisers

Based on the above, our PRC Legal Advisers have confirmed that (i) Gaomi City Housing and Urban-Rural Development Bureau and Weifang Municipality Administration Bureau are the relevant competent authorities to give the aforementioned confirmations and the relevant officer interviewed is competent to provide relevant confirmations; (ii) Shandong Province Housing and Urban-Rural Development Department is the provincial-level authority in Shandong Province and has the authority to issue the abovementioned written confirmation; and (iii) according to the abovementioned written confirmations issued by Weifang Municipality Administration Bureau and Shandong Province Housing and Urban-Rural Development Department, they will not revoke or withdraw the Concession Agreement and Concession right.

Views of our Directors

Considering the circumstances at the time leading to the grant of our Concession without going through a public selection process, our Directors consider that Jiaoyun Gas did not intentionally avoid going through any public selection process which was not available at that time. Furthermore, it was not the responsibility of Jiaoyun Gas (nor could it have taken any further steps at the time even if it wanted to) to ensure such process was carried out. Any such public selection process has to be initiated and conducted by the Gaomi City Bureau of Municipal Affairs Administration, which at the material time did not do so, nor did it consider it necessary prior to the grant of our Concession. Based on the confirmations given by the relevant competent government authorities abovementioned, our Directors are of the view that Jiaoyun Gas did not deliberately violate the Concession Measures nor obtain the Concession with any fraud, deceit or bribery, and that the absence of any public selection prior to the grant of our Concession does not affect its validity.

Enhanced internal control measures

We have adopted various internal control measures to prevent the recurrence of similar situations in relation to the Concession. Such measures include (i) arranging for a training conducted by our PRC Legal Advisers with regard to laws and regulations relating to concessions, especially on the Concession Measures; (ii) establishing an internal approval procedure for obtaining concessions in the future; (iii) appointing a PRC legal adviser to advise us on relevant PRC laws and regulations after Listing; and (iv) establishing a policy to monitor the ongoing compliance of our concession operations. Our internal control consultant reviewed such internal control measures, and did not see the need to make further recommendation.

Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that the above enhanced internal control measures, if persistently implemented by our Group, are adequate and effective to prevent the reoccurrence of similar incidents going forward.

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Sole Sponsor’s views

Based on (i) the written confirmations obtained from Gaomi City Housing and Urban-Rural Development Bureau (being the competent authority to grant Jiaoyun Gas the Concession right) confirming the Jiaoyun Gas’ compliance status with the relevant PRC laws and regulations in all material respects relating to the Concession right, and that there that was no of fraud, deceit or bribery; (ii) the written confirmation obtained from Shandong Province Housing and Urban-Rural Development Department confirming the roles and responsibilities and their respective administrative power according to the Concession Measures, and that it would not revoke the Company’s Concession; (iii) discussions with and written confirmations from the relevant Controlling Shareholder and key management personnel involved in the process of obtaining the Concession, confirming that there was no fraud, deceit or bribery in the process of obtaining the Concession; (iv) independent searches based on applicable public information carried out in relation to the background of and litigation and claims against our Group, its Controlling Shareholders, Directors and senior management showing that they are not subject to any litigation or investigation in relation to any fraud or deceit relating to the grant of the Concession right; and (v) discussions with the Sole Sponsor’s PRC legal advisers in respect of the aforementioned factors and circumstances, nothing has come into the attention of the Sole Sponsor to consider or indicate that there was any fraud, deceit or bribery in relation to the grant of the Concession to Jiaoyun Gas.

Taking into account (i) the written confirmations obtained from Gaomi City Housing and Urban-Rural Development Bureau, being the competent authority to grant Jiaoyun Gas the Concession Right, which confirmed (a) that the lack of public selection was in light of the actual situation in Gaomi City at that time, which will not affect the validity of the Concession, (b) no retrospective action will be taken, or administrative penalties imposed against Jiaoyun Gas in respect of the Concession, (c) from the date of granting the Concession to date of the confirmation, there was no circumstance leading to the cancellation or revocation of the Concession Right or any administrative penalties, and (d) Jiaoyun Gas as the existing concession grantee will be given priority in renewing the Concession upon expiry; (ii) the confirmation from Weifang Municipality Administrative Bureau, which is a higher level authority of Gaomi City directly in charge of municipal public utilities such as water and gas supply in Weifang Municipality, (a) regarding the competence of Gaomi City Housing and Urban-Rural Development Bureau in granting the Concession Right to Jiaoyun Gas, and (b) confirming that it will not conduct any administrative investigations or lawsuits and claims on, nor will it revoke or withdraw the Concession Agreement and Concession Right; (iii) the Sole Sponsor’s discussion with our PRC Legal Advisers in respect of (a) the potential legal implication of the of public selection based on the aforesaid confirmations obtained and the Administrative Procedures Law of the PRC, and (b) the preferential right given to Jiaoyun Gas for renewal of its Concession upon expiry; and (iv) precedents of several other listed natural gas companies in the PRC having been directly granted concession rights by local government authorities as natural gas operators in the absence of any public selection process, and CIC’s confirmation that historically, the direct selection of natural gas operators by the relevant government authorities was not unusual in the natural gas industry in the PRC, the Sole Sponsor is not aware of any factor or circumstance or reason to believe that the lack of public selection would materially affect Jiaoyun Gas’ renewal of the Concession.

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Other non-compliance incidents

Save for the incidents set out below, our Directors are not aware of any non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.

Event(s) of non-compliance	Relevant Laws and regulations, legal consequences for non-compliance	Reasons for non-compliance	Remedial measures and enhanced internal control measures	Impact on our Group
<p>(1) <i>Failure to obtain certain permits or complete relevant inspection procedures for several construction projects</i></p>	<p>According to Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法), the relevant government authority may request us to return the land for the failure to obtain construction land use planning permits (建設用地規劃許可證). The relevant government authority may order us to demolish relevant construction projects as well as impose an administrative fine in the amount of less than 10% of the construction cost for the failure to obtain construction work planning permits (建設工程規劃許可證).</p> <p>According to the Construction Law of the PRC (中華人民共和國建築法), and the Regulations on the Quality Management of Construction Projects (建設工程質量管理條例), the relevant government authority may impose an administrative fine in the amount between 2% to 4% of the construction cost. We estimate that the potential maximum penalty is approximately RMB0.8 million.</p>	<p>We commenced construction of the Relevant Projects with a view to expedite the progress of supply of natural gas to new users in the relevant areas due to urgent needs. At that time, we were not familiar with all relevant laws and regulations in respect of certificates and licenses.</p> <p>For details of the risks we may be exposed to, please refer to “Risk Factors — Risks Relating to Our Business — We are required to obtain certain approvals, licenses, permits and certificates for our operations and the construction projects of our gas facilities in the PRC. Failure to obtain such approvals, licenses, permits or certificates may have a material and adverse effect on our business and operations” in this document.</p>	<p>Our Directors confirm that, except for the administrative penalties as disclosed in “Properties” in this section, during the Track Record Period and as at the Latest Practicable Date, we had not been subject to any penalty, or order to demolish the relevant properties, or confiscation of our assets and income derived from the Relevant Projects as a result of the non-compliances stated above.</p> <p>In an attempt to rectify this non-compliance incident, we have obtained the construction land use planning permits (建設用地規劃許可證) for our peak-shaving LNG station and have received confirmations from relevant competent authorities. However, no procedures were available to us for rectifying our failure to obtain the construction work planning permits and construction work commencement permits, as the construction projects had already completed.</p> <p>The relevant competent authorities have also confirmed that such non-compliances would not affect the normal use of the Relevant Projects without re-submitting for relevant approvals.</p> <p>To ensure ongoing compliance with the relevant laws and regulations, our executive Directors, i.e. Mr. Luan Linjiang, Mr. Luan Xiaolong and Mr. Luan Linxin, will be assigned to (i) supervise and oversee the implementation of the provisions relating to construction projects and the filings for the relevant approvals, opinions and permits for our construction projects; and (ii) have regular meetings with our project management team to monitor the progress of relevant application processes.</p>	<p>On the basis that: (i) Jiaoyun Shihua has obtained construction land use planning permits (建設用地規劃許可證) for the peak-shaving LNG station since July 2021; (ii) we had obtained confirmations from Natural Resource and Planning Bureau of Gaomi City and Housing and Urban-Rural Development Bureau of Gaomi City, confirming that, failure to obtain the construction land use planning permits (建設用地規劃許可證), the construction work commencement permits (建築工程施工許可證) and documents in relation to the project completion acceptance procedures of Relevant Projects do not constitute material non-compliance with relevant laws and regulations and such non-compliances would not affect the normal use of the Relevant Projects; (iii) both Natural Resource and Planning Bureau of Gaomi City and Housing and Urban-Rural Development Bureau of Gaomi City have confirmed that, except for the aforementioned non-compliances, we did not violate the relevant laws and regulations during the Track Record Period and they will not impose any administrative penalties on us; (iv) the aforementioned two authorities are the competent authorities to provide the above confirmations; and (v) our Directors confirm that the aforementioned two authorities were fully informed of the details of the non-compliance before they provided the above confirmations. Since we have obtained the aforementioned confirmations from the competent authorities and completed the relevant approvals of the peak-shaving LNG station in July 2021, we have been complying with the relevant laws and regulations in all material respects. Accordingly, our PRC Legal Advisers advised that the risk of our Group being penalised for the above incident under relevant PRC laws by Natural Resource and Planning Bureau of Gaomi City and Housing and Urban-Rural Development Bureau of Gaomi City is low.</p> <p>Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify us for all claims, costs, expenses and losses incurred as a result of such non-compliances mentioned above.</p>

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Event(s) of non-compliance	Relevant Laws and regulations, legal consequences for non-compliance	Reasons for non-compliance	Remedial measures and enhanced internal control measures	Impact on our Group
			<p>We have also implemented a set of internal control policies relating to the obtaining of construction-related permits and completion of related procedures to avoid any similar non-compliance in the future. Our internal control consultant has reviewed the internal control policies, and did not have any further recommendation after such review.</p> <p>Based on the above, our Directors are of the view and the Sole Sponsor concurs that should the enhanced internal control measures be continuously implemented and regularly reviewed, the enhanced internal control measures adopted by our Group are adequate and sufficient in reducing the risk of future non-compliance with legal and regulatory requirements.</p>	<p>Based on the undertakings of indemnity given by our Controlling Shareholders and the aforementioned confirmation given by the competent authorities, our Directors consider that such non-compliance will not have any material operational or financial impact on us and there is neither actual nor implied safety implication in relation to our initial failure to obtain certain permits or complete relevant inspection procedures for the Relevant Projects.</p>

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Event(s) of non-compliance	Relevant Laws and regulations, legal consequences for non-compliance	Reasons for non-compliance	Remedial measures and enhanced internal control measures	Impact on our Group
<p>(2) <i>Failure to conduct environmental protection inspection for construction projects</i></p> <p>In respect of several construction projects under our Concession, we failed to (i) obtain or provide the environmental impact assessment approval; and (ii) complete the environmental acceptance check within the required period or provide documents in relation to the fulfilment of environmental acceptance check in accordance with the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例(2017年修訂)) and the Environmental Impact Appraisal Law of the PRC (環境影響評價法).</p> <p>Details of the aforementioned projects are set out below:</p> <ul style="list-style-type: none"> our CNG and LNG refuelling stations and Jiaoyun Shihua City Gateway Station, the construction of which had been completed before 2017; our peak-shaving LNG station, which was put into operation on January 2018; and the portion of northern pipeline network construction projects (城北片區工程), southern pipeline network construction projects (城南片區工程) and western pipeline network construction projects (城西片區工程) constructed before January 2021. 	<p>Pursuant to the Environmental Impact Appraisal Law of the PRC (環境影響評價法), failure to obtain the approval for environmental impact report or form before starting construction of the project, the competent department for environmental protection may order us to stop construction and based on the circumstances of the violation and the consequences thereof, impose on us a fine between 1% to 5% of the total investment amount of the project, and may also order us to restore the original conditions before the construction. For the failure to submit requisite environmental impact registration form, a fine of up to RMB50,000 may be imposed on us.</p> <p>Pursuant to the Administration Rules on Environmental Protection of Construction Projects (建設項目環境保護管理條例(2017年修訂)), failure to complete the environmental acceptance check may result in an order for rectification within a specified time limit and a fine of RMB200,000 to RMB1 million. If rectification is not made within the specified time limit, a further fine of RMB1 million to RMB2 million may be imposed. Our Directors have undertaken that we will make rectification within the prescribed period upon demand, and therefore the potential maximum penalty is approximately RMB1 million.</p>	<p>We commenced construction and operation of the relevant projects with a view to expedite the progress of supply of natural gas to new users in the relevant areas due to urgent needs. At that time, we were not familiar with all relevant laws and regulations in respect of certificates and licenses.</p> <p>For details of the risks we may be exposed to, please refer to “Risk Factors — Risks Relating to Our Business — We are required to obtain certain approvals, licenses, permits and certificates for our operations and the construction projects of our gas facilities in the PRC. Failure to obtain such approvals, licenses, permits or certificates may have a material and adverse effect on our business and operations,” in this document.</p>	<p>In July 2021, for the northern and southern pipeline network construction projects (including Xianjia City Gateway Station), the peak-shaving LNG station and the CNG and LNG refuelling station in Longtan Road, we completed environmental acceptance check reports and released the reports to the public. (i) we had obtained the confirmation from the Ecological Environment Bureau of Wefang Municipality Gaomi Branch, confirming that, we had fulfilled procedures of environmental protection assessment and environmental acceptance check for the construction and facilities mentioned above and such non-compliances would not affect the normal use of our peak-shaving LNG station, certain CNG and LNG refuelling stations, Jiaoyun Shihua City Gateway Station and pipeline network (including Xianjia City Gateway Station), and it would not impose administrative penalties on us; (ii) and we were not imposed any administrative penalties due to non-compliance with PRC laws and regulations in relation to environmental protection; (iv) the Ecological Environment Bureau of Wefang Municipality Gaomi Branch is the competent authority to provide the above confirmation; (v) our Directors confirm that the Ecological Environment Bureau of Wefang Municipality Gaomi Branch was fully informed of the details of the non-compliance before it provided the above confirmation; and (vi) we confirmed that there has been no material environmental pollution or ecological damage arising from the operations of those aforementioned constructions and facilities.</p> <p>Since we have obtained the aforementioned confirmation from the competent authority in July 2021, we have been complying with the relevant laws and regulations in all material respects. According to the applicable PRC environmental protection laws, rules and regulations, for failure to obtain environmental protection assessment approval, no administrative penalty shall be imposed after two years from completion of construction. As at the Latest Practicable Date, the construction of the facilities of our CNG and LNG refuelling stations and Jiaoyun Shihua City Gateway Station had been completed for over two years. Based on the above, our PRC Legal Advisers advised that the risk of our Group being penalised by the Ecological Environment Bureau of Wefang Municipality Gaomi Branch as a result of the above non-compliances is low.</p>	<p>Given that (i) we have completed the relevant environmental acceptance check reports for the northern and southern pipeline network projects (including Xianjia City Gateway Station), the peak-shaving LNG station and the CNG and LNG refuelling station in Longtan Road, we completed environmental acceptance check reports and released the reports to the public. (i) we had obtained the confirmation from the Ecological Environment Bureau of Wefang Municipality Gaomi Branch, confirming that, we had fulfilled procedures of environmental protection assessment and environmental acceptance check for the construction and facilities mentioned above and such non-compliances would not affect the normal use of our peak-shaving LNG station, certain CNG and LNG refuelling stations, Jiaoyun Shihua City Gateway Station and pipeline network (including Xianjia City Gateway Station), and it would not impose administrative penalties on us; (ii) and we were not imposed any administrative penalties due to non-compliance with PRC laws and regulations in relation to environmental protection; (iv) the Ecological Environment Bureau of Wefang Municipality Gaomi Branch is the competent authority to provide the above confirmation; (v) our Directors confirm that the Ecological Environment Bureau of Wefang Municipality Gaomi Branch was fully informed of the details of the non-compliance before it provided the above confirmation; and (vi) we confirmed that there has been no material environmental pollution or ecological damage arising from the operations of those aforementioned constructions and facilities.</p> <p>Since we have obtained the aforementioned confirmation from the competent authority in July 2021, we have been complying with the relevant laws and regulations in all material respects. According to the applicable PRC environmental protection laws, rules and regulations, for failure to obtain environmental protection assessment approval, no administrative penalty shall be imposed after two years from completion of construction. As at the Latest Practicable Date, the construction of the facilities of our CNG and LNG refuelling stations and Jiaoyun Shihua City Gateway Station had been completed for over two years. Based on the above, our PRC Legal Advisers advised that the risk of our Group being penalised by the Ecological Environment Bureau of Wefang Municipality Gaomi Branch as a result of the above non-compliances is low.</p>

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Event(s) of non-compliance	Relevant Laws and regulations, legal consequences for non-compliance	Reasons for non-compliance	Remedial measures and enhanced internal control measures	Impact on our Group
			<p>Based on the above, our Directors are of the view that and the Sole Sponsor concurs that should the enhanced internal control measures be continuously implemented and regularly reviewed, the enhanced internal control measures adopted by our Group are adequate and sufficient in reducing the risk of future non-compliance with legal and regulatory requirement.</p>	<p>Our Directors are of the view and the Sole Sponsor does not notice anything that suggest otherwise, that, based on the written confirmation issued by the relevant environmental authority and the advice from our PRC Legal Advisers, such non-compliances do not and will not have any material impact on the operations or financial conditions of our Group and there is neither actual nor implied safety implication in relation to our initial failure to conduct environmental protection inspection for the aforementioned construction projects.</p>

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Event(s) of non-compliance	Relevant Laws and regulations, legal consequences for non-compliance	Reasons for non-compliance	Remedial measures and enhanced internal control measures	Impact on our Group
<p>(3) <i>Failure to comply with fire safety procedures</i></p> <p>We failed to submit the relevant fire safety design documents and carry out fire control acceptance inspection with the relevant authorities for our peak-shaving LNG station, our CNG and LNG refuelling stations and Jiaoyun Shihua City Gateway Station, the construction of which was completed before 2019, and our peak-shaving LNG station came into operation on January 2021, in accordance with the Fire Control Law (消防法) of the PRC.</p>	<p>Pursuant to the Fire Control Law of the PRC (消防法) and relevant laws and regulations, any entity which commences a construction project without completing the relevant fire control design examination, if required by law, or puts a construction project into operation without completing the acceptance inspection may be ordered to cease construction, use or production and operation, and a fine of no less than RMB30,000 and not exceeding RMB300,000 (being the potential maximum penalty) could be imposed; for other construction projects which failed to submit the relevant fire safety design documents to the relevant authorities after carrying out fire control acceptance inspection, an order to make rectification and a fine of less than RMB5,000 may be imposed.</p>	<p>We commenced construction and operation of the relevant projects with a view to expedite the process of supply of natural gas to new users in the relevant areas due to urgent needs. At that time, we were not familiar with the relevant laws and regulations in respect of certificates and licenses.</p> <p>For details of the risks we may be exposed to, please refer to “Risk Factors — Risks Relating to Our Business — We are required to obtain certain approvals, licenses, permits and certificates for our operations and the construction projects of our gas facilities in the PRC. Failure to obtain such approvals, licenses, permits or certificates may have a material and adverse effect on our business and operations,” in this document.</p>	<p>We have made our best efforts to attempt to rectify our failure to comply by communicating with the relevant authority to complete the aforementioned fire safety procedures. However, since the construction work was completed, no remedial measures were available to us to rectify our failure to comply with fire safety procedures.</p> <p>We have obtained confirmations from the Housing and Urban-Rural Construction Bureau of Gaomi City that no administrative investigation or penalty will be imposed on us in respect of the above-mentioned non-compliances and such non-compliances would not affect the normal use of our peak-shaving LNG station, our CNG and LNG refuelling stations and Jiaoyun Shihua City Gateway Station without re-submitting for relevant approvals.</p> <p>We have implemented internal guidelines which set out the standard procedures for our construction projects, the responsibilities of various departments involved, and the requirements on legal compliance and documents. Mr. Li Hong, our Operations Manager, will be the designated person to monitor and inspect all fire safety related matters prior to, during and post the upcoming construction. Our operation and management team will continue to be responsible for the formulation and review of the development plan which specifies the check points for each stage of the construction projects, including but not limited to all required permits or licenses and approvals before the commencement and after the completion of the construction projects.</p> <p>A set of internal control policies has also been adopted to ensure that the construction of our projects is in compliance with all aspects of the relevant laws and regulations to prevent the non-compliance above. Our internal control consultant has reviewed the internal control policies, and did not have any further recommendation after such review.</p> <p>Based on the above, our Directors are of the view and the Sole Sponsor concurs that should the enhanced internal control measures be continuously implemented and regularly reviewed, the enhanced internal control measures adopted by our Group are adequate and sufficient in reducing the risk of future non-compliance with legal and regulatory requirement.</p>	<p>Given that (i) we have received the confirmations from Housing and Urban-Rural Construction Bureau of Gaomi City, confirming that no administrative investigation or penalty has been imposed on us, no report or complaint has been received from third parties, no dispute has been arising from such non-compliance and failure to submit the relevant fire safety design documents and carry out fire control acceptance inspection do not constitute material compliance and would not affect the normal use of relevant construction projects and it would not impose administrative penalties on us; (ii) Housing and Urban-Rural Construction Bureau of Gaomi City is the competent authority to provide the above confirmation; and (iii) our Directors confirm that the Housing and Urban-Rural Construction Bureau of Gaomi City was fully informed of the details of the non-compliance before it provided the above confirmation. Since we have obtained the aforementioned confirmation from the competent authority in July 2021, we have been complying with the relevant laws and regulations in all material respects. Based on the above, our PRC Legal Advisers advised that the risk of our Group being penalised for the above non-compliances under relevant PRC laws by Housing and Urban-Rural Construction Bureau of Gaomi City is low.</p> <p>Our Directors are of the view and the Sole Sponsor does not notice anything that suggests otherwise, that, based on the advice from our PRC Legal Advisers and the written confirmation from relevant government authority, such non-compliances do not and will not have any material impact on the operations or financial conditions of our Group and there is neither actual nor implied safety implication in relation to our initial failure to comply with fire safety procedures.</p>

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As advised by our PRC Legal Advisers, save as disclosed above, we have complied with all relevant PRC laws and regulations in all material aspects regarding our operations in the PRC during the Track Record Period and up to the Latest Practicable Date. Our Directors have confirmed that we did not experience any material non-compliance with the laws or regulations which is likely to have a material adverse effect on our business operations or financial condition as a whole, or to reflect negatively on our ability or competency or that of our Directors or our senior management to operate in a compliant manner in all material aspects.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. In accordance with the applicable laws and regulations, we have established procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, legal matters, finance and auditing, as appropriate for the needs of our Group. Our Directors and senior management closely monitor the implementation and assess the effectiveness of these guidelines and measures which are crucial to our business sustainability.

In preparation for [REDACTED], we engaged an independent internal control consultant (the “**Internal Control Consultant**”) to perform a review over selected areas of our internal controls over financial reporting in September 2020 (the “**Internal Control Review**”). The scope of the Internal Control Review performed by the Internal Control Consultant was agreed between us, the Sole Sponsor and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity level controls and business process level controls, including control environment, risk assessment, control activities, information and communication, monitoring activities, financial reporting procedures, sales management, management of suppliers and procurement, cash and treasury management, human resources, tax management, informational technology general controls, insurance, intangible assets management, and other internal control related matters. We have subsequently taken corrective actions in response to such findings and recommendations. The Internal Control Consultant performed follow-up reviews in July 2021 and in December 2021, respectively (the “**Follow-up Reviews**”) to review the status of the management actions taken by us to address the findings of the Internal Control Review. The Internal Control Consultant did not see the need to make any further recommendation in such Follow-up Reviews. The Internal Control Review and the Follow-up Reviews were conducted based on information provided by us and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.

In October 2021, we engaged another internal control adviser, Shinewing Risk, to review the effectiveness of our enhanced internal control measures, subsequent to the Internal Control Review and the Follow-up Reviews. The scope of this review (the “**Second Internal Control Review**”) performed by Shinewing Risk covered the Non-compliant Bill Financing Arrangements and the Deviation. The Second Internal Control Review was conducted as agreed between us, the Sole Sponsor and Shinewing Risk for the purpose of scrutinising the adequacy and effectiveness of our internal control measures adopted in response to the Internal Control Review and the Follow-up Reviews, and make further recommendations if our internal control system is not effective. Shinewing Risk scrutinised our internal control measures from both business operation and corporate governance perspectives. Based on its review of our internal control system, particularly with regards to the aforementioned non-compliance incidents, Shinewing Risk did not find any major defect in our

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Group’s internal control system, and have no further recommendations as to internal control measures for addressing such material and/or systematic non-compliance incidents. Shinewing Risk is of the view that our Group will be able to reasonably, adequately and effectively prevent the occurrence of such non-compliance incidents in the future if we continue the implementation of its enhanced internal control measures. The Second Internal Control Review was conducted based on information provided by us and no opinion on our financial statements was expressed by Shinewing Risk. For details, please refer to “— Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing — Enhanced internal control measures for the Non-compliant Arrangements” and “— Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds — Enhanced internal control measures” in this section.

To ensure ongoing compliances with applicable laws and regulations upon the [REDACTED] and to prevent recurrence of non-compliance incidents in the future, in addition to the specific enhanced internal control measures as mentioned for each non-compliance incident under “— Regulatory Compliance — Non-compliance incidents” in this section, we have also adopted the following key measures under our corporate governance, risk management and internal control systems:

- we continuously strive to strengthen the role of our Board as a body responsible for decision-making concerning our fundamental policies and upper-level management issues, and supervising the execution of our operation. Our Board includes three independent non-executive Directors to ensure transparency in management and fairness in business decisions and operations. The independent non-executive Directors contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge;
- we have established an audit committee consisting of all of the independent non-executive Directors, as part of our measures to improve risk management and corporate governance. The primary duties of the audit committee are to review and supervise the financial report of process and internal control system of our Group, and to advise our Board accordingly.
- we have established a risk management committee which is responsible for reviewing general goals and fundamental policies of our risk and compliance management, internal control and risk management system of our Group and internal audit functions, assessing the risks our operations may be exposed to and making recommendations to our Board accordingly. It will also review matters in relation to all related party transactions and connected transactions. The risk management committee comprises one executive Director and two independent non-executive Directors and is headed by Ms. Liu Xiaoye, our independent non-executive Director;
- we have implemented various enhanced internal control measures as elaborated in “— Regulatory Compliance — Non-compliance incidents” in this section;
- our human resources department is responsible for monitoring the compliance with our internal rules by our employees to ensure that we comply with the relevant regulatory requirements and applicable laws so as to reduce our legal risks;

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- we have appointed China Industrial Securities International Capital Limited as our compliance adviser upon the [REDACTED] to advise our Group on compliance matters in accordance with the Listing Rules;
- we have appointed a qualified PRC law firm as our external PRC legal advisers to advise us on compliance with the relevant laws and regulations in respect of our business operations;
- we will appoint an external Hong Kong legal adviser to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations;
- we will arrange trainings for our Directors, senior management and relevant employees on updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;
- Mr. Du Chaolei, our financial controller, and Mr. Zhang Yupeng, one of our joint company secretaries, will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinators to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, they will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of our Group and/or our Board;
- we have established a legal department which is responsible for monitoring legal and regulatory compliance and the control environment at the group level as well as the subsidiary level. The legal department includes an internal legal specialist who directly reports to the audit committee on a monthly basis and provides periodic reports on our compliance status to our Board; and
- we have formulated a comprehensive internal control policy which covers various major areas of our operations including approval process and authority, compliance risk management, capital investment management and contract management.

Based on the above, our Directors are of the view that our Group has taken reasonable steps to establish a proper internal control system to minimise risks of non-compliance and prevent future recurrence of the non-compliant incidents disclosed in “— Regulatory Compliance — Non-compliance incidents” in this section, at both working and monitoring levels, and hence, our Directors are of the view that the enhanced internal control measures adopted by our Group are adequate and effective in reducing the risk of future non-compliance by our Group with legal and regulatory requirements. The Sole Sponsor concurs with the views of our Directors if the enhanced internal control measures can be continuously implemented and regularly reviewed.

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LITIGATION

From time to time, we may become subject to legal proceedings, investigations and claims incidental to the conduct of our business. During the Track Record Period and up to the Latest Practicable Date, no member of our Group was involved in any litigation, arbitration or claim of material importance, and there was no litigation, arbitration or claim of material importance which would have a material adverse effect on our business, financial condition or results of operations.

EFFECTS OF THE COVID-19 OUTBREAK

Effects of the COVID-19 Outbreak on Our Business Operations

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) was first reported in late 2019 and continues to spread across the PRC and globally. In March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a pandemic. As at the Latest Practicable Date, COVID-19 has spread across China and to over 200 countries and territories globally. To contain the COVID-19, the PRC Government has imposed strict measures across the PRC since late January 2020 including, but not limited to, travel restrictions and quarantine for travellers or returnees, whether infected or not, and an extended shutdown of certain business operations. Apart from strict measures imposed in the first half of 2020 at the outset of the COVID-19 outbreak, a temporary suspension of business for certain industries and a partial lockdown was also imposed in Gaomi City in around March to April 2022 due to the resurgence of COVID-19, hence commercial and daily activities took a temporary hit during this time. However, such restrictions were short-lived and business activities have gradually resumed normal thereafter. As at the Latest Practicable Date, lock-down measures in most regions of the PRC (including Gaomi City) that are relevant to our business have been substantially lifted. For the period after the Track Record Period until the Latest Practicable Date, no material COVID-19 restrictions have been imposed which resulted in significant drop in business and daily activities within Gaomi City.

Sales of PNG

From late January to March 2020, our sales of PNG to our industrial and commercial PNG end-users decreased 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**”). Our revenue derived from sales of PNG dropped by approximately 12.4% in 2020 as compared with that of 2019, mainly due to decreased demand for PNG from our industrial and commercial PNG end-users. Our Directors consider that demands for PNG from our PNG end-users had generally returned to normal levels by the fourth quarter of 2020.

Pursuant to the Notice in relation to the Periodic Reduction of Non-residential Gas Costs to Support Enterprises to Resume Production* (《關於階段性降低非居民用氣成本支持企業復工復產的通知》) issued by the NDRC on 22 February 2020, among others, gas operators were required to lower the selling prices of PNG to non-residential PNG end-users until 30 June 2020. Accordingly, pursuant to the notices issued by the relevant local pricing bureau, the maximum PNG end-user price for industrial and commercial PNG end-users was temporarily adjusted downwards between February 2020 and June 2020. Such adjustment was made as a COVID-19 measure adopted by the government

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and therefore, we cannot transfer all our costs to our PNG end-users. As a result, gross profit from our PNG sales to industrial and commercial PNG end-users temporarily declined during that period. Our Directors are of the view that, since such adjustments were temporary, they did not and are not expected to have a material and adverse impact on our Group.

Our revenue derived from sale of PNG dropped by approximately 12.4% for the year ended 31 December 2020 as compared with that for the year ended 31 December 2019. That said, given that (i) our staff have already resumed normal work arrangements by April 2020; (ii) our industrial and commercial PNG end-users have generally resumed business operations since April 2020, and (iii) our customers' demand for PNG has on the whole returned to normal levels by the fourth quarter of 2020, our Directors consider that the demand for and our sales of PNG by and large have not been significantly affected by the COVID-19.

Despite the temporary partial lockdown measures imposed in Gaomi City from around March to April 2022 in response to the recent resurgence of COVID-19 in the PRC in early 2022, our sales of PNG business remained relatively stable. Our sale of PNG to non-residential PNG end-users was slightly affected due to the suspension of business activities in response to COVID-19 restrictions, which was reflected by a drop in our PNG sales volume to industrial and commercial PNG end-users of approximately 6.2% and 26.5% for the four months ended 30 April 2022 as compared to the same period in 2021. Demand for PNG from our residential PNG end-users was higher than usual for the four months ended 30 April 2022, which was reflected by an increase in our PNG sales volume to residential PNG end-users of approximately 60.8% for the four months ended 30 April 2022 as compared to the same period in 2021. The total PNG sales volume to retail customers as a whole remained relatively stable at approximately 35.4 million m³ and 37.5 million m³ for the four months ended 30 April 2021 and the four months ended 30 April 2022, respectively. Accordingly, the temporary suspension from March to April 2022 did not bring about significant impact to our sale of PNG segment as a whole. 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.

Sale of CNG and LNG

In response to the COVID-19 Measures, our CNG and LNG refuelling stations were put under limited operations with a shift system for our employees from February to April 2020, and there was generally less traffic and vehicle users in Gaomi City during that period. This led to our conversion of surplus LNG into PNG for our sales of PNG as well as to stabilise the atmospheric pressure in our urban pipeline network during the same period. As a result, our revenue derived from CNG and LNG sales dropped by approximately 36.3% in 2020 as compared with that of 2019. Accordingly, revenue derived from our sale of CNG and LNG business merely accounted for approximately 10.1% and 6.5% and 5.0% of the total revenue of our Group for the years ended 31 December 2019, 2020 and 2021, respectively. The recent resurgence of COVID-19 in the PRC in early 2022 did not materially adversely affect our sale of CNG and LNG business. Revenue derived from our sale of CNG and LNG business accounted for approximately 5.6% of the total revenue of our Group for the four months ended 30 April 2022, comparing with 5.2% for the same period in 2021. Our Directors are of the view that the performance of our sale of CNG and LNG business did not significantly impact our Group's overall performance.

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Provision of construction and installation services

We suspended our construction and installation services from February to late March and early April 2020 in reaction to the COVID-19 Measures. However, since we had completed all engaged construction and installation projects for our residential PNG end-users before February 2020, and property developers and non-residential PNG end-users were given to understand the compelling need to suspend our works in light of COVID-19. Hence, we did not encounter any legal proceedings against us due to the suspension of our construction and installation services. Shortly after our resumption of works in April 2020, we completed all our construction and installation projects which were delayed due to the COVID-19 after construction workers of our subcontractors resumed work.

In around February 2022, we suspended our construction and installation services due to the resurgence of COVID-19 in the PRC. There has been no complaint with respect to the suspension of our construction and installation services as we believe our customers fully understood the compelling need to contain the spread of COVID-19. As such, we did not encounter any legal proceedings against us. Immediately after the lifting of the suspension in around April 2022, our subcontractors instructed their construction workers to resume works so that all projects could be delivered in a timely manner.

Save as disclosed above, our Directors confirm that we have not encountered and are not expected to encounter difficulties in meeting the targeted completion date of other construction and installation projects despite the postponement of commencement date or delay in schedule due to the outbreak of COVID-19.

Sale of gas-burning appliances

Our PNG customer service centre was also put under limited operation (i.e., with shorter opening hours) from February to March 2020 and March to April 2022 in response to COVID-19, respectively. Therefore, we recorded a temporary drop of our sales of gas-burning appliances during each of the aforementioned periods. However, due to the Gaomi City People’s Government’s mission to reduce fuel emissions and promote the replacement of coal-fired boilers with clean energy-powered boilers, our sale of gas-burning appliances quickly recovered and exceeded the preceding year’s results upon the re-opening of our PNG customer service centre. Our revenue derived from sale of gas-burning appliances increased by approximately 378.7% for the year ended 31 December 2020 as compared with that for the year ended 31 December 2019. We did not encounter any material disruption of our supply chain from February to March 2020 and March to April 2022, respectively, nor did we encounter any cancellation or termination of purchase orders during these periods.

Taking into account the above-mentioned factors and measures, our Directors are of the view that the business of our Group as a whole has not been materially affected by the COVID-19. For certain information regarding our business performance, please refer to “Financial Information — Consolidated Statements of Comprehensive Income”. However, in view of the possible economic impact brought about by the COVID-19 to the PRC and global economies, it is possible that we may encounter a decrease in demand for our natural gas and related services in the future due to the decreased economic activities of our industrial and commercial PNG end-users. Please refer to “Risk Factors — Risks Relating to Our Business — Our operations may be disrupted by natural disasters, severe weather conditions, severe communicable diseases or other factors beyond our control.” in this document for further details.

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Our Response Towards the COVID-19 Outbreak

In response to the COVID-19 outbreak, our Group issued the Notice of Further Strengthening COVID-19 Emergency and Health Measures (《高密市交運集團有限公司關於進一步加強防疫工作的通知》) in February 2020, implementing a COVID-19 response plan and adopting enhanced hygiene and precautionary measures across our natural gas operations in Gaomi City. According to such plan, each head of department of our Group is the principal responsible person for overseeing the operation of unit and department during the COVID-19 period, as well as be responsible for team and/or unit budgeting. Our administration office shall monitor the implementation of a series of COVID-19 health and hygiene measures within our Group, and ensure that health reporting is true and accurate for the purpose of our senior management’s risk assessment and investigation. Our senior management may implement flexible working arrangements for our staff should there be considered a high risk of infection. Costs incurred for implementing the enhanced measures mainly represent our purchase costs for masks, ethanol hand wash, disinfectants and infrared thermometers.

Our Directors believe that the additional costs associated with the enhanced measures, after taking into consideration the medical and cleaning supplies distributed by the Gaomi City People’s Government and relevant regulatory policies such as deduction of a portion of the payment of social insurance contribution, have no significant impact on our financial position for the years ended 31 December 2020 and 2021 and the four months ended 30 April 2022, respectively.

Effects of the COVID-19 Outbreak on Our Business Strategies

According to CIC, although many industries, including the natural gas industry, were affected by COVID-19 in 2020 and sales dropped to various extents in the short term, the long-term trend of the natural gas industry is unlikely to be severely affected. We believe our future plans set out in “— Our Business Strategies” in this section is feasible, and it is unlikely that we would change the use of the net proceeds from the [REDACTED] as disclosed in “Future Plans and Use of Proceeds” in this document as a result of the COVID-19.

Effects of the COVID-19 Outbreak on Our Financial Liquidity

Impact on our financial liquidity

Our Directors confirm that our Group has sufficient financial resources including cash and cash equivalents and an unutilised banking facility as at 30 April 2022, which amounted to approximately RMB224.4 million, which would be able to meet our working capital requirement including administrative expenses, marketing expenses and finance costs. After taking into account (i) our existing cash and cash equivalents; and (ii) our unutilised banking facilities, our Group will be able to satisfy our liquidity requirements the next 12 months in case our business operations are being suspended based on the hypothetical distressed situations that (i) we would not generate any income due to the suspension of business; (ii) we would not have to pay subcontracting fee to our subcontractors for construction and installation works according to the subcontracting agreements due to suspension of works; (iii) minimal operating and administrative expenses (such as office

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maintenance and staff cost and utilities expenses) would incur to maintain our operations at a minimum level; and (iv) we would not incur any capital expenditure. Under such an unlikely event, our Group would still have sufficient working capital to satisfy our requirement for the next 12 months.

In light of the above, our Directors confirm that the outbreak of COVID-19 does not have a material adverse impact on our Group’s continuing business operations or sustainability as (i) the natural gas industry is an industry involving community necessity services and it is unlikely that the PRC Government and Gaomi City People’s Government would allow natural gas distributors to suspend natural gas supply; (ii) there has been no material disruption to our sale of PNG; (iii) our construction and installation services are labour intensive and the majority of our employees and workers of our subcontractors have resumed work; (iv) we do not expect the progress of our construction and installation works to be materially delayed due to the outbreak of COVID-19; (v) save for any unforeseeable circumstances in the PRC, our Group expects that we will be able to discharge our obligations under all existing construction and installation services agreements; and (vi) our Group has sufficient working capital to maintain our operations.

As at the Latest Practicable Date, as far as we were aware of, none of our employees had been reported as “confirmed cases” or had failed to report to duty, except for those who worked under flexible working arrangements when appropriate depending on job nature. In response to the COVID-19 pandemic, we have adopted enhanced hygiene and precautionary measures to prevent infection and transmission of COVID-19 within our premises and among our staff, including:

- (i) distribution of disposable masks, gloves, sanitising products to our staff;
- (ii) cleaning and disinfection of commonly used areas within our offices with increased frequency;
- (iii) providing flexible working arrangement for our employees on an as-needed basis and where appropriate;
- (iv) encouraging our employees to closely monitor their health and well-being;
- (v) requiring mandatory infrared contactless body temperature measurement for all our employees each time they enter the working premises; and
- (vi) requiring our employees to refrain from gathering within the work place.

Based on the above, our Directors are of the view that the COVID-19 pandemic is unlikely to result in any material adverse impact on our business operation and financial performance in the long run.