

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

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

USE OF PROCEEDS

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

Our Directors intend to apply the net proceeds from the [REDACTED] for the execution of our plans to (i) construct new mid-pressure pipelines, (ii) upgrade our urban pipeline network, (iii) replace existing gas meters with Goldcard Meters; and (iv) construct PNG end-user pipelines and connect these pipelines to our urban pipeline network from [REDACTED] to 31 December 2025 (the “**Expansion Plan**”) within our Operating Area, which is within our Concession right according to the Concession Agreement. Hence, we are not required under the Concession Measures or any other procedures or approvals according to the relevant laws and regulations to go through any public selection method in carrying out the Expansion Plan within our Operating Area. Details of our Expansion Plan are set out below.

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

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

FUTURE PLANS AND USE OF PROCEEDS

Based on our feasibility study of the Target Area, our Directors believe there is sufficient market demand and growth potential in support of our investment in our mid-pressure pipelines. The table below sets out the respective 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.

	FY2021E		FY2025E	
	<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	144,000	54%	64,000	24%
Total population in the Operating Area	268,000	100%	268,000	100%

Currently, almost the entire population of Gaomi City urban area within the Operating Area are covered by our existing pipeline network. In addition, pursuant to the Clean Energy Projects, we have started to utilise our existing and recently constructed pipeline network extensions and expanded our coverage to 7,447 additional residential households in the rural area during 2021. As at the end of 2021, population not yet covered by our existing pipeline network within the Operating Area is estimated to be approximately 54%. As at the end of 2021, there was considerable portion of the population yet to be covered by us, primarily from the rural area in the Operating Area. Upon completion of the Expansion Plan, it is expected that our PNG pipeline network will be able to reach approximately 76% of the population within our Operating Area with the extension of the 101km new pipeline network by the end of 2025.

The table below illustrates the penetration rate of our PNG end-users by types within the area covered by our pipeline network in 2021, as well as upon completion of the Expansion Plan:

Operating Area	FY2021E			FY2025E		
	Existing users	Population covered by our pipeline	Penetration	Estimated users	Estimated population covered by our pipeline	Penetration
Industrial ⁽¹⁾	22	262	8%	26	178	14%
Commercial ⁽²⁾	637	1,417	45%	740	1,232	60%
Residential (households) ⁽³⁾	89,640	124,000	72%	177,000	204,000	87%

FUTURE PLANS AND USE OF PROCEEDS

Target Area	FY2021E			FY2025E		
	Existing user	Population covered by our pipeline	Penetration	Estimated users	Estimated population covered by our pipeline	Penetration
Industrial ⁽¹⁾	—	6	—	4	70	6%
Commercial ⁽²⁾	—	65	—	103	532	19%
Residential (households) ⁽³⁾	7,447	14,000	54%	35,000	94,000	37%

Notes:

- (1) Industrial end-users forecast here is an estimation on proportional basis with reference to the statistics of industrial companies within Gaomi City, of those companies with annual turnover exceeding RMB20 million.
- (2) Commercial end-users forecast here is an estimation on proportional basis with reference to the statistics of commercial entities within Gaomi City, of those commercial entities with operating area size of over 50 square meters.
- (3) Residential end-users forecast here is an estimation of the number of households (which represent either the owner or occupier of the property) with accounts registered with us as a percentage of the estimated total number of households in Gaomi City. It is assumed there are 2.7 individuals in a household. Accordingly, the estimated total number of households is arrived at by dividing the total population of Gaomi City by 2.7.

Our number of residential PNG end-users were recorded according to the number of gas meters installed at each property. However, some of those properties with gas meters installed may actually be owned or occupied by the same household. According to our available information, approximately 25% of our residential PNG end-users are households with more than one account registered with us as it owns or resides in more than one property. Therefore, to avoid double counting, estimation of the total residential end-users penetration rate should be based on the number of households, instead of the number of residential PNG end-users (i.e. number of gas meters installed).

Among the number of sizeable industrial entities, sizeable commercial entities, and residential households (regardless of the number of properties it may own or reside in) within our Operating Area that are covered by our existing pipeline network at the end of 2021, approximately 8%, 45% and 72% of them had registered accounts with us, respectively. By expanding our coverage through construction of the 101km PNG pipeline network pursuant to the Expansion Plan, we estimate to be able to cover an additional 6%, 19% and 37% of sizeable industrial entities, sizeable commercial entities, and residential households in the Target Area by the end of 2025, respectively. Should we be able to achieve such rural area penetration, our overall penetration rate within the Operating Area is expected to reach around 14%, 60% and 87%, respectively, of all sizeable industrial entities, sizeable commercial entities and residential households.

FUTURE PLANS AND USE OF PROCEEDS

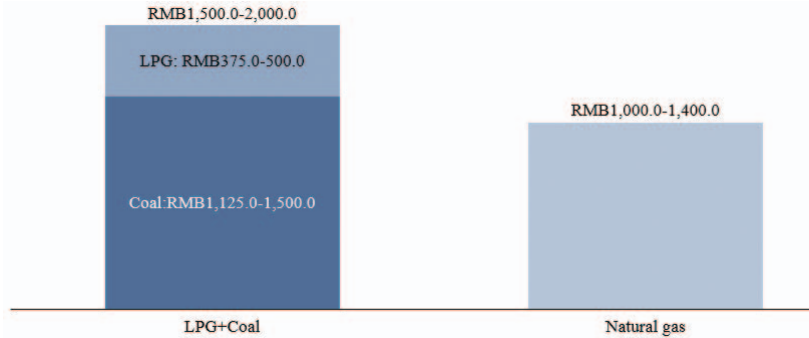
A table below sets forth the estimated market demand and our growth pattern under the Expansion Plan:

Consumption volume of natural gas (million cubic meter)	Operating Area			Target Area		
	FY2025E			FY2025E		
	Estimated users	Estimated population covered by our pipeline	Penetration	Estimated users	Estimated population covered by our pipeline	Penetration
Industrial	20.0	140.1	14%	3.1	55.0	6%
Commercial	10.2	16.9	60%	1.4	7.3	19%
Residential	22.8	26.3	87%	4.5	12.1	37%

According to CIC, we believe each type of our PNG end-users are either entitled to certain benefits, or are obligated to assume some social and environmental responsibilities by switching to natural gas consumption. Specifically,

- for our residential PNG end-users, switching to natural gas can potentially result in cost-saving as comparing with the use of other non-clean energy including LPG and coal as illustrated in the graph below:

Cost analysis of major types of energy used in rural areas of Gaomi City, 2021



- for our industrial and commercial PNG end-users, switching to natural gas is mandatory under the government directives as discussed in the “Industry Overview — Analysis of the city gas supply industry in Gaomi City — Market size of natural gas in Gaomi City” in this document.

FUTURE PLANS AND USE OF PROCEEDS

Upon the completion of Expansion Plan, the Directors expect the revenue mix for each type of PNG end-user would not change significantly, we believe the overall gross profit margin would not be materially impacted. Going forward, assuming all the abovementioned industrial, commercial and residential customers in the Target Area would become our PNG end-users, the proforma combined enlarged PNG end-user mix based on that of year end 2021, the revenue mix to residential PNG end-users would slightly increase as compared to that in 2021. Therefore, the overall gross margin would slightly decrease in 2025 upon the completion of Expansion Plan.

In general, we are required by the government to supply PNG to residential end-users at prices which will not allow us to make excessive level of profit, and essentially for social and general public benefits. This also applies to our Expansion Plan in the Target Area.

As at the Latest Practicable Date, approximately 56.4%, 50.3% and 10.0% of the residential households, large-scale commercial (referring to commercial entities with operating size of over 50 square meters) and large-scale industrial PNG end-users (referring to companies with annual turnover exceeding RMB20 million) within the Operating Area are our existing customers covered by our existing pipeline networks. Such coverage ratios are expected to grow up to approximately 85.9%, 60.8% and 14.2% upon the extension of the additional 101km mid-pressure pipelines pursuant to our Expansion Plan, and based on the key assumptions disclosed above.

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

- (a) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network construction in Renhe Industrial Park (仁和化工園區) of approximately 5.0 km in our Operating Area in 2022.
- (b) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct new mid-pressure pipelines for connecting our natural gas stations to PNG end-users' pipeline networks of approximately 63.0 km in our Operating Area in 2023:
 - (i) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension connecting Lvjia Village (律家村) and Shuangjing Road (雙井路) of approximately 16.0 km;
 - (ii) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension in Jinggou (井溝), connecting Shuangjing Road (雙井路), Tianzhuang Village (田莊) and Qujiadahu (曲家大澗) of approximately 18.0 km;

FUTURE PLANS AND USE OF PROCEEDS

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

When selecting the villages to be covered in the Expansion Plan, our Directors mainly considered the potential market demand on basis of how developed that village is, together with other factors including the geographical locations of these villages, proximity to the pipeline networks that will be newly constructed, the number of potential industrial PNG end-users located nearby, and the population densities of these villages.

FUTURE PLANS AND USE OF PROCEEDS

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

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

Notes:

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

FUTURE PLANS AND USE OF PROCEEDS

- (2) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for upgrading approximately 43.4 km of our urban pipeline network. The expected capital expenditure for this entire plan of upgrade of our urban pipeline network is approximately HK\$37.7 million (equivalent to approximately RMB34.2 million). We plan to supplement any shortfall in such expenditure with internal resources or bank borrowings, as appropriate.

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

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

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

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

FUTURE PLANS AND USE OF PROCEEDS

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

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

Notes:

- (1) Breakeven point occurs when the total gross profit generated from our sale of PNG from the projects fully offsets the expenses incurred thereto, including depreciation expenses of capital expenditure and other operating overheads (mainly consist of maintenance cost of the pipelines).
- (2) Investment payback period is defined as the cash investment payback period, which refers to the time required for the accumulated operating cash flow generated from the projects covers the capital expenditure incurred for the projects and construction fees for carrying out the construction works.
- (3) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for replacing existing gas meters with our Goldcard Meters for over 19,500 households in our Operating Area. The expected capital expenditure for this entire plan of replacement of gas meters is approximately HK\$12.7 million (equivalent to approximately RMB11.5 million). We plan to supplement any shortfall in such expenditure with internal resources or bank borrowings, as appropriate.

FUTURE PLANS AND USE OF PROCEEDS

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

- (a) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to install Goldcard Meters for over 13,000 households at approximately HK\$631.2 (equivalent to approximately RMB572.4) per household in 2023; and
- (b) approximately [REDACTED]%, or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to install Goldcard Meters for over 6,500 households at approximately HK\$631.2 (equivalent to approximately RMB572.4) per household in 2024.

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

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

Notes:

- (1) Breakeven point occurs when the total gross profit generated from our sale of PNG from the projects fully offsets the expenses incurred thereto, including assumed amortisation of capital expenditure of Goldcard Meters over 20 years (being the maximum longevity of Goldcard Meters according our management' judgment) and other operating overheads (mainly consist of maintenance cost of the pipelines).
- (2) Investment payback period is defined as the cash investment payback period, which refers to the time required for the accumulated operating cash flow generated from the projects covers the capital expenditure incurred for the projects and construction fees for carrying out the construction works.

FUTURE PLANS AND USE OF PROCEEDS

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

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

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

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

- (4) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for the construction of an aggregate of approximately 18.0 km PNG end-user pipelines that connect to our urban pipeline network for implementing the Clean Energy Projects to serve over 5,500 households in our Operating Area. The expected capital expenditure for such construction of PNG end-user pipelines for implementation of Clean Energy Projects is approximately HK\$26.0 million (equivalent to approximately RMB23.6 million). We plan to supplement any shortfall in such expenditure with internal resources or bank borrowings, as appropriate.

FUTURE PLANS AND USE OF PROCEEDS

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

In terms of the detailed plan to carry out the Clean Energy Projects, we will firstly assign a project manager to each project to prepare an overall construction plan and drawing, according to which we will then extend our urban pipeline network to the respective proximities of the aforementioned villages. Following this step, we will proceed to lay down PNG end-user pipelines in the units, properties and premises of our PNG end-users and connect these PNG end-user pipelines to the newly constructed mid-pressure pipelines for PNG transmission. This represents our concurrent investment in our PNG end-user pipeline network in the rural villages, as all PNG end-user pipelines outside of household premises form part of our own gas pipeline assets. Project managers are also assigned to select qualified subcontractors so that we can outsource labour-intensive construction works and minimise labour directly employed by us. Project managers shall also prepare a report with respect to the progress of each project to our senior management, who will regularly monitor and discharge their supervisory duties in respect of our implementation of the coal-to-gas project (煤改氣工程) in Gaomi City. Upon the completion of the aforementioned Clean Energy Projects by 2024, more than 5,500 households in the rural areas in our Operating Area who currently use obsolete coal-fired boilers will be able to access PNG for their daily usage. Based on the latest publicly available data issued by the government for the end of 2020, there are over 1,460 potential sizable commercial PNG end-users and over 280 potential sizable industrial PNG end-users located within the reach of the aforementioned expansion of our PNG pipeline network. Such commercial and industrial businesses currently use LPG in cylinder form or coal-fired boilers as energy source for their business operations. According to CIC, use of PNG is relatively cheaper (at approximately RMB2.6/m³ for residential end-users, as compared to use of LPG (at approximately RMB10.9/m³ for residential end-users). Moreover, use of PNG is generally considered safer and more convenient as compared to use of LPG cylinders and coal-fired boilers.

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

FUTURE PLANS AND USE OF PROCEEDS

The construction of PNG end-user pipelines located outside of household premises form part of our assets and are hence considered as capital expenditure to be borne by us in order to implement the Clean Energy Projects. Nevertheless, according to the Clean Energy Project agreements, approximately two-thirds of the installation cost per household is subsidised by the government, and such subsidy shall generally be settled over the course of three years upon completion of the Clean Energy Project. We are obligated to bear such installation costs upfront as we would only receive the government subsidy in later years after completion. Hence, there is a funding gap due to such upfront payment, and the proposed use of proceeds is mainly for fulfilling our funding needs for the construction of PNG end-user pipelines outside of households premises in villages, which would enable us to implement the Clean Energy Projects.

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

- (a) approximately [REDACTED]%, or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), will be used to construct PNG end-user pipelines and connect these pipelines to our urban pipeline network for over 800 households at rural areas in 2022;
- (b) approximately [REDACTED]%, or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), will be used to construct PNG end-user pipelines and connect these pipelines to our urban pipeline network for over 2,000 households at rural areas in 2023; and
- (c) approximately [REDACTED]%, or HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), will be used to construct PNG end-user pipelines and connect these pipelines to our urban pipeline network for over 2,700 households at rural areas in 2024.

FUTURE PLANS AND USE OF PROCEEDS

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

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

Notes:

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

FUTURE PLANS AND USE OF PROCEEDS

- (5) approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used as working capital and other general corporate purposes.

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

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

To the extent that the net proceeds of the [REDACTED] are not immediately used for the above purposes or if we are unable to put into effect any part of our plan as intended, we will only hold such funds in short-term interest-bearing deposits with licensed commercial banks and/or other authorised financial institutions (as defined under the Securities and Futures Ordinance or applicable laws and regulations in the PRC). In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

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

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR [REDACTED]

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

Facilitate the implementation of our business strategies

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

According to the CIC Report, as China has invested heavily to boost natural gas production and Chinese oil and gas companies tend to produce more natural gas to meet national needs, production volume is expected to increase to approximately 275.4 billion m³ by 2026, with a CAGR of 6.0% between 2021 and 2026. Also, it is expected that gas consumption will be increased to approximately 584.1 billion m³ by 2026, with a CAGR of 9.4% between 2021 and 2026. In terms of the natural gas supply market in Gaomi City where we mainly operated during the Track Record Period, it has achieved the target of realising “natural gas coverage to each village and town” (“村村通和鎮鎮通”). Our Directors consider that we should further fuel our business operation by fully utilising our current status as a Concession grantee. As at the Latest Practicable Date, we did not fully utilise our Operating Area in which we are entitled to operate exclusively according to the Concession Agreement; and our urban pipeline network coverage in our Operating Area is relatively low. Hence, our Group has a genuine funding need to extend our sale of PNG and related businesses to cover more towns and villages in Gaomi City which are still not covered by our urban pipeline network. Our expansion plans include the construction of new mid-pressure pipelines for expanding our urban pipeline network within our Operation Area, the upgrade of our urban pipeline network, digitalisation of our gas meter reading system, and construction of PNG end-user pipelines and connecting these pipelines to our urban pipeline network to expand our customer base.

FUTURE PLANS AND USE OF PROCEEDS

Strengthen our financial position and enhance our working capital

We finance our working capital requirements through a combination of funds generated from operations, bank borrowings and other means of financing (such as ABS financing). As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had cash and cash equivalents of approximately RMB26.3 million, RMB39.6 million, RMB37.4 million and RMB24.4 million, respectively. We have to maintain our current cash level to support our operation, including but not limited to payment for procurement costs, lease costs, staff costs and other administrative and operating expenses. Though we are able to expand our business using internally generated funds and bank borrowings, we intend to seek equity financing instead of debt financing for reasons listed below:

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

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

FUTURE PLANS AND USE OF PROCEEDS

Enhance our corporate profile and corporate governance

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

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

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

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

Attract quality talents

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

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