Application Proof of

JY GAS LIMITED
交运燃气有限公司

(Incorporated in the Cayman Islands with limited liability)

WARNING

The publication of this Application Proof is required by The Stock Exchange of Hong Kong Limited (the "**Exchange**") and the Securities and Futures Commission (the "**Commission**") solely for the purpose of providing information to the public in Hong Kong.

This Application Proof is in draft form. The information contained in it is incomplete and is subject to change which can be material. By viewing this document, you acknowledge, accept and agree with JY GAS LIMITED (交运燃气有限公司) ("the **Company**"), its sponsor, overall coordinators, advisers or members of the underwriting syndicate that:

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(h) no application for the securities mentioned in this document should be made by any person nor would such application be accepted;

(i) the Company has not and will not register the securities referred to in this document under the United States Securities Act of 1933, as amended, or any state securities laws of the United States;

(j) as there may be legal restrictions on the distribution of this document or dissemination of any information contained in this document, you agree to inform yourself about and observe any such restrictions applicable to you; and

(k) the application to which this document relates has not been approved for listing and the Exchange and the Commission may accept, return or reject the application for the subject public offering and/or listing.

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IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

JY GAS LIMITED
交运燃气有限公司

(Incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED]	:	**[REDACTED] Shares (subject to the [REDACTED])**
Number of [REDACTED]	:	**[REDACTED] Shares (subject to reallocation)**
Number of [REDACTED]	:	**[REDACTED] Shares (subject to reallocation and the [REDACTED])**
Maximum [REDACTED]	:	**HK$[REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**US$0.0001 per Share**
[REDACTED]	:	**[●]**

Sole Sponsor, [REDACTED] and [REDACTED]

兴证国际
INDUSTRIAL SECURITIES INTERNATIONAL

[REDACTED]

A copy of this document, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies in Hong Kong and Documents on Display" in Appendix VI to this document, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any other document referred to above.

The final [REDACTED] is expected to be fixed by agreement between the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company on the [REDACTED], which is expected to be on or around [REDACTED] and in any event, not later than [REDACTED]. If, for any reason, the final [REDACTED] is not agreed by [REDACTED] (or such later date so agreed by our Company, the [REDACTED] and the [REDACTED]) between the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The [REDACTED] are being [REDACTED] and sold only outside the United States in offshore transactions in reliance on Regulation S.

The [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being [REDACTED] under the [REDACTED] and/or the indicative [REDACTED] range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published on our website (www.gmjytrq.com) and the Stock Exchange's website (www.hkexnews.hk) not later than the morning of the day which is the last day for lodging applications under the [REDACTED].

Prior to making an [REDACTED] decision, prospective [REDACTED] should consider carefully all of the information set out in this document, including the risk factors set out in "Risk Factors" in this document. The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) if certain grounds for termination arise prior to 8:00 a.m. on the [REDACTED]. Such grounds are set out in "[REDACTED]" in this document.

[REDACTED]

IMPORTANT

[REDACTED]

IMPORTANT

[REDACTED]

EXPECTED TIMETABLE[1]

[REDACTED]

[REDACTED]

EXPECTED TIMETABLE[1]

[REDACTED]

EXPECTED TIMETABLE[1]

[REDACTED]

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IMPORTANT NOTICE TO [REDACTED]

This document is issued by our Company solely in connection with the [REDACTED] and the [REDACTED] and does not constitute an [REDACTED] to sell or a solicitation of an [REDACTED] to buy any security other than the [REDACTED]. This document may not be used for the purpose of, and does not constitute, an [REDACTED] to sell or a solicitation of an [REDACTED] to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] or the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the [REDACTED] of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document to make your [REDACTED] decision.

We have not authorised anyone to provide you with information that is different from what is contained in this document.

Any information or representation not included in this document must not be relied on by you as having been authorised by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of our or their respective directors or any other persons or parties involved in the [REDACTED].

Please note that the totals set out in the tables in this document may differ from the sum of individual items in such tables due to rounding.

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

BUSINESS OVERVIEW

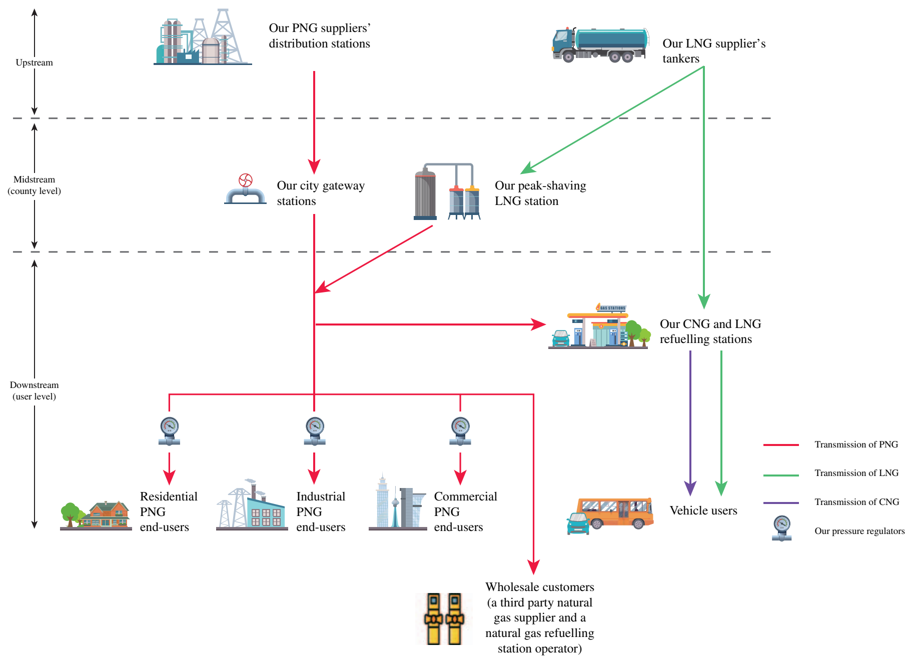
We are a natural gas operator with over 16 years of experience. We operate in Gaomi City, Weifang Municipality of Shandong Province, which has an area of approximately 1,606.0 km^2 and a residential population of approximately 877,000 people. We have been designated as an Outstanding Enterprise (優秀企業) in Gaomi City for four consecutive years. According to "2021 County Economic Report and County Development Monitoring and Evaluation" (《2021縣域經濟與縣域發展監測評價報告》) published by Zhongjun County Economic Research Institute (中郡縣域經濟研究所), Gaomi City was ranked the 74th among the "Top 100 County in China" (中國百強縣) in 2021. We have an exclusive right under our Concession Agreement with Gaomi City Bureau of Municipal Affairs Administration to operate PNG sales and related businesses within the granted area of Gaomi City, including both urban and rural areas, for an effective term of 30 years from 18 August 2009. As at the Latest Practicable Date, our Operating Area under the Concession represented approximately 70.0% of the total administrative area of Gaomi City. Our PNG suppliers are PetroChina and Shandong Shihua (which is owned by Sinopec as to 50%). We have entered into master agreements and a series of actual purchase contracts with them for the procurement of PNG. Our PNG customers are primarily retail, consisting of residential, commercial and industrial PNG end-users. We also engage in the sale of CNG and LNG, provision of construction and installation services and sale of gas-burning appliances. As at the Latest Practicable Date, our Group does not intend to expand its business beyond Gaomi City.

BUSINESS MODEL

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

Sale of gas

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



Gaomi City is a hub located in the region in Shandong Province through which the Taiqingwei Pipeline* (泰青威管道) and Kunlun Pipeline* (昆侖管道) run. In Gaomi City, the consumption volume of natural gas is expected to reach 254.4 million m^3 in 2026 with a CAGR of 12.8% from 2021, and the sales value of Gaomi City's natural gas supply market is expected to reach RMB996.5 million by 2026 with a CAGR of 13.1% from 2021, according to the CIC Report. This is mainly driven by a steady increase in natural gas consumption within the industrial fuel, construction and city natural gas sectors.

Key terms of our Concession

We operate our sales of natural gas and related businesses in Gaomi City under our Concession, the key terms of which 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, 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	The administrative area, including both urban and rural areas of, Gaomi City.
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. 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. Based on our interview with Gaomi City Housing and Urban-Rural Development Bureau, our Directors believe that our Group is likely to be able to renew the Concession and continue to operate our natural gas sales and related businesses after August 2039. For details, please refer to "Business — Concession Operation — Effective Concession Term" in this document.

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.
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.

The area granted to us under the Concession Agreement was comprised of 100% of the administrative area of Gaomi City at the time of its execution. In 2010, Gaomi City Housing and Urban-Rural Development Bureau, after discussion with us and with our consent, decided to engage Gaomi Haojia to supply PNG to approximately 30% of the administrative area of Gaomi City. Since 2010, Gaomi Haojia has been operating its PNG sales and related businesses in its operating area in Gaomi City. Consequently, the size of our Operating Area was reduced to approximately 70% of the administrative area of Gaomi City, within which we have been and are entitled to exclusively operate our sales of PNG and related businesses. For details, please refer to "Business — Concession Operation — Key Terms of Concession Agreement — Operating Area" in this document.

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

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

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume	Average selling price without VAT	Sales volume
	RMB/m³	*'000/m³*	*RMB/m³*	*'000/m³*	*RMB/m³*	*'000/m³*	*RMB/m³*	*'000/m³*	*RMB/m³*	*'000/m³*
PNG	3.0	93,497	2.8	88,010	3.0	102,104	2.9	35,767	3.5	38,479
CNG and LNG	3.5	10,356	2.9	7,923	3.5	6,321	3.2	2,231	4.1	1,971

Our sales volume for PNG decreased from approximately 93.5 million m^3 for the year ended 31 December 2019 to approximately 88.0 million m^3 for the year ended 31 December 2020, primarily attributable to a decrease in our sales volume of PNG to commercial PNG end-users due to the adverse impacts of the COVID-19 outbreak on commercial activities in Gaomi City. Further, sales of PNG to our wholesale customers also saw a significant decline as we only supply PNG to our wholesale customers after we have ascertained that the demands of our PNG end-users have been fully satisfied. Our sales volume increased from approximately 88.0 million m^3 for the year ended 31 December 2020 to approximately 102.1 million m^3 for the year ended 31 December 2021, primarily attributable to an increase in our sales volume of PNG to industrial PNG end-users as the adverse impacts of COVID-19 on industrial operations in Gaomi City gradually subsided. Our sales volume increased from approximately 35.8 million m^3 for the four months ended 30 April 2021 to approximately 38.5 million m^3 for the four months ended 30 April 2022, primarily attributable to an increase in sales to residential PNG end-users as a result of our implementation of the Clean Energy Projects. Our average selling price of PNG decreased from approximately RMB3.0/m^3 for the year ended 31 December 2019 to approximately RMB2.8/m^3 for the year ended 31 December 2020, primarily due to the temporary price reduction set by the relevant authorities in the first quarter of 2020 in respect of non-residential PNG. Following such price reduction, our average selling price of PNG recovered to approximately RMB3.0/m^3 for the year ended 31 December 2021. Subsequently, our average selling price of PNG increased from approximately RMB2.9/m^3 for the four months ended 30 April 2021 to approximately RMB3.5/m^3 for the four months ended 30 April 2022.

Our sales volume for LNG and CNG decreased from approximately 10.4 million m^3 for the year ended 31 December 2019 to approximately 7.9 million m^3 for the year ended 31 December 2020, primarily attributable to more vehicle users opting to fuel their vehicles using petrol instead of gas due to a decline in the prices of petrol, which is commonly used as an alternative fuel for vehicles. This also led to a reduction in our average CNG and LNG selling price from approximately RMB3.5/m^3 for the year ended 31 December 2019 to approximately RMB2.9/m^3 for the year ended 31 December 2020. Our sales volume declined slightly from approximately 7.9 million m^3 for the year ended 31 December 2020 to approximately 6.3 million m^3 for the year ended 31 December 2021, primarily attributable to the increase in our average CNG and LNG selling price from RMB2.9/m^3 to RMB3.5/m^3 in reaction to the recovery of petrol prices. Our sales volume decreased from approximately 2.2 million m^3 for the four months ended 30 April 2021 to approximately 2.0 million m^3 for the four months ended 30 April 2022, primarily attributable to an increase in our average CNG and LNG selling price from RMB3.2/m^3 to RMB4.1/m^3 as the prices of petrol increased.

Provision of construction and installation services

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

Sale of gas-burning appliances

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

Our customers

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

Our suppliers

During the Track Record Period, we procured (i) PNG from PetroChina and Shandong Shihua, which are Big-3 Noc companies; (ii) LNG from Zhonghui Energy, which is an Independent Third Party engaged in natural gas sales; (iii) gas-burning appliances from mostly Independent Third Party suppliers in the PRC (Yuanhua Trading being the exception); (iv) equipment and machinery, including pipelines and other parts and components such as valves and gas meters, from Independent Third Party suppliers (Yuanhua Trading being the exception); and (v) pipeline construction and installation services from Jiaoyun Property, a connected person, and two Independent Third Parties. For details, please refer to "Business — Our Suppliers" in this document.

Our PNG suppliers are PetroChina and Shandong Shihua. According to the CIC Report, the supply of PNG from upstream natural gas suppliers has been, and is expected to continue to be, dominated by the Big-3 Noc due to prevailing national regulatory restrictions. Therefore, it is an industry norm for local downstream gas distributors in the PRC to materially rely on one or more of the Big-3 Noc companies, in our case Shandong Shihua and PetroChina (which are the only two upstream PNG suppliers in Gaomi City). Under the current overall contractual arrangement with

PetroChina and Shandong Shihua, we have certain take-or-pay obligations pursuant to which we may have to pay a penalty if our actual procurement volume falls short of the agreed minimum monthly procurement volume. During the Track Record Period, such minimum monthly procurement volume, as stipulated in our actual purchase contracts with each of PetroChina and Shandong Shihua, were predetermined according to the monthly procurement volume projections submitted in advance by us and subsequently approved by them. For more details of the take-or-pay arrangements, please refer to "Business — Procurement of PNG" in this document. For the years ended 31 December 2019, 2020 and 2021, we had an aggregate procurement shortfall with PetroChina of approximately 1.0 million m^3, 0.8 million m^3, 1.0 million m^3, respectively, and we had an aggregate procurement shortfall with Shandong Shihua of approximately 9.9 million m^3, 3.1 million m^3, 1.6 million m^3, respectively. We did not experience any procurement shortfall for the four months ended 30 April 2022. We were not required to make any payment for the aforementioned procurement shortfalls due to the exemption stipulated in an official notice issued by the Shandong Provincial Development and Reform Commission (山東省發展和改革委員會) from February to June 2020 in light of COVID-19). Our Directors confirm that no take-or-pay obligation was enforced by either PetroChina or Shandong Shihua against us during the Track Record Period and up to the Latest Practicable Date. If PetroChina and Shandong Shihua had enforced the relevant take-or-pay obligation against us in relation to the aforementioned shortfalls, we would have had to additionally pay approximately RMB0.6 million, RMB0.5 million, RMB0.6 million to PetroChina for the years ended 31 December 2019, 2020 and 2021, respectively, and approximately RMB6.2 million, RMB2.1 million, RMB1.1 million to Shandong Shihua for the years ended 31 December 2019, 2020 and 2021, respectively. We did not make provisions on our financial statements in respect of the procurement shortfalls recorded during the Track Record Period because (i) 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; (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 extremely unlikely that PetroChina and/or Shandong Shihua would make a claim against us for the respective shortfalls attributed to the industrial norm that the take-or-pay obligation aligns the interests of PetroChina and/or Shandong Shihua with ours in respect of the sustainability and reciprocity of natural gas market in the PRC, as advised by CIC. 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 obligation against us. For details of our procurement shortfalls during the Track Record Period, please refer to "Business — Procurement of PNG — PNG procured during Track Record Period" in this document.

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

Overlapping Customer and Supplier

During the Track Record Period, Jiaoyun Property was both a customer and a subcontractor of our Group. We provided construction and installation services to Jiaoyun Property, which was also our subcontractor for the provision of construction works to carry out our construction and installation services. All of the transactions involving Jiaoyun Property were conducted in the ordinary course of business under normal commercial terms. For details, please refer to "Business — Overlapping of Customer and Supplier" in this document.

OUR COMPETITIVE STRENGTHS

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

OUR BUSINESS STRATEGIES

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

OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Mr. Luan Linjiang (one of the controlling shareholders of our Company prior to the [REDACTED]), through LLJ Phoenix, held 33% of the total issued share capital of our Company, and Mr. Luan Xiaolong, through LXL Phoenix and SEGM Holding (wholly owned by SDJY Holding, which is in turn wholly owned by Mr. Luan Xiaolong) held 56% and 10% of the total issued share capital of our Company, respectively. Immediately after the completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Luan Linjiang, through LLJ Phoenix, will be beneficially interested in [REDACTED]% of the enlarged issued share capital of our Company, and Mr. Luan Xiaolong, through LXL Phoenix and SEGM Holding (wholly owned by SDJY Holding, which is in turn wholly owned by Mr. Luan Xiaolong), will be beneficially interested in a total of [REDACTED]% of the enlarged issued share capital of our Company. Since Mr. Luan Linjiang, through LLJ Phoenix, will hold less than 30% of our total issued share capital following the completion of the [REDACTED], and Mr. Luan Xiaolong, the son of Mr. Luan Linjiang, is aged over 18 and therefore is not a close associate of Mr. Luan Linjiang within the meaning of the Listing Rules, Mr. Luan Linjiang and LLJ Phoenix will not be regarded as our controlling shareholders as defined under the Listing Rules. Accordingly, Mr. Luan Xiaolong, LXL Phoenix, SEGM Holding and SDJY Holding are considered as our Controlling Shareholders immediately following the [REDACTED]. For details, please refer to "Relationship with Our Controlling Shareholders" in this document.

CONTINUING CONNECTED TRANSACTIONS

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

[REDACTED] INVESTMENT

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

COMPETITION

While the natural gas industry in the PRC is relatively fragmented, natural gas distribution at regional level, such as in Gaomi City, is relatively concentrated, with us taking up a market share of approximately 70%. With our exclusive right under the Concession, supportive government policies, 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 details, please refer to "Business — Competition" in this document.

SUMMARY OF FINANCIAL INFORMATION AND RESULTS OF OPERATIONS

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

	For the year ended 31 December			For the four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Revenue	354,231	347,943	440,894	135,962	158,253
Cost of sales	(271,495)	(249,912)	(343,677)	(110,494)	(135,485)
Gross profit	82,736	98,031	97,217	25,468	22,768
Administrative expenses	(14,915)	(18,051)	(19,161)	(4,968)	(8,447)
Reversal of net impairment losses on financial assets	2,944	1,699	800	1,805	3
Other income	229	229	15,396	101	1,193
Other gains/(losses), net	1,464	(309)	863	(219)	854
Operating profit	72,458	81,599	95,115	22,187	16,371
Finance income	3,625	3,065	512	105	324
Finance costs	(25,935)	(16,203)	(4,119)	(1,384)	(838)
Finance costs, net	(22,310)	(13,138)	(3,607)	(1,279)	(514)
Profit before income tax	50,148	68,461	91,508	20,908	15,857
Income tax expense	(13,122)	(17,439)	(23,134)	(5,295)	(3,999)
Profit and total comprehensive income for the year/period	37,026	51,022	68,374	15,613	11,858
Profit and total comprehensive income attributable to:					
Owners of our Company	35,223	50,081	67,505	15,253	11,318
Non-controlling interests	1,803	941	869	360	540
	37,026	51,022	68,374	15,613	11,858

Non-HKFRS measure: adjusted net profit

To supplement our consolidated results which are prepared and presented in accordance with HKFRS, we also used adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with, HKFRS. We believe that this non-HKFRS measure facilitates comparisons of operating performance from period to period by eliminating the potential impact of the following items.

	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* *(unaudited)*	*RMB'000*
Profit and total comprehensive income for the year/period	37,026	51,022	68,374	15,613	11,858
Non-HKFRS Measure					
Excluding:					
Non-recurring item — [REDACTED] expenses	—	3,974	5,838	1,158	4,192
Adjusted net profit	37,026	54,996	74,212	16,771	16,050

For details, please refer to "Financial Information — Non-HKFRS Measure: Adjusted Net Profit" in this document.

Revenue

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

	For the year ended 31 December						For the four months ended 30 April			
	2019		**2020**		**2021**		**2021**		**2022**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
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

During the Track Record Period, the slight decrease in revenue from 2019 to 2020 was mainly due to (i) a decrease in revenue from our sale of PNG due to a decrease in our per unit selling price of PNG to industrial PNG end-users affected by the COVID-19 outbreak; and (ii) a decrease in revenue from our sale of CNG and LNG due to a decline in the prices of petrol, which is commonly used as an alternative fuel for vehicles, partially offset by increases in revenue from the sale of gas-burning appliances and provision of construction and installation services. The increase in revenue from 2020 to 2021 was mainly due to an increase in PNG consumption by industrial PNG end-users as the adverse impacts of COVID-19 on industrial operations in Gaomi City gradually subsided, while our PNG end-user base remained stable and our PNG end-user selling price recovered from the temporary price reduction in the first quarter of 2020. The increase in revenue from the four months ended 30 April 2021 to the four months ended 30 April 2022 was mainly due to an increase in our per unit selling price of PNG to industrial and commercial PNG-end users, as well as an increase in PNG consumption by residential PNG end-users primarily as a result of our implementation of the Clean Energy Projects.

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

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

Revenue from our sale of PNG to industrial end-users decreased from approximately RMB205.8 million for the year ended 31 December 2019 to approximately RMB188.6 million for the year ended 31 December 2020, primarily attributable to a decrease in our average selling price of PNG to industrial end-users from RMB3.2/m^3 to RMB2.9/m^3 as a result of the temporary price reduction set by the relevant authorities in the first quarter of 2020, as well as a decrease in our sales volume as a result of the adverse impacts of COVID-19 on industrial operations in Gaomi City. Revenue from our sale of PNG to industrial end-users subsequently increased from approximately RMB188.6 million for the year ended 31 December 2020 to approximately RMB233.5 million for the year ended 31 December 2021, primarily attributable to an increase in our sales volume as the adverse impacts of COVID-19 on industrial operations in Gaomi City gradually subsided, as well as the recovery of our average PNG selling price to approximately RMB3.1/m^3 for the year ended 31 December 2021. Revenue from our sale of PNG to industrial end-users increased from approximately RMB76.9 million for the four months ended 30 April 2021 to approximately RMB92.6 million for the four months ended 30 April 2022, primarily attributable to an increase in our average selling price of PNG to industrial end-users from RMB3.0/m^3 to RMB3.9/m^3, while our sales volume to such users decreased due to the resurgence of COVID-19 in March 2022, which had a temporary adverse impact on industrial operations in Gaomi City.

Revenue from our sale of PNG to residential end-users increased from approximately RMB33.9 million for the year ended 31 December 2019 to approximately RMB43.5 million for the year ended 31 December 2020, primarily attributable to an increase our residential PNG end-users as a result of the implementation of the Zero-coal Policy and an influx of people moving into newly built residential properties in Gaomi City. Owing to the same reason, revenue from our sale of PNG to residential end-users increased from approximately RMB43.5 million for the year ended 31 December 2020 to approximately RMB48.1 million for the year ended 31 December 2021. Revenue from our sale of PNG to residential end-users increased from approximately RMB18.8 million for the four months ended 30 April 2021 to approximately RMB30.3 million for the four months ended 30 April 2022, primarily attributable to an increase in PNG consumption by residential end-users as a result of the Clean Energy Projects.

Revenue from our sale of PNG to commercial end-users decreased from approximately RMB23.9 million for the year ended 31 December 2019 to approximately RMB13.0 million for the year ended 31 December 2020, primarily attributable to (i) a decrease in our sales volume as a result of the adverse impacts of COVID-19 on commercial activities in Gaomi City; and (ii) a decrease in our average PNG selling price to RMB2.9/m^3 for the year ended 31 December 2020 due to temporary price reduction set by the relevant authorities in the first quarter of 2020. Revenue from our sale of PNG to commercial end-users subsequently increased from approximately RMB13.0 million for the year ended 31 December 2020 to approximately RMB18.7 million for the year ended 31 December 2021, primarily attributable to (i) an increase in sales volume due to the recovery of commercial activities during the first half of 2021 as the adverse impacts of COVID-19 gradually subsided; and (ii) our average PNG selling price recovered to approximately RMB3.2/m^3 for the year ended 31 December 2021. Revenue from our sale of PNG to commercial end-users decreased from approximately RMB8.4 million for the four months ended 30 April 2021 to approximately RMB7.8 million for the four months ended 30 April 2022, primarily attributable to a decrease in sales volume due to the resurgence of COVID-19 in March 2022 and the restrictive measures imposed as a result, which had a temporary adverse impact on commercial activities in Gaomi City, despite an increase in our average selling price of PNG to commercial end-users.

Gross profit and gross profit margin

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

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

The increase in gross profit from 2019 to 2020 was primarily attributable an increase in gross profit from our construction and installation services and sale of gas-burning appliances, both due to our implementation of the Zero-coal Policy in Gaomi City. Our gross profit remained relatively stable for 2020 to 2021 as we recorded an increase in gross profit from our gas-burning appliances sales due to increased sales of gas-burning appliances as a result of our implementation of the Clean Energy Projects, while we recorded a decrease in gross profit from our sales of PNG (primarily attributable to decreased revenue from our PNG sales to industrial PNG end-users for the reasons explained above), our sales of CNG and LNG (primarily attributable to a slight increase in our cost of sales for such segment as a result of increased procurement costs for CNG and LNG), and our construction and installation services (primarily attributable to an increase in our cost of sales due to labour expenses). Our gross profit decreased from approximately RMB25.5 million for the four months ended 30 April 2021 to approximately RMB22.8 million for the four months ended 30 April 2022, primarily attributable to a decrease in gross profit from our construction and installation services and sales of gas-burning appliances as these business segments were adversely impacted by the resurgence of COVID-19.

For the years ended 31 December 2019, 2020 and 2021 and 30 April 2022, our gross profit margin amounted to approximately 23.4%, 28.2%, 22.0% and 14.4%, respectively. The increase in our gross profit margin from 2019 to 2020 was primarily attributable an increase of revenue generated from our construction and installation services resulting from the implementation of the Zero-coal Policy in Gaomi City, which had a higher gross profit margin compared to our other business segments. The decrease in our gross profit margin from 2020 to 2021 resulted primarily from a slower recovery in our PNG end-user selling price as compared to the faster recovery of our PNG procurement price as the adverse impacts of the COVID-19 outbreak on industrial operations in Gaomi City gradually subsided. Our gross profit margin decreased from the four months ended 30 April 2021 to the four months ended 30 April 2022 due to a surge in our average PNG cost, and as the revenue contributions from our construction and installation services and sales of gas-burning appliances (which are business segments that typically record higher gross profit margins) saw significant short term decreases due to the resurgence of COVID-19.

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

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

During the Track Record Period, we derived most of our PNG sales gross profit from our sale of PNG to retail customers, particularly industrial PNG end-users. Our gross profit from PNG sales to industrial PNG end-users decreased from approximately RMB44.8 million for the year ended 31 December 2019 to approximately RMB39.4 million for the year ended 31 December 2020, primarily attributable to a decrease in revenue from our PNG sales to such PNG end-users for the reasons explained above, and remained stable at approximately RMB39.4 million and RMB39.2 million for the years ended 31 December 2020 and 2021, respectively. Our gross profit from PNG sales to industrial PNG end-users increased from approximately RMB9.9 million for the four months ended 30 April 2021 to approximately RMB16.9 million for the four months ended 30 April 2022, primarily attributable to an increase in revenue from our PNG sales to such PNG end-users for the reasons explained above.

Our gross profit margin for PNG sales to industrial PNG end-users remained relatively stable at approximately 21.8% and 20.9% for the years ended 31 December 2019 and 2020, respectively, and decreased to approximately 16.8% for the year ended 31 December 2021. Such decrease was due to a notable increase in our average PNG procurement price from approximately RMB2.00 per m^3 (without VAT) for the year ended 31 December 2020 to approximately RMB2.26 per m^3 (without VAT) for the year ended 31 December 2021, despite the recovery in our average selling price of PNG from approximately RMB2.9 per m^3 for the year ended 31 December 2020 to approximately RMB3.1 per m^3 for the year ended 31 December 2021. Our gross profit margin for PNG sales to commercial PNG end-users remained relatively stable at approximately 20.8% and 21.2% for the years ended 31 December 2019 and 2020, respectively, and decreased slightly to approximately 18.8% for the year ended 31 December 2021, primarily due to the increase in our average PNG procurement price as explained above. Our gross profit margin for PNG sales to residential PNG-end users increased significantly from approximately 0.2% for the year ended 31 December 2019 to approximately 13.9% for the year ended 31 December 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). Our PNG sales volume to residential PNG end-users during the first half of 2020 was exceptionally high as most residents stayed at home due to COVID-19 restrictions and lockdowns imposed, yet PNG procurement price was relatively low at that time due to global economic slowdown, hence the gross profit margin of our PNG sales to residential PNG end-users in 2020 as a whole was higher than usual. As for our PNG sales to industrial and commercial PNG end-users, most of such sales concentrated in the second half of 2020 when COVID-19 restrictions were gradually lifted, yet PNG procurement price at that time also recovered as economic activities resumed, hence the corresponding gross profit margins of our PNG sales to industrial and commercial PNG end-users in 2020 as a whole remained stable compared to that in 2019. Our gross profit margin for PNG sales to residential PNG end-users fell back to approximately 2.0% for the year ended 31 December 2021 as our average procurement price recovered. Our gross profit margin for PNG sales to industrial and commercial PNG end-users increased from 12.9% and 16.2%, respectively, for the four months ended 30 April 2021 to 18.3% and 20.4%, respectively, for the four months ended 30 April 2022. This was primarily attributable to increases in our average selling prices of PNG to such PNG end-users. Our gross profit margin for PNG sales to residential PNG end-users declined from (0.5%) for the four months ended 30 April 2021 to (20.4%) for the four months ended 30 April 2022, primarily due to an unexpected surge in our average cost of PNG in early 2022, while our average selling price of PNG to such users remained the same. Our gross profit margin for PNG sales to wholesale customers decreased from approximately 5.4% for the year ended 31 December 2019 to approximately 2.4% for the year ended 31 December 2020, primarily due to a decrease in our average selling price of PNG to wholesale customers, while it remained stable at approximately 2.4% and 2.2% for the years ended 31 December 2020 and 2021. Our gross profit margin for PNG sales to wholesale customers decreased from 2.9% for the four months ended 30 April 2021 to 2.0% for the four months ended 30 April 2022, primarily due to the aforementioned surge in our average cost of PNG.

Other income

During the year ended 31 December 2021, we received a government subsidy of approximately RMB13.5 million in relation to our implementation of the coal-to-gas project (煤改氣工程).

Profit for the year/period

For the years ended 31 December 2019, 2020 and the four months ended 30 April 2022, our net profit was approximately RMB37.0 million, RMB51.0 million, RMB68.4 million and RMB11.9 million, respectively. The increases in our net profit for the years ended 31 December 2019, 2020 and 2021 were primarily attributable to (i) increases in our gross profit for the reasons described above; (ii) an increase in our other income for the year ended 31 December 2021 due to a government subsidy in the amount of approximately RMB13.5 million; (iii) a decrease in our finance costs as we repaid the principal amount of our ABS and other borrowings. The decrease in our net profit from approximately RMB15.6 million for the four months ended 30 April 2021 to approximately RMB11.9 million for the four months ended 30 April 2022 was primarily attributable to increases in our costs of sales and administrative expenses (mainly resulting from an increase in our [REDACTED] expenses).

Summary of consolidated balance sheets

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

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

Our net asset value increased from approximately RMB45.0 million as at 31 December 2019 to approximately RMB145.4 million as at 31 December 2020, primarily attributable to (i) the declaration of a dividend in the amount of approximately RMB10.6 million from Jiaoyun Thermal to Jiaoyun Gas in July 2020; and (ii) the Group's disposal of Jiaoyun Thermal at a cash consideration of approximately RMB40.3 million. Our net asset value decreased from approximately RMB145.4 million as at 31 December 2020 to approximately RMB109.2 million as at 31 December 2021, primarily attributable to (i) the declaration of dividends by Jiaoyun Gas to its then shareholders in the amount of RMB70.0 million; and (ii) a deemed distribution of approximately RMB60.7 million as a part of the Reorganisation, which was offset by the Group's disposal of its interest in Gaoyun Investment at a cash consideration of RMB25.5 million. Our net asset value subsequently increased to approximately RMB121.1 million as at 30 April 2022, primarily attributable to a profit for the period of approximately RMB11.9 million. For details, please see "Consolidated Statements of Changes in Equity" in Appendix I to this document.

We recorded net current liabilities of approximately RMB137.1 million and RMB39.5 million as at 31 December 2019 and 2020, respectively, mainly due to (i) advances to our related parties and third parties; (ii) payment obligations under our ABS; and (iii) bank borrowings and other borrowings relating to our bill financing arrangements, including the Non-compliant Bill Financing Arrangements, and the Deviation from Intended Use of Loan Proceeds. Although we placed security deposits with banks for the Non-compliant Bill Financing Arrangements and the Deviation from Intended Use of Loan Proceeds, such amount of security deposit was usually lower than the loan amount obtained from such arrangements. Our total current liabilities also included our contractual liabilities which represent our unearned construction and installation services, PNG sales and sale of gas-burning appliances. Hence the net effect of such arrangements gave rise to the net current liabilities position for the years ended 31 December 2019 and 2020. We recorded net current liabilities of approximately RMB100.8 million as at 31 December 2021, mainly due to our dividend distribution to shareholders of RMB70 million and a deemed distribution as a part of the Reorganisation of RMB60.7 million. We recorded net current liabilities of approximately RMB88.7 million as at 30 April 2022 for the same reasons. Please refer to "Risk Factors — Other Risks Relating to Our Group — We had net current liabilities as at 31 December 2019, 2020 and 2021 and 30 April 2022" in this document for the risk relating to our net current liabilities.

We have taken certain measures to improve our liquidity. In June 2020, we fully settled the principal amount of ABS. Since 17 June 2020, we have ceased all Non-compliant Bill Financing Arrangements and subsequently fully settled all relevant bank acceptance notes by 17 June 2021. Since 18 December 2020, we have ceased all the Deviation from Intended Use of Loan Proceeds and fully settled all outstanding amounts under the Relevant Bank Loans by 29 June 2021. Since June 2021, we have ceased to provide non-trade, interest-free cash advances to our related parties.

Summary of consolidated statements of cash flows

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

	For the year ended 31 December			For the four months ended 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from operating activities	76,986	136,464	39,897	1,442
Net cash generated from/(used in) investing activities	51,053	320,231	186,268	(2,474)
Net cash used in financing activities	(123,988)	(443,397)	(228,374)	(11,945)
Net increase/(decrease) in cash and cash equivalents	4,051	13,298	(2,209)	(12,977)
Cash and cash equivalents at beginning of the year	22,230	26,281	39,579	37,370
Cash and cash equivalents at end of the year	26,281	39,579	37,370	24,393

During the year ended 31 December 2021, we received a government subsidy of approximately RMB13.5 million in relation to our implementation of the coal-to-gas project (煤改氣工程). Without such government subsidy, our net cash generated from operating activities and cash and cash equivalents as at 31 December 2021 would be significantly reduced to approximately RMB26.4 million and RMB23.9 million, respectively.

Operating Activities

For the four months ended 30 April 2022, net cash generated from operating activities was approximately RMB1.4 million, which was primarily attributable to (i) the profit before tax of approximately RMB15.9 million; (ii) adjustments for income statement items with non-cash effect of approximately RMB3.0 million; (iii) an outflow of approximately RMB8.9 million for changes in working capital; (iv) interest received of approximately RMB37,000; and (v) income tax paid of approximately RMB8.5 million. Our general working capital changes were primarily attributable to changes in contract liabilities.

For the year ended 31 December 2021, net cash generated from operating activities was approximately RMB39.9 million, which was mainly attributable to (i) the profit before tax of approximately RMB91.5 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB11.3 million; (iii) an outflow of approximately RMB33.7 million for changes in working capital; (iv) interest received of approximately RMB0.5 million; and (v) income tax paid of approximately RMB29.7 million. Our general working capital changes were primarily attributable to changes in trade and other receivables, trade and others payables and contract liabilities.

For the year ended 31 December 2020, net cash generated from operating activities was approximately RMB136.5 million, which was mainly attributable to (i) the profit before tax of approximately RMB68.5 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB19.6 million; (iii) an inflow of approximately RMB53.9 million for changes in working capital; (iv) interest received of approximately RMB3.1 million; and income tax paid of approximately RMB8.6 million. Our general working capital changes were primarily attributable to changes in trade and other payables and contract liabilities.

For the year ended 31 December 2019, net cash generated from operating activities was approximately RMB77.0 million, which was attributable to (i) the profit before tax of approximately RMB50.1 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB26.2 million; (iii) an inflow of approximately RMB4.8 million for changes in working capital; (iv) interest received of approximately RMB3.6 million; and (v) income tax paid of approximately RMB7.7 million. Our general working capital changes were primarily attributable to changes in trade and other payables and contract liabilities.

Investing Activities

For the four months ended 30 April 2022, net cash used in investing activities was approximately RMB2.5 million, which was mainly attributable to purchases of property, plant and equipment.

For the year ended 31 December 2021, net cash generated from investing activities was approximately RMB186.3 million, which was mainly attributable to repayments of loans from related parties of approximately RMB399.2 million, which was partially offset by advances of loans to related parties of approximately RMB194.2 million.

For the year ended 31 December 2020, net cash generated from investing activities was approximately RMB320.2 million, which was mainly attributable to repayments of loans from related parties of approximately RMB1,497.9 million, which was partially offset by advances of loans to related parties of RMB1,164.9 million.

For the year ended 31 December 2019, net cash generated from investing activities was approximately RMB51.1 million, which was mainly attributable to repayments of loans from related parties of approximately RMB1,315.1 million, which was partially offset by advances of loans to related parties of RMB1,252.6 million.

Financing Activities

For the four months ended 30 April 2022, net cash used in financing activities was approximately RMB11.9 million, which was mainly attributable to repayments of bank borrowings of RMB10.0 million.

For the year ended 31 December 2021, net cash used in financing activities was approximately RMB228.4 million, which was mainly attributable to (i) repayments of bank borrowings of approximately RMB222.8 million; (ii) dividend to the then shareholders of a subsidiary of approximately RMB70.0 million; and (iii) our acquisition of the [REDACTED] business consisting of Jiaoyun Gas, our onshore holding company, and its operating subsidiary, of approximately RMB60.7 million, partially offset by (i) withdrawal of restricted bank deposits for borrowings of approximately RMB70.1 million; (ii) proceeds from bank borrowings of approximately RMB37.0 million; and (iii) proceeds from our disposal of a then subsidiary, namely Gaoyun Investment, of approximately RMB25.5 million.

For the year ended 31 December 2020, net cash used in financing activities was approximately RMB443.4 million, which was mainly attributable to (i) repayments of bank borrowings of RMB647.2 million; (ii) placement of bank deposits for borrowings of approximately RMB156.7 million; and (iii) repayment of ABS in the amount of approximately RMB125.0 million, which was partially offset by (i) proceeds from bank borrowings of approximately RMB283.1 million; (ii) redemption of bank deposits for borrowings of approximately RMB167.3 million; and (iii) dividend and disposal proceeds relating to our then subsidiary, namely Jiaoyun Thermal, of approximately RMB50.9 million.

For the year ended 31 December 2019, net cash used in financing activities was approximately RMB124.0 million, which was mainly attributable to (i) repayments of bank borrowings of RMB470.8 million; (ii) placement of bank deposits for borrowings of approximately RMB269.3 million; and (iii) repayment of ABS in an amount of approximately RMB105.0 million, which was partially offset by (i) proceeds from bank borrowings of approximately RMB615.6 million; and (ii) redemption of bank deposits for borrowings of RMB133.0 million.

Key financial ratios

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

	As at or for the year ended 31 December			As at or for the four months ended 30 April
	2019	2020	2021	2022
Current ratio(1)	84.3%	90.2%	47.6%	44.4%
Quick ratio (2)	83.1%	86.6%	42.7%	38.1%
Return on total assets(3)	4.2%	6.9%	15.6%	11.7%(8)
Return on equity(4)	133.9%	53.6%	53.7%	31.3%(8)
Gearing ratio(5)	1,670.3%	158.2%	36.5%	24.6%
Net debt to equity ratio(6)	1,158.1%	79.4%	2.3%	4.4%
Net profit margin(7)	10.5%	14.7%	15.5%	7.5%

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the year/period.

(2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of the year/period.

(3) Return on total assets is calculated by dividing profit for the year/period by the average level of the total assets for the year/period.

(4) Return on equity is calculated by dividing net profit for the year/period by the average equity for the year/period.

(5) Gearing ratio is calculated by dividing total debt (borrowings and lease liabilities) by total equity as at the end of the relevant year/period.

(6) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the year/period. Net debt is calculated as total debt (borrowings and lease liabilities) less cash and cash equivalents and restricted bank deposits as at the end of the year/period.

(7) Net profit margin is equal to net profit divided by total revenue for the year/period.

(8) Profit for the year is pro rata annualised for illustrative purposes.

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

During the year ended 31 December 2021, we received a government subsidy of approximately RMB13.5 million in relation to our implementation of the coal-to-gas project (煤改氣工程). For illustrative purposes, without such government subsidy, our current and quick ratios would be reduced to approximately 40.6% and 35.7%, respectively; our return on total assets and return on equity would decline to approximately 12.7% and 45.5%, respectively; our gearing ratio and net debt to equity ratio would increase to approximately 41.6% and 16.6%, respectively; and our net profit margin would be reduced to approximately 12.5%, for the year ended 31 December 2021.

DIVIDEND AND DIVIDEND POLICY

After completion of the [REDACTED], we expect to declare and distribute approximately 33.0% of our net profit for a given year as dividends to our Shareholders (the "**Dividend Policy**"). For details, please refer to "Financial Information — Dividend and Dividend Policy" in this document.

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

CAPITAL EXPENDITURES

Our historical capital expenditures during the Track Record Period primarily included expenditure for our purchases of equipment and the construction and upgrade of pipelines. We funded our capital expenditure requirements and long-term investments during the Track Record Period mainly from cash flow generated from our operations, ABS and bank borrowings. Our capital expenditure amounted to approximately RMB15.1 million, RMB14.2 million, RMB21.9 million and RMB2.5 million for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively.

Our capital expenditure for the year ending 31 December 2022 is expected to amount to approximately RMB17.2 million, which will be primarily used for pipeline construction. We plan to fund our future capital expenditures by utilising the cash generated from our operations and our existing banking facilities. We may reallocate the funds to be utilised for our capital expenditure and future development based on our ongoing business needs.

CAPITAL COMMITMENTS

During the Track Record Period, our Group did not have any capital commitments.

[REDACTED] EXPENSES

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

PROPERTY INTEREST AND PROPERTY VALUATION

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

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since the end of the Track Record Period and as at the Latest Practicable Date, we have continued to grow our existing businesses of natural gas sales, construction and installation services and gas-burning appliances sales. In respect of our sale of PNG, our number of residential, commercial and industrial PNG end-users changed from 146,394, 6,149 and 378, respectively, as at 30 April 2022 to 149,260, 6,268 and 383, respectively, as at the Latest Practicable Date. Further, pursuant to a notice issued by the Development and Reform Bureau of Gaomi, the selling price of PNG for non-residential usage has been adjusted from RMB4.36/m^3 for the 2021-2022 heating season to RMB4.06/m^3 for the 2022 non-heating season, with effect from 1 April 2022. As a result of the Russia-Ukraine military conflict in February 2022, the procurement price of LNG for our sale of CNG and LNG to vehicle users increased significantly from approximately RMB5,358/tonne on average in January 2022 to approximately RMB7,445/tonne and RMB8,326/tonne on average in February and March of 2022, respectively. The procurement price of LNG for our sale CNG and LNG remained high at RMB8,023/tonne and RMB7,430/tonne on average in April and May 2022, and partially recovered to RMB6,547/tonne in June 2022. Our PNG procurement price subsequent to the Track Record Period was not materially impacted by the Russia-Ukraine military conflict. In respect of our construction and installation services, our construction and installation projects increased from 398 as at 30 April 2022 to 418 as at the Latest Practicable Date. For the period after the Track Record Period until the Latest Practicable Date, no lockdown, suspension of businesses or severe restrictions were specifically imposed in Gaomi City. Although residents were generally more cautious, there was no significant drop in business and daily activities within Gaomi City. Supported by government policies generally favourable to the natural gas industry, the gradual recovery of the industrial climate in Gaomi City from the adverse effects of COVID-19, as well as our positive historical results, we believe that our businesses will continue to grow in the foreseeable future. Other than the aforementioned increase in the our average LNG procurement price, for the period after the Track Record Period until the Latest Practicable Date, we believe that the Russia-Ukraine military conflict and the recent resurgence of the COVID-19 outbreak in China has not had any material impact on our sales, procurement and future prospects. In particular, (i) to the best knowledge of our Directors, as at the Latest Practicable Date, we were not engaged in any sale of goods or provision of services to Russian customers; and (ii) we are not sourcing, and do not plan to source in the future, any raw materials or components from any Russian or Ukraine supplier.

Our Directors expect to record a decrease in net profit for the year ending 31 December 2022 compared to the year ended 31 December 2021 primarily due to (i) an increase in [REDACTED] expenses (which are non-recurring) for the year ending 31 December 2022; and (ii) a possible decrease in other income as the Group received a government subsidy of approximately RMB13.5 million in relation to the implementation of the coal-to-gas project (煤改氣工程) for the year ended 31 December 2021 which it may not necessarily receive for the year ending 31 December 2022. Save for the above, our Directors confirm that there was no event since 30 April 2022 and up to the date of this document that would have a material adverse impact on our business operations, financial condition and results of operations.

EFFECTS OF THE COVID-19 OUTBREAK ON OUR BUSINESS OPERATIONS

Our sales of PNG to our industrial and commercial PNG end-users, being our largest business segment, decreased from late January to March of 2020 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**"). However, sale of PNG to our residential PNG end-users for heating and cooking remained robust at the same time. Our quarterly average sales volume for PNG per month was 7.6 million m^3, 7.3 million m^3, 6.1 million m^3 and 7.5 million m^3 in 2019, comparing with 6.5 million m^3, 6.6 million m^3, 6.8 million m^3 and 9.1 million m^3 in 2020, representing a change of approximately -14.5%, -9.6%, +11.5% and +21.3%, respectively. Our revenue derived from sales of PNG dropped by approximately 12.4% in 2020 as compared with that of 2019. Such drop mainly resulted from the decreased demand for PNG from our commercial PNG end-users due to the aforementioned suspension of business operations in response to the COVID-19 Measures. Our revenue derived from sales of PNG to non-residential PNG end-users for the three months ended 31 March 2019 and 2020 was approximately RMB84.4 million and RMB66.3 million, respectively. Our Directors consider that demands for PNG from our PNG end-users had generally returned to normal levels by the fourth quarter of 2020. Further, pursuant to notices issued by the relevant local pricing bureau, the maximum PNG end-user price for industrial and commercial PNG end-users for the Operating Area was temporarily adjusted downwards for the period between February 2020 and June 2020. As a result, the gross profit from our PNG sales temporarily declined during the same period, the aforementioned PNG end-user price adjustment resulted in the temporary decline of gross profit from our PNG sales during the same 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. In around March to April of 2022, a temporary suspension of business for certain industries and a partial lockdown was also imposed in Gaomi City due to the resurgence of COVID-19. As a result, demand for PNG from our industrial and commercial PNG end-users was lower than usual in March and April 2022, which was reflected by a drop in our PNG sales volume to industrial and commercial PNG end-users from approximately 25.5 million m^3 and 2.7 million m^3 for the four months ended 30 April 2021 to approximately 24.0 million m^3 and 2.0 million m^3 for the four months ended 30 April 2022, respectively. Demand for PNG from our residential PNG end-users was higher than usual in March and April 2022, which was reflected by an increase in our PNG sales volume to residential PNG end-users from approximately 7.2 million m^3 for the four months ended 30 April 2021 to approximately 11.6 million m^3 for the four months ended 30 April 2022. At the same time, this also led to a temporary suspension of our construction and installation services and caused a temporary drop in our sales of gas-burning appliances, which led to a decrease in gross profit of these two segments from approximately RMB9.5 million and RMB3.4 million for the four months ended 30 April 2021 to approximately RMB7.7 million and RMB0.6 million for the four months ended 30 April 2022, respectively.

STATISTICS OF THE [REDACTED]

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

Note:

(1) All statistics in this table are based on the assumption that the [REDACTED] is not exercised.

(2) The market capitalisation is calculated based on [REDACTED] Shares expected to be in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (assuming that the [REDACTED] is not exercised).

(3) The unaudited pro forma consolidated adjusted net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this document and on the basis of a total of [REDACTED] Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue (assuming that the [REDACTED] is not exercised).

USE OF PROCEEDS

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

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

- approximately HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for expanding our sale of PNG business through construction of new mid-pressure pipelines of approximately 101.0 km in our Operating Area in the coming three years after Listing.
- approximately HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for upgrading approximately 43.4 km of our urban pipeline network.
- approximately HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for replacing existing gas meters with our Goldcard Meters for over 19,500 households in our Operating Area.
- approximately HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used for constructing PNG end-user pipelines and connecting these pipelines to our urban pipeline network for over 5,500 households in our Operating Area.
- approximately HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), representing approximately [REDACTED]% of the net proceeds from the [REDACTED], will be used as working capital and other general corporate purposes.

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

RISK FACTORS

We believe that the following are some of the major risks that could have a material adverse effect on our business: (i) our Concession Agreement is subject to an effective term of 30 years from 18 August 2009. Early termination of or inability to renew the term of our Concession Agreement, or any illegality or invalidity of our Concession, will materially and adversely affect our business, financial condition and results of operation; (ii) we may encounter difficulties in growing our business within the Operating Area under the Concession Agreement; (iii) any shortage of, disruption or suspension to our natural gas supplies could materially and adversely affect our sale of natural gas business; (iv) our sale of PNG is subject to pricing policies at various levels which will affect our profitability; (v) we may not always meet our minimum procurement obligations with PetroChina and Shandong Shihua; and (vi) we had net current liabilities as at 31 December 2019, 2020 and 2021 and 30 April 2022.

Please refer to "Risk Factors" in this document carefully before making any investment decision in the [REDACTED].

NON-COMPLIANCE INCIDENTS

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

DEFINITIONS

In this document, the following expressions shall have the meanings set out below unless the context requires otherwise.

"ABS"	asset-backed security
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company, conditionally adopted on [●] which will become effective upon [REDACTED], a summary of which is contained in Appendix IV to this document, and as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "our Board"	the board of Directors
"Business Day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	British Virgin Islands
[REDACTED]	[REDACTED]
"Capitalisation Issue"	the issue of our Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in "Statutory and General Information — A. Further Information About Our Group — 4. Written resolutions of our Shareholders passed on [●] 2022" in Appendix V to this document
"Cayman Islands Companies Act" or the "Companies Act"	the Companies Act, Chapter 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"CIC" or "China Insights Consultancy"	China Insights Industry Consultancy Limited (灼識企業管理諮詢(上海)有限公司), an independent professional market research and consulting company, an Independent Third Party
"CIC Report"	the independent industry report commissioned by us and prepared by CIC independently
"Chairman"	chairman of the Board
"Changyi Mei'ao"	Changyi Mei'ao Natural Gas Co., Ltd.* (昌邑市美澳天然氣有限公司), a company established in the PRC with limited liability on 1 November 2004 and an Independent Third Party
"China" or "PRC"	the People's Republic of China which, for the purpose of this document and for geographical reference only and except where the context requires otherwise, does not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Ordinance"	Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "JY Gas"	JY GAS LIMITED (交运燃气有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 9 March 2021 and the holding company of our Group upon completion of the Reorganisation and the proposed vehicle of [REDACTED]
"Concession"	the concession right granted under our Concession Agreement
"Concession Agreement"	our concession agreement entered into with Gaomi City Bureau of Municipal Affairs Administration* (高密市市政管理局) to operate natural gas related businesses within the administrative area of Gaomi City in August 2009
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely, Mr. Luan Xiaolong, LXL Phoenix, SEGM Holding, and SDJY Holding, either individually or as a group of persons where the context requires
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Corporate Governance Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"COVID-19"	a viral respiratory disease caused by the severe acute respiratory syndrome coronavirus
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Deed of Indemnity"	the deed of indemnity dated [●] 2022 and executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries), particulars of which are set out in "Statutory and General Information — D. Other Information — 1. Tax and other indemnities" in Appendix V to this document

"Deviation from Intended Use of Loan Proceeds"	the deviation from intended use of certain loan proceeds by us during the period from 1 January 2019 to 17 December 2020 as detailed in "Business — Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds" in this document
"Director(s)"	the director(s) of our Company
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
"FRC"	Financial Reporting Council
"Gaomi Haojia"	Gaomi Haojia Fuel Gas Co., Ltd.* (高密豪佳燃氣有限公司), a limited liability company established in the PRC on 28 May 2010 and an Independent Third Party
"Gaomi Rongtong"	Gaomi Rongtong Private Financing Registration Service Co., Ltd.* (高密市融通民間融資登記服務有限公司), a limited liability company established in the PRC on 24 February 2014 and a former non-wholly-owned subsidiary of Jiaoyun Gas prior to the Reorganisation
"Gaoyun Investment"	Gaoyun Investment (Shandong) Co., Ltd.* (高運投資（山東）有限公司), (formerly known as Weifang Gaoyun Private Capital Management Co., Ltd.* (濰坊市高運民間資本管理有限公司)), a limited liability company established in the PRC on 24 February 2014 and a former non-wholly-owned subsidiary of Jiaoyun Gas prior to the Reorganisation
[REDACTED]	[REDACTED]
"Goldcard Meters"	Goldcard wireless remote gas meters, nationally accredited gas meters in the PRC designed by Goldcard Smart Group Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300349)
[REDACTED]	[REDACTED]
"Group" or "our Group" or "we" or "us"	our Company and its subsidiaries or any of them, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time

"Guorui Real Estate"	Gaomi Guorui Real Estate Co., Ltd.* (高密國瑞置業有限公司), a limited liability company established in the PRC on 24 November 2009 and indirectly wholly-owned by Mr. Luan Xiaolong, hence it is a connected person of our Company
"HK$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards which include standards and interpretations promulgated by the Hong Kong Institute of Certified Public Accountants
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Independent Third Party(ies)"	individual(s) or company(ies) who or which, to the best of our Directors' knowledge, information, and belief having made all reasonable enquiries, is/are independent from and not connected with (within the meaning of the Listing Rules) any directors, chief executives and substantial shareholders of our Company or any of its subsidiaries and any of their respective associates
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

"Jiaodong Peninsula"	a peninsula in Shandong Province in eastern China, between the Bohai Sea to the north and the Yellow Sea to the south
"Jiaoyun Car Transport"	Shandong Gaomi Traffic Car Transport Co., Ltd.* (山東高密市交運汽車運輸有限公司), a limited liability company established in the PRC on 3 January 2001 and indirectly held as to approximately 59.61% by Mr. Luan Linjiang and approximately 40.39% by Mr. Luan Xiaolong, hence it is a connected person of our Company
"Jiaoyun Gas"	Gaomi Jiaoyun Natural Gas Co., Ltd.* (高密市交運天然氣有限公司), a limited liability company established in the PRC on 14 July 2003 and our wholly-owned subsidiary
"Jiaoyun Group"	Gaomi Jiaoyun Group Co., Ltd.* (高密市交運集團有限公司) (formerly known as Gaomi Jiaoyun Investment Holding Co., Ltd.* (高密市交運控股有限公司)), a limited liability company established in the PRC on 20 January 2014 and is owned as to 75.06% by Mr. Luan Xiaolong and as to 24.95% by Mr. Luan Linjiang, hence it is a connected person of our Company
"Jiaoyun Market"	Gaomi Jiaoyun Market Co., Ltd.* (高密市交運市場有限公司), a limited liability company established in the PRC on 3 September 2014 and is owned as to 99% by Mr. Luan Linjiang and 1% by Mr. Luan Xiaolong, hence it is a connected person of our Company
"Jiaoyun Property"	Gaomi Jiaoyun Property Co., Ltd.* (高密市交運置業有限公司), a limited liability company established in the PRC on 11 April 2006 and is owned as to 99.98% by Mr. Luan Linjiang and as to 0.02% by Mr. Liao Xiaolong, hence it is a connected person of our Company
"Jiaoyun Shihua"	Gaomi Jiaoyun Shihua Natural Gas Co., Ltd.* (高密市交運實華天然氣有限公司), a limited liability company established in the PRC on 7 April 2013 and our non-wholly owned subsidiary, which is owned as to 70% by Jiaoyun Gas and 30% by Shandong Shihua
"Jiaoyun Thermal"	Gaomi Jiaoyun Thermal Co., Ltd.* (高密市交運熱力有限公司), a limited liability company established in the PRC on 23 July 2008 and a former non-wholly-owned subsidiary of Jiaoyun Gas prior to the Reorganisation

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"JY Gas BVI"	JY GAS HOLDING LIMITED, a company incorporated under the laws of BVI on 23 March 2021 and our wholly-owned subsidiary
"JY Gas HK"	JY GAS HK Limited, a company incorporated under the laws of Hong Kong on 22 April 2021 and our wholly-owned subsidiary
"JY Gas WFOE"	Jiaoneng Energy Investment (Shandong) Co., Ltd.* (交能能源投資(山東)有限公司), a limited liability company and a wholly foreign-owned enterprise established in the PRC on 28 May 2021 and our wholly-owned subsidiary
"Latest Practicable Date"	22 August 2022, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained in this document
[REDACTED]	[REDACTED]
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
[REDACTED]	[REDACTED]
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"LLJ Phoenix"	LLJ Phoenix Limited, a company incorporated under the laws of BVI on 9 February 2021, which is wholly owned by Mr. Luan Linjiang

"LXL Phoenix"	LXL Phoenix Limited, a company incorporated under the laws of BVI on 9 February 2021, which is wholly owned by Mr. Luan Xiaolong, and is one of our Controlling Shareholders
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange, independent from and operated in parallel with GEM of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company conditionally adopted on [●], which will become effective upon [REDACTED], a summary of which is contained in Appendix IV to this document, as amended from time to time
"MOFCOM"	The Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Luan Linjiang"	Mr. Luan Linjiang (欒林江先生), an executive Director
"Mr. Luan Linxin"	Mr. Luan Linxin (欒林新先生), an executive Director
"Mr. Luan Xiaolong"	Mr. Luan Xiaolong (欒小龍先生), an executive Director and one of our Controlling Shareholders
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Non-compliant Bill Financing Arrangements"	certain non-compliant bill financing arrangements which we carried out for the year ended 31 December 2019 and the period from 1 January 2020 to 17 June 2020 as detailed in "Business — Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing" in this document
"NPC"	National People's Congress of the PRC (中華人民共和國全國人民代表大會)
[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]
"Operating Area"	our operating area in which we have actively supplied natural gas, and such area is within the granted area under the Concession
[REDACTED]	[REDACTED]
"PetroChina"	PetroChina Company Limited (中國石油天然氣股份有限公司), a joint stock company established in the PRC with limited liability, the shares of which are listed on the Stock Exchange (stock code: 857), the New York Stock Exchange (stock code: PTR) and the Shanghai Stock Exchange (stock code: 601857), and/or its subsidiaries (including PetroChina Company Limited Shandong Sales Branch (中國石油天然氣股份有限公司天然氣銷售山東分公司)). PetroChina is an Independent Third Party
"PRC Government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
"PRC Legal Advisers"	Jingtian & Gongcheng, legal advisers to our Company as to PRC law in connection with the Global Offering
"[REDACTED] Investment"	the [REDACTED] investment made by the [REDACTED] Investor into our Group, details of which are described in "History, Reorganisation and Corporate Structure — [REDACTED] Investment" in this document

"[REDACTED] Investor" or "Mr. Tsang"	Mr. Tsang Kwong Kwan Mor (曾光群先生), the [REDACTED] investor of our Group, and whose background is set out in "History, Reorganisation and Corporate Structure — [REDACTED] Investment — Information regarding the [REDACTED] Investor" in this document
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Private Group"	the companies which are under the control of (or 50% or more of the equity interest or issued share capital of which are owned by) Mr. Luan Xiaolong and Mr. Luan Linjiang, directly or indirectly, collectively or individually, except for their interest in our Group
"Property Valuation Report"	the property valuation report prepared by the Property Valuer, the text of which is set out in Appendix III to this document
"Property Valuer"	APAC Asset Valuation and Consulting Limited, the property valuer engaged by us, which is an Independent Third Party
"QMHC"	QMHC LIMITED, a company incorporated in Hong Kong with limited liability on 6 May 2021 and indirectly wholly-owned by the [REDACTED] Investor through QMRIG prior to the Reorganisation and an wholly-owned subsidiary of our Company after the Reorganisation
"QMIG"	QMIG LIMITED, a company incorporated in the BVI with limited liability on 25 March 2021 and wholly-owned by the [REDACTED] Investor
"QMRIG"	QMRIG LIMITED, a company incorporated in the BVI with limited liability on 30 March 2021 and directly wholly-owned by the [REDACTED] Investor prior to the Reorganisation and an wholly-owned subsidiary of our Company after the Reorganisation
"Regulation S"	Regulation S under the U.S. Securities Act

"Reorganisation"	the reorganisation arrangements undergone by our Group in preparation for the [REDACTED], details of which are set out in "History, Reorganisation and Corporate Structure — Reorganisation" in this document
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產管理委員會)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SDJY Holding"	SDJY Holding Limited, a company incorporated under the laws of BVI on 9 February 2021, which is wholly-owned by Mr. Luan Xiaolong, and is one of our Controlling Shareholders
"SEGM Holding"	SEGM Holding Limited, a company incorporated under the laws of BVI on 26 February 2021 which is wholly-owned by SDJY Holding, which is in turn wholly-owned by Mr. Luan Xiaolong, and is one of our Controlling Shareholders
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shandong Shihua"	Shandong Shihua Natural Gas Co., Ltd.* (山東實華天然氣有限公司), a company established in the PRC with limited liability on 13 August 2002, which is held as to 50% by Sinopec and 50% by Shandong Luxin Industrial Group Co., Ltd.* (山東省魯信實業集團有限公司) (which is in turn indirectly wholly-owned by the Shandong Province Finance Bureau). Shandong Shihua holds 30% equity interest in Jiaoyun Shihua, our subsidiary, and hence is a connected person of our Company at the subsidiary level
"Share(s)"	ordinary share(s) of US$0.0001 each in the share capital of our Company
"Shareholder(s)"	holder(s) of our Share(s)

“Sinopec”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司), a joint stock company established in the PRC with limited liability, the shares of which are listed on the Hong Kong Stock Exchange (stock code: 386), the London Stock Exchange (stock code: SNP), the New York Stock Exchange (stock code: SNP), and the Shanghai Stock Exchange (stock code: 600028), and/or its subsidiaries. Sinopec is an Independent Third Party
[REDACTED]	[REDACTED]
“Sole Sponsor”, “[REDACTED]” and “[REDACTED]”	China Industrial Securities International Capital Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO), acting as the sole sponsor to the [REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs, as issued by the SFC and as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the periods comprising the three years ended 31 December 2021 and the four months ended 30 April 2022
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
“United States” or “US” or “U.S.” or “USA”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“USD” or “US$”	the US dollars, the lawful currency of the United States
“value-added tax” or “VAT”	the applicable value-added tax as stipulated by relevant PRC laws from time to time

"WFOE"	wholly foreign owned enterprise
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
"Yuanhua Trading"	Gaomi Yuanhua Trading Co., Ltd.* (高密市遠華貿易有限公司), a limited liability company established in the PRC on 10 June 2015 which 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 it is a connected person of our Company
"Zhonghui Energy"	Weifang Zhonghui Energy Co., Ltd.* (濰坊中輝能源有限公司), a limited liability company established in the PRC on 7 December 2017 and an Independent Third Party
"%"	per cent

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

*The English names of PRC laws, regulations, government authorities, institutions, companies or entities established in the PRC included in this document are translations of their Chinese names, which are marked with * and included for identification purposes only. In the event of inconsistency, the Chinese versions shall prevail.*

Unless expressly stated or otherwise required by the context, all data are as at the Latest Practicable Date.

Unless otherwise specified, all references to any shareholding in our Company does not take into account any Shares to be issued upon the exercise of the [REDACTED].

This glossary contains certain definitions and technical terms in this document which relate to our business and the industries and sectors that we operate in. As such, some terms and definitions may not correspond to standards industry definitions or usage of such terms.

"air emission(s)"	air emission(s) include boilers and fumes from stenters (machines for the continuous heat treatment of fabrics) and dye application processes
"benchmark gate price"	the benchmark price determined by the NDRC on which the wholesale price of PNG from upstream suppliers to other gas distributors is based
"Big-3 Noc"	the three largest oil and gas groups with certifications of oil and gas exploration and production in the PRC, namely China National Petroleum Corporation（中國石油天然氣集團有限公司）, Sinopec (中國石油化工股份有限公司) and China National Offshore Oil Corporation（中國海洋石油集團有限公司）, and their respective affiliates
"CAGR"	compound annual growth rate
"carbon monoxide / CO"	a colorless, odorless, tasteless, flammable gas that is slightly less dense than air
"CIF"	cost, insurance, and freight (CIF) is an international shipping agreement, which represents the charges paid by a seller to cover the costs, insurance, and freight of a buyer's order while the cargo is in transit. Cost, insurance, and freight only applies to goods transported via a waterway, sea, or ocean
"city gateway station"	a station that receives natural gas transmitted from upstream distribution stations generally through long-distance transmission pipelines and distribute natural gas into urban pipeline network, with functions including quantification, filtering, pressure regulation and odourising
"Clean Energy Project(s) (清潔能源村莊項目)"	government subsidised construction project(s) in rural areas of Gaomi City, comprising 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

"CNG"	compressed natural gas, refers to natural gas that has been compressed to a high density through high pressure and is used as a clean alternative fuel for vehicles
"CNG and LNG refuelling station(s)"	natural gas refuelling station(s) that receive(s) PNG transmitted through urban pipeline network and LNG transported through LNG supplier's tankers. CNG (compressed from PNG) and/or LNG are sold to vehicle users at our CNG and LNG refuelling station(s)
"coal-to-gas project (煤改氣工程)"	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)》*) implemented by the NDRC in December 2017, which aims to promote clean winter heating by phasing out coal-fired appliances in the north of the PRC by 2021
"competitive behaviour"	the actions and steps taken by a firm to build or reduce the competition and to increase the market ration
"Comprehensive Work Plan for Energy Conservation and Emission Reduction (節能減排工作方案")"	the *Notice of the State Council on a Comprehensive Work Plan for Energy Conservation and Emission Reduction during the "Fourteenth Five-Year Plan" period (《國務院關於印發"十四五"節能減排綜合工作方案的通知》)*, published by the State Council which is a work plan in the form of a governmental notice aimed at promoting clean energy transmission related projects including the coal-to-gas project (煤改氣工程)
"construction and installation services"	our business of constructing PNG end-user pipeline network and connecting such network to our urban pipeline network for the sale of PNG, the procurement of appropriate gas pipelines, gas meters and other relevant parts, the installation of natural gas supply facilities, equipment and devices into property building infrastructures or within units and the overall engineering design and feasibility planning as well as supervision of work
"ecological impact(s)"	the effect(s) left on organisms and their environment due to actions made by humans and natural occurrences. These changes can be beneficial or adverse to the ecosystem
"gas"	natural gas, unless specified or the context requires otherwise
"gas operation licence"	gas operation licence, or various types, required for carrying out gas business activities under the *Administrative Measures for Gas Operation Licence* (*《燃氣經營許可管理辦法》*)

"GHG emission(s)"	greenhouse gas (GHG) is a gas that absorbs and emits radiant energy within the thermal infrared range, causing the greenhouse effect
"IoT"	Internet of Things, physical objects (or groups of such objects) that are embedded with sensors, processing ability, software, and other technologies, and that connect and exchange data with other devices and systems over the Internet or other communications networks
"km"	kilometre(s)
"km^2"	square kilometre(s)
"LNG"	liquefied natural gas, which is natural gas (predominantly methane) that has been cooled down to liquid form
"m^3"	cubic metre(s)
"mid-pressure pipelines"	pipelines for transmitting natural gas under the pressure of 0.01Mpa to 0.4Mpa according to the GB50028 2006 Code for Design of Urban Gas Engineering* (城鎮燃氣設計規範), which is generally used in urban pipeline network
"Mpa"	megapascal pressure unit, 1Mpa equals to 1,000,000pa
"mu"	mu (畝), a Chinese unit of measurement, equivalent to 666⅔ sq.m.
"MWh"	equals 1,000 kilowatts of electricity generated per hour and is used to measure electric output. In general, megawatts are used to calculate how much a power plant generates electricity or how much electricity is consumed by a particular area, such as a city, state, or country
"natural gas"	naturally occurring hydrocarbon gas consisting primarily of methane found in coal beds with or without other fossil fuels
"nitrogen oxides / NOx"	nitrogen oxides, or NOx, a generic term for the nitrogen oxides that are most relevant for air pollution, namely nitric oxide (NO) and nitrogen dioxide (NO_2). These gases contribute to the formation of smog and acid rain, as well as affecting tropospheric ozone
"particular matter / PM"	the term for a mixture of solid particles and liquid droplets found in the air
"PNG"	pipeline natural gas, natural gas transmitted through pipelines

"PNG end-user pipelines"	low-pressure pipelines for transmitting natural gas below 0.01Mpa according to the GB50028 2006 Code for Design of Urban Gas Engineering* (城鎮燃氣設計規範), which is generally used in PNG end-user pipeline network
"PNG end-user pipeline network"	network of low-pressure pipelines installed in the buildings and premises of our PNG end-users for connecting to our urban pipeline network for natural gas transmission
"PNG end-user selling price"	the selling price of PNG for residential usage and non-residential usage. Specifically it includes the selling price of PNG to residential PNG end-users, the selling price of PNG to non-residential PNG end-users (industrial PNG end-users and commercial PNG end-users)
"SO_2"	sulphur dioxide
"sulphur oxides / SOx"	compounds of sulfur and oxygen molecules
"sq.m."	square metre(s)
"urban pipeline network"	network of mid-pressure natural gas distribution pipelines connecting our PNG end-user pipeline network to the source of PNG supply, such as city gateway stations
"vaporisation"	a phase transition from the liquid phase into the vapour phase (the state of a substance below a certain pressure or above its critical temperature)

This document contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management, in particular, in "Summary", "Risk Factors", "Industry Overview", "Business" and "Financial Information" in this document in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets. When used in this document, the words "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements.

These statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets, some of which may not materialise or may change. These statements based on various assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These statements are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. Prospective [REDACTED] are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties facing our Company, which could affect the accuracy of forward-looking statements and include, but are not limited to the following:

- our Group's business prospects;
- our Group's financial position;
- our Group's business and operating strategies and plans to achieve these strategies;
- general outlook in the industry and markets in which our Group operates;
- future developments, trends and conditions in the industry and markets in which our Group operates;
- changes to the regulatory environment;
- nature of and potential for future development of our Group's business;
- our Group's dividend policy;
- general economic, political and business conditions in the markets in which our Group operates;
- effects of global financial markets and economic crisis;

- actions and developments of our competitors and our Group's ability to compete under these actions and developments;

- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends; and

- other factors beyond our Group's control.

Subject to the requirements of applicable laws, rules and regulations, administrative measures and the Listing Rules, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all.

Accordingly, prospective [REDACTED] should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to the cautionary statements in this section.

In this document, statements of or references to our intentions or those of our Directors are made as of the date of this document. Any such intentions may change in light of future developments.

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

RISKS RELATING TO OUR BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business may be affected by seasonality.

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER RISKS RELATING TO OUR GROUP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are exposed to risk of inventory obsolescence.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS RELATING TO OUR INDUSTRY

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

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

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

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

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

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

There may be alternative energy sources other than natural gas.

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

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Payment of dividends is subject to restrictions under PRC law.

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

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

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

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

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

RISKS RELATING TO THE [REDACTED]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In preparation for the [REDACTED], our Group has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Our Group is headquartered in the PRC with its principal business operations located, managed and conducted in the PRC, and substantially all of our Group's assets are based in the PRC. Our executive Directors, Mr. Luan Linjiang, Mr. Luan Xiaolong and Mr. Luan Linxin, are ordinarily resident in the PRC and are involved in the day-to-day business operation of our Group in the PRC. Therefore, it is of paramount importance for them to remain in the PRC where our Group has substantial operations. Our Company does not, and for the foreseeable future will not, have executive Directors who are ordinarily resident in Hong Kong, for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

For the reasons set out above, our Directors consider that it would be practically difficult and commercially unfeasible for our Company to either relocate two of its existing executive Directors, who have a vital role in the business and operations of our Company, to Hong Kong in order to comply with the requirements under Rule 8.12 of the Listing Rules. In addition, our Group does not have any employee/senior management who is ordinarily resident in Hong Kong, and therefore it is difficult to appoint two additional executive Directors who are ordinarily resident in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted] to us, a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules subject to the following conditions:

(a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorised representatives, Mr. Luan Xiaolong (our executive Director) and Ms. Ho Wing Nga (何詠雅女士) ("**Ms. Ho**") (one of our joint company secretaries), who will jointly act as our principal channel of communication with the Stock Exchange. Ms. Ho is ordinarily resident in Hong Kong. Each of our authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of our authorised representatives is authorised to communicate on our behalf with the Stock Exchange;

(b) each of our authorised representatives has means to contact our Directors (including our independent non-executive Directors) and all members of our senior management team promptly at all times as and when the Stock Exchange wishes to contact them or any of them on any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, our Company has implemented a number of policies whereby (i) each Director shall provide (if available) his/her mobile phone numbers, office phone numbers, fax numbers and email addresses to the authorised representatives; (ii) in the event that such Director expects to travel and be out of office, he/she shall provide the phone number of the place of his/her accommodation to the authorised representatives; and (iii) all of our Directors and authorised representatives will provide (if available) their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange;

(c) each of our Directors and authorised representatives has provided or will provide (if available) their respective mobile phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange. Our Company shall promptly inform the Stock Exchange of any changes to the contact details of the authorised representatives of our Company and our Directors;

(d) pursuant to Rule 3A.19 of the Listing Rules, we have appointed China Industrial Securities International Capital Limited as our compliance adviser to provide our Company with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorised representatives of our Company, as our Company's additional channel of communication with the Stock Exchange for the period commencing on the [REDACTED] and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules and publishes the annual report in respect of our Company's first full financial year after the [REDACTED];

(e) each of our Directors (including our independent non-executive Directors) who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong and would be able to meet with the Stock Exchange in Hong Kong upon reasonable notice; and

(f) our Company will also appoint other professional advisers (including its legal advisers in Hong Kong) after the [REDACTED] to assist our Company in addressing any enquiries which may be raised by the Stock Exchange and to ensure that there will be prompt and effective communication with the Stock Exchange.

Our Company and Directors believe that the above-mentioned arrangements will ensure that all members of our Board will be promptly informed of any matters raised by the Stock Exchange and that disclosure of information and communication with the Stock Exchange will be made on a timely basis.

JOINT COMPANY SECRETARIES

According to Rules 3.28 and 8.17 of the Listing Rules, the secretary of an issuer must be a person who has the requisite knowledge and experience to discharge the functions of the company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or a barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong) or a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong), or (ii) an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

We have appointed Mr. Zhang Yupeng (張聿鵬先生) ("**Mr. Zhang**") and Ms. Ho as our joint company secretaries (the "**Joint Company Secretaries**"). Mr. Zhang joined our Group on 1 January 2016 and since then he has been deputy director of human resources department of Jiaoyun Gas, one of our major operating subsidiaries, and is mainly responsible for the management of salary, performance appraisal, provident fund and enterprise information communication etc. of Jiaoyun Gas. Given that Mr. Zhang has over 14 years of experience in human resources fields with substantial involvement in the administration and human resources management of Jiaoyun Gas, our Directors are of the view that, having regard to Mr. Zhang's thorough understanding of the business operation and corporate governance of our Group, he is therefore considered as a suitable person to act as a company secretary of our Company. In addition, as our headquarters and principal place of business are located in the PRC, there are practical difficulties in finding a company secretary who possesses day-to-day knowledge of our affairs and the relevant experience specified by Rule 3.28 of the Listing Rules. Our Directors believe that it would be in the best interests of our Company and our corporate governance practice to appoint Mr. Zhang as one of our Joint Company Secretaries, notwithstanding that he does not possess the requisite qualifications and is not able to solely fulfil the requirements of company secretary under Rules 3.28 and 8.17 of the Listing Rules. Therefore, we have appointed Ms. Ho, an associate of The Hong Kong Chartered Governance Institute (previously known as The Hong Kong Institute of Chartered Secretaries), who meets the requirements under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary to work closely with and provide assistance to Mr. Zhang.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Mr. Zhang as one of our joint company secretaries on the condition that Mr. Zhang will be assisted by Ms. Ho as our Joint Company Secretary throughout the three-year period from the [REDACTED]. By virtue of Ms. Ho's experience in corporate secretarial practice, she is, in our Directors' opinion, a person who is qualified and suitable to provide assistance to Mr. Zhang for a three-year period from the [REDACTED] pursuant to the Stock Exchange's Guidance Letter HKEX-GL108-20 so as to enable Mr. Zhang to acquire the relevant experience (as required under Rule 3.28(2) of the Listing Rules) to discharge the duties and responsibilities as a joint company secretary stipulated under Rules 3.28 and 8.17 of the Listing Rules.

Such waiver will be revoked immediately if and when Ms. Ho ceases to provide such assistance or if there are material breaches of the Listing Rules by our Company. Before the end of the expiry of the initial three-year period, the Stock Exchange will be contacted by our Company to assess the qualifications and experience of Mr. Zhang to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied. In the event that Mr. Zhang has obtained relevant qualifications and experience under Rules 3.28 and 8.17 of the Listing Rules before the end of the said initial three-year period, the foregoing arrangement regarding the joint company secretaries would no longer be necessary.

Please refer to "Directors and Senior Management" in this document for the biographical details of Mr. Zhang and Ms. Ho.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions for our Company under the Listing Rules following completion of the [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, waivers from strict compliance with certain requirements set out in Chapter 14A of the Listing Rules for certain continuing connected transactions. For further details of such continuing connected transactions and the waivers, please refer to "Connected Transactions" in this document.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Directors

Name	Address	Nationality
Chairman and executive Director		
Mr. Luan Linjiang (欒林江先生)	No. 79 Tianxiang Street Gaomi City Shandong Province PRC	Chinese
Executive Directors		
Mr. Luan Xiaolong (欒小龍先生)	No. 79 Tianxiang Street Gaomi City Shandong Province PRC	Chinese
Mr. Luan Linxin (欒林新先生)	Room 201, Building 10 Kanghe Huayuan — North District Gaomi City Shandong Province PRC	Chinese
Independent non-executive Directors		
Mr. Wei Yi (韋禕先生)	2-402, Building 19 Ronghui Jingyuan No. 67 Haitai North and South Street Huayuan Industrial Zone Binhai High-tech Zone Tianjin PRC	Chinese
Mr. Tian Qiang (田强先生)	Building 32 Jinse Jiayuan Futing Nanjing Road Pingdu City Qingdao Shandong Province PRC	Chinese
Ms. Liu Xiaoye (劉霄曄女士)	Room 201, Unit 1 Building No. 41 No. 1 Yinchuan Road East Laoshan District Qingdao City Shandong Province PRC	Chinese

Further information of our Directors is disclosed in "Directors and Senior Management" in this document.

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor, [REDACTED] and [REDACTED]	**China Industrial Securities International Capital Limited** *a corporation licensed by the SFC to carry on Type1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO* 32/F, Infinitus Plaza 199 Des Voeux Road Central Sheung Wan Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]
Legal advisers to our Company	*As to Hong Kong law:* **Hogan Lovells** 11/F, One Pacific Place 88 Queensway Admiralty Hong Kong *As to PRC law:* **Jingtian & Gongcheng** 45/F, K.Wah Centre Huaihai Road (M) Xuhui District Shanghai PRC *As to Cayman Islands law:* **Conyers Dill & Pearman** 29th Floor, One Exchange Square 8 Connaught Place Central Hong Kong
Legal advisers to the [REDACTED]	[REDACTED]

As to PRC law:
King & Wood Mallesons
18th Floor, East Tower, World Financial Centre
1 Dongsanhuan Zhonglu
Chaoyang District
Beijing
PRC

Legal advisers to the Sole Sponsor

As to Hong Kong law:
H.Y. Leung & Co., LLP
22/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

As to PRC law:
King & Wood Mallesons
18th Floor, East Tower, World Financial Centre
1 Dongsanhuan Zhonglu
Chaoyang District
Beijing
PRC

Reporting Accountant and Independent Auditor	**PricewaterhouseCoopers** *Certified Public Accountants* *Registered Public Interest Entity Auditor* 22/F Prince's Building Central Hong Kong
Property Valuer	**APAC Asset Valuation and Consulting Limited** 5/F, Blissful Building 243-247 Des Voeux Road Central Hong Kong
Industry consultant	**China Insights Industry Consultancy Limited** 10/F, Block B, Jing'an International Center 88 Puji Road Jing'an District Shanghai PRC
Internal control adviser	**SHINEWING Risk Services Limited** 17/F., Leighton Centre 77 Leighton Road, Causeway Bay Hong Kong
Compliance adviser	**China Industrial Securities International Capital Limited** 32/F, Infinitus Plaza 199 Des Voeux Road Central Sheung Wan Hong Kong
[REDACTED]	[REDACTED]

CORPORATE INFORMATION

Headquarters and principal place of business in the PRC	3/F, Jiaoyun Group Building No. 2568 Shi'an Road Gaomi City Weifang Municipality Shandong Province PRC
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	46/F., Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Registered office in the Cayman Islands	3-212 Governors Square 23 Lime Tree Bay Avenue P.O. Box 30746 Seven Mile Beach Grand Cayman, KY1-1203 Cayman Islands
Company's website	**www.gmjytrq.com** *(The contents on this website do not form part of this document)*
Joint company secretaries	Mr. Zhang Yupeng (張聿鵬先生) Room 702, Unit 1 Building 8 No. 91 Commercial Road Liquan Avenue Gaomi City Shandong Province PRC Ms. Ho Wing Nga (何詠雅女士) *FCG HKFCG (PE)* 46/F., Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Authorised representatives (under the Listing Rules)	Mr. Luan Xiaolong No. 79 Tianxiang Street Gaomi City Shandong Province PRC Ms. Ho Wing Nga 46/F., Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong

Audit committee	Ms. Liu Xiaoye *(Chairlady)* Mr. Tian Qiang Mr. Wei Yi
Remuneration committee	Mr. Tian Qiang *(Chairman)* Mr. Luan Xiaolong Mr. Wei Yi
Nomination committee	Mr. Luan Linjiang *(Chairman)* Ms. Liu Xiaoye Mr. Tian Qiang
Risk management committee	Ms. Liu Xiaoye (*Chairlady*) Mr. Luan Xiaolong Mr. Wei Yi
ESG committee	Mr. Luan Xiaolong *(Chairman)* Mr. Luan Linjiang Mr. Wei Yi Mr. Tian Qiang
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Principal Banks	**China Construction Bank Corporation, Gaomi Branch** No. 43 Zhenxin Street Gaomi City Weifang Municipality Shandong Province PRC **BANK OF RIZHAO CO., LTD, Gaomi Branch** No. 2716 Shengli East Street Hi-Tech Development Zone Weifang Municipality Shandong Province PRC

Shandong Gaomi Rural Commercial Bank Co., Ltd., Business Department
No. 2088 Kangcheng East Street
Gaomi City
Shandong Province
PRC

The information set out in this section is derived from the CIC Report, which is based on information obtained from CIC's database, publicly available sources, industry reports, as well as data obtained from interviews and other sources. The information and statistics from official government sources have not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective directors, officers, representatives, employees, agents or professional advisers, or any other person or party (except CIC) involved in the [REDACTED], and no representation is given as to the completeness, accuracy or fairness of such information. Accordingly, the information as presented herein should not be unduly relied upon. Our Directors confirm that after due and reasonable consideration, there is no adverse change in the market information since the date of the CIC Report and up to the date of this document which may qualify, conflict, or have a material impact on the information in this section.

INTRODUCTION

We commissioned CIC, an independent market research and consulting company, to conduct research and analysis on the PRC natural gas and city gas supply industry, and to produce the CIC Report on the city natural gas market in the PRC at a fee of RMB730,000, which we believe reflects market rate for reports of this type. The CIC Report has been prepared by CIC independent of our influence and other interested parties. CIC's services include, among others, industry consulting, commercial due diligence, and strategic consulting. Its consulting team has been tracking the latest market trends in industrial, energy, chemical, healthcare, consumer goods, transportation, agriculture, Internet, and finance, and has relevant and insightful market intelligence in the above industries. Founded in Hong Kong, CIC also has offices in Beijing and Shanghai.

SOURCE OF INFORMATION

CIC is commissioned to conduct research and analysis of the PRC's natural gas industry and city natural gas supply market, and to produce a report on the city natural gas supply market in the PRC, Shandong Province, Weifang Municipality and Gaomi City. The report commissioned has been prepared by CIC independent of the influence of our Company and other interested parties.

In preparing the CIC Report, CIC conducts both primary and secondary research through various resources. Primary research involves interviewing key industry experts and leading industry participants. Secondary research involves analysing data from various publicly available data sources, such as the National Energy Administration, National Bureau of Statistics of China, National Development and Reform Commission, and Ministry of Housing and Urban-Rural Development.

The market projections in the commissioned report are based on the following key assumptions: (i) economy and industry development in China is likely to maintain its steady growth in the next decade; (ii) related industry key drivers are likely to drive the growth of natural gas market in China, such as the increase of consumption demand for natural gas, the increase of natural gas production in China, and favorable policies and regulations issued by the government propelling the natural gas industry in China; and (iii) there will not be any extreme unforeseen circumstances or industry regulations in the near future that will result in the market being affected dramatically or fundamentally.

All statistics are reliable and are based on the most up-to-date information available as of the completion of this report. Other sources of information, including government, industry associations, and market participants, have provided some of the information on which the analysis or data within the report is based.

All information about our Company has been obtained from our Company's management interview. The information provided by our Company has not been independently verified by CIC.

OVERVIEW OF THE NATURAL GAS INDUSTRY IN THE PRC

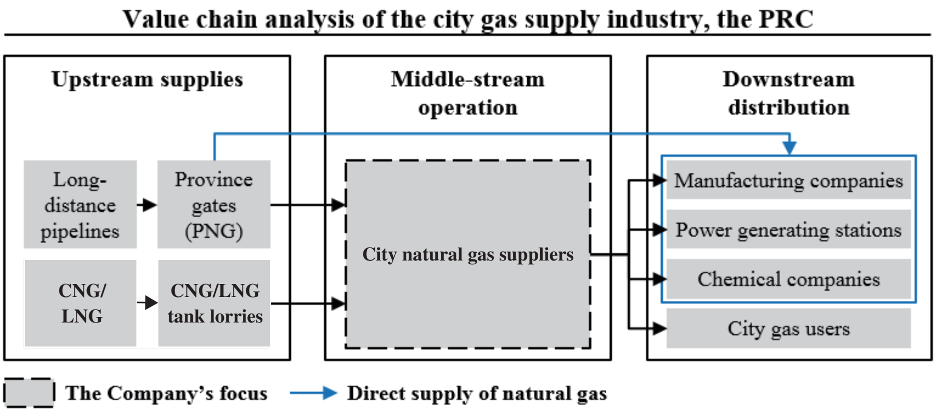
Definition of natural gas

Natural gas is a finite fossil fuel that can be defined as a hydrocarbon gas mixture that consists primarily of methane (甲烷CH_4). It can be classified into Piped Natural Gas (PNG), Liquefied Natural Gas (LNG), and Compressed Natural Gas (CNG) by the perspective of transportation modes.

ANALYSIS OF THE CITY GAS SUPPLY INDUSTRY IN THE PRC

Value chain analysis of the city gas supply industry in the PRC

The city natural gas supply market in the PRC is comprised of companies which are granted natural gas concessions. Such companies obtain natural gas supplies from their upstream suppliers at provincial gateway stations or through deliveries by CNG/LNG tankers. They supply PNG to end-users through pipeline networks, and generally provide installation, construction, maintenance, and other services to end-users, including residential end-users and non-residential end-users. PetroChina and Sinopec are the two major upstream suppliers in Gaomi city.

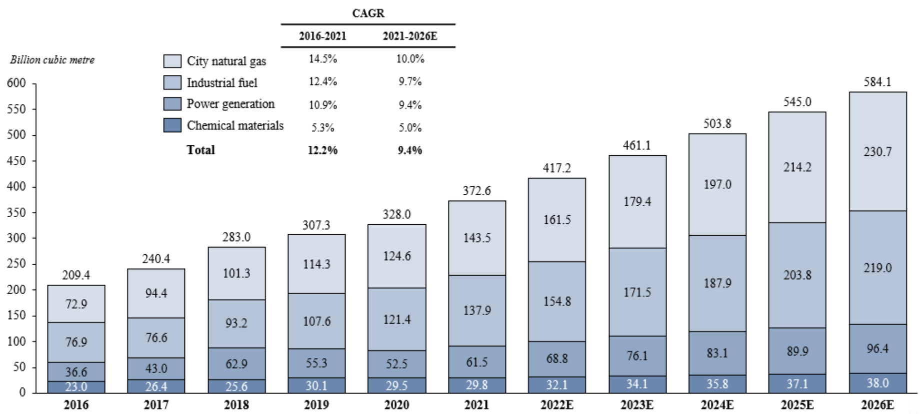


Source: CIC report

Market size of the city gas supply industry in the PRC

The consumption volume of the city natural gas supply industry in the PRC can be classified into four sectors, namely, city natural gas, industrial fuel, power generation, and chemical materials. The consumption volume of the city natural gas supply industry in the PRC increased rapidly from 209.4 billion m^3 in 2016 to 372.6 billion m^3 in 2021, representing a CAGR of 12.2%.

Consumption volume of the natural gas supply industry, classified by use, the PRC, 2016-2026E

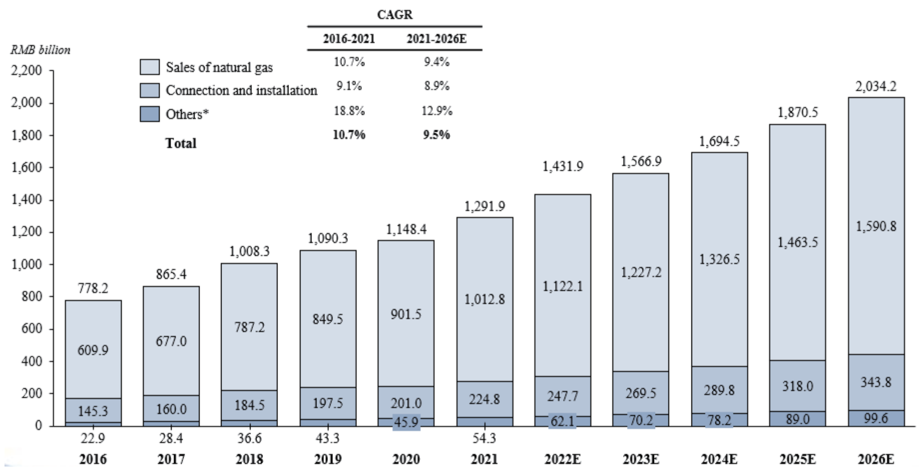


Source: National Bureau of Statistics, Ministry of Housing and Urban-Rural Development of the PRC, CIC report

According to 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 2018, China will boost the share of natural gas in its total primary energy consumption from less than 8.0% in 2018 to 10.0% by 2020. Thus, gas consumption is expected to increase to approximately 584.1 billion m^3 by 2026, with a CAGR of 9.4% between 2021 and 2026.

The main revenue of downstream city natural gas suppliers in the PRC generally derives from natural gas distribution, construction and installation services and other value-added services such as sale of gas appliances, operation of natural gas refuelling stations and integrated energy services. The market size of the city natural gas supply industry in the PRC in terms of sales value increased from RMB778.2 billion in 2016 to RMB1,291.9 billion in 2021, representing a CAGR of 10.7% over the period, which was mainly driven by the increasing number of power stations fuelled by natural gas, and was also attributed to the expansion of household heating systems, as well as the government's and implementation of the "coal-to-gas project" ("煤改氣工程"). The sales value of the city natural gas supply industry in the PRC is expected to reach RMB2,034.2 billion in 2026, representing a CAGR of 9.5% between 2021 and 2026. Driven by the increasing consumption volume of PNG and the expansion of pipeline networks, the market size of the connection and installation services by sales value in the PRC increased from RMB145.3 billion in 2016 to RMB224.8 billion in 2021, with a CAGR of approximately 9.1% over the period. The market size is expected to continue to grow, reaching RMB343.8 billion in 2026, representing a CAGR of approximately 8.9% between 2021 and 2026.

Sales value of the city natural gas supply industry, classified by service type, the PRC, 2016-2026E

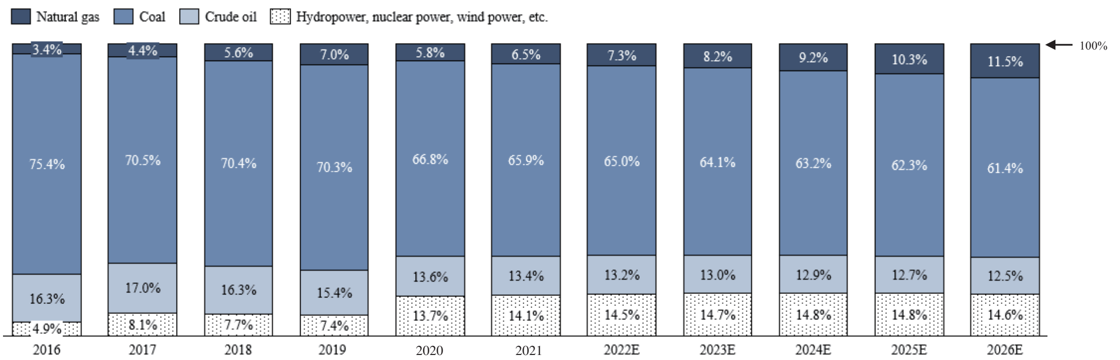


**Note:* *Others refers to the revenues of city natural gas suppliers generated from maintenance and repair services, sale of gas appliance, etc.*

Source: National Bureau of Statistics, Ministry of Housing and Urban-Rural Development of the PRC, CIC report

ANALYSIS OF THE CITY GAS SUPPLY INDUSTRY IN SHANDONG PROVINCE

Energy consumption composition of Shandong Province, 2016-2026E



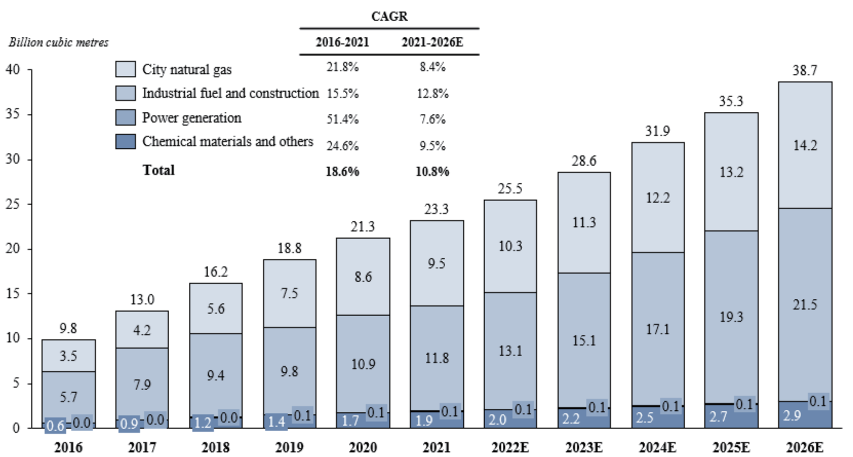
Source: National Bureau of Statistics, Ministry of Housing and Urban-Rural Development of the PRC, CIC report

Shandong Province will continue to optimize its energy consumption structure. The consumption portion of coal and crude oil will continue to shrink as the consumption of clean energies like natural gas steadily increases under the guidance of the *Three-year Action Plan for Cleaner Air* (*《打赢藍天保衛戰三年行動計劃》*) and *Mid-to-Long term development plan of crude and oil in Shandong Province《山東省石油天然氣中長期發展規劃(2016-2030年)》*).

Market size of city natural gas supply industry in Shandong Province

The market size of the city natural gas supply industry in Shandong Province in terms of consumption volume increased from 9.8 billion m^3 in 2016 to 23.3 billion m^3 in 2021, representing a CAGR of 18.6% between 2016 and 2021. Such surge was driven by the growth in city natural gas, industrial fuel and construction, power generation and chemical materials and other sectors. More specifically, the government's promotion and implementation of the "coal-to-gas project" ("煤改氣工程") for residential end-users and industrial fuel providers, which has greatly contributed to natural gas consumption in these sectors. With the rapid development of gas-fired power stations and the government's further implementation of "coal-to-gas project" ("煤改氣工程"), the consumption volume of natural gas in Shandong Province is expected to reach 38.7 billion m^3 in 2026, representing a CAGR of 10.8% between 2021 and 2026.

Consumption volume of natural gas, classified by use, Shandong Province, 2016-2026E



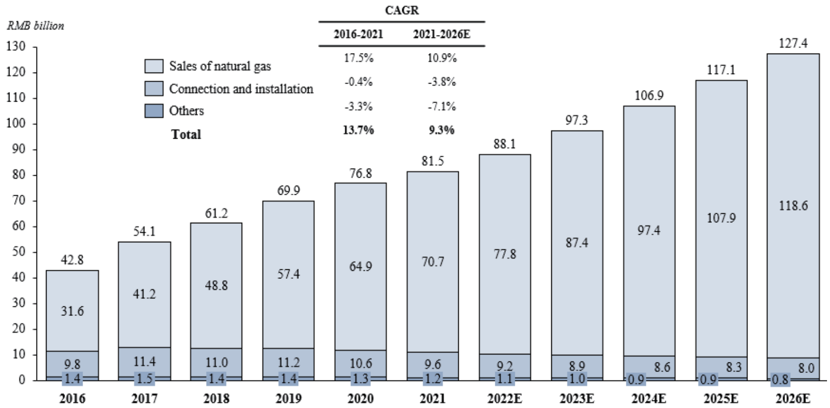
Source: National Bureau of Statistics, Ministry of Housing and Urban-Rural Development of the PRC, CIC report

Between 2016 and 2021, the market size of the city natural gas supply market in Shandong Province, as measured by sales value, grew from RMB42.8 billion to RMB81.5 billion at a CAGR of 13.7% and is expected to grow to RMB127.4 billion in 2026, representing a CAGR of 9.3% between 2021 and 2026. Sale of natural gas increased rapidly with a CAGR of 17.5% and are expected to maintain a CAGR of 10.9% from 2021 to 2026.

The overall growth in the sales value of the city natural gas supply industry over the past five years was primarily driven by economic growth in Shandong Province. Other contributing factors include (i) sufficient supply of natural gas under the "West-East Natural Gas Pipeline Project" ("西氣東輸工程"), (ii) local government's implementation of the "coal-to-gas project" ("煤改氣工程") and (iii) the target of realising "natural gas coverage to each village and town" ("村村通和鎮鎮通").

The expected increase is mainly based on the rapidly-developing natural gas-powered electricity generation industry, steadily increasing natural gas consumption in city natural gas, industrial fuel and construction sectors.

Sales value of the city natural gas supply market, by service type, Shandong Province, 2016-2026E



Source: National Bureau of Statistics, Ministry of Housing and Urban-Rural Development of the PRC, CIC report

ANALYSIS OF THE CITY GAS SUPPLY INDUSTRY IN GAOMI CITY

Market size of natural gas in Gaomi City

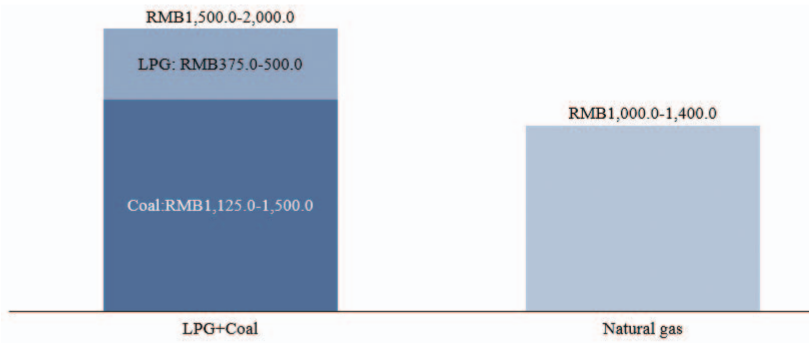
Gaomi City is located in the east of Shandong Province, China. It is a county-level city under Weifang Municipality, with a total area of 1,606.0 km^2. Gaomi City is 265 km away from Jinan City (the capital city of Shandong Province) and 75 km away from Weifang Municipality. Gaomi City is one of the earliest counties (cities) in coastal areas approved by the State Council to adopt the "Open to the Outside" policy (對外開放政策). Since the 1990s, Gaomi City's economy has grown rapidly, manufacturing industry being the dominant industry within the city. Gaomi City was selected as one of the Top 100 counties in China in terms of the business environment and the Comprehensive Well-off Index (全面小康指數).

In 2021, Gaomi City is ranked 74 in "Top 100 counties in China" according to the China County Research Institute. The GDP of Gaomi City reached RMB 61.5 billion in 2021, which is ranked No.4 in Weifang Municipality . GDP of the secondary industry and the tertiary industry reached RMB20.4 billion and RMB35.6 billion in 2021, respectively. The industrial and commercial development of Gaomi City is still at a relatively fast level. Driven by policies, the demand for natural gas is still at a sufficient level. The number of industrial enterprises in Gaomi City increased from 8,220 in 2016 to 17,460 in 2021, representing a CAGR of 16.3%. While the number of industrial enterprises is predicted to further increase to 28,089 in 2026, representing a CAGR of 10.0%. The number of commercial units in Gaomi City increased from 81,200 in 2016 to 117,200 in 2020, representing a CAGR of 9.6%. The number of household units in Gaomi City decreased from 334,591 in 2016 to 330,852 in 2020.

Other than natural gas (which includes both PNG and LNG), liquefied petroleum gas (LPG) and coal are the other two major energy sources for cooking and heating in rural areas in Gaomi City. Generally, coal is used for cooking and heating in winter, and LPG is used for cooking in other seasons. Natural gas is cheaper, cleaner and more convenient than LPG and coal. On average, a typical rural household in Gaomi City incurred from approximately RMB1,500 to RMB2,000 on LPG and coal in 2021. A typical rural household can save approximately RMB500 to RMB600 for its overall energy expense when natural gas is substituted for coal. Substitution of natural gas for coal and LPG is generally affordable for rural households across the rural area of Gaomi City. For the information related to affordability of PNG end-users, please refer to "— Market drivers of the city natural gas market — Growing urbanisation rate and increasing consumption capacity" in this section.

The consumption volume of natural gas by residents in Gaomi City from 2016 to 2021 are 14.6 million m^3, 22.0 million m^3, 18.6 million m^3, 19.1 million m^3, 22.7 million m^3, 22.9 million m^3, respectively. The estimated consumption volume of natural gas by residents in Gaomi City from 2022 to 2026 would be 27.2 million m^3, 29.2 million m^3, 31.1 million m^3, 32.8 million m^3, 34.1 million m^3, respectively. The consumption volume of natural gas by residents in Gaomi City is expected to maintain its growth in the next five years, hitting 34.1 million m^3 in 2026 with a CAGR of 8.3% between 2021 and 2026. In addition, the total consumption volume of city natural gas in Gaomi City from 2016 to 2021 are 22.7 million m^3, 35.0 million m^3, 39.6 million m^3, 43.3 million m^3, 47.5 million m^3, 48.4 million m^3, respectively. The estimated total consumption volume of natural gas from 2022 to 2026 would be 56.1 million m^3, 61.9 million m^3, 68.0 million m^3, 73.9 million m^3, 79.2 million m^3, respectively. Such increase will be ensured by the Gaomi City People's Government' target to reduce fuel emissions and increase the replacement of coal-fired boilers with clean energy-powered boilers and continue shanty towns transformation. Since the promulgation of the "coal-to-gas project" (煤改氣工程) in 2017, installation of clean energy gas burning appliances has been warmly welcomed by rural residents in Gaomi City.

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

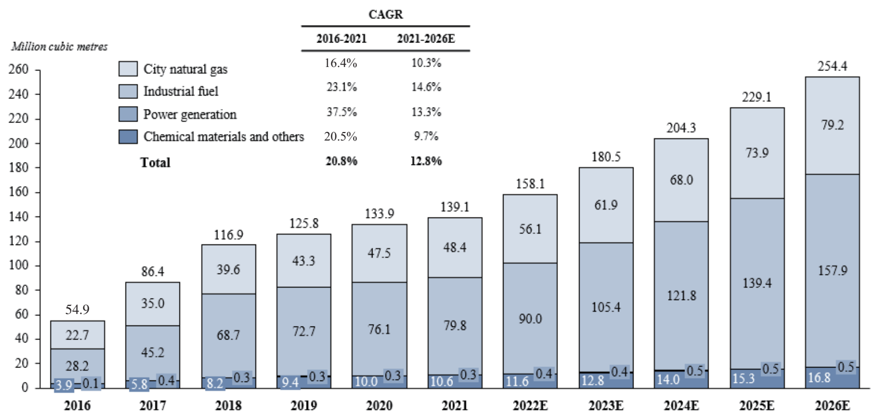


Rural residents typically make their own decisions as to whether to choose natural gas for usage. By choosing to use natural gas, rural residents can save energy consumption expenses. Natural gas is cheaper, cleaner and more convenient than LPG and coal. On average, a typical rural household in Gaomi City incurred from RMB1,500 to RMB2,000 on LPG and coal in 2021. After converting to consumption of natural gas, the overall energy expense can be reduced to around RMB1,000 to RMB1,400 per rural household. Rural residents typically would be more interested in participating in the Clean Energy Projects as they are more price-sensitive, and the participation in Clean Energy Projects could help them save energy costs. According to "Shandong Province Clean Heating Plan in Winter Notice (2018-2022) (《山東2018-2022清潔取暖計劃》)", Government of Shandong Province puts forward the requirements for the number of households adopting clean heating in urban and rural areas. Pursuant to which a target had been set for 70% households in rural areas of Weifang Municipality to adopt clean energy by the end of 2022. As at the end of 2021, only around 20% of rural households in Gaomi City had adopted clean energy. Driven by the policy to populate clean energy in Weifang Municipality, the Gaomi City People's Government will continuously introduce a series of policies and grant allowances to rural residents in order to help them reduce the cost of choosing natural gas for usage. Such measures will enhance the rural residents' willingness in participating Clean Energy Projects. Rural residents participate in Clean Energy Projects and undertake installation of natural gas equipment largely due to the government subsidy which they will be entitled to if they are committed to use natural gas supplied by the Group in the Concession Area. The residents who do not participate in the Clean Energy Projects have an option to choose whether to use natural gas as primary energy source within the Concession Area at their discretion.

The consumption volume of natural gas in Gaomi City increased from 54.9 million m^3 in 2016 to 139.1 million m^3 in 2021, representing a CAGR of 20.8%. This growth is mainly due to the surge in natural gas consumptions in residential, industrial fuel and power generation sectors. The industrial consumption volume of natural gas has grown significantly in the past five years. Additionally, the Gaomi City People's Government has been promoting the "coal-to-gas project" ("煤改氣工程") for both residential and industrial PNG end-users 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》*). This has resulted in the increase of natural gas consumption level, especially within the industrial fuel and construction sectors. Supportive government subsides also contributed to the increase of natural gas consumption levels in industrial fuel and construction sectors. According to Eight measures to ensure heat supply in Gaomi during the 2021-2022 heating season《高密市2021-2022年供熱季保暖保供八條措施》, Gaomi City's bureau of finance will provide temporary gas price subsidies (2 RMB/m^3) for the gas purchased by gas companies which is used to ensure gas supply for clean heating "coal-to-gas" users.

The consumption volume of natural gas in Gaomi City is expected to continue in the next five years, reaching 254.4 million m^3 in 2026 with a CAGR of 12.8% between 2021 and 2026. This increase will be ensured by the Weifang and Gaomi City People's Government's target to reduce fuel emissions and increase the replacement of coal-fired boilers with clean energy-powered boilers and continue shantytowns transformation. According to Weifang Municipality's new round of "four reductions and four increases" three-year action plan《濰坊市新一輪"四減四增"三年行動方案(2021-2023年)》, by 2023, there should be no less than 400,000.0 newly completed clean heating renovations in rural areas of Weifang Municipality, and the clean heating rate should increase by more than 30.0%.

Consumption volume of natural gas, classified by use, Gaomi City, 2016-2026E

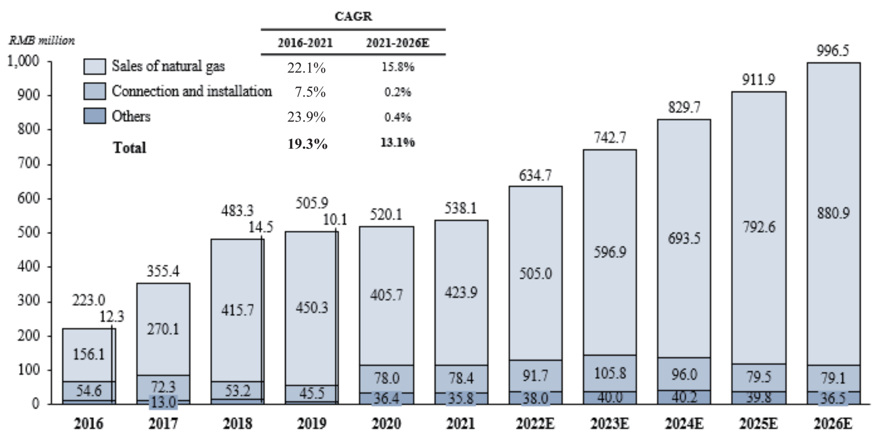


Source: National Bureau of Statistics, Ministry of Housing and Urban-Rural Development of the PRC, CIC report

The sales value of the city natural gas supply market in Gaomi City increased from RMB223.0 million in 2016 to RMB538.1 million in 2021, representing a CAGR of 19.3%. The overall growth in the sales value of city natural gas supply industry in the past five years was primarily driven by (i) economy growth, (ii) sufficient supply of natural gas upon the operation of LNG receiving stations, and (iii) local government's implementation of the "coal-to-gas project" ("煤改氣工程"). These factors stimulated the increase of natural gas consumption in Gaomi City.

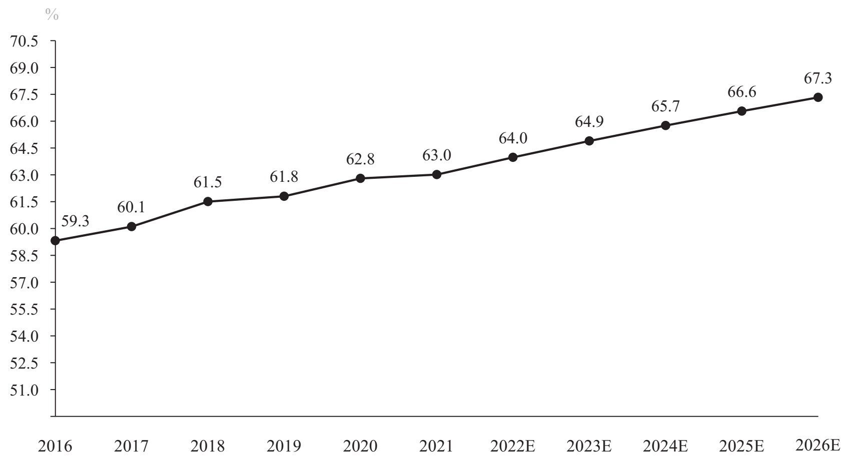
The sales value of gas is expected to reach RMB996.5 million by 2026, representing a CAGR of 13.1% between 2021 and 2026. The expected increase is primarily driven by the steadily increasing natural gas consumption in industrial fuel and construction sectors as well as city natural gas sector.

Sales value of the city natural gas supply market, by service type, Gaomi City, 2016-2026E



Source: National Bureau of Statistics, Ministry of Housing and Urban-Rural Development of the PRC, CIC report

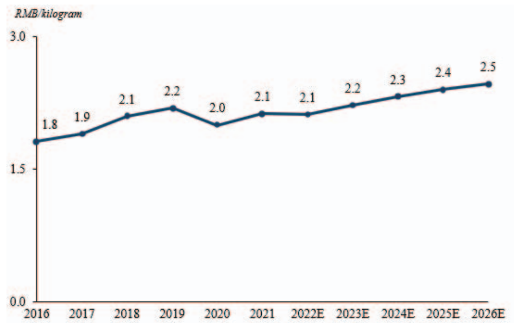
Urbanisation rate, Gaomi City, 2016-2026E



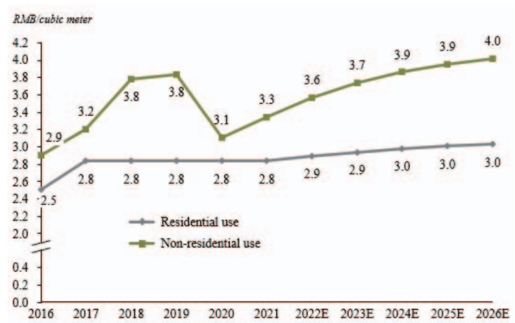
Source: National Bureau of Statistics, CIC report

The urbanisation rate in Gaomi City increased from 59.3% in 2016 to estimated 63.0% in 2021 and is predicted to grow to 67.3% in 2026. Increased number of urban households will continue to contribute to natural gas market growth.

Average PNG purchasing price (without VAT) of city natural gas companies, Gaomi City, 2016-2026E



Average PNG retail prices (without VAT) of city natural gas companies, Gaomi City, 2016-2026E

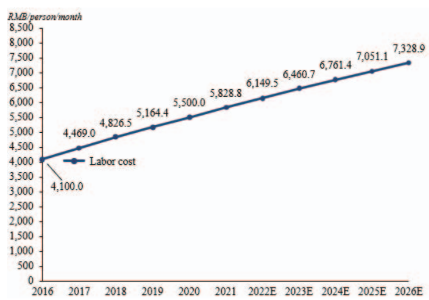


Source: National Bureau of Statistics, CIC report

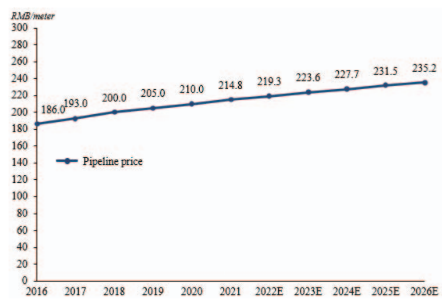
The average PNG procurement price of city natural gas companies is the PNG cost price, which is regulated by relevant governments and/or authorities in the PRC.

Average PNG retail prices of city natural gas companies include PNG retail price for residential end-users and for non-residential PNG end-users. Both prices are guided by the Gaomi City People's Government. In 2020, the average PNG purchase and retail prices decreased due to Gaomi City government's policy on ensuring the resumption of work and production ("保障復工複產") after COVID-19.

Labor cost, Gaomi City, 2016-2026E



Pipeline price, Gaomi City, 2016-2026E



Source: National Bureau of Statistics, CIC report

The average procurement and retail prices of PNG have been relatively stable from 2016 to 2021. It is predicted that the average procurement and retail prices of PNG will continue to be stable and to grow if no extreme situations occur.

Both labor cost and pipeline price have been gradually growing from 2016 to 2021 in Gaomi City. It is predicted that both labor cost and pipeline price will continue to steadily increase from 2021 to 2026 with no big fluctuations.

Market drivers of the city natural gas market

Growing urbanisation rate and increasing consumption capacity

The urbanisation rate in the PRC increased from 57.3% in 2016 to 64.7% in 2021 and is expected to grow further in the future. The urbanisation rate in Gaomi City increased from 59.3% in 2016 to estimated 63.8% in 2021 and is predicted to grow to 69.0% in 2026. More urban households and stronger consuming capacity will continue to contribute to natural gas consumption.

Natural gas installation fee is generally affordable for rural households across the rural area of Gaomi City. Information in relation to the affordability of PNG end-users in the Target Area are set out as follows:

	2016	2017	2018	2019	2020	2021
Per capita disposable income of rural residents in Gaomi City (RMB)	15,589.0	16,885.0	18,168.0	19,749.0	21,013.0	23,355.0
Per capita disposable income of rural residents in Shandong province (RMB)	13,954.0	15,118.0	16,297.0	17,775.0	18,753.0	20,794.0
Per capita disposable income of rural residents in China (RMB)	12,363.4	13,432.4	14,617.0	16,020.7	17,131.5	18,931.0

Gaomi City has enjoyed better per capita income level comparing with that of Shandong Province and across China from 2016 to 2021. In 2021, per capita disposable income of rural residents in Gaomi City is RMB23,355 per capita, which is RMB4,424 or approximately 23.4% higher than that of China, indicating the stronger purchasing power of rural residents in Gaomi City. In comparison, the installation fee of natural gas appliance eventually borne by a single rural household pursuant to the Clean Energy Projects, which is RMB2,000, would only take up to approximately 4.3% of the total annual disposable income per household (i.e., assuming each household is comprised of two income-earning family members).

Expanding natural gas infrastructure

China's pipeline networks for natural gas have stretched from approximately 498,000 km in 2015 to approximately 768,000 km in 2019. Expansion of natural gas networks can drive the supply market by relieving supply bottlenecks. Gaomi City has the target of realising "natural gas coverage to each village and town" ("村村通和鎮鎮通"). 800 kilometers of medium and high-pressure natural gas pipeline networks have been built in 2020. All towns and districts have been covered by the natural gas pipeline networks, benefiting approximately 102,000 residents. However, many villages in Gaomi City are still not covered by natural gas pipeline networks, indicating great potential for natural gas consumption volume increase.

Policies regarding natural gas use

The government issued *Clean Winter Heating Plan for Northern China (2017-2021)* (*《北方地區冬季清潔取暖規劃(2017-2021年)》*), which aims to promote clean winter heating by phasing out coal-fired appliances in the north of the country by 2021. The plan pledges that the share of clean energy heating will reach 50 percent by 2019, replacing 74 million tons of coal in the process. That target rises to 70 percent for 2021. The coal-to-gas project (煤改氣工程) will be further implemented going forward at the end of 2022 in some rural areas, including towns and shantytowns, by some natural gas operators to expand its sales of PNG business in their respective operating areas. *Notice of the State Council on a Comprehensive Work Plan for Energy Conservation and Emission Reduction during the "Fourteenth Five-Year Plan" period (《國務院關於印發"十四五"節能減排綜合工作方案的通知》),* has further given a guidance on the transformation of energy from coal to natural gas and the reduction of coal burning. The notice is to be implemented for five years till 2025. According to *Clean Winter Heating Action Plan of Gaomi City in 2021* (*《高密市2021年冬季清潔取暖工作實施方案》*), in order to speed up the progress of clean energy heating by applying natural gas, the Gaomi Municipal Party Committee and the Municipal Government listed clean heating on the work list of the secretary of party committee in charge of each town and district, and required the secretary of party committee of each town and district to be in charge of this work.

In general, the Gaomi City People's Government provides strong incentives by subsidies for rural natural gas end-users. According to "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》), the Gaomi City People's Government will:-

(i) provide subsidies for rural natural gas users from 2021 to 2023 for the installation of natural gas appliances. According to the abovementioned policy relating to Clean Energy Projects promulgated by the local government, the connection and installation fee of natural gas appliance is around RMB6,600 per household (usually comprising of two income-earning individuals), out of which a fixed amount of RMB4,600 will be subsidised by the government; whilst the rest of around RMB2,000 will be paid per household. A household may choose to pay more if it wants to upgrade its choice of wall-hang gas boiler to a larger size or better model; and

(ii) up to the amount of RMB1,000 of the annual natural gas tariff per household can be subsidised by the Gaomi City People's Government for the heat supply season in winters.

After 2023, natural gas related subsidies are predicted to continue. According to "Shandong Province's 14th Five-Year Plan for National Economic and Social Development and Outline of Vision 2035" (《山東省國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》), promoting and accelerating implementation of natural gas infrastructure in rural areas is one of the important measures to promote clean energy development and utilization in rural areas.

COMPETITIVE LANDSCAPE OF CITY NATURAL GAS MARKET IN GAOMI CITY

City natural gas suppliers in Gaomi City in terms of sales revenue

Our Company ranked No.1 in the Gaomi City natural gas market in terms of sales revenue from 2016 to 2021. Natural gas distribution revenue in Gaomi City is around RMB0.62 billion in 2021.

Ranking	Company	Business scope	Sales revenue	Market share
			(RMB billion)	
1	The Group	Currently the biggest natural gas supplier in Gaomi City and is the sole supplier of LNG. There are over 600 natural gas suppliers in China in 2020. Our Company ranked in top 50 in terms of the total sales revenue, and is currently operating in the Operating Area under an effective term of 30 years from 18 August 2009 according to the Concession Agreement.	0.44	70.6%

Ranking	Company	Business scope	Sales revenue	Market share
			(RMB billion)	
2	Company Z	Company Z is the other natural gas supplier in Gaomi City, which was established 10 years later than our Company. It operates a natural gas refuelling station, which is located at a suburban area in Gaomi City. The location of its refuelling station does not overlap with the Group's three CNG and LNG refuelling stations which are located in the Group's Operating Area in Gaomi City.	0.18	29.4%
	Total		0.62	100.0%

Source: CIC report

Our Company is ranked the sixth in terms of sales revenue among all of the non-state-owned city natural gas operators in 2020 in Shandong Province.

Ranking	Company	Sales Revenue	Market share
		(RMB billion)	*(%)*
1	Company A	12.87	16.8%
2	Company B	5.29	6.9%
3	Company C	2.14	2.8%
4	Company D	1.64	2.1%
5	Company E	0.64	0.8%
6	Our Group	0.35	0.5%
7	Company F	0.33	0.4%
8	Company G	0.10	0.1%
9	Company H	0.06	0.1%
10	Company I	0.05	0.1%

Company A: The company was established in 2005 with comprehensive development of various industrial clusters such as clean energy, comprehensive urban operation, and strategic entities. It operates in Linyi City, Yantai City and Qufu City in Shandong Province. It has more than 300 subsidiaries in China covering five provinces. The company is principally engaged in the production and sales of PNG, design, construction of gas projects, repair, maintenance and sales of gas facilities.

Company B: As the largest private-owned Chinese clean energy distributor in terms of revenue in 2021, company B started city pipeline gas business in 1992 and was listed in 2001 in Hong Kong. It operates in Yantai City in Shandong Province. Company B is engaged in design, construction of gas projects, the transmission, distribution and sales of PNG, and the repair, maintenance and sales of gas facilities.

Company C: The company was established in 2002 and was listed on the Main Board of the Hong Kong Stock Exchange in 2012. It has operating areas in Linyi City and Dezhou City in Shandong Province. The company has developed into a comprehensive gas enterprise including the design, construction of gas projects, the transmission, distribution and sales of PNG, and the repair, maintenance and sales of gas facilities.

Company D: The company was based in Hong Kong and was listed on the Main Board of the Hong Kong Stock Exchange in 2001. It operates in Jinan City, Weifang Municipality and Binhai City in Shandong Province. The company engages in natural gas business investment, development and operation management. Its main business involves the sales and management of pipeline gas in China, including the gas pipeline network construction, the operation of urban pipeline gas, the operation of automobile gas filling stations and natural gas related appliances.

Company E: The company is based in Henan Province and listed in Hong Kong in 2010. The company mainly engages in the operation of urban pipeline gas. It has an operating area in Heze City in Shandong Province.

Company F: The company was established in 1996 and listed on the Main Board of the Hong Kong Stock Exchange in 1997. The company mainly engages in sales and distribution of natural gas and liquefied petroleum gas, which operates in Linyi City in Shandong Province.

Company G: The company was established in 1997, and is mainly engaged in investing, operating and managing urban gas pipeline infrastructure to deliver natural gas to residents, businesses and industrial users, building and operating LNG and CNG vehicle filling stations, It operates in Heze City in Shandong Province.

Company H: The company was established in 1997 and has been listed on the Shanghai Stock Exchange since 2016. Company H is a clean energy company and is principally engaged in pipeline gas sales. It operates in Langfang City in Shandong Province and is engaged in design, construction of gas projects, the transmission, distribution and sales of PNG, and the repair, maintenance and sales of gas facilities.

Company I: The company was established in 1985 and has been listed on the Shenzhen Stock Exchange since 1996. Company I's principal business includes comprehensive utilization of natural gas, including gas source development and transportation, long-distance pipeline network construction and management, urban gas operation and sales, vehicle gas station investment and operation, LNG point supply, etc. Company I operates in Yantai City in Shandong Province.

Key success factors of the city natural gas market

- Sufficient and stable cash flow of natural gas operators is critical.
- Gas safety and stability is guaranteed by virtue of effective operational capacities.
- Proven track record of operating natural gas sales and related businesses from outstanding natural gas operators.
- Concession rights are obtained to conduct natural gas sales exclusively in the granted area.
- Experienced business development teams help to achieve success in city natural gas market.

Entry barriers of the city natural gas market

- Obtaining a concession in the natural gas supply market is a major entry barrier for new market entrants.
- Infrastructure for gas distribution is monopolised in the PRC.
- Substantial initial capital investment is required to be granted a concession right.

Future opportunities for the city natural gas market

- PNG end-users will continue to use natural gas due to the coal-to-gas project (煤改氣工程).
- China-Russia Energy alliance business potentials of natural gas operators.
- Adoption of intelligent equipment enhances the operational efficiency of natural gas operators.
- Widened market access under the updated negative lists for foreign investment.

REGULATIONS ON CORPORATION AND FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC is governed by the *Company Law of the PRC* (《中華人民共和國公司法》), which was promulgated by the Standing Committee of the National People's Congress of the PRC (全國人民代表大會常務委員會) on 29 December 1993 and came into effect on 1 July 1994, and last amended on 26 October 2018. *The Company Law* of the PRC generally governs two types of companies, namely limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of shareholders of a limited liability company or a joint stock limited company is limited to the amount of registered capital they have contributed. The Company Law of the PRC shall also apply to foreign-invested companies in form of limited liability company or joint stock limited company. Where laws on foreign investment have other stipulations, such stipulations shall apply.

On 1 January 2020, the *Foreign Investment Law of the PRC* (*《中華人民共和國外商投資法》*) (*the "**FIL**"*) and the *Regulations on the Implementation of the Foreign Investment Law of the PRC* (*《中華人民共和國外商投資法實施條例》*) became effective and simultaneously replaced the trio of prior laws regulating foreign investment in China, namely, the *Sino-foreign Equity Joint Venture Enterprise Law of the PRC* (*《中華人民共和國中外合資經營企業法》*), the *Sino-foreign Cooperative Joint Venture Enterprise Law of the PRC* (*《中華人民共和國中外合作經營企業法》*) and the *Wholly Foreign-invested Enterprise Law of the PRC* (*《中華人民共和國外資企業法》*), together with their implementation rules and ancillary regulations.

According to the *Foreign Investment Law and The Measures for the Reporting of Foreign Investment Information* (*《外商投資信息報告辦法》*), which was issued by MOFCOM and the State Administration for Market Regulation on 30 December 2019 and became effective on 1 January 2020, the PRC establishes a foreign investment information reporting system. Foreign investors or foreign investment enterprises shall submit investment information to the commerce authorities through the enterprise registration system and enterprise creditworthiness information announcement system. The contents and scope of foreign investment information reporting shall be determined according to the principle that it is really necessary. The foreign investment information that can be obtained through sharing of departmental information shall not be required any more.

According to the *Interim Provisions on the Domestic Investments of Foreign-Owned Enterprises* (*《關於外商投資企業境內投資的暫行規定》*), which was issued by MOFCOM and State Administration for Industry and Commerce (SAIC), the last revised version of which became effective on 28 October 2015, foreign-owned enterprises may invest in the encouraged, permitted and restricted projects, but shall not invest in the prohibited projects in the PRC.

According to the *Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018 Edition)* (*《外商投資准入特別管理措施(負面清單)》(2018年版)*), which was jointly promulgated by the NDRC and the MOFCOM on 28 June 2018 and became effective on 28 July 2018, the construction and operation of gas, heat and water supply and drainage pipeline network for a city with a population of more than 500,000 shall be controlled by PRC entities.

The *Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019 Edition)* (《外商投資准入特別管理措施(負面清單) (2019年版)》), which was jointly promulgated by the NDRC and the MOFCOM on 30 June 2019 and became effective on 30 July 2019, has deleted the provision that the construction and operation of gas and heat supply projects for a city with a population of over 500,000 shall be controlled by a PRC entity, and the *Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018 Edition)* (《外商投資准入特別管理措施(負面清單) (2018年版)》) shall be abolished simultaneously. From 30 July 2019 onwards, there will be no restriction on the shareholding of foreign entities in the construction and operation of urban gas projects.

The *Special Management Measures for Foreign Investment Access (Negative List) (2020 Edition)* (《外商投資准入特別管理措施(負面清單) (2020版)》) issued by National Development and Reform Commission and the Ministry of Commerce jointly came into force on 23 July 2020. At the same time, the *Special Management Measures for Foreign Investment Access of Pilot Free Trade Zones (Negative List) (2019 Edition)* was repealed. In the 2020 edition of the negative list, there is also no restriction on the control of foreign investors over the construction and operation of urban gas with an urban population of more than 500,000. In addition, *The Catalogue of Industries Encouraging Foreign Investment (2020 Edition)* (《鼓勵外商投資產業目錄》 (2020年版)), which was jointly promulgated by the NDRC and the MOFCOM on 27 December 2020 and became effective from 27 January 2021, expressly covers the construction and operation of the regional energy supply industries driven by the use of natural gas in the catalogue.

The *Special Management Measures for Foreign Investment Access (Negative List) (2021 Edition)* (《外商投資准入特別管理措施(負面清單) (2021版)》) issued by National Development and Reform Commission and the Ministry of Commerce jointly came into force on 1 January 2022, in which there is also no restriction on the control of foreign investors over the construction and operation of urban gas with an urban population. And the *Special Management Measures for Foreign Investment Access (Negative List) (2020 Edition)* was repealed at the same time.

REGULATIONS ON GAS OPERATION AND MANAGEMENT

Regulations on Urban Gas Management

The Regulations on Urban Gas Management (《城鎮燃氣管理條例》) was promulgated by the State Council of the PRC on 19 November 2010, effective as from 1 March 2011 and amended on 6 February 2016. This regulation shall mainly apply to urban gas development planning and emergency management, gas operation and service, gas usage, gas facilities protection, prevention and handling of gas safety accidents and relevant administrative activities.

Pursuant to the *Regulations on Urban Gas Management*, the PRC implements a licence system for gas operation and prohibits individuals from engaging in PNG operation. Enterprises meeting the requirements of the *Regulations on Urban Gas Management* are granted a gas operation licence by the gas management departments under the local government at or above the county level.

The local governments have developed and enacted applicable local regulations based on the local conditions. On 26 September 2003, the Standing Committee of Shandong Provincial People's Congress issued the *Regulations on Gas Administration of Shandong Province* (《山東省燃氣管理條例》), which was implemented on 1 November 2003 and amended on 30 March 2016 and 30 March 2022.

Gas Operation Licence

The *Administrative Measures for Gas Operation Licence* (《燃氣經營許可管理辦法》) was issued by MOHURD on 19 November 2014 and amended on 11 March 2019. According to the *Administrative Measures for Gas Operation Licence*, the enterprises engaged in gas business activities shall obtain a gas operation licence in accordance with the law and operate within the scope stipulated in the licence. An enterprise applying for a gas operation licence shall meet the following conditions: (1) complying with the requirements of gas development planning; (2) having gas sources that meet national standards; (3) having gas facilities that meet national standards; (4) having an established place of business; (5) having a well-established safety management system and a sound management plan; (6) the principal responsible persons, safety production management personnel, and operation, maintenance and repair personnel of the enterprise having been professionally trained and having passed the examination of the gas management department; and (7) any other conditions as stipulated by laws and regulations.

An enterprise applying for a gas operation licence shall submit the following application materials to the licence-issuing department and shall be responsible for the authenticity, legality and validity of such materials: (1) the application for a gas operation licence; (2) the gas quality test report, and the contract entered into with the gas supplier in relation to the supply and use of gas; (3) the applicant's submissions on its qualification for completion and acceptance of gas facility construction project, professional training and assessment of the principal responsible persons, safety production management personnel, and operation, maintenance and repair personnel, property ownership or leases for its places of business (including office space, operation and service sites), business registration and capital structure; (4) materials in relation to its well-established safety management system and sound management plan; and (5) other materials as required by laws and regulations.

The licence-issuing department will consider the application through a review of the application materials and on-site inspection. The licence-issuing department shall make a decision on whether to grant the licence within 12 working days from the date of accepting the application. If a decision cannot be made within 12 working days, the period may be extended for 10 working days with the approval of the person in charge of the licence-issuing department, and the applicant shall be informed of the reasons for the extension.

According to the *Notice on the Issuance of the Format of Gas Operation Licence* (《關於印發<燃氣經營許可證>格式的通知》) issued by the MOHURD on 27 October 2011 and the *Supplement Notice on the relevant matters of the Format of Gas Operation Licence* (《關於燃氣經營許可證格式有關事項的補充通知》) issued by the MOHURD on 31 October 2016, a gas operation licence is a legal certificate for operators engaged in gas operating activities, the original of which should specify the registered name and address of the enterprise, the name of the legal representative, category of business activities (pipeline gas, bottled gas, vehicular fuel refuelling station and other categories) operating area, serial number, issuing authority, issuing date, validity period, etc. The validity period of a gas operation licence shall be determined by the provincial gas management department.

According to the *Regulations on Gas Administration of Shandong Province*, a gas operation licence shall be obtained for gas operation business and should be renewed annually.

Concession

On 19 March 2004, the MOHURD promulgated the *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》) *("Concession Measures")*, which became effective on 1 May 2004 and was amended on 4 May 2015.

Pursuant to the Concession Measures, the concession projects shall be determined by the provinces, autonomous regions, and municipalities through legal forms and procedures. The competent construction department of the State Council and the competent construction departments of the regional governments at province and autonomous region level shall be responsible for guiding and supervising the concession activities of municipal public utilities within the areas under their respective administration. The competent departments of municipal public utilities of the governments at municipality level directly under the PRC Government, cities, and counties shall, upon the authorisation of the PRC government, be responsible for the specific implementation of the granting of concessions for municipal public utilities within their own administrative regions. The competent departments shall choose investors or managers by hosting the requisite bidding process. Under the authorisation of the people's governments of municipality, city or county level, the housing and urban-rural development bureau (or other relevant competent department responsible for municipal public utilities) of municipality, city or county level shall enter into concession agreements with the bit-winner (grantees) for the granting of concession rights. The *Concession Measures* shall be applicable to the implementation of concessions for water supply, gas supply, heating, public transport, sewage treatment, waste disposal and relevant industries. The term of concession shall be determined according to factors such as the characteristics, scale, and mode of operation of the industry, and the maximum term shall not exceed 30 years.

According to the *Measures for the Administration of Concession for Infrastructure and Public Utilities* (《基礎設施和公用事業特許經營管理辦法》) jointly issued by the NDRC, the Ministry of Finance, the MOHURD, the Ministry of Transport, the Ministry of Water Resources and the People's Bank of China on 25 April 2015 and effective on 1 June 2015, concession for infrastructure and public utilities means the government's authorisation of a legal person or any other onshore or offshore organisation according to the law, by competitive mode, to engage in investment, construction, and operation of infrastructure and public utilities within a certain time limit and scope and make profits as stipulated in an agreement that specifies the rights, obligations, and risks allocation, to provide public commodities or public services. The people's governments at or above county level shall authorise the relevant departments or units as the implementing agencies to take charge of the implementation of concession activities, and shall specify the specific scope of authorisation. According to the Article 15 of *the Measures for the Administration of Concession for Infrastructure and Public Utilities* (《基礎設施和公用事業特許經營管理辦法》), the implementing agencies shall select the concession operators through competitive methods such as bidding and competitive negotiation according to the approved implementation plan for concession projects. If the construction and operation standards and regulatory requirements for concession projects are clear and the market competition in the relevant fields is sufficient, the concession operators shall be selected through bidding. The implementing agencies shall enter into concession agreements with the grantees legally selected. The term of concession for infrastructure and public utilities shall be determined in light of the industry characteristics, the public commodities provided or public service requirements, the project life cycle, the investment payback period, and other relevant factors and shall not exceed 30 years. For a concession project of infrastructure and public utilities with large investment scale and long payback period, the government or its authorised department may, in light of the factual circumstances of the project, agree on a term of concession exceeding the term set out above with the concession grantee. After the expiration of the term, the government or its authorised department should adopt competitive modes such as public biddings to re-select the concession grantee. Under the same conditions, preferential rights to renew relevant concession rights shall be given to the former concession grantees. If the content of the concession agreement needs to be changed during the term of the concession agreement, the parties to the agreement shall enter into a supplemental agreement based on mutual agreement.

Gas supply

Pursuant to the *Advice on Accelerating the Construction of Gas Storage Facilities and Improving the Market Mechanism of Gas Storage and Peak Adjustment Auxiliary Services* (*《關於加快儲氣設施建設和完善儲氣調峰輔助服務市場機制的意見》*) promulgated by the NDRC and the National Energy Administration on 26 April 2018, urban gas enterprises shall establish natural gas reserves and shall have a gas storage capacity of no less than 5% of their annual gas consumption end of 2020 by means of self-construction, joint construction, lease, purchase of gas storage facilities or purchase of gas storage services. According to the *Implementation Opinions on Accelerating the Construction of Natural Gas Reserve Capacity* (*《關於加快推進天然氣儲備能力建設的實施意見》*) issued jointly by the NDRC and the Ministry of Finance, the Ministry of Natural Resources, the MOHURD and the National Energy Administration on 10 April 2020, among others, the missions of city gas operators to fulfil gas storage requirement shall be included in the provincial special planning, and the gas storage facilities for city gas supply shall be constructed in a centralised manner; avoid small-scale and scattered construction of storage facilities, and eliminate any hidden safety hazard from the source; city gas operators may lease the storage capacities in proportion from the supporting gas storage facilities jointly constructed and shared by city clusters, where the rental cost shall be reasonably reflected in the end-user price.

According to the *Regulations on Urban Gas Management*, gas operators shall supply gas users with continuous, stable and safe gas under the national quality standards, guide gas users to safely use gas and save gas, and regularly conduct safety checks on gas facilities. The gas operator shall not commit any of the following: stopping the supply of gas and adjusting the gas supply without going through the necessary notification process, or suspending or closing its business without approval.

REGULATION ON PRICING MECHANISM RELATED TO NATURAL GAS

On 29 December 1997, the Standing Committee of NPC promulgated the *PRC Pricing Law* (*《中華人民共和國價格法》*) *(the "Pricing Law")*, which became effective on 1 May 1998. The PRC Government has implemented and gradually improved the mechanism that prices are mainly formed by the market under macroeconomic control according to the *Pricing Law*. The prices of most of the goods and services are subject to market regulation, and the prices of a small number of goods and services are subject to government-determined or guided prices. Market regulated prices refer to the prices independently determined by the operators and formed through market competition. Government guided prices refer to the prices set by the business operators under the guidance of governmental pricing authorities or other relevant departments in accordance with the benchmark prices and their floating ranges as stipulated in their pricing authority and scope. The government-determined prices refer to the prices set by the governmental pricing authorities or other relevant departments directly in accordance with their pricing authority and scope. The government may, when necessary, adopt government- determined or government-guided prices for the following prices: (1) prices of a few commodity that are of great importance to the development of the national economy and the people's livelihood;(2) prices of a few commodities with scarce resources; (3) prices of commodities operated in a natural monopoly; (4) prices of important public utilities; and (5) prices for important public welfare services.

Pursuant to the *Pricing Law*, the competent department of pricing and other relevant departments under the State Council shall determine the government-guided prices and government-determined prices in pursuance of the pricing authority and the specific applicable scope provided for in the central pricing catalog, under which the government-guided prices and government-determined prices for essential commodities and services shall be submitted to the State Council for approval in accordance with the relevant provisions.

The pricing bureau and other departments concerned in the regional governments at autonomous regions and municipalities level directly under the PRC Government shall determine the government-guided prices and government-determined prices for implementation in their respective areas in pursuance of the pricing authority and specific applicable scope provided for in the local pricing catalogs.

The municipal and county level governments may, in accordance with the authorisation of governments of the provinces, autonomous regions and municipalities directly under the PRC Government and in pursuance of the pricing authority and specific applicable scope provided for in the local pricing catalogs, determine the government-guided prices and government-determined prices for implementation in their respective areas.

According to the *Central Government Price Catalogue* (《中央定價目錄》) issued by the National Development and Reform Commission on 13 March 2020 and effective on 1 May 2020, the benchmark gate prices for offshore gas, shale gas, coalbed methane, coal gas, liquefied natural gas, gas directly supplied to users, gas purchased for and sold to gas storage facilities, gas traded on open trading platforms, pipeline natural gas imported through facilities put into production after 2015, and the natural gas in provinces with competitive conditions shall be formed by the market; the benchmark gate prices for other domestic onshore pipeline natural gas and the pipeline natural gas imported through facilities put into production before the end of 2014 shall be temporarily managed in accordance with the current price mechanism, and shall be liberalised and formed by the market appropriately, subject to the reform process of natural gas market.

According to the *Pricing Catalogue of Shandong Province (2018 Edition)* (*《山東省定價目錄》(2018版)*) issued by the Pricing Bureau of Shandong Province on 26 May 2018 and effective on 1 June 2018, the pricing regimes set by the government shall include the distribution prices and selling price of PNG in urban areas. According to the *Pricing Catalogue of Shandong Province (2020 Edition)* (*《山東省定價目錄》(2020版)*) issued by the Pricing Bureau of Shandong Province on 22 December, 2020 and effective on 1 February 2021, the pricing regimes set by the government shall include the distribution prices and selling price of PNG in urban areas.

Benchmark gate price of natural gas

According to the *Notice on Adjusting the Prices of Natural Gas (Fa Gai Jia Ge [2013] No. 1246)** (*《關於調整天然氣價格的通知》(發改價格[2013]1246號)*) issued by the NDRC on 28 June 2013, the prices of natural gas shall be managed by the gate price (門站價格) instead of the ex-factory price (出廠價). The gate price (門站價格) shall be the maximum guidance price determined by the government, and the suppliers and the purchasers may negotiate the specific prices within the range below such maximum price. The gate price (門站價格) is the price for the suppliers of domestically produced onshore PNG or imported PNG and the downstream purchasers (including the provincial PNG operation companies, urban PNG operation companies and direct users) at the time of transfer of the natural gas ownership.

According to the *Notice on Lowering the Benchmark Gate Prices of Natural Gas for Non-residential Usage and Further Accelerating the Market-oriented Price Reform* (*《關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》*) promulgated by the NDRC on 18 November 2015, the prices of natural gas for non-residential usage shall be managed by the benchmark gate price (基準門站價格) instead of the maximum gate price (最高門站價格). The suppliers and the purchasers may negotiate to determine the specific purchase prices based on the benchmark gate price and within the range up to 20% above the benchmark gate price. The purchase price was allowed to be adjusted upward after 20 November 2016. The purchase price of natural gas for residential usage in new cities with gas supply after the implementation of the natural gas pricing reform plan in July 2013 shall not be higher than the benchmark gate price of the natural gas for non-residential usage locally. The benchmark gate prices of the natural gas for non-residential usage in Shandong province was RMB1,980 per 1,000 m^3. The notice has become effective from 20 November 2015.

According to the *Notice on Lowering the Benchmark Gate Prices of Natural Gas for Non-residential Usage (Fa Gai Jia Ge Gui [2017] No. 1582)* (*《關於降低非居民用天然氣基準門站價格的通知》 (發改價格規[2017]1582號)*) promulgated by the NDRC on 29 August 2017, the benchmark gate price of natural gas for non-residential usage was lowered by RMB100 per 1,000 m^3. The adjusted benchmark gate prices of natural gas for non-residential usage in Shandong province became RMB1,880 per 1,000 m^3. The notice was implemented from 1 September 2017.

According to the *Notice on Straightening the Gate Price of Natural Gas for Residential Usage (Fa Gai Jia Ge Gui [2018] No. 794)* (*《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)*) issued by the NDRC on 25 May 2018, the prices of natural gas for residential usage shall be managed by the benchmark gate price (基準門站價格) instead of the maximum gate price (最高門站價格), where the price level will be determined in accordance with the benchmark gate price of natural gas for non-residential usage (with a VAT of 10%). In order to link up the pricing mechanism between the residential usage and non-residential usage of natural gas, the PNG purchase price for both residential and non-residential usage is to be determined based on the benchmark gate price, and restricted to 120% of the benchmark gate price. The suppliers and the purchasers may negotiate to determine the specific purchase price based on the benchmark gate price and within the range up to 20% above the benchmark gate price. According to this notice, the benchmark gate prices of natural gas in Shandong province became RMB1,860 per 1,000 m^3. The aforesaid policies became effective on 10 June 2018.

According to the *Notice on Adjusting the Benchmark Gate Price of Natural Gas for Residential Usage (Fa Gai Jia Ge Gui [2019] No. 562)* (*《國家發展改革委關於調整天然氣基準門站價格的通知》(發改價格規[2019]562號)*) issued by the NDRC on 27 March 2019, with effect from 1 April 2019, the benchmark gate prices of natural gas in Shandong province was adjusted to RMB1,840 per 1,000 m^3.

In accordance with the *Central Pricing Catalog* (*《中央定價目錄》*) effective from 1 May 2020, the prices of the gas stations for the offshore gas, shale gas, coal-bed gas, coal-to-gas, liquefied natural gas, gas for direct supply to users, gas for purchase and sales by gas storage facilities, gas for open trading on trading platforms, imported pipeline natural gas that has been put into operation after 2015 and the natural gas from provinces with competitive conditions shall be determined by the market. Prices of the gas stations for other domestic onshore pipeline natural gas and the imported pipeline natural gas put into operation by the end of 2014 shall be managed according to the current price mechanism, and the price determination power will be released to the market in due course according to the market-oriented reform process of natural gas.

End-user price of natural gas

On 10 December 2018, the NDRC promulgated the *Measures for the Hearing of Governments' Pricing* (*《政府制定價格聽證辦法》*), which became effective on 10 January 2019. According to the Measures, the pricing of public utilities, public welfare services, commodities and services under natural monopoly and other government-guided pricing or governments' pricing that concern the vital interests of the people shall be subject to pricing hearing.

1. Selling Price of Natural Gas for Residential Usage and Public Service Usage

According to the *Guiding Opinion on Establishing a Sound System for Tiered Pricing of Gas for Residential Usage* (*《關於建立健全居民生活用氣階梯價格制度的指導意見》*) promulgated and implemented by the NDRC on 20 March 2014, a tiered gas pricing system shall be implemented for gas for residential usage. According to the opinion, regarding the determination of tiers of gas usage, gas usage by residential users is divided into three tiers, of which tier one gas usage is determined based on average monthly usage by 80% of residential users in the relevant area, to ensure that the basic residential usage requirements of gas are met; tier two gas usage is determined based on average monthly usage by 95% of residential users in the relevant area, to improve the quality of life for residents in their requirements for the reasonable use of gas; and tier three gas usage is the portion exceeding the gas usage for tier two. Regarding the arrangement of price levels for gas, progressive price increases with respect to excessive amount will be implemented for each tier of gas usage, of which:

— tier one gas pricing will be determined according to the principle of providing basic compensation for the cost of supplying gas and will be maintained relatively stable for a certain period of time;

— tier two gas pricing will be determined according to the principle of providing reasonable compensation for the cost of supplying gas and obtaining reasonable profits, and this price level in principle will be approximately 1.2 times higher than tier one price; and

— tier three gas pricing will be determined based on the principle of fully reflecting the degree of the shortage of natural gas, to control excessive consumption, and this price levels in principle will be approximately 1.5 times higher than tier one price.

According to the *Notice on Adjusting the Prices for Natural Gas* (*《關於調整天然氣價格的通知》*) issued by the Price Bureau of Gaomi City on 19 September 2007, the Natural Gas for residential life usage is to be sold at a price of RMB 2.5/m^3 from 1 October 2007.

According to the *Notice on Establishing System for Tiered Pricing of Gas for Residential Usage* (*《關於建立居民生活用氣階梯價格制度的通知》*) issued by the Price Bureau of Gaomi City on 12 January 2016, and was effective from 18 January 2016, (i) if the total gas consumption per household (based on four persons per household) is within 30 m^3 (inclusive) per month, the tier one end-user residential gas selling price shall be implemented, that is RMB2.5/m^3; (ii) if the total gas consumption per household is more than 30 m^3 per month (exclusive) and within 80 m^3 per month (inclusive), the tier two end-user residential gas selling price shall be determined according to 1.2 times of tier one price, that is RMB3/m^3 ; and (iii) if the total gas consumption is more than 80 m^3 per month (exclusive), the tier three end-user residential gas selling price shall be determined according to 1.5 times of tier one price, that is RMB3.75/m^3.

According to the *Notice on Setting the Distribution Prices of PNG and Adjusting the Selling Prices for Gas for Residential Usage* (*《關於制定高密市管道天然氣配氣價格和調整居民用氣銷售價格的通知》*) issued by the Development and Reform Bureau of Gaomi City on 30 July 2019, the PNG for end-user residential usage is to be sold at a price of RMB 2.83/m^3. For schools, retirement homes or welfare organisations and other non-residential users, the gas price is RMB 3.11/m^3 pursuant to the average price of natural gas for residential usage of the tier one and tier two; for the rural and urban households in extreme poverty and households of workers in extreme poverty, the gas price shall remain RMB2.5/m^3. For wall-hung gas boiler users which accounts were opened by gas companies, (i) if the total annual gas consumption is within 1,000 m^3 (inclusive), the tier one end-user residential gas selling price shall be implemented, that is RMB2.83/m^3; (ii) if the total annual gas consumption is more than 1,000 m^3 (exclusive) and within 1,200 m^3 (inclusive), the tier two end-user residential gas selling price shall be determined according to 1.2 times of tier one price, that is RMB3.40/m^3; and (iii) if the total annual gas consumption is more than 1,200 m^3 (exclusive), the tier three end-user residential gas selling price shall be determined according to 1.5 times of tier one price, that is RMB4.24/m^3.

According to the *Measures for Upstream and Downstream Linkage of the Price of Natural Gas for Residential Usage in Weifang Municipality (Trial)* (*《濰坊市居民用管道天然氣價格上下游聯動辦法 (試行)》*) issued by the Development and Reform Commission of Weifang on 30 July 2019, effective from 1 August 2019 to 31 July 2021, and the *Measures for Upstream and Downstream Linkage of the Price of Natural Gas for Residential Usage in Weifang Municipality* (*《濰坊市居民用管道天然氣價格上下游聯動辦法》*) issued by the Development and Reform Commission of Weifang on 21 June 2021, effective from 1 August 2021 to 31 July 2024, the price linkage is applicable to the urban gate price (城市門站價格) of natural gas and the selling price of natural gas for residential usage. When the natural gas benchmark gate price adjustment reaches or exceeds the prescribed range, the selling price of PNG for residential usage can be adjusted accordingly by the local pricing bureau. The linkage adjustment period is not less than one year in principle.

2. Selling Price of Natural Gas for Non-residential Usage (Excluding Public Service Usage)

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 on 15 September 2017, from 30 September 2017, the selling price of natural gas for non-residential usage was adjusted from RMB 3.32/m^3 to RMB 3.02/m^3. The suppliers and the purchasers may negotiate to determine the specific selling prices based on the benchmark selling price and within the range up to 10% above the benchmark selling price, and when the upstream gas suppliers adjust the peak-shaving in winter or when the benchmark gate price of natural gas is adjusted upwards, specific selling price can be increased at the same time.

According to the *Official Reply on the Linkage Adjustment of the Prices of Natural Gas for Non-residential Usage in the Heating Season of 2018-2019* (*《關於2018-2019供暖季非居民用氣價格聯動調整的回復》*) issued by the Price Bureau of Gaomi on 7 November 2018, the linkage price of natural gas for non-residential usage in the heating season was adjusted to RMB 3.78/m^3 (the maximum price). The linkage circle was from 1 November 2018 to 31 March 2019.

According to the *Official Reply on the Linkage Adjustment of the Prices of Natural Gas for Non-residential Usage in the Heating Season of 2019-2020 (Gao Fa Gai Jia Ge [2019] No. 74)* (*《關於2019-2020年供暖季非居民用氣價格聯動調整的批復》(高發改價格[2019]74號)*) issued by the Development and Reform Bureau of Gaomi on 4 November 2019, the linkage price of natural gas for non-residential usage in the heating season was adjusted to RMB 3.83/m^3 (the maximum price). The linkage circle was from 1 November 2019 to 31 March 2020.

According to the *Notice on Adjusting the Benchmark Prices of Natural Gas for Non-residential Usage in Gaomi City (Gao Fa Gai Jia Ge [2020] No. 3)* (*《關於調整高密市非居民用天然氣基準價格的通知》(高發改價格[2020]3號)*) promulgated by the Development and Reform Bureau of Gaomi on 9 January 2020, the benchmark selling price of natural gas for non-residential usage was adjusted from RMB 3.02/m^3 to RMB 3/m^3. The highest price in the heating season of 2019 was adjusted from RMB 3.83/m^3 to RMB 3.81/m^3. The adjusted price was implemented from 1 January 2020.

According to the *Notice on Lowering the Selling Prices of Natural Gas for Non-residential Usage and Supporting the Resumption of Operation and Production of Enterprises (Gao Fa Gai Jia Ge [2020] No. 16)* (*《關於降低我市非居民用天然氣銷售價格支持企業復工復產的通知》(高發改價格[2020]16號)*) and the *Notice on Continuing Implementing Periodically Lowering the Selling Prices of Natural Gas for Non-residential Usage and Supporting the Resumption of Operation and Production of Enterprises* (*《關於繼續執行階段性降低我市非居民用天然氣銷售價格支持企業復工復產的通知》*) promulgated by the Development and Reform Bureau of Gaomi on 13 March 2020, 29 June 2020 respectively, the selling price of natural gas for non-residential usage was adjusted to RMB 3/m^3. The adjusted price was implemented from 22 February 2020 and shall be valid until 31 October 2020.

According to the *Measures for Upstream and Downstream Linkage of the Price of Natural Gas for Non-residential Usage in Weifang Municipality* (*《濰坊市非居民用管道天然氣價格上下游聯動辦法》*) issued by the Development and Reform Commission of Weifang on 1 September 2020, the price linkage is applicable to the gate price of natural gas and the selling price of natural gas for non-residential usage. When the natural gas benchmark gate price adjustment reaches or exceeds the prescribed range, the selling price of PNG for non-residential usage can be adjusted accordingly by the local pricing bureau. In principle, the linkage adjustment period is three months.

According to the *Official Reply on the Linkage Adjustment of the Prices of Natural Gas for Non-residential Usage in the Heating Season of 2020-2021 (Gao Fa Gai Jia Ge [2020] No. 82)* (*《關於2020-2021年供暖季非居民用氣價格聯動調整的批復》(高發改價格[2020]82號)*) issued by the Development and Reform Bureau of Gaomi on 21 December 2020, the linkage price of natural gas for non-residential usage in the heating season was adjusted to RMB 3.44/m^3 (the maximum price). The linkage circle was from 1 November 2020 to 31 March 2021.

The Development and Reform Commission of Gaomi issued the *Notice on Adjusting the 2021 Selling Price of Natural Gas for Non-Residential Usage in Non-heating Season in Gaomi City* (*《關於調整高密市2021年非供暖季非居民用天然氣銷售價格的通知》*) on 15 June 2021, and has decided that the selling price of PNG for non-residential usage shall be adjusted to RMB3/m^3 from 1 April 2021 to 31 October 2021 pursuant to the pricing fluctuation of gate price (門站價格) of upstream natural gas station.

According to the Notice on Adjusting the *Selling Prices of PNG for Non-residential Usage in Gaomi City (Gao Fa Gai Jia Ge [2021] No. 51) (《關於調整高密市非居民用管道天然氣銷售價格的通知》(高發改價格[2021]51號))* issued by the Development and Reform Bureau of Gaomi on 29 September 2021, the selling price of PNG for non-residential usage in Gaomi City has adjusted to RMB3.25/m^3 from 1 July 2021 to 31 October 2021.

The Development and Reform Commission of Gaomi issued the *Notice on Adjusting the 2021-2022 Selling Price of PNG for Non-residential Usage in Heating Season in Gaomi City* (*《關於調整高密市2021-2022年供暖季非居民用管道天然氣銷售價格的通知》*) on 20 December 2021, and the selling price of PNG for non-residential usage has adjusted to RMB4.36/m^3 from 1 November 2021 to 31 March 2022. On 14 April 2022, the Development and Reform Commission of Gaomi issued *the Notice on Postponing the Implementation of Non-resident Natural Gas Sales Prices (《關於延期執行非居民天然氣銷售價格的通知》)*, the selling price of PNG for non-residential usage will continue executing RMB4.36/m^3 from 1 April 2022 till the selling price is redetermined.

According to the *Notice on Adjusting the 2022 Selling Price of PNG for Non-Residential Usage in Gaomi City* (*《關於調整高密市2022年非居民用管道天然氣銷售價格的通知》*) issued by the Development and Reform Bureau of Gaomi on 4 July 2022, the selling price of PNG for non-residential usage shall be adjusted to RMB4.06/m^3 from 1 April 2022 pursuant to the pricing fluctuation of gate price (門站價格) of upstream natural gas station.

REGULATION ON INSTALLATION FEES FOR CONNECTION AND INSTALLATION PROJECTS

According to the *Notice on Further Clarifying and Regulating Fees for the Operational Service with Prices Determined by the Government* (*《關於進一步清理規範政府定價經營服務性收費的通知》*) issued by the NDRC on 5 May 2019, (i) the scope of operational service prices which may be determined by the local governments includes the connection and installation fees for residential user projects; (ii) the items subject to government pricing in each region shall not exceed such prescribed scope, and may be reduced according to the actual situation; (iii) the relevant government pricing catalogue shall be amended in accordance with such reduction; and (iv) competitive market pricing is encouraged if conditions allow.

Residential user projects

According to the *Pricing Catalogue of Shandong Province (2018 Edition)* (*《山東省定價目錄》(2018版)*), which was promulgated on 16 May 2018 and became effective on 1 June 2018, the fee chargeable by operators of residential gas supply and other public utilities with industrial or technological monopoly shall be pre-determined by municipal and county level government. However, the *Notice of Weifang Development and Reform Commission on Announcement of the Catalogue of Government Pricing or Government Guiding Price Operation Service Charges (2018 Edition)* (*《濰坊市發展和改革委員會關於公佈政府定價或政府指導價經營服務性收費目錄(2018版)的通知》*) and the *Catalogue of Government Pricing Operation Service Charges of Gaomi City (2019 Edition)* (*《高密市政府定價經營服務性收費目錄清單(2019版)》*) do not further stipulate fee standards at local level.

On the basis that the items with market adjusted prices would be automatically deleted from catalogue, the *Pricing Catalogue of Shandong Province (2020 Edition)* (*《山東省定價目錄》(2020版)*), which was promulgated on 22 December 2020 and became effective on 1 February 2021, has deleted the provision mentioned above in the *Pricing Catalogue of Shandong Province (2018 Edition)*.

Non-residential user projects

The connection and installation fees for non-residential user projects are not included in the scope stipulated in the *Notice on Further Clarifying and Regulating Fees for the Operational Service with Prices Determined by the Government*, and therefore they are not subject to government pricing.

Guidance on Installation Fees for Connection and Installation Projects

On 27 June 2019, the NDRC, the Ministry of Housing and Urban-rural Development and the State Administration for Market Regulation jointly issued the *Installation Fees Guidance* (*《關於規範城鎮燃氣工程安裝收費的指導意見》*) to the relevant government authorities of all provinces, autonomous regions and municipalities. The installation and construction companies shall charge a fee based on the principles of fairness and lawfulness with good faith in the regions where the installation fee for natural gas installation services is currently determined by the market.

REGULATIONS ON PRODUCTION SAFETY, ENVIRONMENT PROTECTION AND FIRE CONTROL

Production Safety Law

The principal law on work safety is the *PRC Production Safety Law* (《中華人民共和國安全生產法》) *(the "Production Safety Law")*, which was promulgated by the Standing Committee of the NPC on 29 June 2002, and subsequently was amended on 31 August 2014 and became effective on 1 December 2014, and was amended on 10 June 2021, and became effective on 1 September 2021. Pursuant to the *Production Safety Law*, the production and operation entity shall satisfy the conditions for safe production stipulated in the *Production Safety Law* and the other relevant laws, administrative regulations and national standards or industry standards. If it does not satisfy the conditions for safe production, it shall not engage in production and operation activities.

Special Equipment Safety Law

On 29 June 2013, the Standing Committee of the NPC promulgated *Special Equipment Safety Law of the PRC* (《中華人民共和國特種設備安全法》) *(the "Special Equipment Safety Law")*, which became effective on 1 January 2014. The special equipment defined in the *Special Equipment Safety Law* refers to boilers, pressure vessels (including gas cylinders), pressure pipes which pose great risk to personal and property safety, as well as other special equipment as stipulated in the *Special Equipment Safety Law* or other laws and administrative regulations.

A special equipment user which fails to undergo the required registration formalities or fails to make a declaration in a timely manner or conduct acceptance inspection according to the requirements of safety technical specifications shall be ordered to make correction within a certain period; and if it fails to do so, it may be ordered to desist from using the relevant special equipment and be fined an amount not less than RMB10,000 but not more than RMB100,000.

Safety Supervision of Special Equipment

Regulations on the *Safety Supervision of Special Equipment* (《特種設備安全監察條例》) was promulgated by the State Council on 11 March 2003, and was amended on 24 January 2009, and became effective on 1 May 2009. Pursuant to the *Regulations on the Safety Supervision of Special Equipment*, the entities manufacturing, installing and reforming boilers, pressure vessels, elevators, cranes, passenger cableways, large entertainment facilities, as well as the safety attachments and safety protection settings thereof, the entities manufacturing the pipes, pipe fittings, valves, flanges, compensators and safety protection settings used in pressure pipelines (hereinafter referred to as pressure pipeline components), and the entities manufacturing and modifying special in-plant (in-factory) motor vehicles may undertake the relevant activities only after they are licensed by the department of special equipment safety supervision and administration under the State Council. The mobile pressure vessel and gas cylinder filling unit shall be approved by the special equipment safety supervision and management department of the province, autonomous region or municipality directly under the PRC Government before engaging in filling activities.

Provisions on the Safety Supervision over Gas Cylinders

The *Provisions on the Safety Supervision over Gas Cylinders* (《氣瓶安全監察規定》) was issued by the General Administration of Quality Supervision, Inspection and Quarantine (which had subsequently been removed) on 24 April 2003, took effect on 1 June 2003, and was amended on 25 August 2015, and was ineffective on 13 July 2020.

Pursuant to the *Provisions on the Safety Supervision over Gas Cylinders*, the entities filling gas cylinders shall be governed by safety supervision and inspection authority at provincial level. Qualifying entities will be granted the licence for filling gas cylinders by the quality supervision authority at provincial level. Entities which have not obtained the relevant licence shall not engage in filling gas cylinders.

The effective term of the licence is four years. Prior to the expiration of the licence, the entities shall apply to the original approval authority for the renewal of the licence. Entities who do not make application according to provisions or are not allowed to renew their licences and shall not continue to engage in filling gas cylinders upon expiration of the licence.

Environment Protection

The *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) *(the "Environmental Protection Law")* was promulgated by the Standing Committee of the NPC on 26 December 1989 and last amended on 4 November 2017. The environmental protection department of the State Council supervises and administers the environmental protection work in the PRC and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureau are in turn responsible for the environmental protection work within their respective jurisdictions.

The *Environmental Impact Appraisal Law of the PRC* (《中華人民共和國環境影響評價法》) *(the "Environmental Impact Appraisal Law"),* which was promulgated by the Standing Committee of the NPC on 28 October 2002, and amended on 2 July 2016 and 29 December 2018, requires that the construction entities shall prepare report on environmental impacts, the report form of environmental impacts or the registration form of environmental impacts according to the seriousness of environmental impacts of the relevant construction projects. According to the *Administration Rules on Environmental Protection of Construction Projects* (《建設項目環境保護管理條例》), which was promulgated by the State Council on 29 November 1998, amended on 16 July 2017 and became effective on 1 October 2017, the project owner shall, after the completion of the construction project for which the environmental impact report or environmental impact report form is prepared, according to standards and procedures prescribed by the environmental protection administrative department of the State Council, conduct acceptance inspection of the constructed environmental protection facilities and prepare the acceptance inspection report.

Fire control

Pursuant to *Fire Control Law of the PRC* (《中華人民共和國消防法》) *(the "Fire Control Law")* which was promulgated on 29 April 1998, amended on 28 October 2008 and 23 April 2019 and 29 April 2021, where a construction project which is required by law to carry out fire control acceptance inspection fails to undergo or pass fire control acceptance inspection, the project shall be prohibited from commencing operation. Other construction projects which are found to be unqualified by random inspection conducted pursuant to the Fire Control Law shall cease to operate.

REGULATION ON TAXATION

Enterprise income tax

According to the *Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》) which issued on 16 March 2007 and amended on 24 February 2017 and 29 December 2018, and the *Implementation Rules of the EIT Law* (《中華人民共和國企業所得稅法實施條例》) which issued on 6 December 2007 and came into effect on 1 January 2008, and amended on 23 April 2019, enterprises are classified into resident enterprises and non-resident enterprises. Resident enterprises shall pay enterprise income tax on their incomes generated in and outside the PRC at the rate of 25%. Non-resident enterprises setting up institutions in the PRC shall pay enterprise income tax on the incomes obtained by such institutions in and outside the PRC at the rate of 25%. Non-resident enterprises with no establishment in the PRC, and non-resident enterprises whose incomes having no substantial connection with their establishments in the PRC, shall pay enterprise income tax on their incomes generated in the PRC at a reduced rate of 10%.

Value-added tax

Pursuant to the *Provisional Regulations on Value-Added Tax of the PRC* (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on 13 December 1993 and took effect on 1 January 1994, and was amended on 10 November 2008, 6 February 2016 and 19 November 2017, respectively, and the *Rules for the Implementation of the Provisional Regulations on Value Added Tax of the PRC* (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the Ministry of Finance on 25 December 1993 and was amended on 15 December 2008 and 28 October 2011 respectively, organisations and individuals engaging in sale of goods or processing, repair and assembly services, sale of services, intangible assets, immovable and importation of goods in the PRC shall be taxpayers of Value-added Tax (the "VAT"), all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, sale of services, intangible assets or immovable properties and the importation of goods within the territory of the PRC must pay value-added tax.

Income tax on dividend distribution

The PRC Government and Hong Kong Government entered into the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) on 21 August 2006, which was implemented on 1 January 2007. According to this arrangement, if a Hong Kong tax-paying resident directly holds no less than 25% equity interest in a PRC company, he shall pay a withholding tax of 5% of the dividends paid by the PRC company to him. If a Hong Kong tax-paying resident directly holds less than 25% equity interest in a PRC company, he shall pay a withholding tax of 10% of the dividends paid by the PRC company to him.

According to the *Notice of the State Administration of Taxation on the Issues Regarding the Application of the Dividends Clauses of Taxation Agreements* (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) which was published by the SAT and became effective on 20 February 2009, if a fiscal resident of one of the contracting party needs to be imposed tax at the tax rate specified in the taxation treaties for the dividends paid by a PRC residential entity to him, the fiscal resident may enjoy the relevant preferential tax treatment under the taxation treaties if such fiscal resident meets the following requirements: (i) the fiscal resident of the other contracting party shall be a company; (ii) the fiscal resident of the other contracting party shall directly hold a specified percentage of all the owners' equity and voting shares of the said PRC company as per the relevant regulations; and (iii) the percentage of the capital of the said PRC company held by the fiscal resident of the other contracting party shall comply with the tax agreements at all times for 12 consecutive months before receiving the dividends.

REGULATIONS ON LAND AND PROPERTY

According to the *Property Law of the PRC* (《中華人民共和國物權法》), which was promulgated by NPC on 16 March 2007 and came into effect from 1 October 2007 to 1 January 2021, and the *Civil Code of the People's Republic of China* (《中華人民共和國民法典》), which was promulgated by NPC on 28 May 2020 and came into effect on 1 January 2021, the creation, change, transfer or elimination of the real right of a real property shall become effective after it is registered according to law; it shall have no effect if it is not registered according to law, unless it is otherwise prescribed by any law.

According to the *Land Administration Law of the PRC* (《中華人民共和國土地管理法》), which was promulgated by the Standing Committee of the NPC on 25 June 1986 and last amended on 26 August 2019 and effective since 1 January 2020, state-owned land and land collectively owned by peasants may be determined in accordance with law to be used by units or individuals. Any entity and individual that is in need of land for construction shall apply for use of state-owned land according to the law. The right to use state-owned land may be granted by the government or be obtained by paying land use right transfer fund, and the government departments shall enter into registration in a register and issue certificates in confirmation of the use right. Pursuant to *Interim Regulations of the People's Republic of China Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas* (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) which were issued on 19 May 1990 and became effective on 29 November 2020, and was amended on 19 May 2020, the maximum term of use of state-owned land is 40 years for commercial usage, 50 years for industrial usage and 70 years for residential usage.

Construction land planning permit

According to the *Urban and Rural Planning Law of the PRC* (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of NPC on 28 October 2007 and last amended on 23 April 2019, a construction land planning permit is required for the use of both allocated land and granted land.

Construction work planning permit

According to the *Urban and Rural Planning Law of the PRC* (《中華人民共和國城鄉規劃法》), where construction work is conducted in a city or town planning area, the relevant construction entity or individual shall apply for a construction work planning permit from a competent urban and rural planning administrative department of the People's Government at the municipal or county level or the People's Government at the municipal or county level or to the People's Government of town as recognised by the People's Government of a province, autonomous region or municipality.

Construction work commencement permit

According to the *Construction Law of the People's republic of China* (《中華人民共和國建築法》) promulgated by the Standing Committee of NPC on 1 November 1997 and last amended on 23 April 2019, a construction entity shall, prior to the commencement of a construction project, apply for a construction work commencement permit from a competent department of the Construction Administration of the People's Government at or above the county level of the place where the project is located pursuant to the relevant regulations, except for small projects below the threshold value set by the competent construction administrative department under the State Council. Construction projects which have obtained approval of construction commencement reports in accordance with the procedures stipulated by the State Council under its authority are no longer required to apply for construction licences.

Inspection and acceptance of construction

According to the *Rules of As-built Inspection of Housing, Building and Municipal Infrastructure Projects* (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated by MOHURD on 2 December 2013, after completing the project, an inspection team comprising design, survey, construction, supervision units should be established. Each unit is required to report the compliance status of engineering contracts, the implementation of laws, regulations and mandatory standards for construction in various aspects of the construction.

According to the *Administrative Measures for the Filing of As-built Inspection of Housing, Building and Municipal Infrastructure Projects* (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by MOHURD on 19 October 2009, the filing of the as-built inspection of various housing, building and municipal infrastructure projects, including new building, expansion and reconstruction projects, within the territory of the PRC shall be governed by the measures. A construction entity shall, in accordance with the measures, go through the filing formalities with the construction administrative department of the people's government at or above the county level at the place where the project is located within 15 days as of the date on which the as-built inspection of the project is passed.

REGULATIONS RELATED TO PERSONAL INFORMATION PROTECTION AND CYBER DATA SECURITY

On 28 May 2020, the NPC approved the Civil Code of the PRC (《中華人民共和國民法典》) (the "**Civil Code**"), which came into effect on 1 January 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that need to obtain personal information of others shall obtain such information legally and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

According to the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》) promulgated by the Standing Committee of the NPC on 20 August 2021, and took effect on 1 November 2021 (the "PIP Law"), personal information refers to any kind of information related to an identified or identifiable natural person as electronically or otherwise recorded, excluding information that has been anonymised. Processing of personal information includes the collection, storage, use, processing, transmission, provision, disclosure, and deletion of personal information. Processing of personal information shall be for a specified and reasonable purpose, and shall be conducted for a purpose directly relevant to the purpose of processing and in a way that has the least impact on personal rights and interests. Collection of personal information shall be limited to the minimum scope necessary for achieving the purpose of processing and shall not be excessive. A personal information processor may process personal information of an individual after acquiring the individual's consent which shall be a voluntary and explicit indication of intent given by such individual on a fully informed basis and shall provide an easy way to withdraw consent. The processor could also process personal information without the individual's consent in the other circumstances prescribed under the PIP Law, such as the processing is necessary for the conclusion or performance of a contract to which the individual is a contracting party or for conducting human resource management under the labour rules and regulations developed in accordance with the law and a collective contract signed in accordance with the law; the processing is necessary to fulfil statutory functions or statutory obligations; etc.

On 14 November 2021, the Cyberspace Administration of China promulgated the Regulation on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例》(徵求意見稿)) (the "**Draft Cyber Data Security Regulation**"), which covers a wide range of cyber data security issues and governs the use of networks to carry out data processing activities, as well as the supervision and management of cyber data security in the PRC. The Draft Cyber Data Security Regulation is applicable to the use of networks to carry out data processing activities, and the supervision and management of network data security in the PRC, as well as several situations of overseas data processing activities that process personal and organizational data of PRC. Our Directors confirm that, during the Track Record Period and as at the Latest Practicable Date, our Group has not carried out any network data processing activities at home and abroad. Based on the aforementioned, as advised by the PRC Legal Advisers, the Draft Cyber Data Security Regulation is not applicable to our Group.

REGULATIONS ON FOREIGN EXCHANGE

Offshore investment

According to the Notice on *Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment via Special Purpose Vehicles* (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) *(the "SAFE Circular No. 37")*, which was promulgated by the SAFE on 4 July 2014, PRC domestic residents shall register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with the assets or equity interests legally held by such PRC domestic residents in domestic enterprises or their legally-held offshore assets or interests, referred to as a special purpose vehicle (SPV) in the *SAFE Circular No. 37*. The *SAFE Circular No. 37* further requires that the SPV shall register with the SAFE for any major changes, such as any increase or reduction of the SPV's registered capital contributed by a PRC domestic resident, share transfer or swap, and merger or division. If a PRC shareholder holding equity interest in the SPV fails to handle the registration procedures with the SAFE, the PRC subsidiary of the SPV will be prohibited from distributing dividend to the offshore parent company and shall not carry out any cross-border foreign exchange activities afterwards. Besides, the ability of the SPV to contribute additional capital to its PRC subsidiaries may be restricted. In addition, under the PRC law, the SPV may be liable for any failure to comply with the above registration requirements of the State Administration of Foreign Exchange for evasion of foreign exchange controls.

According to *the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment* (《關於進一步簡化和改進直接投資外匯管理政策的通知》) *(the "SAFE Circular No. 13")*, which was promulgated on 13 February 2015 and implemented on 1 June 2015 and amended on 30 December 2019, the foreign exchange registration under overseas direct investment shall be directly reviewed and handled by banks in accordance with *SAFE Circular No. 13* and the *Guides on Foreign Exchange Business Operation* (《直接投資外匯業務操作指引》) attached thereto whilst indirectly supervised by the SAFE and its branches through banks.

Foreign Currency Exchange

According to the *Regulations on the Control of Foreign Exchange* (《外匯管理條例》), which were promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996 and were amended on 14 January 1997 and 5 August 2008, foreign exchange receipts of domestic institutions or individuals may be transferred to the PRC or deposited abroad. The conditions for transfer to the PRC or overseas deposit, time limit and other details will be specified by the foreign exchange control department of the State Council. Relevant entities or individuals should submit relevant documentation for examination and approval or for record-filing prior to foreign exchange registration, if they are required to file with, or receive approval from, the competent administration departments in advance as required by the State.

According to the *Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign- invested Enterprises* (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) which was promulgated on 30 March 2015 and implemented on 1 June 2015 and amended on 30 December 2019, the proportion of discretionary settlement of foreign exchange capital for foreign-invested companies was temporarily set at 100%. Capital by foreign-invested companies should only be used for legitimate operating needs within the business scope. According to the *SAFE Circular No. 13,* two administrative approval procedures, namely foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment, have been abolished.

M&A RULES AND OVERSEAS LISTING

According to the *Rules on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (《關於外國投資者併購境內企業的規定》) *("**M&A Rules**")*, which was promulgated by MOFCOM on 8 August 2006, became effective on 8 September 2006 and was revised on 22 June 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity interests in a domestic non-foreign-invested enterprise, thereby converting it into a foreign-invested enterprise, or subscribes for new equity interests in a domestic enterprise via an increase of registered capital, thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise by agreement and injects those assets to establish a foreign-invested enterprise. In the case where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him/her, acquires a domestic company that is related to or connected with it/him/her, approval from the MOFCOM is required.

On 24 December 2021, the CSRC published the Administrative Provisions of the State Council on the Overseas Issuance and Listing of Securities by Domestic Enterprises (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草稿徵求意見稿)》) (the "**Draft Administrative Provisions**"), and the Administrative Measures for Record-filings of the Overseas Issuance and Listing of Securities by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the "**Draft Measures for Record-filing**", together with the Draft Administrative Provisions, the "**Drafts relating to Overseas Listings**"), which are open for public comments until 23 January 2022. Pursuant to the Drafts relating to Overseas Listings, PRC domestic enterprises that directly or indirectly offer or list their securities in an overseas market, which include (i) any PRC joint stock companies; and (ii) any offshore company that conducts its business operations primarily in China and contemplates to offer or list its securities in an overseas market based on its onshore equities, assets or similar interests, are required to file with the CSRC within three business days after submitting their listing application documents to the relevant regulator in the place of intended listing. The Drafts relating to Overseas Listings also stipulate certain circumstances in which overseas listing should not be allowed. Failure to complete the filing under the Administrative Provisions may subject a PRC domestic company to a warning and a fine of RMB1 million to RMB10 million. Under serious circumstances, the PRC domestic company may be ordered to suspend its business or suspend its business until rectification, or its permits or businesses license may be revoked. As of the Latest Practicable Date, the Drafts relating to Overseas Listings have not been formally adopted. The provisions and anticipated effective date of the Drafts relating to Overseas Listings are subject to changes and interpretation, and its implementation remains uncertain.

If the Drafts relating to Overseas Listings as currently drafted become effective in the future, our PRC Legal Advisers advised that we shall fulfil applicable obligations in accordance with the effective Drafts relating to Overseas Listings and may be subject to the filing obligation accordingly. Meanwhile, (i) as of the Latest Practicable Date, (a) we had not received any decision, inquiry, notice, warning or sanction from competent authorities that national security will be threatened or endangered as a result of our [REDACTED]; (b) we had not been involved in any material ownership disputes in relation to the equity, major assets and key technologies, etc.; (c) none of us, our Controlling Shareholders or ultimate controllers had committed any crime of corruption, bribery, appropriation or misappropriation of property, or disturbance of the order of the socialist market economy in the past three years; (d) none of us, our Controlling Shareholders or ultimate controllers are being involved in any investigation due to any criminal behaviors or material non-compliance in the past three years; and (e) none of our directors, supervisors, senior management had been imposed on any serious administrative penalties or involved in any investigation due to any criminal behaviors or material non-compliance in the past three years; and (ii) we will continuously pay close attention to the Drafts relating to Overseas Listings and other legislative and regulatory development in overseas listing, and implement all necessary measures in a timely manner to ensure continuous compliance with relevant laws and regulations. Taking into account the above, assuming the Drafts relating to Overseas Listings become effective in their current form entirely in the future, after consulting our PRC Legal Advisers, our Directors are of the view that there is no material impediment for us to comply with the Drafts relating to Overseas Listings in all material aspects. In addition, as advised by our PRC Legal Advisers, given that the Drafts relating to Overseas Listings are still in their draft forms and have not come into effect, we are not required to go through the filing procedures with the CSRC under the Drafts relating to Overseas Listings with respect to the [REDACTED] as of the Latest Practicable Date.

REGULATIONS ON EMPLOYMENT AND SOCIAL WELFARE

Employment

According to the *Labour Law of the PRC* (*《中華人民共和國勞動法》*), which was promulgated by the Standing Committee of the NPC on 5 July 1994 and amended on 27 August 2009 and 29 December 2018, an employer shall provide workers with the necessary labour protection gear that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards.

The *Law on Labour Contract of the PRC* (*《中華人民共和國勞動合同法》*), which was promulgated by the Standing Committee of the NPC on 29 June 2007 and amended on 28 December 2012, and the *Implementation Regulations on Labour Contract Law* (*《勞動合同法實施條例》*), which was promulgated on 18 September 2008 and became effective on the same day, regulate both parties under a labour contract, namely the employer and the employee, and contain specific provisions involving the terms of the labour contract.

Social Security and Housing Provident Fund

According to the *Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), which became effective on 1 July 2011 and amended on 29 December 2018, the *Regulations on Occupational Injury Insurance* (《工傷保險條例》), which became effective on 1 January 2004, amended on 20 December 2010 which took effect on 1 January 2011, the *Interim Measures Concerning the Maternity Insurance for Enterprise Employees* (《企業職工生育保險試行辦法》) which became effective on 1 January 1995, the *Interim Regulations Concerning the Levy of Social Insurance* (《社會保險費徵繳暫行條例》), which became effective on 22 January 1999 and amended on 24 March 2019, and the *Regulations Concerning the Administration of Housing Fund* (《住房公積金管理條例》) which became effective on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as housing fund and other welfare plans.

OVERVIEW

We are a natural gas operator in Gaomi City, Weifang Municipality of Shandong Province. The history of our Group can be tracked back to July 2003 when Jiaoyun Gas, our first operating subsidiary, was established in the PRC. Upon establishment, Jiaoyun Gas was held by Gaomi Traffic Transportation (Group) Co., Ltd.* (高密市交通運輸(集團)有限公司) ("**Gaomi Traffic**") as to 80% and Jiaoyun Car Transport as to 20%, respectively. We consider Jiaoyun Car Transport as our founder since it paid up the initial registered capital of RMB5,000,000 of Jiaoyun Gas upon establishment. Mr. Luan Linjiang, our Chairman and executive Director, was appointed as the legal representative, the general manager and the chairman of the board of directors of Jiaoyun Gas at the time of its establishment. Please refer to "— Our Corporate Development — 2. Our Operating Subsidiaries — Jiaoyun Gas" in this section for further details.

On 30 September 2005, Jiaoyun Gas obtained a gas operation licence for the sale of PNG. On 18 November 2005, the principal business scope of Jiaoyun Gas changed from "preparation for construction" to "operation of pipeline natural gas". Since then, our Group have been engaged in natural gas related businesses within Gaomi City, Shandong Province.

Our Company was incorporated on 9 March 2021 in the Cayman Islands and, as part of our Reorganisation, became the holding company of our Group with our business being conducted through our subsidiaries. Please refer to "— Reorganisation" in this section for further details.

KEY MILESTONES

Our key development milestones include:

Year	Events
July 2003	Jiaoyun Gas, our first operating subsidiary was established in the PRC.
March 2004	We completed the construction of Liquan Avenue Gate PNG gasification station, our first city gateway station which receives pipeline gas from Jinan-Qingdao II transmission pipelines of Sinopec* (中石化濟南–青島II號管綫).
August 2005	We commenced our sale of PNG as an interim test run (試運行) pending the issuance of a gas operation licence for the sale of PNG.
September 2005	Jiaoyun Gas obtained a gas operation licence for the sale of PNG and we formally commenced our sale of PNG.
June 2007	We completed the construction of our first CNG and LNG refuelling station in Gaomi City, Shandong Province.

Year	Events
August 2009	We were granted an exclusive right pursuant to our Concession Agreement dated 18 August 2009 entered into with Gaomi City Bureau of Municipal Affairs Administration* (高密市市政管理局) to operate PNG sales and related businesses within the granted area of Gaomi City with an effective term of 30 years.
October 2011	We completed the construction of our second CNG and LNG refuelling station located at south of Gaomi City, Shandong Province.
October 2012	Natural gas from Sinopec and PetroChina was first transmitted to us through Xianjia Gate PNG station which receives PNG from Taian-Qingdao-Weihai transmission pipelines of PetroChina* (中石油泰安–青島–威海管綫).
January 2014	Jiaoyun Shihua obtained a gas operation licence for the sale of CNG.
November 2016	We completed the construction of our third CNG and LNG refuelling station located at northeast of Gaomi City, Shandong Province.
January 2018	We completed the construction of our peak-shaving LNG station as a back-up source of PNG in the event of emergencies, unexpected incidents, sudden demand surges, suspension or disruption.

OUR CORPORATE DEVELOPMENT

As at the Latest Practicable Date, our Group was comprised of our Company and seven subsidiaries. Set out below is a brief history of our Company and its subsidiaries.

1. Our Company

Our Company, the [REDACTED] vehicle of our Group, was incorporated in the Cayman Islands as an exempted company with limited liability on 9 March 2021 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 28 September 2021. As at the Latest Practicable Date, our Company was held as to 56%, 33%, 10% and 1% by LXL Phoenix, LLJ Phoenix, SEGM Holding and QMIG, respectively.

For further details of the corporate development of our Company, please refer to "— Reorganisation — 2. Incorporation of our Company" in this section.

2. Our Operating Subsidiaries

Jiaoyun Gas

Jiaoyun Gas is one of our major operating subsidiaries which made significant contribution to our results of operations during the Track Record Period. Jiaoyun Gas was established in the PRC with limited liability on 14 July 2003 and commenced its operation of pipeline natural gas on 18 November 2005. The following table sets out the corporate development of Jiaoyun Gas since its establishment and prior to the Reorganisation:

Date	Change	Registered capital immediately after the change	Shareholding percentage immediately after the change
Upon establishment on 14 July 2003(1)	—	RMB5,000,000	i. Gaomi Traffic (80%); and ii. Jiaoyun Car Transport (20%)
25 October 2005	Transfer of 80% equity interest by Gaomi Traffic to Mr. Luan Xiaolong(2)	RMB5,000,000	i. Mr. Luan Xiaolong (80%); and ii. Jiaoyun Car Transport (20%)
28 September 2006	i. Transfer of 80% equity interest by Mr. Luan Xiaolong to Mr. Luan Ming (欒明先生) ("**Mr. Luan Ming**")(3); and ii. Transfer of 20% equity interest by Jiaoyun Car Transport to Ms. Zhang Guozhen (張國珍女士) ("**Ms. Zhang Guozhen**")(4)	RMB5,000,000	i. Mr. Luan Ming (80%); and ii. Ms. Zhang Guozhen (20%)
26 September 2008	Transfer of 80% equity interest by Mr. Luan Ming to Jiaoyun Property(5)	RMB5,000,000	i. Jiaoyun Property (80%); and ii. Ms. Zhang Guozhen (20%)
22 August 2009	Transfer of 20% equity interest by Ms. Zhang Guozhen to Mr. Luan Linjiang(6)	RMB5,000,000	i. Jiaoyun Property (80%); and ii. Mr. Luan Linjiang (20%)

Date	Change	Registered capital immediately after the change	Shareholding percentage immediately after the change
26 November 2009	Increase in registered capital by RMB15,000,000, of which (a) RMB12,000,000 was contributed by Jiaoyun Property, and (b) RMB3,000,000 was contributed by Mr. Luan Linjiang(7)	RMB20,000,000	i. Jiaoyun Property (80%); and ii. Mr. Luan Linjiang (20%)
26 February 2015	Increase in registered capital by RMB40,000,000, which was contributed solely by Jiaoyun Group(8)	RMB60,000,000	i. Jiaoyun Group (66.67%); ii. Jiaoyun Property (26.67%); and iii. Mr. Luan Linjiang (6.66%)

Notes:

(1) At the time of establishment of Jiaoyun Gas, Jiaoyun Gas had two registered shareholders, namely: (a) Gaomi Traffic, which was dissolved pending deregistration (已解散但未注銷) pursuant to a state-owned enterprise reform plan approved by the Enterprise Reform Office of Gaomi City (高密市深化企業改革領導小組辦公室) on 1 November 2000 (the "**Reform Plan**"); and (b) Jiaoyun Car Transport, a limited liability company established as part of the Reform Plan by 27 individuals who were employees of Gaomi Traffic prior to its dissolution. Those 27 individuals include Mr. Luan Linjiang, our Chairman and executive Director, who was then the single largest shareholder of Jiaoyun Car Transport by holding approximately 29.5% equity interest. Mr. Luan Linjiang was the legal representative of both Gaomi Traffic and Jiaoyun Car Transport at the time. At the time of its establishment, Gaomi Traffic was beneficially owned as to 100% by the Gaomi City Commission of Transport (高密市交通委員會). As Jiaoyun Car Transport is the new enterprise restructured from Gaomi Traffic and the assets and liabilities of Gaomi Traffic had been borne by Jiaoyun Car Transport under the Reform Plan, the beneficial owners of Gaomi Traffic after its reform and at the time of establishment of Jiaoyun Gas were the aforementioned 27 individuals. The initial registered capital of RMB5,000,000 for the establishment of Jiaoyun Gas was contributed solely by Jiaoyun Car Transport. The initial registered capital of RMB4,000,000 for Gaomi Traffic's 80% equity interest in Jiaoyun Gas was also paid by Jiaoyun Car Transport, and Gaomi Traffic was holding such interest on trust and for the benefit of Jiaoyun Car Transport. Despite its dissolved status, Gaomi Traffic came in as one of the two initial registered shareholders of Jiaoyun Gas as the legal requirement at the time required at least two shareholders for the establishment of a limited liability company in the PRC. Through this entrustment arrangement, Jiaoyun Gas was upon incorporation controlled and beneficially owned by Jiaoyun Car Transport.

(2) As Gaomi Traffic was undergoing deregistration and its business licence was due to expire in 2006, Gaomi Traffic, pursuant to instructions from Jiaoyun Car Transport, transferred the 80% equity interest in Jiaoyun Gas to Mr. Luan Xiaolong at nil consideration. Mr. Luan Xiaolong held the 80% equity interest in Jiaoyun Gas on trust and for the benefit of Jiaoyun Car Transport. Mr. Luan Xiaolong is the son of Mr. Luan Linjiang. At the time, Mr. Luan Linjiang was the single largest shareholder of Jiaoyun Car Transport holding approximately 29.5% equity interest, and he was also the chairman of the board of directors, legal representative and general manager of Jiaoyun Gas. The business license of Gaomi Traffic was subsequently revoked on 23 March 2007.

(3) As Mr. Luan Xiaolong left Gaomi City to pursue his studies, for ease of administration, Mr. Luan Xiaolong, pursuant to instructions from Jiaoyun Car Transport, transferred the 80% equity interest in Jiaoyun Gas to Mr. Luan Ming at nil consideration. Mr. Luan Ming held the 80% equity interest in Jiaoyun Gas on trust and for the benefit of Jiaoyun Car Transport. Mr. Luan Ming is now deceased. Mr. Luan Ming was the brother of Mr. Luan Linjiang and an executive director and manager of Jiaoyun Gas at the time. Mr. Luan Linjiang was the single largest shareholder of Jiaoyun Car Transport holding approximately 29.5% equity interest thereof.

(4) Subsequently, Jiaoyun Car Transport, with a view to facilitating the business operations of Jiaoyun Gas and better delineating its own principal business (being the operation of road transportation) from that of Jiaoyun Gas (being the operation of natural gas supply), entered into an entrustment agreement dated 28 September 2006 with Ms. Zhang Guozhen, pursuant to which Jiaoyun Car Transport transferred its 20% equity interest in Jiaoyun Gas to Ms. Zhang Guozhen (to be held on trust and for the benefit of Jiaoyun Car Transport) at nil consideration. Ms. Zhang Guozhen, an Independent Third Party, was an executive supervisor and a senior manager of Jiaoyun Gas at the time.

(5) Due to his deteriorating health, Mr. Luan Ming (*now deceased*), pursuant to instructions from Jiaoyun Car Transport, transferred the 80% equity interest he held in Jiaoyun Gas to Jiaoyun Property at nil consideration, for ease of administration. Jiaoyun Property held the 80% equity interest in Jiaoyun Gas on trust and for the benefit of Jiaoyun Car Transport. At the time, Mr. Luan Linjiang held 70% equity interest in Jiaoyun Property, and approximately 55.68% equity interest in Jiaoyun Car Transport. Jiaoyun Property became the trustee of the 80% equity interest in Jiaoyun Gas for ease of administration.

(6) With a view to simplifying the entrustment arrangement mentioned in note 4 above, Ms. Zhang Guozhen, pursuant to instructions from Jiaoyun Car Transport, transferred the 20% equity interest in Jiaoyun Gas to Mr. Luan Linjiang at nil consideration. Mr. Luan Linjiang held the 20% equity interest in Jiaoyun Gas on trust and for the benefit of Jiaoyun Car Transport. At the time, Mr. Luan Linjiang held approximately 55.68% equity interest in Jiaoyun Car Transport, and he was the legal representative, executive director and manager of Jiaoyun Gas.

(7) Of the RMB12,000,000 contributed by Jiaoyun Property, RMB650,000 was paid up on 18 November 2009, RMB9,350,000 was paid up on 19 November 2009, and RMB2,000,000 was paid up on 20 November 2009. The RMB3,000,000 contributed by Luan Linjiang was fully paid up on 24 November 2009. The capital injection of RMB12,000,000 by Jiaoyun Property and RMB3,000,000 by Mr. Luan Linjiang was made by each of them in its/his own capacity. At the time, each of Jiaoyun Property and Mr. Luan Linjiang, as trustee, was holding the equity interest in Jiaoyun Gas equivalent to RMB4,000,000 and RMB1,000,000 of its registered capital, respectively, on trust and for the benefit of Jiaoyun Car Transport. As a result of the capital injection, Jiaoyun Gas became beneficially owned as to 60% by Jiaoyun Property, 25% by Jiaoyun Car Transport, and 15% by Mr. Luan Linjiang. At the time, Mr. Luan Linjiang held 70% equity interest in Jiaoyun Property and approximately 55.68% equity interest in Jiaoyun Car Transport. Subsequently in 2013, the entrustment of a total of 25% equity interest in Jiaoyun Gas by Jiaoyun Property and Mr. Luan Linjiang for Jiaoyun Car Transport became redundant and as a result was terminated, when Mr. Luan Linjiang became the holder of approximately 99.8% equity interest in Jiaoyun Car Transport through a series of buy out of equity interests of the other 22 individual shareholders of Jiaoyun Car Transport in November and December 2013. According to the Civil Code of the People's Republic of China (《中華人民共和國民法典》), Company Law of the People's Republic of China (《中華人民共和國公司法》) and other relevant PRC laws, on the basis that the parties involved in the entrustment arrangements confirmed the authenticity and accuracy of such arrangements, our PRC Legal Advisers are of the view that the historical entrustment related to Jiaoyun Gas do not violate any mandatory provisions of the currently existing laws and regulations of the PRC.

(8) RMB40,000,000 was fully paid up on 1 April 2015. At the time, Mr. Luan Linjiang held approximately 99.01% equity interest in Jiaoyun Group and 100% equity interest in Jiaoyun Property.

Jiaoyun Shihua

Jiaoyun Shihua, one of our operating subsidiaries, was established in the PRC with limited liability on 7 April 2013 with an initial registered capital of RMB30,000,000 which was fully paid up in cash. Upon its establishment, Jiaoyun Shihua was owned by Shandong Shihua and Jiaoyun Gas as to 51% and 49%, respectively. On 25 January 2014, Jiaoyun Shihua obtained a gas operation licence for the operation of sale of CNG and since then, it has commenced and is continuing its operations in the sale of CNG.

It was subsequently decided that Jiaoyun Gas would take over the management and day-to-day operation of Jiaoyun Shihua. On 25 May 2015, Jiaoyun Gas and Shandong Shihua entered into an equity interest transfer agreement, pursuant to which Shandong Shihua transferred 21% equity interest in Jiaoyun Shihua to Jiaoyun Gas at a consideration of approximately RMB8.08 million, which was determined on the basis of the shareholder's equity of Jiaoyun Shihua of approximately RMB38.49 million as at 31 March 2015 as appraised by an independent valuer. The consideration was settled on 11 June 2015. Upon completion of such transfer, Jiaoyun Gas and Shandong Shihua owned 70% and 30% of the equity interest of Jiaoyun Shihua, respectively.

On 18 March 2016, the registered capital of Jiaoyun Shihua was increased in proportion by RMB5,000,000, of which RMB3,500,000 was subscribed by Jiaoyun Gas and RMB1,500,000 was subscribed by Shandong Shihua pursuant to the shareholders' resolutions of Jiaoyun Shihua passed on 18 December 2015. Upon completion of such increase in registered capital, Jiaoyun Shihua remains to be held by Jiaoyun Gas and Shandong Shihua as to 70% and 30%, respectively.

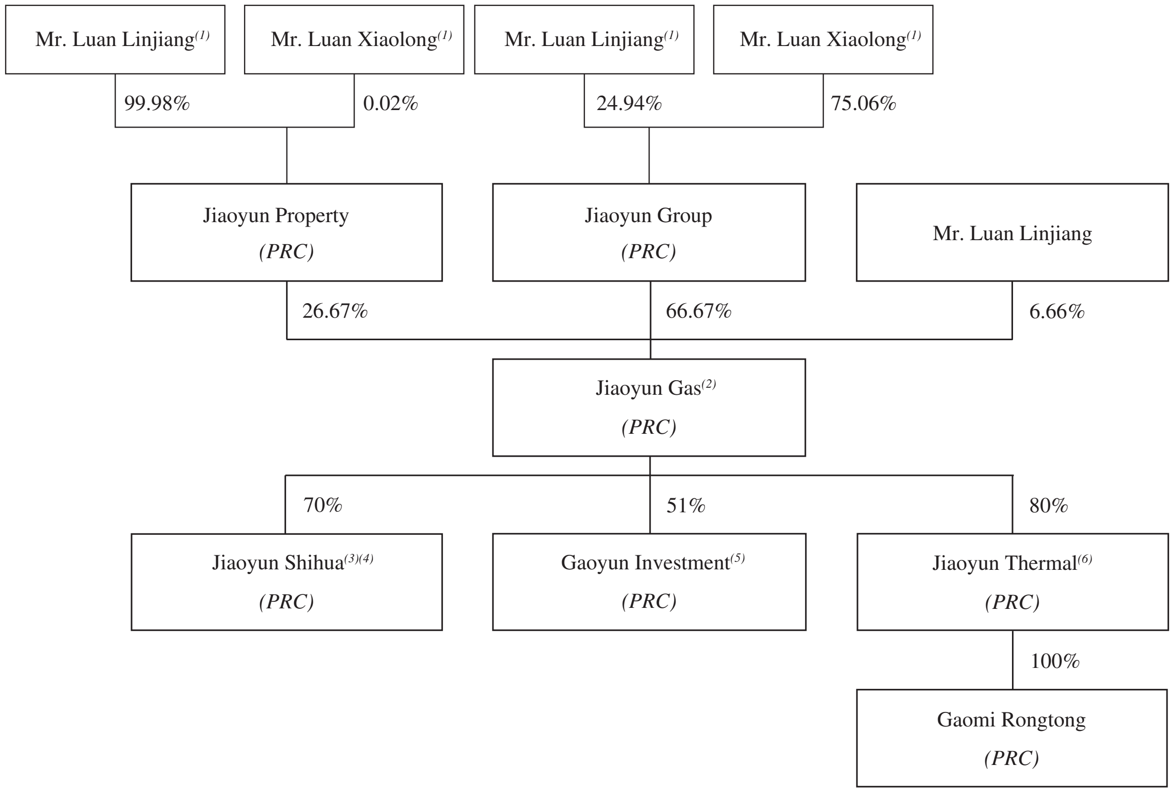
3. Our Other Intermediary Subsidiaries

Set out below are the details of other intermediary subsidiaries of our Group:

Name	Principal/proposed business activities	Date of incorporation	Registered capital/ Issued share capital	Direct shareholder
JY Gas BVI	Investment holding	23 March 2021	US$1.00	100%: our Company
JY Gas HK	Investment holding	22 April 2021	HK$1.00	100%: JY Gas BVI
JY Gas WFOE	Investment holding	28 May 2021	RMB30,000,000	100%: JY Gas HK
QMRIG	Investment holding	30 March 2021	US$100.00	100%: our Company
QMHC	Investment holding	6 May 2021	HK$100.00	100%: QMRIG

REORGANISATION

Set out below is the shareholding and corporate structure of our Group immediately prior to the Reorganisation.



Notes:

(1) Mr. Luan Linjiang is the father of Mr. Luan Xiaolong.

(2) Jiaoyun Gas had three branch offices in the PRC, namely Gaomi Jiaoyun Natural Gas Co., Ltd. Gas Appliance Branch* (高密市交運天然氣有限公司燃汽具分公司), 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 Gaomi Jiaoyun Natural Gas Co., Ltd. The Second Gas Station* (高密市交運天然氣有限公司第二加氣站).

(3) The remaining 30% equity interest in Jiaoyun Shihua was held by Shandong Shihua, which was owned as to 50% by Sinopec and 50% by Shandong Luxin Industrial Group Co., Ltd.* (山東魯信實業有限公司) ("**Shandong Luxin**") respectively, both of which are independent from our Group except for their equity interest in Jiaoyun Shihua and supply of natural gas to our Group through Shandong Shihua as disclosed in this document.

(4) Jiaoyun Shihua had two branch offices, namely Gaomi Jiaoyun Shihua Natural Gas Co., Ltd. The Second Station* (高密市交運實華天然氣有限公司第二加氣站) and 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).

(5) The remaining 49% equity interest in Gaoyun Investment was held by Gaomi Yankai Fangzhi Co., Ltd.* (高密市彥凱紡織有限公司) ("**Gaomi Yankai**"), an Independent Third Party.

(6) The remaining 20% equity interest in Jiaoyun Thermal was owned as to 10% and 10% by Mr. Luan Linxin and Jiaoyun Property, respectively. Pursuant to an entrustment agreement dated 16 May 2013 between Mr. Luan Linxin and Mr. Luan Linjiang, Mr. Luan Linxin held the 10% equity interest in Jiaoyun Thermal on trust and for the benefit of Mr. Luan Linjiang. Mr. Luan Linxin, Jiaoyun Property and Mr. Luan Linjiang are all connected persons of our Company.

In preparation for the [REDACTED], our Group implemented the Reorganisation, which consisted of the following steps:

1. Disposal of certain subsidiaries engaged in non-core businesses

Non-core businesses require expertise, management and other resources which are different from our core business, namely, natural gas supply. To focus our resources primarily on natural gas supply business, we disposed of the following companies which are engaged in certain non-core businesses:

Jiaoyun Thermal

Jiaoyun Thermal principally engages in the business of supplying centralised heating in Gaomi City. Immediately prior to the Reorganisation and the disposal of Jiaoyun Thermal, Jiaoyun Thermal was owned as to 80% by us (through Jiaoyun Gas), while the remaining 20% was held as to 10% and 10% by Jiaoyun Property and Mr. Luan Linxin, respectively. Jiaoyun Thermal in turn directly wholly-owned Gaomi Rongtong, which principally engages in the business of provision of loan financing related services in Gaomi City. Based on the statutory tax filing of Jiaoyun Thermal, its profits/(loss) for the year ended 31 December 2019 and the six months ended 30 June 2020 amounted to approximately RMB4,860,000 and RMB(370,000), respectively.

Pursuant to an equity transfer agreement entered into between Jiaoyun Gas and Jiaoyun Group dated 11 September 2020, Jiaoyun Gas disposed of its 80% equity interest (equivalent to the then paid up registered capital of RMB40 million) in Jiaoyun Thermal to Jiaoyun Group (a company owned as to 75.06% by Mr. Luan Xiaolong and 24.95% by Mr. Luan Linjiang, therefore Jiaoyun Group is our connected person) for a consideration of RMB40.3 million, which was determined with reference to the net asset value of Jiaoyun Thermal as at 31 July 2020. Such consideration was fully settled on 18 September 2020. Upon completion of such transfer, Jiaoyun Thermal became owned as to 80%, 10% and 10% by Jiaoyun Group, Mr. Luan Linxin and Jiaoyun Property, respectively.

Gaoyun Investment

Gaoyun Investment principally engages in the business of conducting equity and debt investments and providing financial consulting and related services in Weifang Municipality, Shandong Province. Immediately prior to the Reorganisation and the disposal of Gaoyun Investment, Gaoyun Investment was owned as to 51% by Jiaoyun Gas and 49% by Gaomi Yankai (an Independent Third Party). Based on the statutory tax filing of Gaoyun Investment, its loss for the year ended 31 December 2019 and the nine months ended 30 September 2020 amounted to approximately RMB320,000 and RMB3,000, respectively.

Pursuant to an equity transfer agreement entered into between Jiaoyun Gas and Jiaoyun Property dated 20 October 2020, Jiaoyun Gas disposed of its 51% equity interest (equivalent to the paid up registered capital of RMB25.5 million) in Gaoyun Investment to Jiaoyun Property (a company owned as to 99.98% by Mr. Luan Linjiang and 0.02% by Mr. Luan Xiaolong, therefore Jiaoyun Property is our connected person) for a consideration of RMB25.5 million, which was determined with reference to the then paid up registered capital of Gaoyun Investment contributed by Jiaoyun Gas. Such consideration was fully settled on 4 March 2021. Upon completion of such transfer, Gaoyun Investment became owned as to 51% and 49% by Jiaoyun Property and Gaomi Yankai, respectively.

Our Directors considered the disposals of Jiaoyun Thermal and Gaoyun Investment to be in the best interests of our Group as (i) the businesses of Jiaoyun Thermal (including its wholly-owned subsidiary Gaomi Rongtong) and Gaoyun Investment were unrelated to the core business of natural gas supply of our Group and do not add value to or create synergies with the long term development of our Group; and (ii) maintaining the operations of Jiaoyun Thermal (including its wholly-owned subsidiary Gaomi Rongtong) and Gaoyun Investment required substantial resources, which could instead be utilised to develop our core business segments with better prospects. Based on the written confirmation issued by relevant authorities, and to the best knowledge of our Directors, our Company was not aware of any non-compliance with PRC laws and regulations applicable to the disposed companies during the Track Record Period and up to their respective dates of disposal from our Group which would have a material adverse effect on our Group's business operation and financial condition.

Our PRC Legal Advisers have confirmed that the relevant procedures and steps involved in the disposals of Jiaoyun Thermal and Gaoyun Investment have been legally completed, and such disposals have been duly registered and filed with local government authorities of the PRC. Upon completion of the above disposals, our Group ceased to have any interest in Jiaoyun Thermal (including its wholly-owned subsidiary Gaomi Rongtong) and Gaoyun Investment. For further details on accounting implications in connection with the disposals of Jiaoyun Thermal and Gaoyun Investment, please refer to Note 24(d) to the Accountant's Report set out in Appendix I to this document.

2. Incorporation of our Company

On 9 March 2021, our Company was incorporated in the Cayman Islands with an initial authorised share capital of US$50,000 divided into 500,000,000 Shares of par value of US$0.0001 each. At the time of incorporation, one Share was allotted and issued for cash at par to ICS Corporate Services (Cayman) Limited (an Independent Third Party) as the initial subscriber, and was subsequently transferred to LLJ Phoenix at par value. On the same date, 99 Shares, 100 Shares and 100 Shares, respectively, were allotted and issued for cash at par to LLJ Phoenix, LXL Phoenix and SEGM Holding. Our Company was then owned as to 33.33%, 33.33% and 33.33% by LLJ Phoenix (wholly-owned by Mr. Luan Linjiang), LXL Phoenix (wholly-owned by Mr. Luan Xiaolong) and SEGM Holding (wholly-owned by SDJY Holding, which is in turn wholly-owned by Mr. Luan Xiaolong), respectively.

3. Incorporation of JY Gas BVI (our BVI intermediate holding company) and JY Gas HK (our Hong Kong intermediate holding company)

On 23 March 2021, JY Gas BVI was incorporated in the BVI with an authorised share capital of 50,000 shares with a par value of US$1 each. On the same day, one share was allotted and issued to our Company for a consideration of US$1, and JY Gas BVI became a directly wholly-owned subsidiary of our Company.

On 22 April 2021, JY Gas HK was incorporated in Hong Kong with a total amount of issued share capital HK$1. On the same day, one share was allotted and issued to JY Gas BVI for a consideration of HK$1, and JY Gas HK became an indirect wholly-owned subsidiary of our Company.

4. Deregistration of entity with no operations

With a view to streamlining our Group's structure, Gaomi Jiaoyun Natural Gas Co., Ltd. The Second Gas Station* (高密市交運天然氣有限公司第二加氣站) (the "**Jiaoyun Second Gas Station**") was deregistered on 11 May 2021, as it has not commenced any business operations since its establishment, and there was no plan to commence any business operation. Before its deregistration, Jiaoyun Second Gas Station was a branch office of Jiaoyun Gas within Gaomi City, Shandong Province.

5. Incorporation of JY Gas WFOE (our PRC intermediate holding company)

JY Gas WFOE was established in the PRC on 28 May 2021 with an initial registered capital of RMB30 million. Upon establishment, JY Gas WFOE was wholly-owned by JY Gas HK.

6. Capital injection into Jiaoyun Gas by QMHC

As part of the [REDACTED] Investment, the [REDACTED] Investor (through his wholly owned investment holding company at the time, QMHC) made a capital injection of RMB610,000 to the registered capital of Jiaoyun Gas. Please refer to "— [REDACTED] Investment" in this section for details.

Upon completion of such capital injection, Jiaoyun Gas was converted from a domestic enterprise to a sino-foreign joint venture enterprise, and became owned as to approximately 65.99% by Jiaoyun Group, 26.40% by Jiaoyun Property, 6.60% by Mr. Luan Linjiang and 1.01% by QMHC, respectively.

7. Acquisition of Jiaoyun Gas by JY Gas WFOE

On 23 June 2021, each of Jiaoyun Group, Jiaoyun Property and Mr. Luan Linjiang entered into an equity transfer agreement with JY Gas WFOE pursuant to which they transferred their respective equity interests of approximately 65.99%, 26.40% and 6.60% in Jiaoyun Gas to JY Gas WFOE at a total consideration of RMB60,657,000, which was determined with reference to the net assets value of Jiaoyun Gas of approximately RMB60,657,000 as of 31 March 2021 as appraised by an independent valuer. The consideration was fully settled on 29 June 2021. Upon completion of such transfer, Jiaoyun Gas was owned as to approximately 98.99% by JY Gas WFOE and 1.01% by QMHC, respectively.

8. Allotment of Shares in our Company to LLJ Phoenix and LXL Phoenix

On 24 June 2021, our Company issued and allotted 230 and 460 fully-paid Shares to LLJ Phoenix and LXL Phoenix, respectively. Upon the allotment, our Company became owned as to approximately 56.57% by LXL Phoenix, 33.33% by LLJ Phoenix and 10.10% by SEGM Holding, respectively.

9. Acquisition of QMRIG by our Company

As part of the [REDACTED] Investment, on 20 July 2021, QMIG transferred 100 shares of QMRIG, representing the entire issued share capital of QMRIG, to our Company in consideration of the issue and allotment of 10 Shares to QMIG. Upon completion of such share swap, QMRIG became our direct wholly-owned subsidiary and our Company became owned as to 56% by LXL Phoenix, 33% by LLJ Phoenix, 10% by SEGM Holding and 1% by QMIG, respectively. Please refer to "— [REDACTED] Investment" in this section for details.

Please refer to "— Corporate Structure Immediately After the Completion of the Reorganisation and the [REDACTED] Investment" in this section below for our corporate structure upon the completion of the Reorganisation and the [REDACTED] Investment.

[REDACTED] INVESTMENT

Investment by the [REDACTED] Investor

Immediately before the acquisition of QMRIG by our Company as part of the [REDACTED] Investment, QMHC was a direct wholly-owned subsidiary of QMRIG, which was in turn wholly-owned by QMIG. QMIG was directly wholly-owned by Mr. Tsang.

On 7 June 2021, QMHC entered into an investment agreement with Jiaoyun Gas, Jiaoyun Group, Jiaoyun Property, and Mr. Luan Linjiang, pursuant to which is was agreed that QMHC shall make a capital injection of RMB610,000 to the registered capital of Jiaoyun Gas. The consideration was determined after arm's length negotiations between the parties with reference to the net assets value of Jiaoyun Gas of approximately RMB60,657,000 as of 31 March 2021 as appraised by an independent valuer. Such valuation was based on the net assets value of Jiaoyun Gas post declaration and distribution of dividends of RMB70 million to its shareholders in March 2021. Other factors were taken into account in the determination of the consideration including but not limited to: (i) the risk assumed by the [REDACTED] Investor for investment in a private company including the uncertainty of the completion of the [REDACTED] and [REDACTED]; and (ii) the strategic benefits which would be brought by Mr. Tsang to our Group set out below. The aforesaid capital injection was registered by the relevant PRC Government authority on 15 June 2021, and the consideration was settled on 15 July 2021. Upon completion of such capital injection and the acquisition of Jiaoyun Gas by Jiaoyun WFOE as mentioned in "— Reorganisation — 7. Acquisition of Jiaoyun Gas by JY Gas WFOE" in this section, Jiaoyun Gas became a sino-foreign joint venture enterprise and became owned as to approximately 98.99% by JY Gas WFOE and 1.01% by QMHC respectively, with a registered and paid-up capital of RMB60,610,000.

On 20 July 2021, a share swap was conducted whereby QMIG transferred a total of 100 shares of QMRIG, representing the entire issue share capital of QMRIG, to our Company in consideration of the issue and allotment of 10 Shares to QMIG.

Details of the [REDACTED] Investment are set out below:

Name of the [REDACTED] Investor:	Mr. Tsang Kwong Kwan Mor (曾光群先生)
Date of agreement:	7 June 2021
Amount of consideration paid:	RMB610,000 (equivalent to approximately HK$701,851) (through its investment in Jiaoyun Gas)
Basis of determination of the consideration:	After arm's length negotiations between the parties with reference to the net assets value of Jiaoyun Gas of approximately RMB60,657,000 as of 31 March 2021 as appraised by an independent valuer
Consideration payment date:	15 July 2021
Cost per Share(1):	Approximately RMB[REDACTED] (equivalent to approximately HK$[REDACTED])
Discount to mid-point of the [REDACTED] range(1):	Approximately [REDACTED]%
Use of proceeds:	Contribution of RMB610,000 to the registered capital of Jiaoyun Gas, all of which shall be used as general working capital of our Group.
Shareholding in our Company immediately after the completion of the [REDACTED] Investment(1):	1%
Shareholding in our Company immediately after the completion of the [REDACTED](1), (2):	[REDACTED]%
Strategic benefits to our Group:	Our Directors are of the view that our Group can benefit from the [REDACTED] Investment as it demonstrates the [REDACTED] Investor's confidence in our business and operations, and serves as an endorsement of our performance, strengths and prospects. It also assists us in broadening our shareholder base. Mr. Tsang has over 38 years of experience in the textile trading business. In Shandong Province, the textile industry mainly uses natural gas as the energy source, and our Company has a number of customers in the textile industry. Given Mr. Tsang's experience and familiarity with usage of natural gas, our Directors believe that Mr. Tsang, through his strategic investment into our Company, could provide our Group with valuable insights and advice on our future development plans.

Special rights:	Neither QMIG nor the [REDACTED] Investor is entitled to any special rights under the [REDACTED] Investment
Lock-up period:	Nil

Notes:

(1) Calculated on the basis of the number of Shares to be held by QMIG immediately after the completion of the Capitalisation Issue but before the completion of the [REDACTED].

(2) Without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED].

Information regarding the [REDACTED] Investor

Mr. Tsang is an individual investor. He held his interest in our Company through QMIG, his wholly-owned investment holding company incorporated in the BVI. Mr. Tsang has over 38 years of experience in textile trading business. He also makes investments in other industries in his personal capacity and the source of funding of his investments was mainly from his personal savings. Mr. Tsang first became acquainted with Mr. Luan Xiaolong in 2018 at a business event in Qingdao City, Shandong Province. To the best knowledge and belief of our Directors and having made all reasonable enquiries, Mr. Tsang decided to invest in our Group in view of the prospects of our business growth.

Other than the shareholding interest in our Company as disclosed in this document, Mr. Tsang and QMIG are independent from our Group.

Public Float

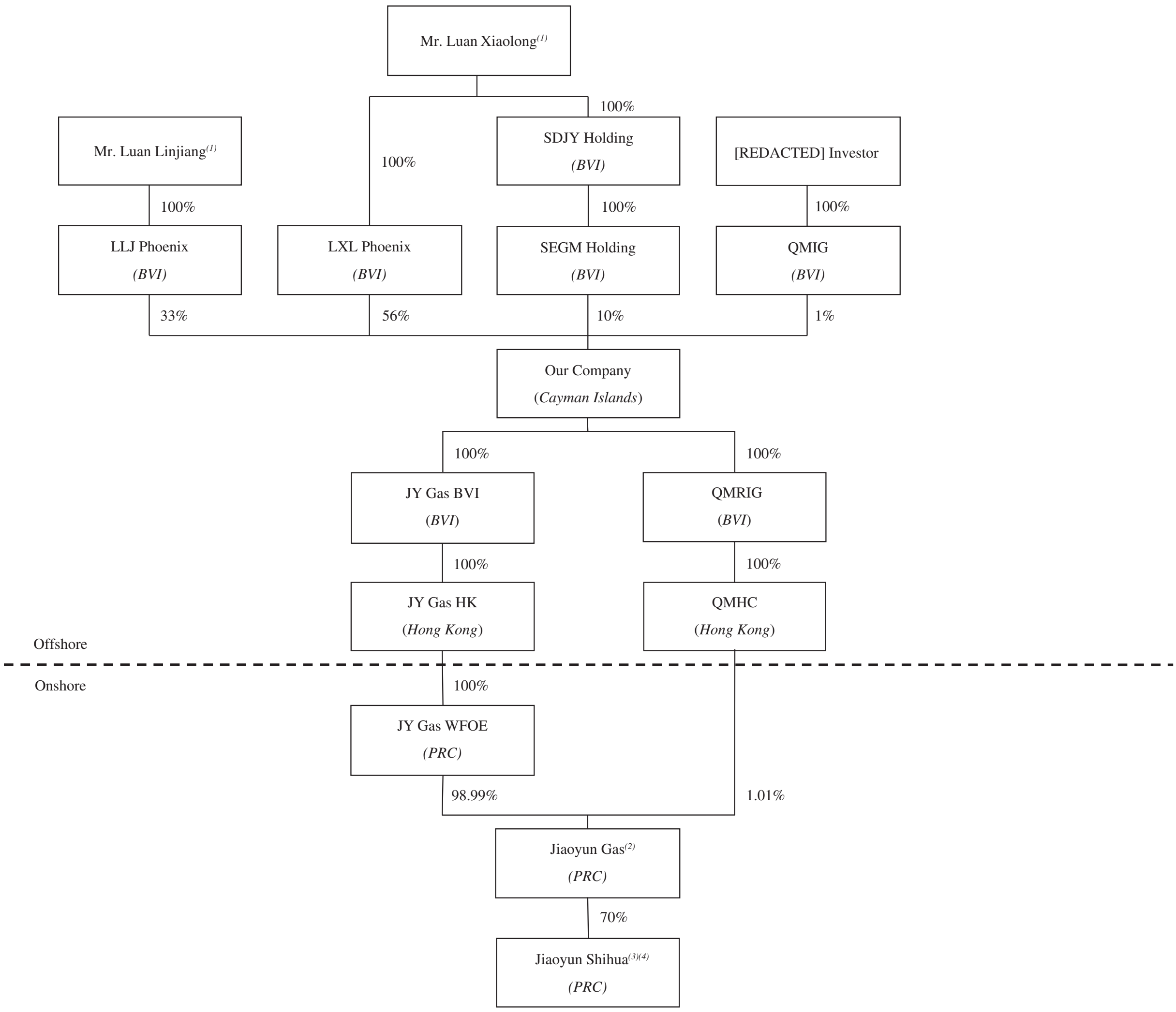
As the [REDACTED] Investor is not a core connected person of our Company and the [REDACTED] Investment was not financed directly or indirectly by any core connected persons of our Company, Shares held by QMIG will be counted towards the public float after the [REDACTED].

Compliance with Interim Guidance

The Sole Sponsor is of the view that the terms of the [REDACTED] Investment by the [REDACTED] Investor are in compliance with (i) the Guidance Letter HKEx-GL-29-12 issued by the Stock Exchange in January 2012 and as updated in March 2017; and (ii) the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017, as (a) the consideration payable by the [REDACTED] Investor under the [REDACTED] Investment was fully settled on 15 July 2021, which is more than 28 clear days prior to the date of the first submission of the [REDACTED] to the Stock Exchange in relation to the [REDACTED]; and (b) no special rights were granted to the [REDACTED] Investor that will survive after the [REDACTED] in respect of the [REDACTED] Investment. The Guidance Letter HKEx-GL44-12 is not applicable to the [REDACTED] Investment as no convertible instrument was issued.

CORPORATE STRUCTURE IMMEDIATELY AFTER THE COMPLETION OF THE REORGANISATION AND THE [REDACTED] INVESTMENT

The following diagram illustrates the corporate structure of our Group immediately after completion of the Reorganisation and the [REDACTED] Investment but before completion of the Capitalisation Issue and the [REDACTED]:



Note:

(1) Mr. Luan Linjiang is the father of Mr. Luan Xiaolong.

(2) Jiaoyun Gas has two branch offices in the PRC, namely Gaomi Jiaoyun Natural Gas Co., Ltd. Gas Appliance Branch* (高密市交運天然氣有限公司燃汽具分公司) and 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).

(3) The remaining 30% equity interest in Jiaoyun Shihua is held by Shandong Shihua, which is owned as to 50% by Sinopec and 50% by Shandong Luxin, respectively, both of which are independent from our Group except for their equity interest in Jiaoyun Shihua and supply of natural gas to our Group through Shandong Shihua as disclosed in this document.

(4) Jiaoyun Shihua has two branch offices, namely Gaomi Jiaoyun Shihua Natural Gas Co., Ltd. The Second Station* (高密市交運實華天然氣有限公司第二加氣站) and 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).

INCREASE IN AUTHORISED SHARE CAPITAL

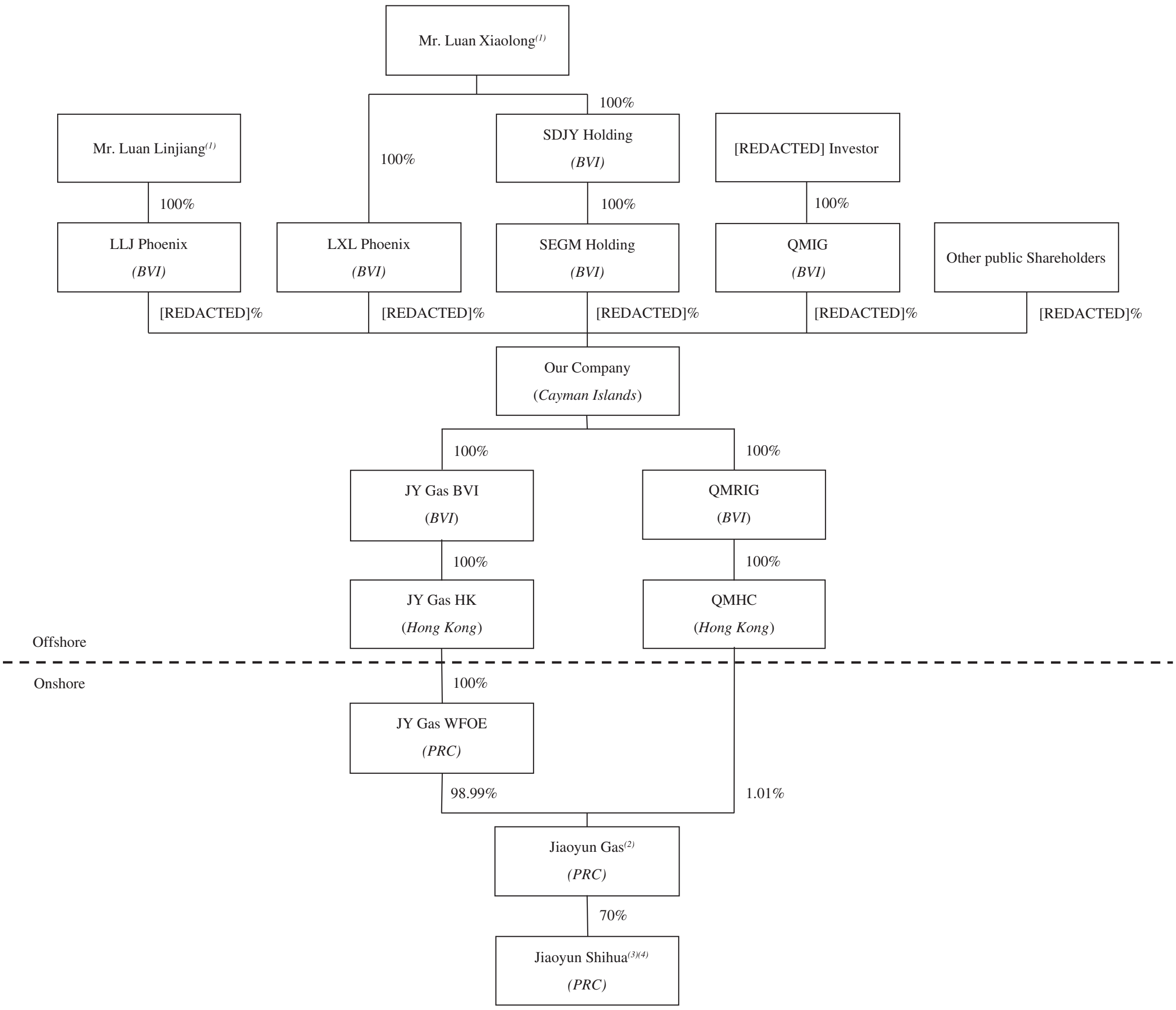
On [●], our authorised share capital was increased from US$50,000 to US$[200,000] by the creation of additional [1,500,000,000] Shares, such that following such increase, the authorised share capital of our Company was US$[200,000] divided into [2,000,000,000] Shares of US$0.0001 each.

CAPITALISATION ISSUE

Following the aforesaid increase of the authorised share capital of our Company and conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise US$[REDACTED] standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par [REDACTED] Shares for allotment and issue on the [REDACTED], credited as fully-paid, at par to the then existing Shareholder(s) in proportion (as near as possible without involving fractions, so that no fraction of a share shall be allotted and issued) to their then shareholdings in our Company. The Shares to be allotted and issued pursuant to the Capitalisation Issue shall carry the same rights in all respects with the then existing issued Shares.

CORPORATE STRUCTURE IMMEDIATELY AFTER THE COMPLETION OF THE CAPITALISATION ISSUE AND THE [REDACTED]

The following diagram illustrates the corporate structure of our Group after completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised):



Note:

(1) Mr. Luan Linjiang is the father of Mr. Luan Xiaolong.

(2) Jiaoyun Gas has one branch office in the PRC, namely Gaomi Jiaoyun Natural Gas Co., Ltd. Gas Appliance Branch* (高密市交運天然氣有限公司燃汽具分公司). In addition, Jiaoyun Gas owns one gas station, namely 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).

(3) The remaining 30% equity interest in Jiaoyun Shihua is held by Shandong Shihua, which is owned as to 50% by Sinopec and 50% by Shandong Luxin, respectively, both of which are independent from our Group except for their equity interest in Jiaoyun Shihua and supply of natural gas to our Group through Shandong Shihua as disclosed in this document.

(4) Jiaoyun Shihua has two gas stations, namely Gaomi Jiaoyun Shihua Natural Gas Co., Ltd. The Second Station* (高密市交運實華天然氣有限公司第二加氣站) and 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).

COMPLIANCE WITH PRC LAWS

Our PRC Legal Advisers have confirmed that the Reorganisation involving the disposals, equity transfers and capital contributions in respect of our PRC subsidiaries as described in this section had been legally completed, and the relevant procedures had been carried out in accordance with the applicable PRC laws and regulations in all material aspects.

The Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors in the PRC

According to the "Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**") jointly issued by the MOFCOM, the SASAC, the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006 and effective as of 8 September 2008 and amended in June 2009, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM; and where a domestic company or natural person holds an equity interest in a domestic company through an offshore special purpose company by paying the acquisition price with equity interests, the overseas listing of that special purpose company shall be subject to approval by the CSRC.

As advised by our PRC Legal Advisers, unless new laws and regulations are enacted or MOFCOM and CSRC and other competent authorities publish new provisions or interpretations on the M&A Rules in the future, given that when the acquisition of Jiaoyun Gas by JY Gas WFOE (the "**Acquisition**") took place, Jiaoyun Gas was an existing sino-foreign joint venture enterprise, the Acquisition was not subject to the M&A Rules and approval from MOFCOM was not required, and the [REDACTED] does not require approval from CSRC.

SAFE Registration in the PRC

Pursuant to SAFE Circular 37, a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or controlled by the PRC resident for the purpose of conducting investment or financing.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Director Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**Circular 13**"), promulgated by SAFE and which became effective on 1 June 2015, the foreign exchange registration under overseas direct investment shall be directly reviewed and handled by banks whilst indirectly supervised by the SAFE and its branches through banks.

As advised by our PRC Legal Advisers, Mr. Luan Linjiang and Mr. Luan Xiaolong, have completed their registration under the SAFE Circular 37 and Circular 13 on 11 May 2021.

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 the granted area of Gaomi City, including both urban and rural areas, 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 1,606.0 km^2 and a residential population of approximately 877,000 people. 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 County 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 m^3 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 650.4 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.

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* *(unaudited)*	*%*	*RMB'000*	*%*
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. Excluding the non-core ABS-related finance expenses (net) and our [REDACTED] expenses, our adjusted net profit would become approximately RMB50.5 million, RMB59.8 million, RMB74.2 million and RMB14.1 million for the years ended 31 December 2019, 2020, 2021 and four months ended 30 April 2022, respectively. For details, please refer to "Financial Information — Non-HKFRS Measure: Adjusted Net Profit" in this document.

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 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" 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.

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 SO_2 emission 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 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 "*Opinions on Promoting the Clearing of Coal in the Zero Coal-Burning Restricted Area and Unheated Households*" (*《關於推進禁燃區燃煤清零和未供暖戶清零的意見》*) promulgated by the PRC 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 SO_2 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.

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 on-going 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, 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.

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.

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 till 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 650.4 km of completed mid-pressure pipelines. Given 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 m^3 in 2021, representing a significant increase from 89.3 m^3 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, supply of natural gas has reached all towns, further driving an increase in natural gas consumption. We believe that Gaomi City's current relatively low urbanisation level gives rise to a lot of scope for 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>的通知》*), 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.

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.

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 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 till 2025.

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 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 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.

OUR BUSINESS MODEL

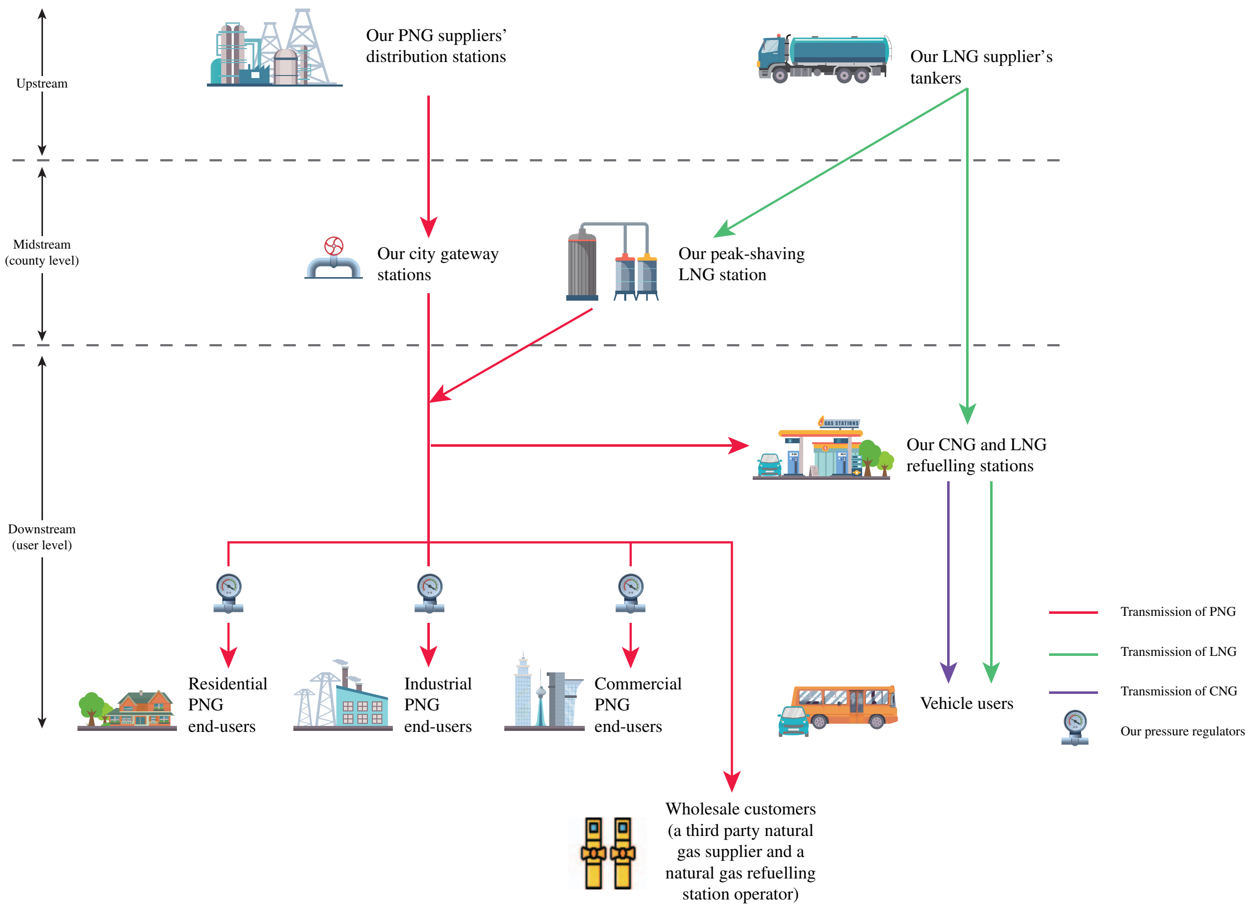
We are an operator of natural gas distribution and related businesses in Gaomi City. Gaomi City is a hub located in the region in Shandong Province through which the Taiqingwei Pipeline* (泰青威管道) and Kunlun Pipeline* (昆侖管道) run. Our sale of natural gas business started in 2005. In recent years, the PRC 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.

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' 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 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 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

In August 2009, upon successful negotiation, we signed the Concession Agreement with Gaomi City Bureau of Municipal Affairs Administration 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.

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 "*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**") 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, 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	The granted area is within the administrative area, including both urban and rural areas of, Gaomi City.

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.
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.

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. Based on our interview with Gaomi City Housing and Urban-Rural Development Bureau, which is the competent authority in charge of all matters in relation to the Concession, our Directors believe that our Group is likely to be able to renew the Concession and continue to exclusively operate our natural gas sales and related businesses after August 2039.

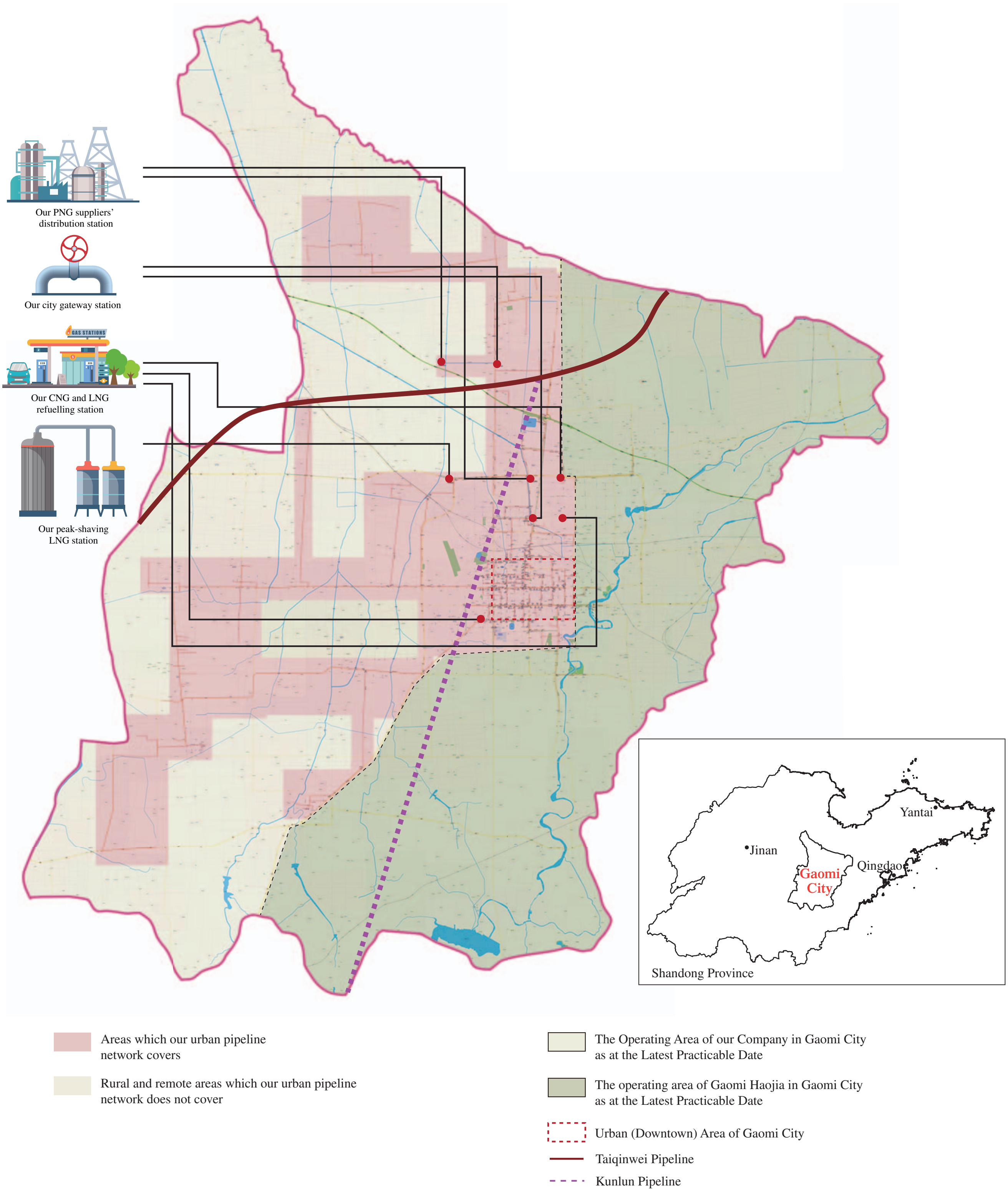
Operating Area

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.

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 an 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 our granted area, resulting in a reduction in the size of our Operating Area, is one-off and final.

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 purpose only and may not be exact in geographical terms.

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 an 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 would 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 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 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 from Intended Use of Loan Proceeds; (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 have confirmed that the Concession Agreement has not been cancelled or terminated as at the Latest Practicable Date.

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.

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.

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			2021			2022		
	Procurement volume	Average procurement cost per unit without VAT	Procurement cost	Procurement volume	Average procurement cost per unit without VAT	Procurement cost	Procurement volume	Average procurement cost per unit without VAT	Procurement cost	Procurement volume	Average procurement cost per unit without VAT	Procurement cost	Procurement volume	Average procurement cost per unit without VAT	Procurement cost
		(RMB/unit)	*(RMB '000)*		*(RMB/unit)*	*(RMB '000)*		*(RMB/unit)*	*(RMB '000)*		*(RMB/unit)*	*(RMB '000)* *(unaudited)*		*(RMB/unit)*	*(RMB '000)*
PNG ('000 m^3) *(Note)*	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
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			240,666.0			201,944.4			265,461.6			95,051.0			123,712.3

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).

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 m^3, 93.7 million m^3, 104.2 million m^3 and 35.5 million m^3, 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.

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	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.	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.

	Key contractual arrangements with PetroChina	Key contractual arrangements with Shandong Shihua
Procurement volume	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.	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.
Take-or-pay obligations	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.	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.

	Key contractual arrangements with PetroChina	Key contractual arrangements with Shandong Shihua
Pricing	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.	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.
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

	Key contractual arrangements with PetroChina	Key contractual arrangements with Shandong Shihua
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. 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 are 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.

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 m^3, 0.8 million m^3 and 1.0 million m^3; and the aggregated procurement shortfall with Shandong Shihua (the "**Shandong Shihua Shortfalls**"), after applying the COVID-19 Exemption, was 9.9 million m^3, 3.1 million m^3, and 1.6 million m^3, 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 m^3, 87.2 million m^3 and 99.9 million m^3 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.

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 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.

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.

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".

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;

(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.

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.

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**
Revenue *(RMB '000)*	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 *(RMB '000)*	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.

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.

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 *(tonnes)*	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 *(tonnes)*	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 *(tonnes)*	3,355.0	4,998.1	6,113.4	5,023.3
LNG procurement cost *(RMB million)*	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) 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/m^3, 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. 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/m^3, 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. 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 650.4 km.

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.

Years of usage	**Length**
	(km)
0-15	562.5
15-20	87.9
Over 20	—
Total	**650.4**

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 odorised 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, odorisers and valves.

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 m^3 per hour and 30,000 m^3 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 m^3/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 m^3.

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 1,800 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.

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.

	For the year ended 31 December			For the four months ended 30 April	
Sales volume	**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

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.

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; whilst 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.

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)]	*Total PNG end-users*	*Active PNG end-users*[(Note)]	*Total PNG end-users*	*Active PNG end-users*[(Note)]
Residential	113,899	105,533	124,187	117,237	142,714	124,354	146,394	128,237
Commercial	5,182	3,503	5,486	3,558	5,968	3,476	6,149	3,694
Industrial	308	305	305	300	345	325	378	360
Total	119,389	109,341	129,978	121,095	149,027	128,155	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.

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.

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 m^3, 0.8 million m^3, 2.2 million m^3 and 1.0 million m^3, 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.

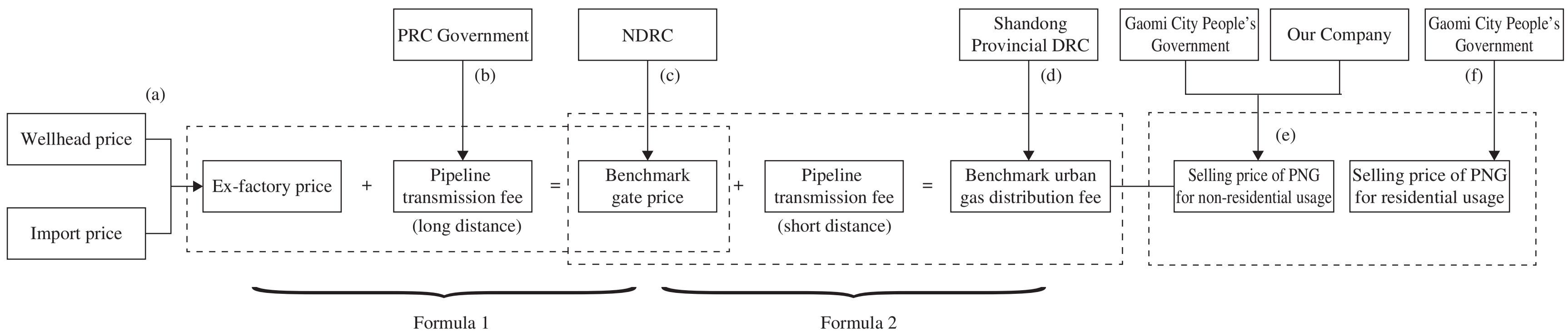
We only supply PNG to our wholesale customers after we have ascertained the demands of our PNG end-users have been fully satisfied. Given the rise in PNG demand in our Operating Area, we now focus on supplying PNG to our PNG end-users within the Operating Area. Going forward, we intend to continue prioritising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

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.

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.

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)
	(RMB/m^3)	*(RMB/m^3)*
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 Selling Price of Natural Gas for Residential Usage and Public Service Usage" in this document.

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)*
	(RMB/m^3)	*(RMB/m^3)*	*(RMB/m^3)*
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 — Selling Price of Natural Gas for Non-residential Usage (Excluding Public Service Usage)" in this document.

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 months ended**
	2019	**2020**	**2021**	**30 April 2022**
	(RMB/m^3)	*(RMB/m^3)*	*(RMB/m^3)*	*(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 in 2019 was an ad-hoc one, due to its PNG end-users' demands. We sold PNG to Changyi Mei'ao in some months of 2019 primarily due to Changyi Mei'ao's temporary 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.

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 m^3, 3.4 million m^3, 3.6 million m^3 and 2.1 million m^3; 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.

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

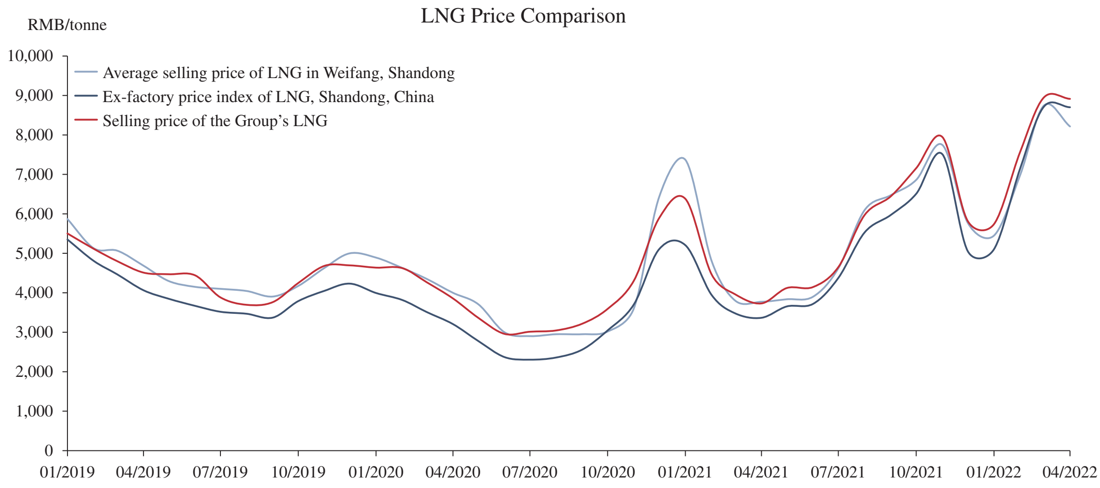
Our CNG and LNG pricing is subject to supply and demand dynamics in our Operating Area. The primary factor is the adequacy of natural gas supply in Gaomi City, which could result in the fluctuation of our sales price.

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
	2019	2020	2021	2022
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.



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.

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. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, nil, nil, approximately RMB12.4 million and approximately nil, or nil, nil, approximately 21.1% and approximately nil to our revenue from construction and installation services, respectively, were contributed by the Clean Energy Projects. 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.

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
	(RMB'000)					*(RMB'000)*
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.

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: • 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: • 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.
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.

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**
	(RMB)	*(RMB)*	*(RMB)*	*(RMB)*
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 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.

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

Customer's responsibility	Key steps(Note)	Our responsibility
• Fill in application form • Arrange for on-site inspection	Application by customer (1 working day) ↓ On-site inspection, initial design and budgeting (2 working days, or 5 working days if external pipeline construction is required)	**User application:** 1. Determine whether the location is within our Operating Area 2. Arrange for on-site inspection and provide project estimate
• 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	↓ Signing of the construction and installation services agreement ↓ Design of construction plan and issue of construction drawings ↓ Construction and installation	**Project confirmation:** 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
• Perform inspection before acceptance	↓ Inspection, acceptance and commencement of gas supply (1 working day and an extra working day for network connection if external pipeline construction is required)	**Inspection and acceptance of construction and installation:** 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
• Perform post-installation routine inspection	↓ Follow-up visits and after-sale services	After gas supply commences, we conduct follow-up visits and provide customer services

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.

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 *(RMB'000)*	5,392	25,813	52,834	6,089	1,559
Sales volume *(Units)*	2,261	10,174	14,780	3,449	16,890
Average selling price *(RMB/Unit)*	2,385	2,537	3,575	1,765	92
Gross profit *(RMB'000)*	1,349	13,604	24,228	3,396	555
Gross profit margin *(%)*	25.0	52.7	45.9	55.8	35.6

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.

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.

SEASONALITY

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

Business segment	Key customer types	Major usages
Sale of PNG	**Retail customers**	
	Residential PNG end-users Residential property owners and occupiers	Heating Cooking
	Commercial PNG end-users Schools Hospitals Shops Restaurants Government agencies Commercial property owners and occupiers	Heating Energy production Cooking
	Industrial PNG end-users 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

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 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 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
					(RMB'000)				
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			

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
					(RMB'000)				
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
					(RMB'000)				
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			

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
					(RMB'000)				
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.

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 of machinery, which supplied pipelines and gas meters respectively, for our Clean Energy Projects.

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 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 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
					(RMB'000)				
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			

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
					(RMB'000)				
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				223,589	95.3			

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
					(RMB'000)				
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				290,614	88.2			

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
					(RMB'000)				
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				126,860	97.0			

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 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. Liao 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 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 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 [●]. 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叁級) 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.

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.

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 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.

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.

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 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 repairment 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.

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.

Type of accidents	Causes of accidents	Emergency response
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.

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.

Year	Award / Accreditation	Awarding Organisation	Awarded Entity / Product
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 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.

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 Gaomi City, 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 m^3 in 2016 to approximately 139.1 million m^3 in 2021, and is expected to reach approximately 254.4 million m^3 in 2026 with a CAGR of 12.8% between 2021 and 2026. With our exclusive right 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.

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.

EMPLOYEES

As at the Latest Practicable Date, we had a total of 100 employees, amongst which 24% 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	Percentage of our total employees
Management	4	4.0%
Administration	4	4.0%
Sales and Customer Services	29	29.0%
Procurement	1	1.0%
Finance	8	8.0%
Operation	9	9.0%
Engineering, Security and Quality Control	44	44.0%
Legal and Compliance	1	1.0%
Total:	100	100%

As at the Latest Practicable Date, we had a total of 100 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 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 — Relationships 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 from Intended Use of Loan Proceeds” 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 on-going 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.

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.

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.

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].

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*

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.

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.

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.

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.

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

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	278
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.

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 envelops, 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.

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.

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. 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. Subsequently, Jiaoyun Shihua paid the administrative fine in full and thereafter, 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 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. 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.

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
				(sq.m.)
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 650.4 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.

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 Liquan 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 Liquan 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 Liquan 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.

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.

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	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 1)*
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: 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.

Note 1: Jiaoyun Gas is in the process of renewing the license with Weifang Municipality Urban Administration Bureau (濰坊市城市管理局).

No.	Date of First Award	License and Permit Name	Serial No.	Awarding Body	Recipient	Date of Award	Validity *(Note)*
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

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 a total of 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:

(a) Yuanhua Trading, our connected person and our supplier during the Track Record Period;

(b) Jiaoyun Shihua, our non-wholly owned subsidiary; and

(c) Changyi Mei’ao, an Independent Third Party that was our supplier and customer in 2018.

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:

(a) for the year ended 31 December 2018: approximately RMB476.8 million (of which RMB370.1 million was issued to Yuanhua Trading, RMB66.7 million was issued to Jiaoyun Shihua and RMB40.0 million was issued to Changyi Mei’ao);

(b) for the year ended 31 December 2019: approximately RMB440.8 million (of which RMB440.8 million was issued to Yuanhua Trading); and

(c) for the six months ended 30 June 2020: approximately RMB209.2 million (of which RMB205.6 million was issued to Yuanhua Trading and RMB3.6 million was issued to Jiaoyun Shihua).

Most of the Relevant Bills were issued to our related parties, while only one Relevant Bill was issued to Changyi Mei’ao.

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 aggregate amount of Relevant Bills issued was greater than the value of the actual underlying transactions, and such excess amount of Relevant Bills issued by the Issuing Banks was not supported by actual underlying transactions (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 the following PRC laws and regulations:

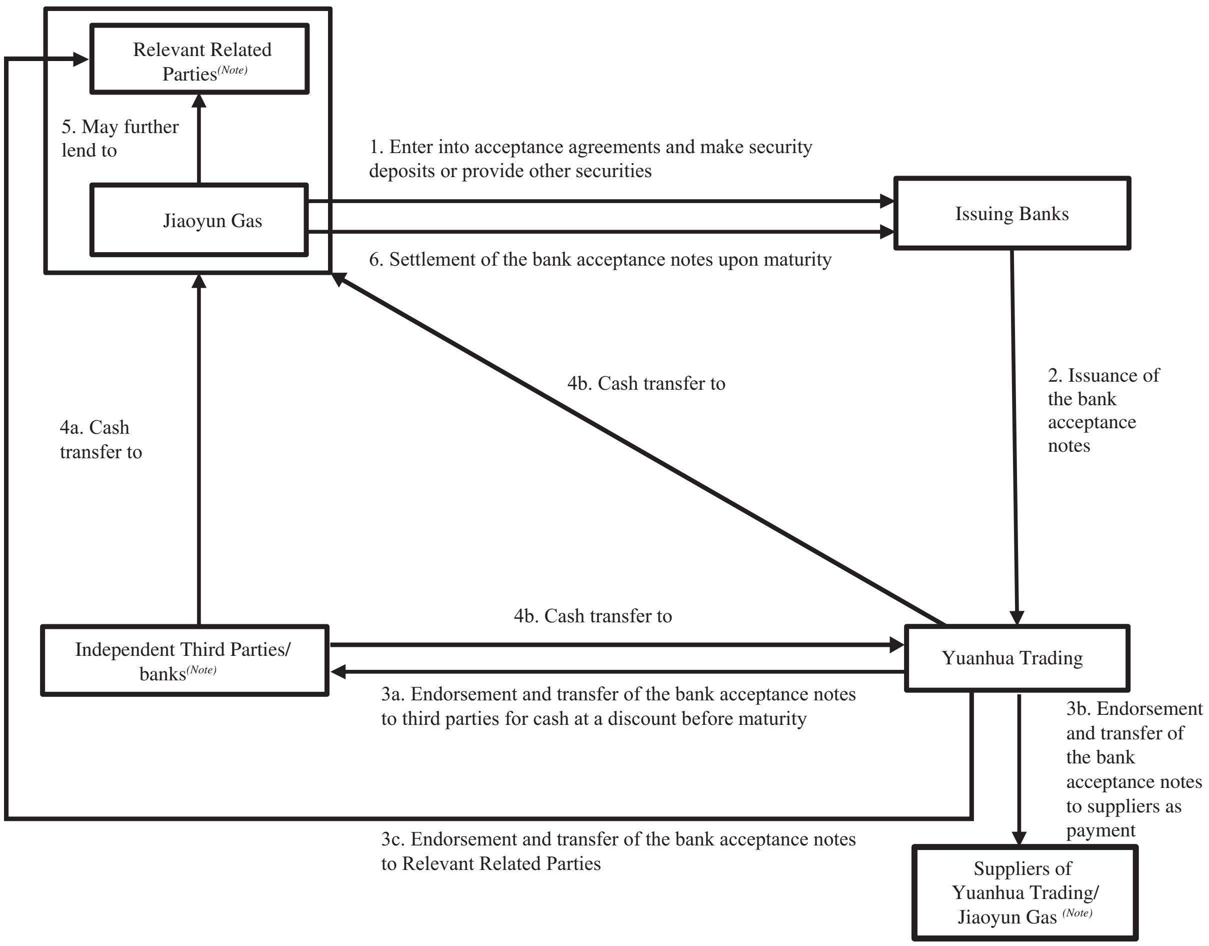
- the PRC Negotiable Instruments Law (《中華人民共和國票據法》) (the “**PRC Negotiable Instruments Law**”);

- the Measures for the Implementation of the Administration of Negotiable Instruments (《票據管理實施辦法》);
- the Measures for the Payment and Settlement (《支付結算辦法》) (the "**Measures for the Payment and Settlement**");
- 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
- 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》).

As at 31 December 2019 and 2020 and 30 June 2021, our borrowings in respect of the Non-compliant Bill Financing Arrangements amounted to approximately RMB400.8 million, RMB146.8 million and nil, accounting for approximately 53.5%, 64.4% and 0.0% of our total borrowings, respectively.

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.



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. The acceptance agreements specified the credit lines granted to issue the bank acceptance notes. To ensure that Jiaoyun Gas would be able settle the bank acceptance notes upon maturity, 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. Jiaoyun Gas was entitled to interest income for any security deposits with the Issuing Banks made for this purpose. Under the acceptance agreements, Jiaoyun Gas was required to pay the Issuing Banks handling fees for issuing the bank acceptance notes, generally in the amounts equivalent to 0.05% of the face value of the bank acceptance notes. Jiaoyun Gas was required to have sufficient funds in its accounts with the Issuing Banks before the bank acceptance notes became due.

- Step 3: as the relevant bank acceptance notes were stated to be payable to Yuanhua Trading, Yuanhua Trading had the right under the relevant PRC laws and regulations to endorse and transfer the bank acceptance notes to anyone. In practice, 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) companies within the Private Group (the "**Relevant Related Parties**").

- Steps 4 to 5: the cash collected after discount from the third parties was then fully transferred (a) directly, or (b) via Yuanhua Trading, to Jiaoyun Gas or the Relevant Related Parties. The cash was used by Jiaoyun Gas for the purposes of (i) making cash advances to the Relevant Related Parties on an interest-free basis in order to fund their business operations; or (ii) incidentally funding its own business operations.

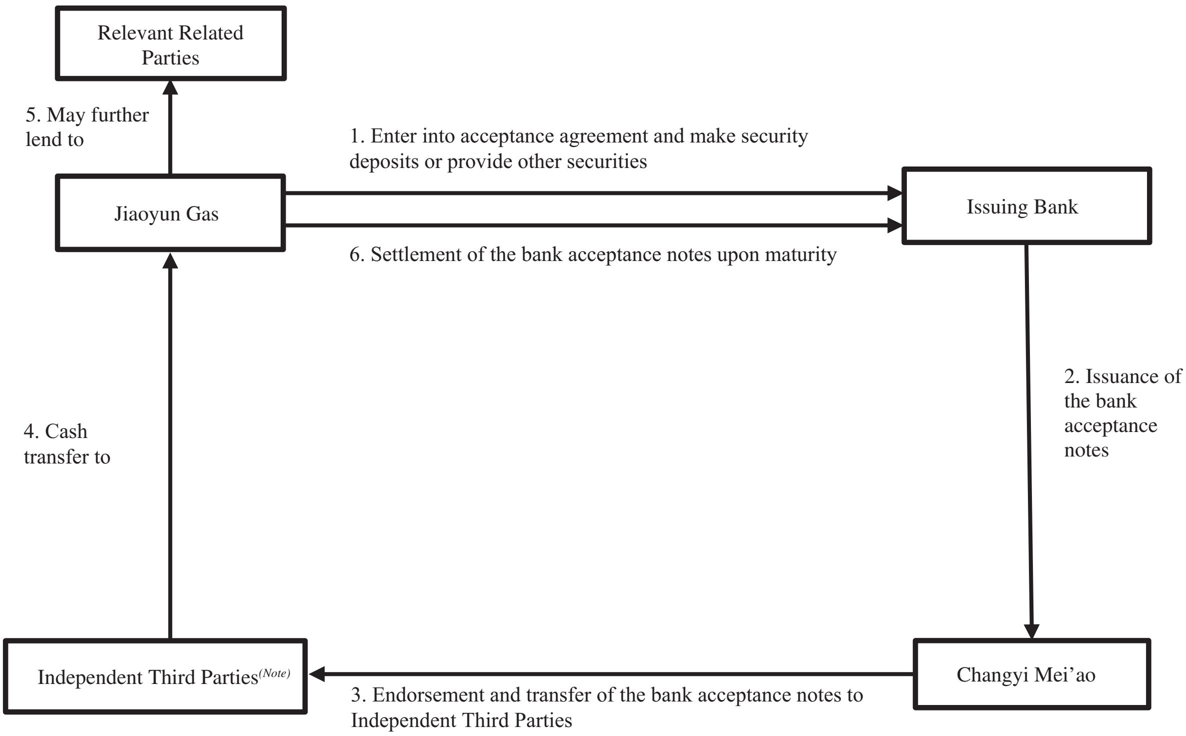
- Step 6: upon maturity of the relevant bank acceptance notes, Jiaoyun Gas would repay the face value of the bank acceptance notes to the Issuing Banks in its accounts maintained with the Issuing Banks. During the Issuance Period, we did not default in our repayment of any bank acceptance notes issued to Yuanhua Trading.

Non-compliant Bill Financing Arrangements involving Jiaoyun Shihua

During the Relevant Period, Jiaoyun Gas also entered into acceptance agreements with two Issuing Banks for the issuance of bank acceptance notes to Jiaoyun Shihua, our non-wholly owned subsidiary. 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 as described above. After such issuance of bank acceptance notes to us, Jiaoyun Shihua would endorse and transfer the bank acceptance notes to Independent Third Parties for cash at a discounted rate before maturity. The 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 in order to fund their business operations; or (ii) incidentally used for our own 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.

Non-compliant Bill Financing Arrangements involving Changyi Mei'ao

The diagram below summarises the roles of Jiaoyun Gas and other parties involved in the Non-compliant Bill Financing Arrangements involving Changyi Mei'ao.



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 Bank 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 an acceptance agreement with the Issuing Bank for the issuance of bank acceptance notes to Changyi Mei'ao. The terms of the acceptance agreement were similar to those of the acceptance agreements that we entered into for the issuance of bank acceptance notes to Yuanhua Trading and Jiaoyun Shihua as described above.

- Step 3: as the bank acceptance notes were stated to be payable to Changyi Mei'ao, Changyi Mei'ao had the right under the relevant PRC laws and regulations to endorse and transfer the bank acceptance notes to anyone. In practice, Changyi Mei'ao endorsed and transferred those notes to Independent Third Parties.

- Steps 4 to 5: the Independent Third Parties then transferred cash to Jiaoyun Gas for the purposes of (i) making cash advances to the Relevant Related Parties on an interest-free basis in order to fund their business operations; or (ii) incidentally funding Jiaoyun Gas's own business operations.

- Step 6: upon maturity of the bank acceptance notes, Jiaoyun Gas would repay the face value of the bank acceptance notes to the Issuing Bank in its account maintained with the Issuing Bank. During the Issuance Period, we did not default in our repayment of any bank acceptance notes issued to Changyi Mei'ao.

Reasons for the Non-compliant Bill Financing Arrangements

The Non-compliant Bill Financing Arrangements were not intended to be principally used to finance the principal operations of our Group. 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 the Relevant Related Parties for their daily operations. During the Relevant Period, both our Group and the Relevant Related Parties were entities within the Private Group. The purpose of the Non-compliant Bill Financing Arrangements was to provide intra-group financial assistance to other members of the Private Group at relatively lower financing costs.

We became involved in the Non-compliant Bill Financing Arrangements mainly as a result of our better credibility and stronger relationship with the Issuing Banks, as well as our more stable financial position, as compared with the Relevant Related Parties and the overall Private Group taken as a whole. As a strong cash-generating company controlled by Mr. Luan Linjiang and Mr. Luan Xiaolong, Jiaoyun Gas was able to provide more comfort to the Issuing Banks and therefore obtain financing on more favourable terms, thereby allowing other companies within the Private Group to lower their financing costs during the Relevant Period.

Under the Non-compliant Bill Financing Arrangements, we entered into such arrangements with the Issuing Banks to issue bank acceptance notes to Yuanhua Trading, our connected person, as it was our supplier at the time of issuance of the Relevant Bills. Being our connected person, the interests of Yuanhua Trading were in line with our provision of financial assistance to the Relevant Related Parties for the benefit of the Private Group as a whole. A portion of the bank acceptance notes issued to Yuanhua Trading was used to pay for our procurement of pipes and equipment from them. 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 recognised by the Issuing Bank for the purpose of the Non-compliant Bill Financing Arrangements, and which also happened to be our 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 not in compliance 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 after the commencement of preparation for the proposed [REDACTED], 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.

Our Directors confirm that, 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.

For details of the risks to which we may be exposed in relation to the Non-compliant Bill Financing Arrangements, please refer to "Risk Factors — Other Risks Relating to Our Group — We were involved in certain Non-compliant Bill Financing Arrangements during the Track Record Period and such transactions were not in strict compliance with the relevant PRC laws" in this document.

Confirmations from the relevant competent PRC government authorities

The China Banking and Insurance Regulatory Committee, Supervision Sub-office in Weifang (中國銀行保險監督管理委員會濰坊監管分局) (the "**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 Sub-office in Weifang and is in charge of the China Banking and Insurance Regulatory Committee, Supervision Sub-office in Weifang, Supervision Team in Gaomi (中國銀行監督管理委員會濰坊監管分局高密監管組) (the "**CBIRC Supervision Team in Gaomi**"), hence, our PRC Legal Advisers have confirmed that the officer interviewed was the competent person and had the appropriate authority to provide the below confirmation. Such officer confirmed on behalf of CBIRC Supervision Sub-office in Weifang and CBIRC Supervision Team in Gaomi that (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 a 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, the China Banking and Insurance Regulatory Committee, Supervision Office of Shandong Province (中國銀行保險監督管理委員會山東監管局) (the "**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 such supervisory and regulatory powers within its jurisdiction in accordance with relevant laws and regulations, as jointly authorised by the China Banking and Insurance Regulatory Commission (the "**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 the competent governing authorities and have the appropriate authority to give the aforementioned confirmations in relation to the Non-compliant Bill Financing Arrangements, and hence the risk of such aforementioned confirmations being challenged by the CBIRC Supervision Office of Shandong Province is low.

The Gaomi Branch of People's Bank of China (中國人民銀行高密市支行) (the "**PBOC of Gaomi**") has confirmed 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 the competent person and had the appropriate authority to provide the above confirmation given his role as the Vice President of the PBOC of Gaomi, who is in charge of the overall work of the PBOC of Gaomi.

Furthermore, the Jinan Branch of People's Bank of China (中國人民銀行濟南分行) (the "**PBOC of Jinan**") (which is the branch of PBOC 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 the competent governing authorities and have the appropriate authority to give aforementioned confirmations.

Confirmations from the Issuing Banks

In respect of the Non-compliant Bill Financing Arrangements, the Issuing Banks have confirmed that (a) all the relevant bank acceptance notes have been fully settled; (b) they have not suffered any losses as a result of the Non-compliant Bill Financing Arrangements; (c) no fraudulent activities or forgery of documents were involved in the Non-compliant Bill Financing Arrangements; (d) there were no existing or potential disputes between the Issuing Banks and us arising from the Non-compliant Bill Financing Arrangements; (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 in the Issuing Banks; 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 of Jiaoyun Gas 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 the competent entities to give such confirmations, as they were the direct entities that issued the Relevant Bills; and the corresponding bank representatives who gave such confirmations have the appropriate authority to do so 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 the Non-compliant Bill Financing Arrangement did not constitute material non-compliances with the relevant laws and regulations and they did not and will not initiate any legal action against the Group in connection with the Non-compliant Bill Financing Arrangements;

(c) the CBIRC Supervision Office of Shandong Province has confirmed and recognised that the CBIRC Supervision Sub-office in Weifang has the appropriate authority to give the aforementioned confirmations in connection with bill financing activities of enterprises in Gaomi City;

(d) 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;

(e) 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;

(f) 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 to be imposed for unlawful acts shall be published, and those which are not published shall not be effective as the basis for an administrative penalty;

(g) as set out above, the CBIRC Supervision Sub-office in Weifang, CBIRC Supervision Team in Gaomi have confirmed that 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; and

(h) 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 have undertaken to fully indemnify us against, among other things, all of our liabilities in relation to the Non-compliant Bill Financing Arrangements. We have been advised by an internal control consultant and 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**
	RMB'000	*RMB'000*	*RMB'000*
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	—
Amount of security deposit required to be pledged pursuant to the acceptance agreements	310,760	169,920	—
- Security deposit of our Group	204,060	133,220	—
- Security deposit of a related party	106,700	36,700	—
Balance of pledged security deposits as at the end of the year/period	285,760	111,800	—
- Security deposit of our Group	179,060	75,100	—
- Security deposit of a related party	106,700	36,700	—

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. For the year ended 31 December 2019 and the six months ended 30 June 2020, we took out certain bank borrowings for our pledge of security deposits with the Issuing Banks. If not for the purpose of the Non-compliant Bill Financing Arrangements, we would not have taken out such bank borrowings and incurred the corresponding interest expenses. During the Relevant Period, the interest income which the 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 did not have any material negative impact on our liquidity during the Track Record Period.

The funds derived from the Non-compliant Bill Financing Arrangements were primarily used to satisfy the ad hoc short-term funding needs of the Relevant Related Parties. Our Group's operating activities did not rely on the Non-compliant Bill Financing Arrangements in any material respect during the Relevant Period. The Non-compliant Bill Financing Arrangements did not have any material operational impact (positive or negative) on our Group during the Track Record Period. As our PNG sales are made on a prepayment basis, we had a strong cash flow generated from our ordinary business operations.

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. Based on the foregoing, our Directors consider that our position would not be adversely affected in any material respect without the Non-complaint Bill Financing Arrangements, and there has been no material adverse change on our working capital sufficiency and liquidity after the cessation of the Non-compliant Bill Financing Arrangements.

Enhanced internal control measures

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:

- we have appointed an internal legal specialist who will be responsible for monitoring legal and regulatory compliance and the control environment of our Group. The legal specialist will directly report to the audit committee on a monthly basis and will be required to provide periodic reports on our compliance status to our Board;

- 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. Such policies, procedures and guidelines will be reviewed and strengthened by our Board from time to time;

- application for issuance of and/or payment by bank acceptance notes shall be submitted to the finance department together with proof of actual underlying transactions. Our finance department shall review and consider the information contained in the application, which will also need to be reviewed by our financial controller and general manager, and approved by the chairman of our Board;

- 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;

- our PRC Legal Advisers have conducted trainings to our Directors and senior management in relation to, among other things, the bill financing matters;

- we have established (i) an audit committee consisting of all of our independent non-executive Directors to review and supervise the financial reporting progress and internal control system of our Group, including, amongst other things, bill 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 we have uncertainties in respect of the legality of certain transactions involving bank acceptance notes, disputes with banks and other companies arising from bank acceptance notes and potential non-compliances in relation to bill financing; and

- we will engage external legal advisers to provide legal trainings to our Directors and the senior management on a regular basis in order to keep pace with the latest legal developments concerning bill financing 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 in respect of our internal control measures in relation to the bill financing arrangements. Since then, we have fully implemented the remedial measures as suggested by the internal control consultant. Our internal control consultant completed follow-up reviews on the above internal control measures in July 2021 and in December 2021, respectively, and did not see the need to make further recommendation on our internal control measures relating to bill financing arrangements.

To further ensure the implementation of our internal control measures, we engaged another internal control adviser, SHINEWING Risk Services Limited ("**Shinewing Risk**"), in October 2021 to review the effectiveness of our enhanced internal control measures regarding the Non-compliant Bill Financing Arrangements, covering 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, Shinewing Risk did not find any major defect in our Group's current internal control system, and have no further recommendations as to internal control measures for addressing the Non-compliant Bill Financing Arrangements. 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 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 Non-compliant Bill Financing Arrangements, and the reviews of such enhanced measures conducted by our internal control consultant and Shinewing Risk, our Directors are of the view that we have taken adequate 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 reducing the risk of our future non-compliance with legal and regulatory requirements in connection with bill financing.

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**"), which were secured by, among 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 outstanding loan amount under our total bank loans for the same periods, respectively. We had fully settled these Relevant Bank Loans by 29 June 2021. Details of the Relevant Bank Loans are as follows:

	Lending Bank	Loan amount	Interest rate	Actual loan drawdown date	Actual loan repayment date(s)
		(RMB million)			
1.	Bank A	16.0	1.5 times of PBOC benchmark interest rate	20 February 2019	25 December 2019
2.	Bank A	19.5	PBOC benchmark interest rate	19 February 2019	19 August 2019
3.	Bank B	37.0	PBOC benchmark interest rate	20 March 2019	5 December 2019, 12 December 2019
4.	Bank C	5.0	6.09%	14 June 2019	12 June 2020
5.	Bank C	15.0	6.09%	17 June 2019	17 June 2020
6.	Bank C	10.0	6.09%	19 June 2019	19 June 2020
7.	Bank D	30.0	3-month PBOC benchmark deposit rate + 4.555%	25 February 2019	20 January 2020
8.	Bank E	20.0	5.44%	13 November 2019	12 November 2020
9.	Bank F	25.0	5.50%	18 November 2019	10 November 2020
10.	Bank B	20.0	5.65%	9 December 2019	1 December 2020
11.	Bank B	17.0	5.66%	13 December 2019	9 December 2020
12.	Bank F	10.0	5.50%	3 December 2019	26 November 2020

	Lending Bank	Loan amount	Interest rate	Actual loan drawdown date	Actual loan repayment date(s)
		(RMB million)			
13.	Bank G	29.0	1-year loan prime rate + 1.05%	13 January 2020	21 September 2020
14.	Bank D	30.0	1-year loan prime rate + 0.8525%	21 January 2020	17 December 2020
15.	Bank C	20.0	1-year loan prime rate + 1.95%	1 July 2020	25 September 2020
16.	Bank B	20.0	5.66%	2 December 2020	23 June 2021
17.	Bank B	17.0	5.66%	10 December 2020	23 June 2021
18.	Bank H	14.0	7.00%	17 August 2020	25 June 2021
19.	Bank D	30.0	1-year loan prime rate + 1.37%	17 December 2020	29 June 2021

The loan agreements with the Lending Banks generally provide that the Relevant Bank Loans were granted to facilitate Jiaoyun Gas' procurement of raw materials.

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.

In practice, 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 which have been interviewed have each indicated that this practice did not raise any concern to them and they consider this practice to be in line with the bank's policies and industry practice.

During the Relevant Loan Period, Jiaoyun Gas advanced the proceeds obtained from Relevant Bank Loans to other parties on an interest-free basis, instead of using the proceeds according to the stipulated use of loan under the relevant loan agreements.

Proceeds obtained from the Deviation from the Intended Use of Loan Proceeds, together with the amounts collected from Non-compliant Bill Financing Arrangements, were applied to assist several of our related parties. Such funds were frequently transferred back and forth between us and our related parties in order to fulfil the ad hoc short-term funding needs of such related parties, resulting in our sizeable cash flows from investing activities during the Track Record Period. For the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, our advances to related parties (a portion of which was financed by Non-compliant Bill Financing Arrangements and the Deviation from the Intended Use of Loan Proceeds) amounted to approximately RMB1,253.6 million, RMB1,164.9 million and RMB194.2 million, respectively.

In preparing for the [REDACTED], we were advised by our PRC Legal Advisers that the Deviation from Intended Use of Loan Proceeds was not in strict compliance with the 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 the 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 from the Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds

The Deviation from Intended Use of Loan Proceeds was not used to finance the principal operations of our Group. Instead, loan proceeds from the Relevant Bank Loans were transferred or subsequently advanced to certain of our related parties for their daily operations. During the Relevant

Loan Period, both our Group and such related parties were entities within the Private Group. The purpose of the Deviation from Intended Use of Loan Proceeds was to provide intra-group financial assistance to other members of the Private Group for temporary cash flow management at relatively lower financing costs.

The Deviation from Intended Use of Loan Proceeds was arranged inadvertently due to our lack of familiarity with the relevant regulatory requirements which restrict private lending pursuant to the Lending General Provisions. We did not seek advice from any professionals, nor were they 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 who managed the Non-compliant Bill Financing Arrangements. This Former Responsible Person was responsible for arranging the Relevant Bank Loans, liaising with the Lending Banks for the drawdown of the Relevant Bank Loans and handling the subsequent advances of the drawdown proceeds to our related parties. 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, and 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 from Intended Use of Loan Proceeds, 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 from Intended Use of Loan Proceeds.

Confirmations from the relevant competent PRC government authorities

The 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 Relevant Bank Loans 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 Sub-office in Weifang and is in charge of the CBIRC Supervision Team in Gaomi City, hence, our PRC Legal Advisers have confirmed that the officer interviewed was the competent person and had the appropriate authority to provide the below confirmation. Such officer confirmed on behalf of CBIRC Supervision Sub-office in Weifang and CBIRC Supervision Team in Gaomi that (a) the Deviation from Intended Use of Loan Proceeds did not constitute financial fraud, illegal financing or material non-compliance with the relevant laws and regulations; (b) the Deviation from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds.

Furthermore, the 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 such supervisory and regulatory powers within its jurisdiction in accordance with relevant laws and regulations, as jointly authorised by the 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 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 has confirmed 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 the competent person and had the appropriate authority to provide the above confirmation given his role as the Vice President of the PBOC of Gaomi, who is in charge of the overall work of the PBOC of Gaomi.

Furthermore, the PBOC of Jinan (which is the branch of PBOC 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 the competent governing authorities and have the appropriate authority to give aforementioned 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 from Intended Use of Loan Proceeds; and (d) the Deviation from Intended Use of Loan Proceeds 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 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 from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds (which would be regarded as fraudulent activities for the purpose of obtaining bank loans) being imposed on us is low; and the Deviation from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds 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 the Deviation from Intended Use of Loan Proceeds did not constitute material non-compliances with the relevant laws and regulations and they did not and will not initiate any legal action against the Group in connection with the Deviation from Intended Use of Loan Proceeds;

(e) the CBIRC Supervision Office of Shandong Province has confirmed and recognised 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;

(f) 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;

(g) as set out above, the CBIRC Supervision Sub-office in Weifang, CBIRC Supervision Team in Gaomi have confirmed that the Deviation from Intended Use of Loan Proceeds did not involve fraud or any illegal intent to obtain loans from the Lending Banks, and Jiaoyun Gas and any of its relevant personnel would not be subject to any administrative or criminal liabilities; and

(h) 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.

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 from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds 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. As at the Latest Practicable Date, our Group had an unutilised credit facility of RMB200 million.

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 from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds are not expected to have any material adverse legal impact on our Group.

Remedial measures

We ceased all Deviation from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds, the Former Responsible Person who was responsible for the Deviation from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds. We have been advised by an internal control consultant and implemented a specific set of internal control policies to ensure future compliance. Please refer to "— Enhanced internal control measures" in this section below.

Enhanced internal control measures

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 use of loan proceeds:

- 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. Such policies, procedures and guidelines will be reviewed and strengthened by our Board from time to time;

- 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 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 the 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 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 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 loan financing matters.

To further ensure that implementation of the our internal control measures, we engaged another internal control adviser, Shinewing Risk, to review the effectiveness of our enhanced internal control measures regarding the Deviation from Intended Use of Loan Proceeds to cover the period from July 2021 to December 2021. Based on its review of our internal control system, particularly with regards to the Deviation from Intended Use of Loan Proceeds, 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 Deviation from Intended Use of Loan Proceeds. Shinewing Risk is of the view that our Group will be able to reasonably, adequately and effectively prevent the occurrence of future Deviation from Intended Use of Loan Proceeds 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 from Intended Use of Loan Proceeds, 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 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 from Intended Use of Loan Proceeds (together, the "**Non-compliant Arrangements**") to our Group's income statement for the years indicated.

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*
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 from Intended Use of Loan Proceeds			
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 Group's operation and financial position during the Track Record Period. Operationally, as our PNG sales are made on a prepayment basis, we had a strong cash flow generated from our ordinary business operations during the relevant periods. As the funds derived from the Non-compliant Arrangements were primarily used to satisfy the ad hoc short-term funding needs of the Relevant Related Parties as illustrated above, our Group's operating activities did not rely on the Non-compliant Arrangements in any material respect during the relevant periods. The Non-compliant Arrangements did not therefore have any material operational impact (positive or negative) 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 minimal, amounting to approximately RMB5.9 million in aggregate for the Track Record Period. Such interest income was partially set off by the handling fees which we paid to the Issuing Banks (in general, equivalent to 0.05% of the face value of the bank acceptance notes) which amounted to approximately RMB0.3 million in aggregate for the Track Record Period. The net amount, together with the interest expenses from bank borrowings arising from the Deviation from Intended Use of Loan Proceeds 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 July 2022 did not arise as a result of the Non-compliant Arrangements during the relevant periods. Since 17 June 2020, we have ceased all Non-compliant Bill Financing Arrangements and subsequently fully settled all relevant bank acceptance notes by 17 June 2021. Since 18 December 2020, we have ceased all the Deviation from Intended Use of Loan Proceeds and fully settled all outstanding amounts under the Relevant Bank Loans by 29 June 2021. Specifically, in respect of our net current liabilities position as at 31 December 2021, from a current assets perspective, our Group (i) declared and distributed a one-off special dividend of RMB70.0 million; and (ii) made a deemed distribution to shareholders of approximately RMB60.7 million in 2021. If such dividend distributions had not occurred, our Group would have had a current asset position as at 31 December 2021 of approximately RMB222.2 million. The aforementioned dividends are of a one-off and non-recurring nature, and have not resulted in any adverse impact on our Group's operations and financial position. Our net current liabilities position as at 30 April 2022 and 31 July 2022 arose for the same reasons described above. From a current liabilities perspective, a substantial portion of our Group's current liabilities during the Track Record Period were attributable to contract liabilities as at the end of each year. Nevertheless, in order to improve its net current liability position, our Group has secured a credit facility from a commercial bank in the amount of RMB200.0 million. Our Group 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. For details, please refer to "Financial Information — Discussion of Certain Items of Consolidated Balance Sheets — Current Assets and Current Liabilities" in this document.

Suitability for [REDACTED] 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 [REDACTED] 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 who was in charge of arranging or liaising for the Non-compliant Arrangements was not previously 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 matters pertaining to bill financing and loan financing at that time. The Former Responsible Person has 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;

(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. 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 from Intended Use of Loan Proceeds since 18 December 2020 and have fully repaid and settled all Relevant Bank Loans by 29 June 2021;

(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 the 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 the confirmations received from the competent government authorities and Lending Banks, the Deviation from Intended Use of Loan Proceeds 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 amount as rebate in connection with the Non-compliant Arrangements during the Track Record Period;

(j) as set out in "— Regulatory Compliance — Non-compliance incidents — Impact of Non-compliant Arrangements on our operations and financial position" in this section, 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;

(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 [REDACTED] 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 (《濰坊市市政公用事業特許經營管理辦法》) 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 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, and the Liquan Avenue Gate PNG gasification station and other PNG distribution facilities in Gaomi City constructed by Jiaoyun Gas were already in operation. 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.

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.

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 organize 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.

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.

Views of our PRC Legal Advisers

Based on the above, our PRC Legal Advisers have confirmed that (i) the aforementioned authorities are the relevant competent authorities to give the aforementioned confirmations and the relevant officer interviewed is competent to provide relevant confirmations; and (ii) according to the abovementioned written confirmation issued by Weifang Municipality Administration Bureau, it 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 [REDACTED]; and (iv) establishing a policy to monitor the on-going 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.

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) 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; (iii) 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 (iv) 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.

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
(1) Failure to obtain certain permits or complete relevant inspection procedures for several construction projects				
We failed to obtain certain permits or complete relevant inspection procedures for several construction projects under our Concession under our Concession (the “**Relevant Projects**”). Details of the Relevant Projects are set out below: • failure to obtain construction land use planning permits (建設用地規劃許可證) for our peak-shaving LNG station, which was put into operation on January 2018, within the required period and failure to obtain construction work planning permits (建設工程規劃許可證) for 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); and • failure to obtain the construction work commencement permits (建築工程施工許可證) and documents in relation to project completion acceptance procedures for 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) and CNG and LNG refuelling stations.	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). 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.	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. 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.	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. In an attempt to rectify this non-compliance incident, we have obtained the construction land use planning permits (建設用地規劃許可証) for our peak-shaving LNG stations and have received confirmations from relevant competent authorities. 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. 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. 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.	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 planning permits (建設工程規劃許可證), 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; and (iv) the aforementioned two authorities are the competent authorities to provide 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. 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.

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
			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.	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-compliances 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.

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
(2) Failure to conduct environmental protection inspection for construction projects				
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). Details of the aforementioned projects are set out below: • 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.	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. 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.	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. 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.	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 relevant reports to the public as required by relevant laws and regulations, respectively. We have obtained confirmations from the relevant competent authorities that no penalty will be imposed on us in respect of the above-mentioned non-compliances. 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 documentations. Mr. Li Hong, our Operations Manager, will be the designated person to monitor and inspect all environmental 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. 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 recurrence of the above-mentioned non-compliance. Our internal control consultant has reviewed the internal control policies, and did not have any further recommendation after such review.	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 and released the reports to the public; (ii) we had obtained the confirmation from the Ecological Environment Bureau of Weifang 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; (iii) 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 Weifang Municipality Gaomi Branch is the competent authority to provide the above confirmation; and (v) we confirmed that there has been no material environmental pollution or ecological damage arising from the operations of those aforementioned constructions and facilities. 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 Weifang Municipality Gaomi Branch as a result of the above non-compliances is low.

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
			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.	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.

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
(3) Failure to comply with fire safety procedures				
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.	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.	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. 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.	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 abovementioned 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. 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 documentations. 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. 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. 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.	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; and (ii) Housing and Urban-Rural Construction Bureau of Gaomi City is the competent authority to provide 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. 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.

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.

TAX INCIDENT

In July 2021, our Group made a voluntary tax contribution of approximately RMB9.2 million to the relevant tax authorities. During our preparation for the [REDACTED], our Group's management noted that certain adjustments were necessary to draw our historical financial information for the Track Record Period up to the HKFRS standards, which was prepared in connection with the [REDACTED] ("**Historical Financial Information**"). Some of the adjustments have income tax effect (the "**Tax Adjustments**"), and as a result of these Tax Adjustments, additional current income tax payables from previous financial years up to the year ended 31 December 2020 amounted to approximately RMB9.7 million in aggregate comparing with the current income tax payments that we previously made to the relevant tax bureau (the "**Tax Incident**").

Tax Adjustments

The below table sets out a breakdown of the aforementioned Tax Adjustments for each of the years ended 31 December 2019 and 2020.

	Tax adjustments for periods prior to the Track Record Period[6]	Tax adjustments for the year ended 31 December		Total tax adjustments	Current income tax payable[5]
		2019	2020		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Adjustments related to discount costs on bank acceptance notes[1]	18,115	14,273	9,721	42,109	10,527
Adjustments for property, plant and equipment and land-use rights[2]	5,676	9,863	7,718	23,257	5,815
Cut-off adjustments for revenue and cost of sales[3]	(1,992)	1,747	6,743	6,498	1,625

	Tax adjustments for periods prior to the Track Record Period(6)	Tax adjustments for the year ended 31 December		Total tax adjustments	Current income tax payable(5)
		2019	2020		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cut-off adjustments for other costs and expenses(3)	(20,567)	(6,829)	4,979	(22,417)	(5,604)
Adjustment of current income tax(4)					(2,640)
Total					**9,723**
Tax declared and paid from January to June 2021					(485)
Voluntary tax contribution made in July 2021					**9,238**

Notes:

(1) As disclosed in "— Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing" in this section, a portion of the bank acceptance notes issued by the Issuing Banks pursuant to agreements between the Jiaoyun Gas and the Issuing Banks was endorsed and transferred for cash at discount. The relevant bill discounting cost, being the difference between (i) the face value of the bank acceptance notes and (ii) the cash collected after discount from the aforementioned third parties pursuant to the endorsement and transfer of bank acceptance notes (the "**Bill Discounting Cost**"), was previously treated as expenses in our management accounts. The aforementioned proceeds of the Non-compliant Bill Financing Arrangements (i.e. the cash collected at a discount rate) (the "**Relevant Proceeds**") were used for the purposes of (i) making interest-free cash advances to its Relevant Related Parties to fund their business operations; or (ii) incidentally funding our own business operations. Our Group issued the Relevant Bills, but was not the party involved in the bill discounting process, which was conducted by the Relevant Related Parties. Accordingly, the Bill Discounting Cost should be borne by the parties that actually received the Relevant Proceeds from the Relevant Bills. In order to reflect the Bill Discounting Cost with the actual use of proceeds and accurately reflect the financial position of our Group, accounting adjustments were made to transfer the relevant Bill Discounting Cost to the Relevant Related Parties that utilised the Relevant Proceeds. Adjustments to account for the Bill Discounting Cost were made according to the addressee (i.e. the Relevant Related Party) showing on the receipt from the cash collection of the Relevant Bills. Our Group has ceased all Non-compliant Bill Financing Arrangements since 17 June 2020 and fully settled all corresponding bank acceptance notes since 17 June 2021.

(2) This adjustment mainly relates to construction expenses in respect of our self-owned pipeline network ("**Relevant Expenses**"). According to HKFRS, such Relevant Expenses should have been capitalised and depreciated over their expected useful life. Our management reclassified such Relevant Expenses as capitalised and depreciated amounts in accordance with the nature of each of these projects. We have enhanced internal controls as a result of which we can now properly record the costs expended on our self-owned pipeline network.

(3) Our Group's original management accounts were principally prepared on the basis of recording revenue, costs and expenses upon the factual receipt of the relevant invoices, which caused the relevant revenue, costs and expenses to be recorded later than they were incurred. In order to comply with the relevant standards of HKFRS for the preparation of financial statements of our Group for the purpose of [REDACTED], adjustments were made to draw the revenue, costs and expenses in the original management accounts up to the accrual basis.

(4) This adjustment is a direct adjustment on current income tax expense which offsets the prepayment of current income tax made by Jiaoyun Gas based on the original management accounts. Such prepayment amount should have been lower if it were not for the incorrect recognition of the Bill Discounting Cost, therefore this overpaid amount was deducted to lower the amount of voluntary tax contribution, as agreed with the local tax authorities. Such adjustment amount is calculated based on adjusted taxable profit amount times the statutory income tax rate of 25% in the PRC.

(5) Calculated based on the total tax adjustments times the statutory income tax rate of 25% in the PRC.

(6) We have discussed and agreed with the relevant local tax bureau that only the year ended 31 December 2018 is required to be included in the Tax Adjustments for the periods prior to the Track Record Period.

The Tax Incident was primarily due to the incorrect recognition of Bill Discounting Cost and to a lesser extent adjustments conforming to HKFRS (which was the accounting standard adopted for the preparation of consolidated financial statements of our Group for the purpose of [REDACTED]. HKFRS was not adopted for our Group's PRC tax filing).

The incorrect recognition of the Bill Discounting Cost was mainly due to a mismatch as to how Jiaoyun Gas and the Relevant Related Parties each booked the respective amount of funds that was advanced by Jiaoyun Gas through the Non-compliant Bill Financing Arrangement. From the perspective of the Relevant Related Parties, such amount advanced from Jiaoyun Gas was recorded with reference to the actual amount of cash they collected from the Relevant Bills disregarding the Bill Discounting Cost. From the perspective of Jiaoyun Gas, such advanced amount was recorded with reference to the face value of the Relevant Bills issued by it (i.e. before the Bill Discounting Cost was applied). Consequently, for administrative convenience of making up for the shortfall in repayment amount (representing the Bill Discounting Cost) to Jiaoyun Gas, the Bill Discounting Cost was incorrectly recognised as borne by Jiaoyun Gas, instead of having apportioned such costs among the Relevant Related Parties, as they were all members of the Private Group at that time. No local auditor or tax consultant was engaged to assist with our Group's tax filing at the relevant time.

However, in preparation for [REDACTED], our Group had to prepare its audited financial statements on the principle that, any cost and/or expense which were not incurred for the operation of our Group should be retrospectively allocated to the Relevant Related Parties within the Private Group which actually used the Relevant Proceeds and hence incurred such costs and/or expense. This led to the accounting adjustments made to re-allocate the Bill Discounting Cost to the Relevant Related Parties that actually used the Relevant Proceeds, in order to accurately reflect the actual financial position of our Group. These adjustments resulted in the increase of the profit before tax of our Group during the Track Record Period.

Adjustments were only made on the Bill Discounting Cost but not on the interest expenses in respect of the finance expenses from the Deviation from Intended Use of Loan Proceeds and the ABS, because the finance expenses resulting from (a) the Relevant Bills under the Non-compliant Bill Financing Arrangements; (b) ABS; and (c) the Relevant Bank Loans, are of different nature, and hence different treatments have to be applied to reflect the actual financial position of our Group. Finance expenses arising from (a) the Relevant Bank Loans obtained by our Group from the Lending Banks and (b) the ABS issued by our Group were drawn down as borrower and issued by our Group as issuer pursuant to the relevant documents, respectively. Therefore, we are responsible for making such interest payments and distributions. Accordingly, the interest expenses in respect of the Deviation from Intended Use of Loan Proceeds and the ABS-related finance expenses were booked under the financial accounts of our Group. As a result, no adjustment was necessary to re-allocate the interest expenses in respect of the Deviation from Intended Use of Loan Proceeds and the ABS-related finance expenses. The Bill Discounting Cost which arose from the Relevant Bills under the Non-compliant Bill Financing Arrangements, however, is cost incurred when the bank acceptance notes were cashed and discounted. Our Group issued the Relevant Bills, but was not the party involved in the bill discounting process, which was conducted by the Relevant Related Parties. Adjustments to account for the Bill Discounting Cost were therefore made according to the addressee (i.e. any of the Relevant Related Parties) showing on the receipts from the cash collection.

Accordingly, the Bill Discounting Cost was borne by the parties that actually received the Relevant Proceeds from the Relevant Bills, such that the current treatment and presentation accurately reflects the financial position of our Group.

Our Group made a voluntary tax contribution of approximately RMB9.2 million, representing the remaining difference in current income tax due to the Tax Adjustments made, to the tax bureau in July 2021. The voluntary tax contribution was made on a prudent basis in view of the Bill Discounting Cost that was recognised as per the Tax Adjustments. Even without making the voluntary tax contribution, our Group had obtained certificates of fulfillment of tax obligations (完稅證明).

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group has had no material disputes nor unresolved tax issues with the relevant tax authorities.

Confirmations from the relevant competent PRC government authority

In relation to the Tax Incident, an interview was conducted with the Second Branch of Gaomi Tax Bureau of SAT, which is the relevant and competent tax authority to supervise the tax reporting and payment matters of our Group as advised by our PRC Legal Advisers. The said tax authority confirmed that (i) we made a voluntary tax contribution of RMB9.2 million in July 2021, which was not in the nature of an administrative penalty; (ii) we have fulfilled all relevant tax obligations in a timely manner; (iii) we will not be subject to any fine or other penalty in respect of the Tax Incident; and (iv) they will not commence investigation or impose any penalty on us. According to our PRC Legal Advisers, the officer interviewed at the Second Branch of Gaomi Tax Bureau of SAT was competent and had the appropriate authority to provide the above confirmation, given that his role was the Commissioner of the Second Branch of Gaomi Tax Bureau of SAT and was in charge of the overall work at such branch.

Views of our tax consultant

In relation to the Tax Incident, we also engaged an independent tax consultant to review tax matters of Jiaoyun Gas and Jiaoyun Shihua (being our operating subsidiaries) and offer us tax advice. As advised by the tax consultant, (i) the Tax Incident is not regarded as non-compliance of a material or systemic nature as defined under the Stock Exchange's Guidance Letter HKEX-63-13; (ii) each of Jiaoyun Gas and Jiaoyun Shihua had properly recorded and fulfilled its tax obligations during the Track Record Period; (iii) the Tax Adjustments have been properly made in accordance with HKFRS; and (iv) the Tax Incident did not give rise to a breach of any applicable tax laws by Jiaoyun Gas and/or Jiaoyun Shihua. Moreover, the tax consultant considers that the Tax Incident does not constitute tax evasion for reasons including that (i) there is no objective evidence of Jiaoyun Gas and Jiaoyun Shihua having engaged in actions of tax evasion; (ii) the Tax Adjustments do not involve fraudulent actions referred to in the Law of the People's Republic of China on Tax Administration; and (iii) the relevant tax bureau confirmed that Jiaoyun Gas will not be subject to any fine or other penalty in respect of the Tax Incident and it will not commence investigation or impose any penalty on Jiaoyun Gas. Upon review of the tax reporting procedures implemented by Jiaoyun Gas and Jiaoyun Shihua as recommended by the tax consultant, and the confirmation given by the relevant tax bureau as mentioned above, the tax consultant is not aware of any material tax risk or tax underpayment to Jiaoyun Gas and Jiaoyun Shihua during the Track Record Period.

Based on the above, our Directors believe that, given that we have made the voluntary tax contribution to the tax bureau, and considering the confirmation obtained from the Second Branch of Gaomi Tax Bureau of SAT, as well as the advice given by our PRC Legal Advisers regarding the Second Branch of Gaomi Tax Bureau of SAT being the relevant and competent tax authority to supervise the tax reporting and payment matters of our Group, and the advice given by our tax consultant, the Tax Incident does not constitute tax evasion.

Enhanced internal control measures

In light of the Tax Incident, our Group has implemented the following enhanced internal control measures to avoid the reoccurrence of similar incidents:

(i) our financial controller shall be responsible for administering and overseeing the filing of our tax returns;

(ii) our audit committee will oversee our financial reporting and internal control procedures in accounting and financial matters to ensure compliance with the Listing Rules and the relevant laws and regulations;

(iii) to strengthen the segregation of duties, our accounting staff shall be responsible for preparing the tax computation and filling out our tax returns as appropriate, after which both the tax computation and tax returns will be reviewed by our financial controller;

(iv) we have required our subsidiaries and branches to collect and study local tax regulations and new policies which may be issued and amended from time to time;

(v) we have formulated future training plans and will arrange for our relevant employees to attend trainings on applicable laws and regulations on a regular basis;

(vi) we have engaged a tax expert to review the tax returns of Jiaoyun Gas and Jiaoyun Shihua filed for the year ended 31 December 2021, and such tax expert has confirmed that they were properly filed. We will continue to engage a tax expert for at least the first complete financial year after [REDACTED] to assist us in the preparation of tax filings to ensure the accuracy of the tax returns to be filed; and

(vii) we will establish further internal procedures to conduct internal inspections on tax compliance annually and, if needed, formulate correction measures and plans in a timely manner, designate responsible personnel and monitor and review progress to ensure compliance with the applicable laws and regulations.

View of the Directors and the Sole Sponsor

After taking into consideration (i) the facts and circumstances, which did not involve any dishonesty or fraudulent act, leading to the Tax Incident as disclosed above; (ii) the view of our Directors that the Tax Adjustments did not give rise to any potential tax evasion; (iii) the view of our tax consultant that the Tax Incident did not constitute tax evasion or a breach of any applicable tax laws by Jiaoyun Gas and/or Jiaoyun Shihua; (iv) our voluntary tax contribution and the above confirmations from Second Branch of Gaomi Tax Bureau of SAT and the tax consultant; (v) the fact that we have not been and will not be subject to any fine or other penalty by the relevant tax authority in respect of the Tax Incident; and (vi) the fact that the Tax Incident did not and will not have a significant financial and operational impact of the Group, our Directors are of the view, and the Sole Sponsor concurs, that the Tax Incident does not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules. Pursuant to the reviews conducted by our internal control consultant as referred to in "— Risk Management and Internal Control" in this section, our internal control consultant did not see the need to make any further recommendation in its internal control reviews. 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 tax-related incidents going forward.

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 from Intended Use of Loan Proceeds. 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 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" and "— Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds — Enhanced internal control measures" in this section.

To ensure on-going 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;

- 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.

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

Our sales of PNG to our industrial and commercial PNG end-users decreased from late January to March of 2020 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**"). However, sale of PNG to our residential PNG end-users for heating and cooking remained robust at the same time. Our quarterly average sales volume for PNG per month was 7.6 million m^3, 7.3 million m^3, 6.1 million m^3 and 7.5 million m^3 in 2019, comparing with 6.5 million m^3, 6.6 million m^3, 6.8 million m^3 and 9.1 million m^3 in 2020, representing a change of approximately -14.5%, -9.6%, +11.5% and +21.3%, respectively. Our revenue derived from sales of PNG dropped by approximately 12.4% in 2020 as compared with that of 2019. Such drop mainly resulted from the decreased demand for PNG from our commercial PNG end-users due to the aforementioned suspension of business operations in response to the COVID-19 Measures. Our revenue derived from sales of PNG to non-residential PNG end-users for the three months ended 31 March 2019 and 2020 was approximately RMB84.4 million and RMB66.3 million, respectively. 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 for the Operating Area was temporarily adjusted downwards for the period between February 2020 and June 2020. Such adjustment was made as a COVID-19 measure adopted by the government and therefore, we cannot transfer all our costs to our PNG end-users. As a result, the gross profit from our PNG sales temporarily declined during the same period, the aforementioned PNG end-user price adjustment resulted in the temporary decline of gross profit from our PNG sales during the same 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, partially offset by the increase of PNG sales volume to residential PNG end-users as those end-users opted to cook by themselves attributable to the closure of catering stores. The total PNG sales volume was 35.4 million m^3 and 37.5 million m^3 for the four months ended 30 April 2021 and the four months ended 30 April 2022, respectively.

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.

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 February 2022, we suspended our construction and installation services due to the recent 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 March 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 as our subcontractors and our Group have all resumed work by April 2020 and onwards.

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 of 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.

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 year ended 31 December 2020 and 2021, 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 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.

We have entered into a number of agreements with our connected persons, the details of which are set out below. The transactions disclosed in this section will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon [REDACTED].

(A) CONNECTED PERSONS

The following parties will become our connected persons and will have continuing connected transactions with our Group upon [REDACTED].

	Connected Person	Connected Relationship
1.	Mr. Luan Linjiang	Our substantial Shareholder, currently holds 33% of our total issued share capital and will hold approximately [REDACTED]% of our total issued share capital immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). He is also our executive Director and chairman of our Board. Hence, Mr. Luan Linjiang is our connected person. He is also the father of Mr. Luan Xiaolong.
2.	Mr. Luan Xiaolong	Our Controlling Shareholder, currently holds 66% of our total issued share capital and will hold approximately [REDACTED]% of our total issued share capital immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). He is also our executive Director and chief executive officer. Hence, Mr. Luan Xiaolong is our connected person. He is also the son of Mr. Luan Linjiang.
3.	Jiaoyun Market	Jiaoyun Market, a company established in the PRC with limited liability, is principally engaged in the operation and management of the Gaomi City Jiaoyun Market (高密市交運市場) and provision of rental and property management services in the PRC. It is directly held as to 99% by Mr. Luan Linjiang and 1% by Mr. Luan Xiaolong, therefore, it is an associate of Mr. Luan Linjiang and Mr. Luan Xiaolong and hence a connected person of our Company.
4.	Jiaoyun Property	Jiaoyun Property, a company established in the PRC with limited liability, is principally engaged in real estate development in the PRC. It is directly held as to approximately 99.98% by Mr. Luan Linjiang and approximately 0.02% by Mr. Luan Xiaolong, therefore, it is an associate of Mr. Luan Linjiang and Mr. Luan Xiaolong and hence a connected person of our Company.
5.	Guorui Real Estate	Guorui Real Estate, a company established in the PRC with limited liability, is principally engaged in real estate development in the PRC. It is indirectly wholly owned by Mr. Luan Xiaolong, therefore, it is an associate of Mr. Luan Xiaolong and hence a connected person of our Company.

	Connected Person	Connected Relationship
6.	Shandong Shihua	Shandong Shihua, a company established in the PRC with limited liability, is principally engaged in the sale of natural gas in the PRC. It is a substantial shareholder of our subsidiary, Jiaoyun Shihua, and hence a connected person of our Company at the subsidiary level by virtue of its 30% equity interest in our subsidiary.

(B) SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

	Nature of transaction	Applicable Listing Rule relating to the exemption	Waiver sought
1.	Jiaoyun Market Tenancy Agreement	14A.76(2)(a)	Waiver from strict compliance with the announcement requirement
2.	Construction and Installation Services Framework Agreements	14A.76(2)(a)	Waiver from strict compliance with the announcement requirement
3.	Subcontracting Framework Agreement	14A.76(2)(a)	Waiver from strict compliance with the announcement requirement
4.	Natural Gas Sale and Purchase Agreements	14A.101	Waiver from strict compliance with the announcement requirement

(C) CONTINUING CONNECTED TRANSACTIONS SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

We set out below a summary of the continuing connected transactions for our Company, which are, under the Listing Rules, subject to the reporting, annual review, announcement requirements but will be exempted from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Jiaoyun Market Tenancy Agreement

Description of the Transaction

Jiaoyun Gas (a subsidiary of our Company) and Jiaoyun Market entered into a tenancy agreement dated 1 January 2022 (the "**Jiaoyun Market Tenancy Agreement**"), pursuant to which Jiaoyun Gas (as landlord) agreed to lease to Jiaoyun Market (as tenant) certain properties (the "**Jiaoyun Market Properties**") at a fixed annual rent of RMB3,900,000 for a three-year term commencing from 1 January 2022 to 31 December 2024. The Jiaoyun Market Properties are used as a market with various stalls and booths for the public. Details of the Jiaoyun Market Properties are set out as follows:

No.	Location	Type	Approximate gross floor area (sq.m.)
1	No. 2268, West Shi'an Road, Mishui Street, Gaomi City, Shandong Province, the PRC	Building	7,682.6
2	Yard 1, No. 2268, West Shi'an Road, Mishui Street, Gaomi City, Shandong Province, the PRC	Building	2,201.1
3	Yard 2, No. 2268, West Shi'an Road, Mishui Street, Gaomi City, Shandong Province, the PRC	Building	8,496
4	West to Kangcheng Avenue and south to Shi'an Road, Gaomi City, Shandong Province, the PRC	Land	17,223.6
5	West to Kangcheng Avenue and south to Shi'an Road, Gaomi City, Shandong Province, the PRC	Land	17,391.5
6	West to Chang'an Avenue and south to Fada Freezer Factory, Gaomi City, Shandong Province, the PRC	Land	10,245.6

Historical Transaction Amounts

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total amount of rent (excluding value-added tax) paid by Jiaoyun Market to Jiaoyun Gas under the Jiaoyun Market Tenancy Agreement amounted to approximately RMB229,000, RMB229,000, RMB1,941,000 and RMB1,193,000, respectively. There has been an adjustment to the rent payable by Jiaoyun Market for the Jiaoyun Market Properties starting from 1 July 2021 to better align with the prevailing market rate for similar properties in the vicinity, therefore the transaction amount for the year ended 31 December 2021 was significantly higher than that for each of the years ended 31 December 2019 and 2020.

Pricing Policy

The annual rent to be charged by us pursuant to the Jiaoyun Market Tenancy Agreement was determined by the parties through arm's length negotiations with reference to: (1) the rentable area of each of the Jiaoyun Market Properties leased to Jiaoyun Market under the Jiaoyun Market Tenancy Agreement; and (2) the then prevailing market rate for similar premises in the vicinity of the Jiaoyun Market Properties.

Annual Caps

Our Directors estimate that the maximum annual rent (including value-added tax) payable by Jiaoyun Market to Jiaoyun Gas in relation to the Jiaoyun Market Tenancy Agreement for each of the years ending 31 December 2022, 2023 and 2024 will not exceed RMB3,900,000. In arriving at the above annual caps, our Directors have considered the fixed annual rent as agreed under the Jiaoyun Market Tenancy Agreement. Our Property Valuer has reviewed the terms of the Jiaoyun Market Tenancy Agreement and confirmed that (i) such terms are on normal commercial terms under prevailing market conditions and are considered as fair and reasonable; and (ii) the agreed rent payable by Jiaoyun Market under the Jiaoyun Market Tenancy Agreement is in line with the current market level.

Listing Rules Implications

Since the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of the annual caps is expected to be more than 0.1% but less than 5%, the transactions under the Jiaoyun Market Tenancy Agreement with Jiaoyun Market will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Construction and Installation Services Framework Agreements

(a) Construction and Installation Services Framework Agreement with Jiaoyun Property

Description of the Transaction

On [●], Jiaoyun Gas (a subsidiary of our Company) entered into a pipeline construction and installation services framework agreement (the "**Construction and Installation Services Framework Agreement with Jiaoyun Property**") with Jiaoyun Property, pursuant to which Jiaoyun Gas has agreed to provide services for installation of gas pipelines to our Group's pipeline network (the "**Construction and Installation Services to Jiaoyun Property**") for real estate development projects undertaken by Jiaoyun Property within our Operating Area, for a term commencing from the [REDACTED] to 31 December 2023. Such Construction and Installation Services to Jiaoyun Property comprise the procurement of appropriate gas pipeline, gas meters and relevant parts, the installation of such equipment and devices into the property building infrastructure, and the overall engineering design and feasibility planning as well as supervision of work. With respect to each gas pipeline installation project or work, Jiaoyun Property will, based on its actual operational needs, further enter into an individual agreement with us that prescribes the specific terms and conditions of each project or work.

Historical Transaction Amounts

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by Jiaoyun Property for the Construction and Installation Services to Jiaoyun Property provided by our Group amounted to approximately RMB449,000, RMB883,000, RMB692,000 and nil, respectively. For the four months ended 30 April 2022, no Construction and Installation Services to Jiaoyun Property have been carried out, as there was suspension of construction of the real estate development projects of Jiaoyun Property due to the cold weather in January 2022, Chinese New Year holidays in February 2022 and COVID-19 restrictions in March and April 2022. Construction of the real estate development projects resumed in May 2022, and is recovering in order to make up for the loss in progress earlier, with an aim of achieving the original progress target for the year.

Pricing Policy

The fees to be charged by us for the provision of the Construction and Installation Services to Jiaoyun Property are determined on arm's length basis with reference to (i) historical fee rates; (ii) number of units in each real estate development project; (iii) cost of raw materials and labour needed for carrying out the Construction and Installation Services to Jiaoyun Property; and (iv) the comparison of the fee quote provided by us to Jiaoyun Property with the fee quotes provided by us to other customers which are Independent Third Parties and require similar services. The Construction and Installation Services Framework Agreement with Jiaoyun Property was entered into on normal commercial terms.

Annual Caps

Our Directors estimate that the maximum annual fee (including value-added tax) payable by Jiaoyun Property in relation to the Construction and Installation Services to Jiaoyun Property to be provided by our Group under the Construction and Installation Services Framework Agreement with Jiaoyun Property for each of the years ending 31 December 2022 and 2023 will not exceed RMB2,041,000 and RMB4,059,000, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amount as set out above;
- the fixed fee per household for multi-storey buildings charged by us for all property developers;
- the estimated growing demand for our Construction and Installation Services to Jiaoyun Property with reference to the estimated number, scale and progress of real estate development projects by Jiaoyun Property in the corresponding years, based on the construction plans filed with local government authorities; and
- the applicable value-added tax.

The increase in the annual caps as compared with the historical transaction amounts for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 is mainly due to the increase in the estimated number of residential units that would complete construction in the corresponding years according to construction plans filed with local government authorities.

Reasons for the Transaction

During the Track Record Period and up to the Latest Practicable Date, Jiaoyun Property principally engaged in real estate development projects in Gaomi City. Since we are the exclusive PNG supplier in our Operating Area in Gaomi City, during the Track Record Period, we provided the Construction and Installation Services to Jiaoyun Property in the ordinary and usual course of our construction and installation services business. We expect that we will continue to provide the Construction and Installation Services to Jiaoyun Property in its future real estate development projects in our ordinary and usual course of business after the [REDACTED].

(b) Construction and Installation Services Framework Agreement with Guorui Real Estate

Description of the Transaction

On [●], Jiaoyun Gas (a subsidiary of our Company) entered into a pipeline construction and installation services framework agreement (the "**Construction and Installation Services Framework Agreement with Guorui Real Estate**") with Guorui Real Estate, pursuant to which Jiaoyun Gas, as supplier, has agreed to provide services for installation of gas pipelines to our Group's pipeline network (the "**Construction and Installation Services to Guorui Real Estate**") for real estate development projects undertaken by Guorui Real Estate within our Operating Area, for a term commencing from the [REDACTED] to 31 December 2022. Such Construction and Installation Services to Guorui Real Estate comprise the procurement of appropriate gas pipeline, gas meters and relevant parts, the installation of such equipment and devices into the property building infrastructure, and the overall engineering design and feasibility planning as well as supervision of work. With respect to each gas pipeline installation project or work, Guorui Real Estate will, based on its actual operational needs, further enter into an individual agreement with us that prescribes the specific terms and conditions of each project or work.

Historical Transaction Amounts

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by Guorui Real Estate for the Construction and Installation Services to Guorui Real Estate provided by our Group amounted to approximately RMB41,000, RMB472,000, RMB1,039,000 and nil, respectively. The Construction and Installation Services provided to Guorui Real Estate during the Track Record Period was in respect of one real estate development project. The transaction amount for the year ended 31 December 2021 was significantly higher than that for each of the years ended 31 December 2019 and 2020 due to the construction progress of that development project. During the year ended 31 December 2021, more units have completed construction and required the installation of gas pipelines; whereas during the years ended 31 December 2019 and 2020, the real estate development project was at a relatively earlier stage such that less installation work was required. For the four months ended 30 April 2022, no Construction and Installation Services to Guorui Real Estate have been carried out, as there was suspension of construction of the real estate development project of Guorui Real Estate due to the cold weather in January 2022, Chinese New Year holidays in February 2022 and COVID-19 restrictions in March and April 2022. However, construction of the real estate development project resumed in May 2022 and construction is recovering in order to make up for the loss in progress earlier, with an aim of achieving the original progress target for the year.

Pricing Policy

The fees to be charged by us for the provision of the Construction and Installation Services to Guorui Real Estate were determined on arm's length basis with reference to (i) historical fee rates; (ii) number of units in each real estate development project; (iii) cost of raw materials and labour needed for carrying out the Construction and Installation Services to Guorui Real Estate; and (iv) the comparison of the fee quote provided by us to Guorui Real Estate with the fee quotes provided by us to other customers which are Independent Third Parties and require similar services. The Construction and Installation Services Framework Agreement with Guorui Real Estate was entered into on normal commercial terms.

Annual Caps

Our Directors estimate that the maximum annual fee (including value-added tax) payable by Guorui Real Estate in relation to the Construction and Installation Services to Guorui Real Estate to be provided by our Group under the Construction and Installation Services Framework Agreement with Guorui Real Estate for the year ending 31 December 2022 will not exceed RMB2,150,000.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amount as set out above;
- the fixed fee per household for multi-storey buildings charged by us for all property developers;
- the estimated demand for our Construction and Installation Services to Guorui Real Estate with reference to the estimated number, scale and progress of real estate development projects by Guorui Real Estate in the corresponding years, based on the construction plans filed with local government authorities; and
- the applicable value-added tax.

The increase in the annual caps as compared with the historical transaction amounts for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 is mainly due to the increase in the estimated number of residential units that would complete construction in the corresponding year according to construction plans filed with local government authorities.

Reasons for the Transaction

During the Track Record Period and up to the Latest Practicable Date, Guorui Real Estate principally engaged in real estate development projects in Gaomi City. Since we are the exclusive PNG supplier in our Operating Area in Gaomi City, during the Track Record Period, we provided the Construction and Installation Services to Guorui Real Estate in the ordinary and usual course of our construction and installation services business. The Construction and Installation Services to Guorui Real Estate during the Track Record Period was in respect of one real estate development project. We expect the last phase of this real estate development project to complete by 2022, after which we currently do not expect to further provide Construction and Installation Services to Guorui Real Estate.

Listing Rules Implications

Since Jiaoyun Property and Guorui Real Estate are both associates of Mr. Luan Xiaolong and are connected persons of our Company, and the continuing connected transactions contemplated under the Construction and Installation Services Framework Agreement with Jiaoyun Property and the Construction and Installation Services Framework Agreement with Guorui Real Estate (collectively, the "**Construction and Installation Services Framework Agreements**") are of same nature, the continuing connected transactions under the Construction and Installation Services Framework Agreements shall be aggregated pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. The aggregated annual caps are as follows:

	For the year ending 31 December	
	2022	**2023**
	(RMB)	*(RMB)*
Construction and Installation Services Framework Agreement with Jiaoyun Property	2,041,000	4,059,000
Construction and Installation Services Framework Agreement with Guorui Real Estate	2,150,000	—
Total	4,191,000	4,059,000

Since the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of the annual caps in relation to the transactions contemplated under the Construction and Installation Services Framework Agreements, as aggregated, is expected to be more than 0.1% but less than 5%, the transactions under the Construction and Installation Services Framework Agreements will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

3. Subcontracting Framework Agreement

Description of the Transaction

On [●], Jiaoyun Gas (a subsidiary of our Company) entered into a subcontracting framework agreement (the "**Subcontracting Framework Agreement**") with Jiaoyun Property, pursuant to which we have engaged Jiaoyun Property as our subcontractor to provide construction workers to carry out certain natural gas supply facilities installation and gas meter replacement works to our customers (the "**Subcontracting Work**"), for a term commencing from the [REDACTED] to 31 December 2023. With respect to each natural gas supply facilities installation project or work, we will, based on our actual operational needs, further enter into an individual agreement with Jiaoyun Property that prescribes the specific terms and conditions of each project or work.

We generally require such Subcontracting Work for carrying out the following works: (1) construction work under the Clean Energy Projects where we construct new PNG end-user pipelines and connect these pipelines to our urban pipeline network for existing properties in line with the implementation of the coal-to-gas project (煤改氣工程); (2) installation works where property developers, residential or non-residential customers engage us to install natural gas supply facilities for their real estate developments or buildings; and (3) gas meter replacement works in line with our plan for rolling out our Goldcard Meters.

Historical Transaction Amounts

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by our Group for the Subcontracting Work provided by Jiaoyun Property amounted to approximately RMB386,000, RMB232,000, RMB2,877,000 and RMB1,279,000, respectively. The transaction amount for the year ended 31 December 2021 was significantly higher than that for each of the years ended 31 December 2019 and 2020 because (i) the labour fee of workers for installation per household have been adjusted in July 2021 to better align with the prevailing market rate and the prices charged by independent suppliers engaged, and (ii) the construction work under the Clean Energy Projects undertaken by Jiaoyun Property only commenced in 2021 and have not been carried out in 2019 and 2020.

Pricing Policy

The fees to be charged by Jiaoyun Property for the provision of the Subcontracting Work provided to our Group mainly represent labour fees for construction workers who carry out the construction work and the natural gas supply facilities installation and gas meter replacement works. Such fees were determined on arm's length basis with reference to (i) historical fee rates; (ii) labour fee of workers needed for carrying out the Subcontracting Work; and (iii) the comparison of the fee quote provided by Jiaoyun Property to our Group with the fee quotes obtained from other suppliers which are Independent Third Parties and which provide similar services. When we procure such services in our ordinary and usual course of business, we select the most suitable supplier among those available for selection, which comprise connected persons and Independent Third Parties, taking into account the price, scope of services, experience, suitability, efficiency and qualification of the supplier to perform such services in a timely manner. The Subcontracting Framework Agreement was entered into on normal commercial terms.

Annual Caps

Our Directors estimate that the maximum annual fee (including value-added tax) payable by our Group in relation to the Subcontracting Work to be provided by Jiaoyun Property under the Subcontracting Framework Agreement for each of the years ending 31 December 2022 and 2023 will not exceed RMB2,383,000 and RMB2,663,000, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical transaction amount as set out above;
- the estimated amount of construction work for existing properties in the Operating Area with reference to the estimated number of households in the areas for implementation of the Clean Energy Projects, and the labour fees of workers per household for such construction works;
- the estimated number of real estate development projects and buildings within our Operating Area, the corresponding number of residential and non-residential units in such projects, based on the construction plans filed with local government authorities, and labour fees of workers per household for such installation works;
- the estimated number of households which require replacement of existing gas meters with Goldcard Meters and labour fees of workers per household for such replacement works; and
- the applicable value-added tax.

The increase in the annual caps as compared with the historical transaction amounts for the years ended 31 December 2019 and 2020 is mainly due to (i) the adjustment of labour fee of workers for installation per household in July 2021 to better align with the prevailing market rate and the prices charged by independent suppliers engaged; (ii) the installation work for the Clean Energy Projects undertaken by Jiaoyun Property that only commenced in 2021 and have not been carried out in 2019 and 2020; and (iii) the gas meter replacement works to be undertaken by Jiaoyun Property which are expected to commence in 2023.

Reasons for the Transaction

Since natural gas supply facilities installation works are labour intensive and require much manpower, we subcontract such work to external workers to carry out the actual installation. During the Track Record Period, we engaged Jiaoyun Property as our subcontractor to undertake such natural gas supply facilities installation and replacement work in the ordinary and usual course of our business. Given our stable and amicable working relationship with Jiaoyun Property, we expect to continue to engage Jiaoyun Property for the provision of the Subcontracting Work to us in our ordinary and usual course of business after the [REDACTED].

Listing Rules Implications

Since the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules in respect of the annual caps is expected to be more than 0.1% but less than 5%, the transactions under the Subcontracting Framework Agreement will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

4. Natural Gas Sale and Purchase Agreements

Description of the Transaction

On 1 April 2020, Jiaoyun Gas (a subsidiary of our Company) entered into a natural gas sale and purchase agreement (the "**Master Natural Gas Sale and Purchase Agreement**") with Shandong Shihua, pursuant to which Shandong Shihua agreed to supply PNG to Jiaoyun Gas for a term commencing from 1 April 2020 to 31 December 2025, which may be terminated by either party in the event of a material breach or the other party's failing to perform its obligations under the agreement and with 30 days' prior written notice. Jiaoyun Gas also entered into supplemental agreements (the "**Supplemental Agreements**", together with the Master Natural Gas Sale and Purchase Agreement, the "**Natural Gas Sale and Purchase Agreements**") annually with Shandong Shihua to prescribe the supply amount and price of PNG in accordance with the benchmark gate price for each year. For details, please refer to "Business — Procurement of PNG" in this document.

Historical Transaction Amounts

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total fee (excluding value-added tax) paid by our Group under the Natural Gas Sale and Purchase Agreements amounted to approximately RMB168,609,000, RMB137,760,000, RMB177,517,000 and RMB70,739,000, respectively.

Pricing Policy

The fees to be charged by Shandong Shihua under the Natural Gas Sale and Purchase Agreements were determined with reference to the benchmark gate price set by the NDRC. According to the *Notice on Straightening the Gate Price of Natural Gas for Residential Usage (Fa Gai Jia Ge Gui [2018] No. 794)* (《國家發展改革委關於理順居民用氣門站價格的通知》*(發改價格規[2018]794號)*) issued by the NDRC on 25 May 2018, the PNG purchase price for both residential and non-residential usage is to be determined based on the benchmark gate price, and restricted to 120% of the benchmark gate price. According to the *Notice on Adjusting the Benchmark Gate Price of Natural Gas for Residential Usage (Fa Gai Jia Ge Gui [2019] No. 562)* (《國家發展改革委關於調整天然氣基準門站價格的通知》*(發改價格規[2019]562號)*) issued by the NDRC on 27 March 2019, with effect from 1 April 2019, the benchmark gate prices of natural gas in Shandong Province was adjusted to RMB1,840 per 1,000 m^3. Please refer to "Business — Sale of PNG — Pricing", "Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas" and "Industry Overview — Analysis of the City Gas Supply

Industry in Gaomi City" in this document for further information about the pricing of PNG in the PRC. The price at which we procure PNG from Shandong Shihua is prescribed annually in accordance with the benchmark gate price. The Natural Gas Sale and Purchase Agreements were entered into on normal commercial terms.

Annual Caps

Our Directors estimate that the maximum annual fee (including value-added tax) payable by our Group under the Natural Gas Sale and Purchase Agreements for each of the years ending 31 December 2022, 2023, 2024 and 2025 will not exceed RMB186,989,000, RMB196,460,000, RMB198,039,000 and RMB199,617,000, respectively.

In arriving at the above annual caps, our Directors have considered the following factors:

- the historical sales volumes and transaction amounts;
- the estimated demand for PNG of existing end-users in our Operating Area, with reference to the number of existing end-users in our Operating Area each year and the estimated usage volume per end-user;
- the estimated additional demand for PNG in our Operating Area, with reference to the estimated number of new end-users in our Operating Area each year and the estimated usage volume per end-user;
- the historical proportion of gas purchased from Shandong Shihua to our annual total gas procurement from all gas suppliers including Shandong Shihua and other independent third parties;
- the anticipated price level at which we can procure PNG with reference to the benchmark gate price; and
- the applicable value-added tax.

Reasons for the Transaction

During the Track Record Period and up to the Latest Practicable Date, Shandong Shihua has been primarily engaged in the supply of natural gas in Shandong Province. According to CIC, there are only two natural gas suppliers in Gaomi City, being Shandong Shihua and PetroChina. Accordingly, throughout the Track Record Period, we procured PNG from Shandong Shihua in the ordinary and usual course of our sale of natural gas business. We expect that we will continue to procure PNG from Shandong Shihua in our ordinary and usual course of business after the [REDACTED].

Listing Rules Implications

The annual caps for the fees under the Natural Gas Sale and Purchase Agreements exceed HK$10 million and the highest applicable percentage ratio (other than the profits ratio) under the Listing Rules also exceeds 5%. However, as (i) Shandong Shihua is a connected person of our Company at the subsidiary level; (ii) our Board (including all independent non-executive Directors) has approved the Natural Gas Sale and Purchase Agreements and the transactions contemplated thereunder; and (iii) all independent non-executive Directors have confirmed that the terms of the Natural Gas Sale and Purchase Agreements are fair and reasonable, on normal commercial terms or better and in the interests of our Company and our Shareholders as a whole, the transactions under the Natural Gas Sale and Purchase Agreements will be subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent Shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

Under the requirements of Rule 14A.52 of the Listing Rules, any agreement for continuing connected transaction must not exceed three years except in special circumstances where the nature of the transaction requires it to be of a longer period.

Our Directors are of the view that it is normal business practice and appropriate for the Master Natural Gas Sale and Purchase Agreement to be for a duration of longer than three years for the following reasons:

(a) according to CIC, it is not uncommon for such natural gas supply agreements to be for a longer duration due to the need for natural gas operators to secure a stable supply of natural gas;

(b) as PNG is an important raw material for conduct of our business operations, it is valuable for us to secure such flexible and stable supply of natural gas for a longer period of time;

(c) the price at which we procure PNG from Shandong Shihua is determined in accordance with the price set by the relevant local authorities; and

(d) Shandong Shihua has been one of our major natural gas suppliers. A longer term could ensure a stable supply of natural gas to our Group, which in turn secure our supply of natural gas to our customers.

Based on the same reasons set out above, taking into account the Directors' view as well as the Sole Sponsor's independent due diligence, and after discussion with CIC and the senior management of the Company, the Sole Sponsor is of the view that (i) entering into the Master Natural Gas Sale and Purchase Agreement allows our Group to secure stable supply of natural gas and continuation of its existing business relationship with Shandong Shihua for the sake of our Group's ordinary and usual course of business in sale of natural gas; (ii) the terms of the Master Natural Gas Sale and Purchase Agreement are fair and reasonable, are in the interest of our Company and our Shareholders as a whole; (iii) as advised by CIC, it is normal business practice for downstream natural gas distributors to enter into agreements of similar nature of natural gas supply to be of duration of more than three years; (iv) such business and contractual arrangements are witnessed by some listed companies on the

Stock Exchange with similar business nature like our Group; and (v) the terms of the Master Natural Gas Sale and Purchase Agreement are comparable to similar long-term gas supply agreements of the aforesaid comparable listed companies on the Stock Exchange based on the disclosure or public information available of such companies.

(D) APPLICATION FOR WAIVER

The transactions described under "— (C) Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" in this section constitute our continuing connected transactions under the Listing Rules, which are subject to the reporting, annual review, announcement requirements but will be exempted from the circular and independent Shareholders' approval requirements of the Listing Rules.

As these continuing connected transactions are and will continue to be entered into in the ordinary and usual course of business of our Group on a continuing and recurring basis and are expected to extend over a period of time, our Directors are of the view that compliance with the announcement requirement under Rule 14A.35 of the Listing Rules would impose unnecessary administrative costs and burden to our Group and would at times be impracticable.

Accordingly, pursuant to Rules 14A.102 and 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted], a waiver exempting us from strict compliance with the announcement requirements of the Listing Rules in respect of the continuing connected transactions, subject to the condition that the aggregate values of such continuing connected transactions for each financial year not exceeding the relevant amounts set forth in the respective annual caps (as stated above).

(E) DIRECTORS' VIEWS

Our Directors (including our independent non-executive Directors) consider that: (a) all the continuing connected transactions described under "— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" in this section have been entered into, and will be carried out: (i) in the ordinary and usual course of our business, (ii) on normal commercial terms or better and (iii) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (b) the annual caps of each of the continuing connected transactions under "— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" in this section are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

(F) SOLE SPONSOR'S VIEW

The Sole Sponsor has (i) reviewed the relevant documents and information provided by our Group, (ii) obtained necessary representations and confirmation from our Company and our Directors, and (iii) participated in the due diligence and discussions with the management of our Company in respect of the continuing connected transactions described under this section.

Based on the above, the Sole Sponsor is of the view that: (a) the continuing connected transactions described under "— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement" in this section have been entered into in the ordinary and usual course of the business of our Company, on normal commercial terms or better, are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (b) the annual cap amounts for each of the continuing connected transactions described under "— (C) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement Requirements but exempt from the Independent Shareholders' Approval Requirement" in this section are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

OUR CONTROLLING SHAREHOLDERS

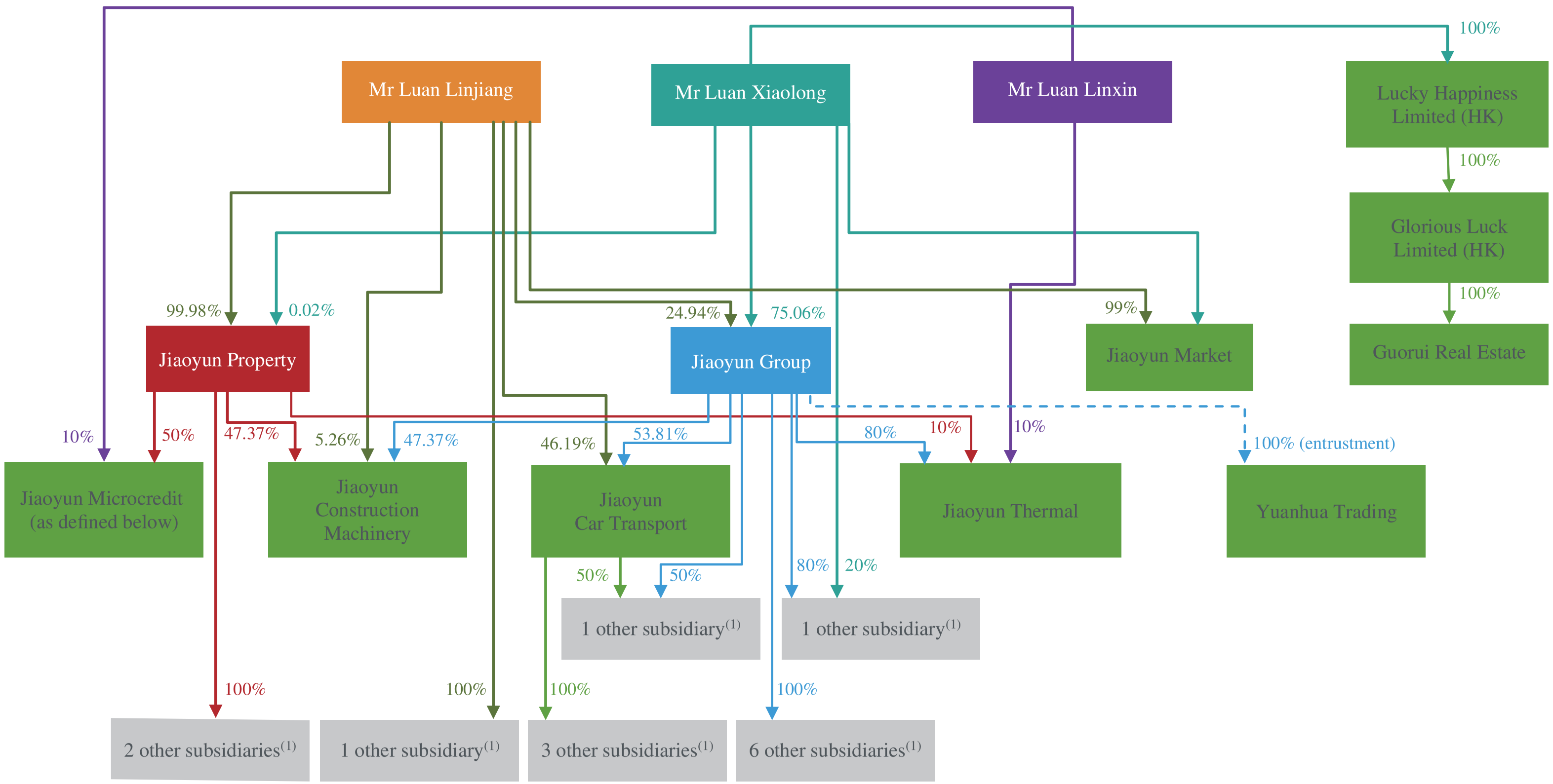
As at the Latest Practicable Date, Mr. Luan Linjiang (one of the controlling shareholders of our Company prior to the [REDACTED]), through LLJ Phoenix, held 33% of the total issued share capital of our Company, and Mr. Luan Xiaolong, through LXL Phoenix and SEGM Holding (wholly owned by SDJY Holding, which is in turn wholly owned by Mr. Luan Xiaolong) held 56% and 10% of the total issued share capital of our Company, respectively. Immediately after the completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Luan Linjiang, through LLJ Phoenix, will be beneficially interested in [REDACTED]% of the enlarged issued share capital of our Company, and Mr. Luan Xiaolong, through LXL Phoenix and SEGM Holding (wholly owned by SDJY Holding, which is in turn wholly owned by Mr. Luan Xiaolong), will be beneficially interested in a total of [REDACTED]% of the enlarged issued share capital of our Company.

Since Mr. Luan Linjiang, through LLJ Phoenix, will hold less than 30% of our total issued share capital following the completion of the [REDACTED], and Mr. Luan Xiaolong, the son of Mr. Luan Linjiang, is aged over 18 and therefore is not a close associate of Mr. Luan Linjiang within the meaning of the Listing Rules, Mr. Luan Linjiang and LLJ Phoenix will not be regarded as our controlling shareholders as defined under the Listing Rules. Accordingly, Mr. Luan Xiaolong, LXL Phoenix, SEGM Holding and SDJY Holding are considered as a group of our Controlling Shareholders immediately following the [REDACTED]. LXL Phoenix, SEGM Holding and SDJY Holding are investment holding companies incorporated in BVI.

EXCLUDED BUSINESSES

We are a natural gas operator in Gaomi City, Shandong Province. In contemplation of the [REDACTED], in order to focus our resources on our natural gas supply business and ensure clear delineation of business between our Group and the Private Group, we underwent the Reorganisation, pursuant to which Jiaoyun Thermal and Gaoyun Investment were disposed of. Both disposed companies are now part of the Private Group. Further details on such disposals are set out in "History, Reorganisation and Corporate Structure — Reorganisation — 1. Disposal of certain subsidiaries engaged in non-core businesses" in this document.

The Private Group consists of companies that are ultimately controlled by Mr. Luan Xiaolong and/or Mr. Luan Linjiang, (i.e. with 50% or more ultimate beneficial ownership held directly and/or indirectly through intermediary companies). There are over 20 such entities that are considered part of the Private Group as at the Latest Practicable Date. The following diagram illustrates a simplified shareholding structure of the Private Group (excluding our Group):



Note:

(1) Other subsidiaries include Gaomi Jiaoyun Survey and Design Co., Ltd.* (高密市交運勘察設計有限公司), Shandong Gaoyun General Aviation Co., Ltd.* (山東高運通用航空有限公司), Gaomi Jiaoyun Bus Co., Ltd.* (高密市交運公交車有限公司), Gaomi Jiaoyun Taxi Co., Ltd.* (高密市交運出租車有限公司), Gaomi Transportation Co., Ltd.* (高密市交通客運有限公司), Gaoyun Investment (Shandong) Co., Ltd.* (高運投資(山東)有限公司), Gaomi Jiaoyun Property Management Co., Ltd.* (高密市交運物業管理有限公司), Gaomi Jiaoyun Group Co., Ltd. Jinshuian Community Clinic* (高密市交運集團有限公司金水岸小區診所), Gaomi Xinji Health Industry Management Co., Ltd.* (高密市新濟健康產業管理有限公司), Weifang Nuorui Equipment Installation Co., Ltd.* (濰坊諾瑞設備安裝有限公司), Gaomi Baotong Pipeline Engineering Co., Ltd.* (高密市保通管道工程有限公司), Shandong Haoyun Road and Bridge Construction Co., Ltd.* (山東昊運路橋建設有限公司), Gaomi Yuyuan Air Conditioning Equipment Installation Co., Ltd.* (高密市裕源空調設備安裝有限公司) and Weifang Gaoyun Environmental Protection Technology Co., Ltd.* (濰坊市高運環保科技有限公司).

Details of each entity shown in the above chart are set out below:

No.	**Name**	**Nature of business**	**Aggregated ultimate shareholding of both Mr. Luan Linjiang and Mr. Luan Xiaolong together**
1.	Jiaoyun Property	Real estate development	100%
2.	Jiaoyun Group	Investment and health consultation services	100%
3.	Jiaoyun Market	Operation and management of markets and provision of rental and property management services	100%
4.	Gaomi Jiaoyun Microcredit Co., Ltd.* (高密市交運小額貸款股份有限公司) ("**Jiaoyun Microcredit**")	Provision of small credit financing	50%
5.	Jiaoyun Construction Machinery	Manufacturing and trading of construction machinery	100%
6.	Jiaoyun Car Transport	Passenger transportation services	100%
7.	Jiaoyun Thermal	Supply of heating	90%
8.	Yuanhua Trading	Wholesale and retail	100%
9.	Guorui Real Estate	Real estate development	100%
10.	Gaomi Jiaoyun Survey and Design Co., Ltd.* (高密市交運勘察設計有限公司)	Construction and municipal engineering surveys and designs	100%
11.	Shandong Gaoyun General Aviation Co., Ltd.* (山東高運通用航空有限公司)	Provision of general aviation preparation services	100%
12.	Gaomi Jiaoyun Bus Co., Ltd.* (高密市交運公交車有限公司)	Public transportation	100%
13.	Gaomi Jiaoyun Taxi Co., Ltd.* (高密市交運出租車有限公司)	Taxi passenger transportation	100%
14.	Gaomi Transportation Co., Ltd.* (高密市交通客運有限公司)	Public transportation	100%

No.	Name	Nature of business	Aggregated ultimate shareholding of both Mr. Luan Linjiang and Mr. Luan Xiaolong together
15.	Gaoyun Investment (Shandong) Co., Ltd.* (高運投資(山東)有限公司)	Investment and financial consultation services	100%
16.	Gaomi Jiaoyun Property Management Co., Ltd.* (高密市交運物業管理有限公司)	Property management	100%
17.	Gaomi Jiaoyun Group Co., Ltd. Jinshuian Community Clinic* (高密市交運集團有限公司金水岸小區診所)	Clinic and medical services	100%
18.	Gaomi Xinji Health Industry Management Co., Ltd.* (高密市新濟健康產業管理有限公司)	Health consultation services	100%
19.	Weifang Nuorui Equipment Installation Co., Ltd.* (濰坊諾瑞設備安裝有限公司)	Manufacturing, trading and installation of mechanical and electrical equipment	100%
20.	Gaomi Baotong Pipeline Engineering Co., Ltd.* (高密市保通管道工程有限公司)	Construction	100%
21.	Shandong Haoyun Road and Bridge Construction Co., Ltd.* (山東昊運路橋建設有限公司)	Contracting and construction	100%
22.	Gaomi Yuyuan Air Conditioning Equipment Installation Co., Ltd.* (高密市裕源空調設備安裝有限公司)	Sale and installation of air-conditioning equipment	100%
23.	Weifang Gaoyun Environmental Protection Technology Co., Ltd.* (濰坊市高運環保科技有限公司)	Research and development of environmental protection technology and products	100%

Jiaoyun Thermal

Jiaoyun Thermal principally engages in the business of supplying centralised heating in Gaomi City. Jiaoyun Thermal supplies heat through water heating pipeline networks in Gaomi City. Our Directors are of the view that there is clear delineation between the business of Jiaoyun Thermal and our Group due to the infrastructure required and highly regulated nature of public utilities businesses in the PRC. There is no room for heating providers to determine the areas which they could supply heating to, as it is dictated by government planning. For heat supply, households in Gaomi City generally use either water heating supplied through hot water pipelines embedded under the floor and/or within walls (i.e. the type of heating supplied by Jiaoyun Thermal) or natural gas heating supplied through wall-hung gas boilers that are powered by natural gas and installed within households (i.e. the type of heating supplied by our Group), but not both. Whether a household uses water heating or not depends on whether the building or premises has access to the centralised heating system supported by the water heating pipeline network, which in turn depends on the building plan approved by the government at the time of its construction. Coverage and reach of the water heating pipeline network is determined by the government. In particular, according to the Heating Regulations of Shandong Province (山東省供熱條例) and Heating Regulations of Weifang Municipality (濰坊市供熱條例), it is mandatory for all new property developments and revitalised properties in the urban area of Gaomi City to include facilities (or reserve space for facilities) for accessing the water heating pipeline network for supply of water heating according to the requirements of local authorities. Therefore, it is not possible for our Company or Jiaoyun Thermal to influence property developers to adopt water heating or natural gas heating in their properties located in the urban area. According to CIC, it is a well-established practice that households with access to water heating will not use natural gas heating, since water heating is generally more convenient and cheaper than natural gas heating. Our customers that use natural gas for heating are typically located in areas beyond the reach of water heating pipeline networks.

During the Track Record Period, to the best knowledge of our Directors, none of Jiaoyun Thermal's customers overlapped with our customers that used natural gas for heating. Accordingly, our Directors are of the view that Jiaoyun Thermal does not compete with our Group.

Other businesses of the Private Group

All businesses of the Private Group are separate, distinct and clearly delineated from our principal business of natural gas supply. We consider that it would be commercially justifiable to exclude the members of the Private Group from our Group. From a strategic perspective, the Private Group businesses are not the core business which our Group intends to focus on. From an operational perspective, the expertise and resources required for the operation of our principal business are different from those required for the Private Group businesses. As such, we are of the view that the injection of any of the Private Group businesses into our Group is not in line with our intention to focus our resources on our operation of natural gas supply. As at the Latest Practicable Date, our Controlling Shareholders have no intention to inject any of the Private Group businesses into our Group.

Given the clear differences between the Private Group businesses and the business of our Group, our Directors are of the view that there is clear delineation between them and hence do not compete with each other.

Rule 8.10 of the Listing Rules

As at the Latest Practicable Date, none of our Controlling Shareholders and our Directors had any interest in any other business which competes or is likely to compete, either directly or indirectly with our business which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Save as disclosed in this section or in "Connected Transactions" in this document, our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders or their respective close associates upon or shortly after the [REDACTED].

Our Directors consider that we can operate independently from our Controlling Shareholders following completion of the [REDACTED] based on the following reasons:

Management independence

The business of our Group is managed by our Board and the senior management team of our Group independently of our Controlling Shareholders and their respective close associates (including the Private Group). Our Board comprises three executive Directors and three independent non-executive Directors. Our senior management consists of six members. For more details, please refer to "Directors and Senior Management" in this document. Mr. Luan Xiaolong, our executive Director and chief executive officer, is also our Controlling Shareholder.

Mr. Luan Xiaolong, Mr. Luan Linjiang and Mr. Luan Linxin, our executive Directors, hold directorship and other executive roles in various members of the Private Group and will remain in such positions in the Private Group companies after the [REDACTED]. Our executive Directors will participate in the strategic planning, business oversight and general management of our Group. They have historically been devoting, and will continue upon [REDACTED] to devote, sufficient time and capacity for the affairs of our Group. Further, our executive Directors will be supported by other independent members of our senior management team.

Notwithstanding that the abovementioned Directors will continue to hold positions in the Private Group, our Directors consider that we are able to manage our business independently from our Controlling Shareholders based on the following reasons:

(a) Mr. Luan Xiaolong, Mr. Luan Linjiang and Mr. Luan Linxin have confirmed that they will continue to devote sufficient time and attention to the affairs of our Group;

(b) each of our Directors is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit and in the interests of our Company and the Shareholders as a whole, and do not allow any conflict between his/her duties as a Director and his/her personal interests;

(c) pursuant to the Articles of Association of our Company, in the event that a Director or his/her close associate has any material interest in a contract or arrangement to be entered into with our Group, the interested Director(s) shall abstain from voting on any Board resolutions approving any contract, arrangement or any other proposal and shall not be counted in the quorum present at the relevant Board meeting;

(d) with three independent non-executive Directors out of a total of six Directors in our Board, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and protect the interests of our independent Shareholders. In addition, all members of the audit committee and the majority of the members of the nomination committee, remuneration committee and risk management committee of our Company are independent non-executive Directors;

(e) save for Mr. Luan Xiaolong, there is no overlapping of other senior management personnel between our Group (as referred in "Directors and Senior Management — Senior Management" in this document) and the Private Group. All such other members of our senior management are independent from the employment by and operations of the Private Group. The responsibilities of our senior management team include overseeing our daily operations, implementing our business strategies and maintaining risk management and internal control matters, which ensure the independence of the daily management and operations of our Group from those of our Controlling Shareholders;

(f) connected transactions between our Company and companies controlled by our Controlling Shareholders are subject to the rules and regulations under the Listing Rules including rules relating to announcement, reporting and independent Shareholders' approval (where applicable); and

(g) a number of corporate governance measures are in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders, and to safeguard the interests of our independent Shareholders. For further details, please refer to "— Corporate Governance Measures" in this section.

Operational independence

Our Group has established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources and general administration resources with the Controlling Shareholders and/or their respective close associates. Our Group has also established a set of internal control procedures to facilitate the effective operation of our business.

Our Group is the holder of all relevant licenses and permits material to the operation of our business and has sufficient capital, facilities, equipment and employees to operate our business independently.

Save as disclosed in this section, "Business — Our Suppliers", "Business — Our Customers" and "Connected Transactions" in this document, the customers and suppliers of our Group are all independent from our Controlling Shareholders and our Group does not rely on our Controlling Shareholders or their respective close associates and has independent access to customers and suppliers.

During the Track Record Period, Yuanhua Trading (our connected person and one of our major suppliers) has supplied pipes, wall-hung gas boilers and gas stoves to us as our agent. However, for the purpose of [REDACTED] and to demonstrate our operational independence, we confirm that all such related party transactions with Yuanhua Trading have ceased since 30 June 2021, and we undertake not to engage in any such related party transactions with Yuanhua Trading upon [REDACTED].

During the Track Record Period, Jiaoyun Property has been both our customer and supplier. For details, please refer to "Business — Overlapping of Customer and Supplier" in this document. Such transactions are expected to continue after the [REDACTED] and will constitute continuing connected transactions of our Company under the Listing Rules. However, in respect of our subcontracting arrangement with Jiaoyun Property for the provision of construction workers to carry out the gas pipeline construction and installation work to our customers, we will use our best endeavours to engage other Independent Third Parties for carrying out our pipeline construction and installation work for construction projects developed by property developers other than Jiaoyun Property and Guorui Real Estate, insofar as the terms and conditions of such Independent Third Parties are comparable to those offered by Jiaoyun Properties or better.

Please refer to "Connected Transactions" in this document which sets out the continuing connected transactions between our Group and our Controlling Shareholders or their associates which will continue after the completion of the [REDACTED]. All such transactions are determined after arm's length negotiations and on normal commercial terms. Save for the continuing connected transactions set out in "Connected Transactions" in this document and "— Transactions Entered Into Before the [REDACTED] Which Would Otherwise Constitute Connected Transactions" in this section, as at the Latest Practicable Date, our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective close associates upon completion of the [REDACTED]. Notwithstanding that there are certain transactions with related parties and connected persons of our Company, during the Track Record Period, we have full rights to make all decisions on, and to carry out our own business operations independently of our Controlling Shareholders and their respective close associates. Such continuing connected transactions will not have any negative impact on our operational independence from our Controlling Shareholders and their respective close associates after the [REDACTED].

In light of the above, our Directors are of the view that our Group is capable of operating its business independently from our Controlling Shareholders after the [REDACTED].

Financial independence

Our Directors are of the view that our Group will be financially independent of our Controlling Shareholders upon [REDACTED]. During the Track Record Period, as we were part of the Private Group, there were certain trade and non-trade related amounts due to/from our Controlling Shareholders or their respective close associates, and guarantees/pledges provided to our Group by our Controlling Shareholders or their respective close associates and vice versa. For further details, please refer to note 32 to the Accountant's Report included in Appendix I to this document, "Financial Information — Related Party Transactions", "Business — Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing" and "Business — Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds" in this document. In preparation for the [REDACTED], our Group has undergone financial restructuring such that as at the Latest Practicable Date, all loans and balances due to and from between entities controlled by our Controlling Shareholders and members of our Group have been fully settled, and all guarantees provided by our Controlling Shareholders or their respective close associates to us and by members of our Group to the entities controlled by our Controlling Shareholders have been fully released. Upon [REDACTED], there will be no amount due to or from between entities controlled by our Controlling Shareholders and members of our Group other than the transactions as contemplated under the continuing connected transactions with details set out in "Connected Transactions" in this document. After the financial restructuring mentioned above, internal control measures have been implemented effectively to regulate and monitor the provision of any financial assistance to related parties. We confirm that no member of our Group shall provide or obtain any borrowings, guarantees, pledges or mortgages to or from any of our Controlling Shareholders or entities controlled by our Controlling Shareholders following the [REDACTED] until 31 December 2023.

Given the prepayment nature of our sale of PNG, our Group is intrinsically cash rich, unless there is significant upcoming capital expenditure for new gas pipeline construction and other infrastructure projects relevant to our business.

Moreover, as at the Latest Practicable Date, our Group has demonstrated its ability to raise financings from commercial banks, trust companies and asset management companies by providing self-owned properties as security without any credit support from the Private Group. We accordingly believe that our Group will be able to obtain new financings and renew existing financings from commercial banks, trust companies and asset management companies on comparable terms without guarantee or other security from our Controlling Shareholders and their respective close associates (including the Private Group) following the [REDACTED].

Last but not the least, we have our own accounting and finance department, accounting systems and independent treasury function for cash receipts and payment and independent access to third party financing. Our Directors consider that the finance functions of our Group are therefore independently managed with no reliance on our Controlling Shareholders.

TRANSACTIONS ENTERED INTO BEFORE [REDACTED] WHICH WOULD OTHERWISE CONSTITUTE CONNECTED TRANSACTIONS

We have entered into the following transactions with parties who will, upon [REDACTED], become our connected persons. These transactions were entered into before [REDACTED] and are accounted for as one-off in nature under HKFRS 16 "Leases". If there transactions were entered into after [REDACTED], such transactions would have constituted connected transactions for our Group. Details of the transactions are set out below in order to facilitate potential [REDACTED] to anticipate that we have, before [REDACTED], entered into transactions which would otherwise be considered as connected transactions should our Company be [REDACTED] on the Stock Exchange at the time of the transaction.

Connected Persons

Upon [REDACTED], Mr. Luan Linjiang and Jiaoyun Car Transport, which have entered into the following tenancy agreements with our Group, will be our connected persons. Mr. Luan Linjiang is our substantial Shareholder, who currently holds 33% of our total issued share capital and will hold approximately [REDACTED]% of our total issued share capital immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). He is also our executive Director and chairman of our Board. Hence, Mr. Luan Linjiang is our connected person. Jiaoyun Car Transport, a company established in the PRC with limited liability, is principally engaged in the provision of passenger transportation services in the PRC. It is indirectly held as to approximately 59.61% by Mr. Luan Linjiang and approximately 40.39% by Mr. Luan Xiaolong, therefore, it is an associate of Mr. Luan Linjiang and Mr. Luan Xiaolong and hence a connected person of our Company.

Tenancy Agreements

On 25 December 2020, we entered into (i) a tenancy agreement with Mr. Luan Linjiang (the "**Refuelling Station Tenancy Agreement**"), (ii) a tenancy agreement with Mr. Luan Linjiang (the "**Warehouse Tenancy Agreement**"), and (iii) a tenancy agreement with Jiaoyun Car Transport (the "**Office Tenancy Agreement**", together, the "**Tenancy Agreements**"). The principal terms of the Tenancy Agreements are set out below:

	Refuelling Station Tenancy Agreement	**Warehouse Tenancy Agreement**	**Office Tenancy Agreement**
Date of agreement	25 December 2020	25 December 2020	25 December 2020
Parties	Jiaoyun Gas (as tenant) and Mr. Luan Linjiang (as landlord)	Jiaoyun Gas (as tenant) and Mr. Luan Linjiang (as landlord)	Jiaoyun Gas (as tenant) and Jiaoyun Car Transport (as landlord)
Properties	A parcel of land and the properties thereon, including refuelling station facilities and buildings, located at south to Liquan Avenue and west to Xiaoxin River, Chaoyang Street, Gaomi City, Shandong Province, the PRC (the "**Refuelling Station Property**")	A parcel of land and the warehouse thereon located at south to Liquan Avenue and west to Xiaoxin River, Chaoyang Street, Gaomi City, Shandong Province, the PRC (the "**Warehouse Property**")	An office building located at No. 2568, West Shi'an Road, Mishui Street, Gaomi City, Shandong Province, the PRC (the "**Office Property**")
Term of lease	Three years commencing from 1 January 2021 to 31 December 2023	Three years commencing from 1 January 2021 to 31 December 2023	Three years commencing from 1 January 2021 to 31 December 2023
Total rent	RMB590,520 (2021: RMB192,960; 2022: RMB196,800; 2023: RMB200,760)	RMB393,680 (2021: RMB128,640; 2022: RMB131,200; 2023: RMB133,840)	RMB620,700 (2021: RMB202,800; 2022: RMB206,900; 2023: RMB211,000)
Use of the property	Refuelling station	Warehouse	Office

For details of our leased properties abovementioned, please refer to "Business — Properties — Leased Properties" in this document.

Historical Transaction Amounts

For each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the total amounts of rent paid by us under the Tenancy Agreements are set out below:

	Year ended 31 December			**Four months ended 30 April**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Refuelling Station Tenancy Agreement	138	138	186	63
Warehouse Tenancy Agreement	91	91	118	60
Office Tenancy Agreement	138	138	177	40

The annual rents were determined by the parties through arm's length negotiations with reference to the rentable area of each of the Refuelling Station Property, Warehouse Property and Office Property leased to our Group under the Tenancy Agreements. The slight increase in annual rent for each of the Tenancy Agreements as compared to the historical transaction amounts for the years ended 31 December 2019 and 2020 is due to adjustment of rent to account for inflation and the increase in rent for properties in the vicinity.

Estimated value of the right-of-use assets

Pursuant to HKFRS 16, our Group is required to recognise a right-of-use asset representing its right to use the underlying leased assets in relation to the Tenancy Agreements. Based on the information currently available to our Company, the estimated value of the right-of-use asset in respect of the Refuelling Station Tenancy Agreement, the Warehouse Tenancy Agreement and the Office Tenancy Agreement was approximately RMB1,934,000, RMB363,000 and RMB573,000, respectively as of 1 January 2021.

Listing Rules implications

Pursuant to HKFRS 16, the entering into each of the Tenancy Agreements as a lessee will require our Group to recognise the each of the properties under the Tenancy Agreements as the right-of-use-asset in our consolidated statements of financial position. The entering into of each of the Tenancy Agreements with a fixed term and the transaction contemplated thereunder will be regarded as a one-off acquisition of capital asset for the purpose of the Listing Rules. As each of the Tenancy Agreements was entered into prior to [REDACTED] and the transaction thereunder is one-off in nature, the payment of rental contemplated thereunder will not be classified as a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules. Accordingly, the transaction under each of the Tenancy Agreements will not be subject to any of the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In the event that there is any material change to the terms and conditions of any of the Tenancy Agreements, we shall comply with the Listing Rules as and when appropriate, including, where required, seeking independent Shareholders' approval prior to effectuating such change.

[REDACTED]

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

(a) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

(b) a Director with material interests shall make full disclosure in respect of matters that may have conflict or potentially conflict with any of our interest and abstain from the board meetings on matters in which such Director or his/her associates have a material interest, unless the attendance or participation of such Director at such meeting of our Board is specifically requested by a majority of the independent non-executive Directors;

(c) the management structure of our Group includes audit committee, remuneration committee, nomination committee and risk management committee, the terms of reference of each of which will require them to be alert to prospective conflict of interest and to formulate their proposals accordingly;

(d) we are committed that our Board should include a balanced composition of executive Directors and independent non-executive Directors. We have appointed independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in "Directors and Senior Management — Board of Directors — Independent Non-executive Directors" in this document;

(e) we have appointed China Industrial Securities International Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to Directors' duties and corporate governance; and

(f) as required by the Listing Rules, our independent non-executive Directors shall review any connected transactions annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are on normal commercial terms or better, on terms that are fair and reasonable, and such transactions are in the interests of our Company and our Shareholders as a whole.

So far as our Directors are aware, each of the following persons will, immediately upon completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, are directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or our subsidiaries:

(a) Interest in our Company

Name of Shareholder	Nature of Interest	Shares held as at the Latest Practicable Date *(Note 1)*		Shares held immediately upon completion of the Capitalisation Issue and the [REDACTED] *(Note 1)*	
		Number	*Approximate Percentage*	*Number*	*Approximate Percentage*
Mr. Luan Xiaolong *(Note 2)*	Interest in a controlled corporation *(Note 3, 4)*	660 (L)	66%	[REDACTED] (L)	[REDACTED]%
LXL Phoenix	Beneficial owner *(Note 2)*	560 (L)	56%	[REDACTED] (L)	[REDACTED]%
SDJY Holding	Interest in a controlled corporation *(Note 4)*	100 (L)	10%	[REDACTED] (L)	[REDACTED]%
SEGM Holding	Beneficial owner *(Note 4)*	100 (L)	10%	[REDACTED] (L)	[REDACTED]%
Ms. Zhou Zhan (周展女士) ("***Ms. Zhou***")	Interest of spouse *(Note 5)*	660 (L)	66%	[REDACTED] (L)	[REDACTED]%
Mr. Luan Linjiang *(Note 2)*	Interest in a controlled corporation *(Note 6)*	330 (L)	33%	[REDACTED] (L)	[REDACTED]%
LLJ Phoenix	Beneficial owner *(Note 6)*	330 (L)	33%	[REDACTED] (L)	[REDACTED]%
Ms. Cui Shuhua (崔淑華女士) ("***Ms. Cui***")	Interest of spouse *(Note 7)*	330 (L)	33%	[REDACTED] (L)	[REDACTED]%

Notes:

1. The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
2. Mr. Luan Xiaolong is the son of Mr. Luan Linjiang.
3. LXL Phoenix is wholly-owned by Mr. Luan Xiaolong. Therefore, LXL Phoenix is a controlled corporation of Mr. Luan Xiaolong and Mr. Luan Xiaolong is deemed to be interested in the same number of Shares that LXL Phoenix is interested in under the SFO.

4. SEGM Holding is wholly-owned by SDJY Holding, which is in turn wholly-owned by Mr. Luan Xiaolong. Therefore, by virtue of the SFO, both SDJY Holding and Mr. Luan Xiaolong are deemed to be interested in the same number of Shares held by SEGM Holding.
5. Ms. Zhou is the spouse of Mr. Luan Xiaolong. Under the SFO, Ms. Zhou is deemed to be interested in the same number of Shares in which Mr. Luan Xiaolong is interested.
6. LLJ Phoenix is wholly-owned by Mr. Luan Linjiang. Therefore, LLJ Phoenix is a controlled corporation of Mr. Luan Linjiang and Mr. Luan Linjiang is deemed to be interested in the same number of Shares that LLJ Phoenix is interested in under the SFO.
7. Ms. Cui is the spouse of Mr. Luan Linjiang. Under the SFO, Ms. Cui is deemed to be interested in the same number of Shares in which Mr. Luan Linjiang is interested.

(b) Interest in our subsidiaries

Name of subsidiary	**Name of shareholder**	**Equity interest held as at the Latest Practicable Date**		**Equity interest held immediately upon completion of the Capitalisation Issue and the [REDACTED]**	
		Number	*Approximate Percentage*	*Number*	*Approximate Percentage*
Jiaoyun Shihua	Shandong Shihua	N/A	30%	N/A	30%

Save as disclosed above, our Directors are not aware of any persons who will, immediately following completion of the Capitalisation Issue and the [REDACTED], have an interest or a short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or our subsidiaries. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or our subsidiaries.

OVERVIEW

The following table sets out information in respect of our Directors and senior management:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Role and responsibilities	Relationship with other Directors and senior management
Executive Directors						
Luan Linjiang (欒林江)	59	Chairman and executive Director	July 2003	16 August 2021	Responsible for the overall direction, management and supervision of our Group	Father of Luan Xiaolong and brother of Luan Linxin
Luan Xiaolong (欒小龍) (with former name as Luan Xiaolong (欒曉龍))	35	Executive Director and chief executive officer	January 2016	16 August 2021	Responsible for the overall direction, management, supervision and development strategies of our Group	Son of Luan Linjiang and nephew of Luan Linxin
Luan Linxin (欒林新)	69	Executive Director	February 2016	16 August 2021	Responsible for the overall direction, management and supervision of our Group	Brother of Luan Linjiang and uncle of Luan Xiaolong
Independent Non-executive Directors						
Wei Yi (韋禕)	44	Independent non-executive Director	[●]	[●]	Providing independent judgment on the strategies, policies, performance, accountability, resources, key appointments and standard of conduct of our Group	—
Tian Qiang (田强)	36	Independent non-executive Director	[●]	[●]	Providing independent judgment on the strategies, policies, performance, accountability, resources, key appointments and standard of conduct of our Group	—
Liu Xiaoye (劉霄曄)	31	Independent non-executive Director	[●]	[●]	Providing independent judgment on the strategies, policies, performance, accountability, resources, key appointments and standard of conduct of our Group	—

Apart from Mr. Luan Xiaolong, the following are other members of the senior management:

Name	Age	Position	Date of joining our Group	Date of appointment as senior management	Role and responsibilities	Relationship with other Directors and senior management
Senior Management						
Wang Peng (王鵬)	40	General manager	January 2018	16 August 2021	Responsible for the daily management and supervision of our Group	—
Du Chaolei (杜超雷)	33	Financial controller	January 2018	16 August 2021	Responsible for financial management of our Group	—
Li Hong (李宏)	51	Operations manager	November 2010	16 August 2021	Responsible for operations management of our Group	—
Li Wanmin (李萬敏)	52	Safety manager	July 2003	16 August 2021	Responsible for business security management and inspection of our Group	—
Gao Yan (高燕)	43	Integration manager	July 2004	16 August 2021	Responsible for the management of the administrative affairs of our Group	—

Note: For the business address of the senior management, please refer to the address of the corporate headquarters stated in "Corporate Information" in this document.

BOARD OF DIRECTORS

Our Board of Directors is the primary decision-making body of our Company, setting fundamental business strategies and policies for the management and operation of our business and monitoring their implementation. Our Board comprises six Directors, consisting of three executive Directors and three independent non-executive Directors. Our Directors are elected to serve terms of three years, which are renewable upon re-election and/or re-appointment.

Executive Directors

Mr. Luan Linjiang (欒林江先生), aged 59, is the Chairman and an executive Director. He was appointed as our Director on 9 March 2021, and was appointed as the chairman of our Board and re-designated as our executive Director on 16 August 2021. Mr. Luan is mainly responsible for the overall direction, management and supervision of our Group.

Mr. Luan joined our Group in July 2003. From July 2003 to September 2006 and from August 2009 to February 2016, Mr. Luan served as the legal representative, chairman of the board, executive director and general manager of Jiaoyun Gas, mainly responsible for the overall leadership, management and supervision of Jiaoyun Gas. He has been the legal representative and chairman of the board of Jiaoyun Shihua since April 2013, and general manager of the same since March 2016, where he is responsible for the overall leadership, management and supervision of the company. Mr. Luan is also a director of our other subsidiaries, namely QMRIG and QMHC since July 2021.

Mr. Luan has over 18 years of experience in natural gas industry, over 40 years of experience in transportation industry and over 25 years of experience in the operation and management of companies. Prior to joining our Group, Mr. Luan worked as the chief of dispatching section at the Automobile Third Team of Weifang Automobile Transportation Corporation* (濰坊汽車運輸總公司汽車三隊) from November 1979 to April 1991, where he was responsible for vehicle dispatching. From May 1991 to July 1993, he was the deputy supervisor in the same company, primarily responsible for the management of vehicle operations. From August 1993 to December 1993, he served as the assistant to the manager at Third Transportation Company of Weifang Automobile Transportation Corporation* (濰坊汽車運輸總公司第三運輸公司), where he was mainly responsible for assisting the manager in the overall management and supervision of the company and its related business. From January 1994 to August 1994, he successively served as the deputy manager and manger at Third Transportation Company of Weifang Automobile Transportation Corporation, mainly responsible for the overall leadership, management and supervision of the company and its related business. From September 1994 to December 2000, he served as the manager in Gaomi Coach Transportation Company* (高密市長途汽車運輸公司), where he was responsible for the overall leadership, management and supervision of the company and its related business. From September 1996 to March 2007, he served as the legal representative, chairman of the board, principal in Gaomi Traffic Transportation (Group) Co., Ltd.* (高密市交通運輸(集團)有限公司), where he was responsible for the overall leadership, management and supervision of the company and its business. Since January 2001, he has been serving as the legal representative, executive director and general manager in Jiaoyun Car Transport, where he is responsible for the overall leadership, management and supervision of the company and its business. He served as the chairman of the board and a director of Jiaoyun Property from April 2006 to January 2014, its legal representative from April 2006 to December 2014, its executive director from January 2014 to December 2014, and its general manager from January 2014 to November 2016, where he was mainly responsible for the overall leadership, management and supervision of the company and its business. Since January 2014, he has been serving as the legal representative, executive director and general manager in Jiaoyun Group, where he is mainly responsible for the overall leadership, management and supervision of Jiaoyun Group and its related business. Since February 2014, he has been serving as the chairman of the board and legal representative of Gaoyun Investment, where he is mainly responsible for the overall leadership, management and supervision of the company and its business. Since September 2014, he has been serving as the executive director, general manager and legal representative of Jiaoyun Market, where he is mainly responsible for the overall leadership, management and supervision of the company and its business.

Mr. Luan was the legal representative, director, principal, manager and/or member of the management of the following companies which were incorporated in the PRC and were subsequently dissolved. The relevant details are as follows:

Name of company	Place of incorporation	Nature of business before dissolution	Position	Reason for dissolution	Current status and date of dissolution
Weifang Automobile Transport Company Gaomi Gas Station* (濰坊汽運公司高密加油站)	The PRC	Gasoline, diesel and motor oil retail	Legal representative and member of the management	Cessation of business operation	Business license was revoked on 11 December 2000
Real Estate Project Development Branch of Gaomi Transportation Group* (高密市交通運輸集團房地產項目開發分公司)	The PRC	Property development, operation and leasing	Legal representative	Cessation of business operation	Deregistered on 26 February 2004
Gaomi Traffic Transportation (Group) Co., Ltd.* (高密市交通運輸(集團)有限公司) ("**Gaomi Traffic**")	The PRC	Transportation, automobile maintenance and sale of auto parts	Legal representative, chairman of the board and principal	Cessation of business operation	Business license was revoked on 23 March 2007(Note)
Shandong Gaomi Coach Transportation Company* (山東省高密市長途汽車運輸公司)	The PRC	Transportation and cargo handling	Legal representative and member of the management	Cessation of business operation	Business license was revoked on 23 March 2007
Shandong Gaomi Car Transport Co., Ltd. Pipeline Network Branch* (山東高密市交運汽車運輸有限公司管道網絡分公司)	The PRC	Design and construction of underground pipeline network for strong and weak current	Legal representative	Cessation of business operation	Business license was revoked on 23 March 2007
Shandong Gaomi Car Transport Co., Ltd. Logistics Center* (山東高密市交運汽車運輸有限公司物流中心)	The PRC	Freight, information stowage and warehousing services	Principal	Cessation of business operation	Deregistered on 14 February 2011

Note: Pursuant to a state-owned enterprise reform plan approved by the Enterprise Reform Office of Gaomi City (高密市深化企業改革領導小組辦公室) (the "**Reform Plan**"), Gaomi Traffic's reform and dissolution process was approved on 1 November 2000 and commenced thereafter, but was not deregistered until the revocation of its business licence. According to the Reform Plan, Gaomi Traffic had net liability of approximately RMB3 million at the time its dissolution process commenced.

Save as disclosed, to the best knowledge, information and belief of Mr. Luan, he confirmed that (i) the above companies were solvent immediately prior to the dissolution; (ii) the business licenses of the above companies were revoked due to the relevant staff's failure of conducting annual inspection timely according to relevant regulations but not Mr. Luan's personal liability and there was no wrongful act on his part leading to the dissolution of the above companies; (iii) he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of the above companies; (iv) no misconduct or misfeasance has been involved in the dissolution of the above companies; and (v) he has not been restricted or prohibited to serve as a director, supervisor or senior management of any company by the competent authority. On the basis that (i) according to the Company Law of the PRC, an individual who was legal representative of a company or enterprise which had its business license revoked due to a violation of law and who was personally liable, and a three-year period has not lapsed since the date of the revocation of the business license of such company, shall not serve as a director, supervisor or senior management of a company; (ii) the revocation of the business licenses of the above companies happened before 2008; and (iii) the confirmation from Mr. Luan stated above, our PRC Legal Advisers have confirmed that Mr. Luan's positions as the director and senior management of our Group during the Track Record Period and up to the Latest Practicable Date had not breached the relevant PRC laws which prohibit an individual from acting as legal representative, director, supervisor or senior management of any PRC enterprise for a period of three years from the respective dates when the business licenses of the enterprises in which the individual acted as a legal representative were revoked.

Mr. Luan has been successively awarded as "Advanced Individual Respecting Teachers and Attaching Importance to Education"* (尊師重教先進個人) in Gaomi City in September 2004, "Excellent Constructor of Socialism with Chinese Characteristics"* (優秀中國特色社會主義事業建設者) in Weifang Municipality in April 2008, "Labour Model in Gaomi City"* (高密市勞動模範) in May 2008, "Outstanding People's Congress Representative in Weifang Municipality"* (優秀濰坊市人大代表) in October 2010, and "Outstanding Entrepreneur of the Year of 2011"* (2011年度優秀企業家) in Gaomi City in January 2012.

Mr. Luan Xiaolong (欒小龍先生) (with former name as Luan Xiaolong (欒曉龍)), aged 35, is an executive Director, chief executive officer and Controlling Shareholder. He was appointed as our Director on 9 March 2021, and was re-designated as our executive Director and appointed as our chief executive officer on 16 August 2021. Mr. Luan is mainly responsible for the overall direction, management, supervision and development strategies of our Group.

Mr. Luan joined our Group in January 2016. Since November 2015, Mr. Luan has been serving as the deputy general manager in Jiaoyun Group, where he is primarily responsible for the overall leadership, management and supervision of Jiaoyun Group and its related business, and is also put in charge of the overall leadership, management and supervision of Jiaoyun Gas. Since 1 January 2016, he has been officially appointed as the deputy manager of Jiaoyun Gas and is mainly responsible for the development strategies of Jiaoyun Gas. Mr. Luan also holds various positions in our other subsidiaries, namely director of JY Gas BVI, JY Gas HK, QMRIG and QMHC since March 2021, April 2021, July 2021 and July 2021, respectively, as well as executive director and manager of JY Gas WFOE since May 2021.

Mr. Luan has over six years of experience in natural gas industry and the operation and management of companies and over three years of experience in banking business and the management of companies fields. Prior to joining our Group, Mr. Luan had held various positions in Industrial Bank Co., Ltd. Weifang Branch (興業銀行股份有限公司濰坊分行) (a company listed on the Shanghai Stock Exchange, stock code: 601166), including (i) as the corporate finance account manager from April 2012 to May 2014; (ii) as the account manager of corporate business department of Gaomi Sub-Branch from May 2014 to March 2015; and (iii) as the chief of the first division of corporate business of Gaomi Sub-Branch from March 2015 to September 2015.

Mr. Luan obtained a diploma in business administration from Shandong University (山東大學) in the PRC in July 2009 and a bachelor's degree in business administration from Pacific Lutheran University in the United States in May 2010. He later obtained a master of business administration degree from Pace University in the United States in December 2011.

Mr. Luan Linxin (欒林新先生), aged 69, is an executive Director of our Company. He was appointed as our Director on 16 August 2021, and was re-designated as our executive Director on 14 February 2022. Mr. Luan is mainly responsible for the overall direction, management and supervision of our Group.

Mr. Luan joined our Group in February 2016. Since February 2016, Mr. Luan has been the legal representative, executive director and general manager of Jiaoyun Gas and is mainly responsible for the overall leadership, management and supervision of Jiaoyun Gas.

Mr. Luan has over 17 years of experience in the operation and management of companies. From October 1995 to April 2004, he served as the chief of dispatching section in Shandong Gaomi Intermodal Transport Company* (山東省高密市聯運公司), a company engaging in the provision of road transport services, where he was responsible for vehicle dispatching. From May 2004 to June 2008, he served as the deputy manager in Shandong Baotong Communication Engineering Co., Ltd. Gaomi Branch* (山東寶通通信工程有限公司高密分公司), a company engaging in software and information technology, where he was responsible for the management of the construction of network communication engineering. He then served as the deputy manager in Jiaoyun Thermal from July 2008 to April 2013, and subsequently served as the legal representative, executive director and general manager in the same company since May 2013, primarily responsible for the overall leadership, management and supervision of Jiaoyun Thermal and its related business. From December 2014 to November 2016, Mr. Luan served as the legal representative, executive director and general manager in Jiaoyun Property, where he was mainly responsible for the overall leadership, management and supervision of Jiaoyun Property and its related business. From January 2015 to July 2021, he served as the supervisor in Gaomi Rongtong, where he was mainly responsible for the supervision of the company and its related business.

Independent Non-executive Directors

Mr. Wei Yi (韋禕先生), aged 44, was appointed as our independent non-executive Director on [●]. Mr. Wei is primarily responsible for providing independent judgment on the strategies, policies, performance, accountability, resources, key appointments and standard of conduct of our Group.

Mr. Wei has over 18 years of experience in the legal industry. From July 2003 to July 2016, he worked successively as a lecturer and an associate professor at the Law School of Tianjin Normal University (天津師範大學) in the PRC, where he was responsible for teaching and research of laws. From 2008 to 2016, he worked as a part-time lawyer at Grandall Law Firm Tianjin Office (國浩律師(天津)事務所), where he has been serving successively as a partner and a managing partner since 2016 and 2019, respectively. His practice areas cover capital markets, banking and finance, investment, mergers and acquisitions. His main expertise includes asset securitisation and structured finance.

Mr. Wei was a supervisor of Tianjin Falian Education Information Consulting Co., Ltd.* (天津法聯教育信息諮詢有限公司), a company established in the PRC and whose business license was revoked on 26 November 2013. Mr. Wei confirmed that, to the best of his knowledge, information and belief, the above company was solvent as at the time when its business license was revoked and it had not commenced business since its establishment. He further confirmed that, as at the Latest Practicable Date, no claims have been made against him and he was not aware of any threatened or potential claims made against him and there are or will be no outstanding claims and/or liabilities as a result of the revocation of the business license of the above company.

Mr. Wei obtained his bachelor's degree in economic law from Zhongnan Institute of Politics and Law (中南政法學院) (currently known as Zhongnan University of Economics and Law (中南財經政法大學)) in the PRC in June 1999. He later obtained a master's degree and a doctoral degree in civil and commercial law from Zhongnan University of Economics and Law in June 2003 and June 2009, respectively.

Mr. Wei received the PRC Certificate of Lawyer Qualification granted by Tianjin Municipal Bureau of Justice (天津市司法局) in October 2008. He was conferred the title of lecturer by the Faculty Position Review Committee of Tianjin Normal University (天津師範大學教師職務評審委員會) in October 2005, and obtained the Qualification for Intermediate Professional and Technical Positions (中級專業技術職務任職資格) issued by Tianjin Municipal Human Resources Bureau in March 2006. He was then conferred the title of associate professor by the Faculty Senior Position Review Committee of Tianjin Normal University (天津師範大學教師高級職務評審委員會) in October 2010, and obtained the Qualification Certificate for Senior Professional and Technical Positions (高級專業技術職務資格證書) issued by Tianjin Municipal Human Resources and Social Security Bureau in June 2011. He also obtained the qualification certification of independent directors (獨立董事資格證書) from the Shenzhen Stock Exchange in January 2015. He has been appointed as an arbitrator of Tianjin Arbitration Commission (天津仲裁委員會) since June 2019.

Mr. Tian Qiang (田強先生), aged 36, was appointed as our independent non-executive Director on [●]. Mr. Tian is primarily responsible for providing independent judgment on the strategies, policies, performance, accountability, resources, key appointments and standard of conduct of our Group.

Mr. Tian has over ten years of experience in business management and operations. Since August 2011, he has been serving as the general manager in Qingdao Jiaoping Foods Co., Ltd.* (青島膠平食品有限公司), where he is primarily responsible for the daily operation and management of the company. Since April 2016, he has been serving as the executive director, general manager and legal representative in Qingdao Guomengyuan Food Co., Ltd.* (青島果夢緣食品有限公司), where he is primarily responsible for the overall leadership, management and supervision of the company and its business. Since May 2016, he has been serving as the executive director, legal representative and supply chain director in Qingdao Shilida Foods Co., Ltd.* (青島食利達食品有限公司), where he is primarily responsible for the procurement of raw and auxiliary materials and supplier management as well as the daily management of the factory. Since December 2017, he has been serving as the supervisor in Qingdao Haofengjinting Trading Co., Ltd.* (青島浩豐金霆貿易有限公司), where he is primarily responsible for the overall supervision of the company. Since April 2020, he has been serving as the general manager and supervisor in Qingdao Jiaoping Agricultural Product Co., Ltd.* (青島膠平農產有限公司), where he is primarily responsible for the daily operation and management as well as the overall supervision of the company.

Mr. Tian obtained a master of commerce degree in finance from The University of New South Wales in Australia in August 2011. Mr. Tian received the certificate of financial planner (理財規劃師) issued by the Occupational Skill Testing Authority Ministry of Human Resources and Social Security (人力資源和社會保障部職業技能鑒定中心) in April 2015.

Ms. Liu Xiaoye (劉霄曄女士), aged 31, was appointed as our independent non-executive Director on [●]. Ms. Liu is primarily responsible for providing independent judgment on the strategies, policies, performance, accountability, resources, key appointments and standard of conduct of our Group.

Ms. Liu has over seven years of experience in the accounting and tax-related legal industry. From October 2014 to June 2017, she worked in PricewaterhouseCoopers Business Consulting (Shanghai) Co., Limited Qingdao Branch (普華永道商務諮詢(上海)有限公司青島分公司). From July 2017 to January 2019, she served as an assistant manager of audit business department in Ruihua Certified Public Accountants (Special General Partnership) Qingdao Branch (瑞華會計師事務所(特殊普通合夥)青島分所). From January 2019 to November 2019, she worked as a trainee solicitor in Zhong Lun Law Firm (Qingdao Office) (北京市中倫(青島)律師事務所). Since November 2019, she has been the deputy general manager in Tuowei (Shanghai) Tax Agent Co., Limited* (拓韋(上海)稅務諮詢師事務所有限公司), a company engaging in the provision of tax and financial consulting services, where she is responsible for (i) the operational management of the company's daily affairs and is also put in charge of the human resources, administrative business and legal affairs of the company; and (ii) providing clients with tax consulting, tax compliance and tax due diligence services, etc. She has gained extensive experience in accounting tax-related legal services and financial management consulting services.

Ms. Liu obtained her bachelor's degree in accounting from Ocean University of China (中國海洋大學) in the PRC in June 2013. She later obtained a master's degree in accounting and finance from University of Bath in the United Kingdom in November 2014.

Ms. Liu received the Certificate For Passing All The Required Subjects Of The National Uniform CPA Examination (註冊會計師全國統一考試全科合格證) issued by the Certified Public Accountant Examination Committee of the Ministry of Finance, PRC in December 2015. She also passed the National Accounting Professional and Technical Intermediate Qualification Examination (全國會計專業技術中級資格考試) in 2017. She received the Certificate of Tax Adviser (稅務師証) issued by the China Certified Tax Agents Association (中國注冊稅務師協會) in November 2018 and the Legal Profession Qualification Certificate (法律職業資格證書) of the PRC issued by the Ministry of Justice of the PRC in March 2019.

General

Save as disclosed above, none of our Directors:

(i) had any other relationship with any Directors, senior management or substantial shareholders or Controlling Shareholders as at the Latest Practicable Date; and

(ii) has held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date.

Except for such interests disclosed in "Statutory and General Information — C. Further Information About Our Directors and Substantial Shareholders — 1. Interests and short position of our Directors and the chief executive in the Shares, underlying Shares or debentures of our Company and our associated corporations" in Appendix V to this document, none of our Directors has any interest in the Shares within the meaning of Part XV of the SFO or is a director or an employee of a company which has an interest or short position in the Shares and underlying Shares of our Company. Each of our Directors has confirmed that none of them or their respective close associates is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business or has or may have any conflict of interests with our Group.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) and paragraph 41 of Appendix 1A to the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

The members of our senior management team are responsible for the management of our daily business operations, implementation of our business strategies, risk management and internal control.

For details of **Mr. Luan Xiaolong (欒小龍先生)** (with former name as Luan Xiaolong (欒曉龍)), please refer to "— Board of Directors — Executive Directors" in this section.

Mr. Wang Peng (王鵬先生), aged 40, was appointed as the general manager of our Group on 16 August 2021. Mr. Wang is primarily responsible for the daily management and supervision of our Group.

Mr. Wang joined our Group in January 2018. Since January 2018, he has been the deputy manager of Jiaoyun Gas and is mainly responsible for the daily management of Jiaoyun Gas.

Mr. Wang has over 13 years of experience in finance and accounting industry. From May 2008 to April 2016, he had held various positions in Industrial Bank Co., Ltd. Weifang Branch (興業銀行股份有限公司濰坊分行) (a company listed on the Shanghai Stock Exchange, stock code: 601166), including (i) as a member of the preparation team from May to October 2008; (ii) as head of retail business department from October 2008 to May 2012; (iii) as the controller of Gaomi business department from May 2012 to May 2013; (iv) as the president of Gaomi Sub-Branch from May 2013 to April 2015; and (v) as the president of Shouguang Sub-Branch from April 2015 to April 2016. From April 2016 to January 2018, he served as the assistant to the president in Industrial Bank Co., Ltd. Linyi Branch (興業銀行股份有限公司臨沂分行). Mr. Wang later joined Jiaoyun Group in January 2018 and since then, he has been the deputy general manager of Jiaoyun Group and is mainly responsible for the daily management and supervision of Jiaoyun Group and its related business, and is also put in charge of the daily management and supervision of Jiaoyun Gas.

Mr. Wang obtained his bachelor's degree in finance from Shandong University of Finance (山東財政學院) (which was later merged with Shandong Economic University (山東經濟學院) and currently known as Shandong University of Finance and Economics (山東財經大學) on 4 July 2011) in the PRC in July 2003.

Mr. Du Chaolei (杜超雷先生), aged 33, was appointed as the financial controller of our Group on 16 August 2021. Mr. Du is primarily responsible for financial management of our Group.

Mr. Du joined our Group in January 2018. Since January 2018, he has been the deputy manager of Jiaoyun Gas and is mainly responsible for overseeing the financial management of Jiaoyun Gas.

Mr. Du has over nine years of experience in the accounting industry. From August 2012 to December 2017, he worked in various positions in Hexin Certified Public Accountants LLP (Special General Partnership) Jinan Branch (和信會計師事務所(特殊普通合伙)濟南分所), including (i) as senior auditor from August 2012 to August 2015; (ii) as project manager from August 2015 to August 2016; and (iii) as senior project manager from August 2016 to December 2017. He then joined Jiaoyun Group in January 2018 and since then, he has been serving as the financial controller of Jiaoyun Group, and is in charge of the financial management of Jiaoyun Gas.

Mr. Du obtained his bachelor's degree in accounting from Lanzhou Jiaotong University (蘭州交通大學) in the PRC in June 2012.

Mr. Li Hong (李宏先生), aged 51, was appointed as the operations manager of our Group on 16 August 2021. Mr. Li is primarily responsible for operations management of our Group.

Mr. Li joined our Group in November 2010. From November 2010 to December 2015, he served as the chief of office of Jiaoyun Gas. Since January 2016, he has been the deputy manager of Jiaoyun Gas and is mainly responsible for the business operations of Jiaoyun Gas.

Prior to joining our Group, Mr. Li has over ten years of experience in the management of automobile transportation enterprises. From March 2000 to October 2010, he worked successively as the assistant to the factory manager and the deputy factory manager in Shandong Gaomi Car Transport Co., Ltd. Repair Factory* (山東高密市交運汽車運輸有限公司修理廠), a company engaging in the provision of automobile repair and maintenance services, where he was mainly responsible for the management of automobile repair and maintenance business.

Mr. Li Wanmin (李萬敏先生), aged 52, was appointed as the safety manager of our Group on 16 August 2021. Mr. Li is primarily responsible for business security management and inspection of our Group.

Mr. Li joined our Group in July 2003. He joined Jiaoyun Gas in July 2003, taking charge of gas safety and inspection work and he worked as the deputy chief of the safety inspection department of Jiaoyun Gas in January 2009, and then he was promoted to serve as the chief of the safety inspection department of Jiaoyun Gas in January 2013. Since January 2016, he has been the deputy manager of Jiaoyun Gas and is mainly responsible for the business safety management and inspection of Jiaoyun Gas.

Prior to joining our Group, Mr. Li has over 15 years of experience in the passenger transportation industry. From January 1988 to February 1994, he worked at the Eleventh Team of Weifang Automobile Transportation Corporation* (濰坊汽車運輸公司十一隊), where he was mainly responsible for the maintenance of automobiles. From March 1994 to June 2003, he worked as the team leader of passenger transportation in Jiaoyun Car Transport, where he was mainly responsible for the operation of passenger transportation lines for towns and villages.

Ms. Gao Yan (高燕女士), aged 43, was appointed as the integration manager of our Group on 16 August 2021. Ms. Gao is primarily responsible for the management of the administrative affairs of our Group.

Ms. Gao joined our Group in July 2004. Since July 2004, she has been responsible for the administrative affairs of Jiaoyun Gas, and was promoted to serve as the deputy manager of Jiaoyun Gas in January 2018 and is mainly responsible for the management of the administrative affairs of Jiaoyun Gas.

Prior to joining our Group, Ms. Gao has over five years of experience in the administrative management field. From September 1998 to June 2004, she worked as the deputy chief of office in Shandong Tianda Biological Co., Ltd.* (山東天達生物股份有限公司), a company engaging in the production and sale of agricultural fertiliser and biotechnological products, where she was mainly responsible for office works.

Ms. Gao obtained a diploma in human resources management by attending online courses from Dongbei University of Finance & Economics (東北財經大學) in the PRC on 1 January 2020.

To the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, save as disclosed above, none of the above members of senior management has been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this document.

JOINT COMPANY SECRETARIES

Mr. Zhang Yupeng (張聿鵬先生), aged 37, was appointed as one of our joint company secretaries on 16 August 2021. He is responsible for the management of human resources related business of our Group.

Mr. Zhang joined our Group in January 2016. Since January 2016, he has been the deputy director of human resources department of Jiaoyun Gas and is mainly responsible for the management of salary, performance appraisal, provident fund and enterprise information communication etc. of Jiaoyun Gas.

Mr. Zhang has over 14 years of experience in human resources field. From July 2007 to December 2015, he served as the deputy chief of the administrative section in Jiaoyun Car Transport, mainly responsible for the management of the daily administrative affairs of the company. From January 2016 and up until now, he has been the deputy director of human resources department of Jiaoyun Group, mainly responsible for the management of human resources related business of Jiaoyun Group, and is also in charge of the management of salary, performance appraisal, provident fund and enterprise information communication etc. of Jiaoyun Gas.

Mr. Zhang obtained a diploma in law from China Agricultural University (中國農業大學) in the PRC in July 2007. He later obtained a bachelor's degree in human resources management from Shandong University of Technology (山東理工大學) in the PRC in July 2019.

Ms. Ho Wing Nga (何詠雅女士) was appointed as one of our joint company secretaries on 16 August 2021, where she is responsible for company secretarial matters. Ms. Ho satisfies the requirements for company secretaries under Rules 3.28 and 8.17 of the Listing Rules.

Ms. Ho has over 25 years of experience in the corporate secretarial field. Ms. Ho currently serves as the managing director of the governance services of Computershare Hong Kong Development Limited and as joint company secretary of Financial Street Property Co., Limited (a company listed on the Stock Exchange, stock code: 1502), Newlink Technology Inc. (a company listed on the Stock Exchange, stock code: 9600) and company secretary of CENTRAL CHINA MANAGEMENT COMPANY LIMITED (a company listed on the Stock Exchange, stock code: 9982).

Ms. Ho obtained her master's degree in corporate governance from The Hong Kong Polytechnic University in December 2006 and became an associate of The Hong Kong Chartered Governance Institute ("**HKCGI**", previously known as The Hong Kong Institute of Chartered Secretaries) in the same month. In March 2015, Ms. Ho became a fellow of HKCGI and a fellow of The Chartered Governance Institute, UK. She is also a member of The Hong Kong Institute of Directors.

BOARD COMMITTEES

Our Company has established five committees under our Board pursuant to corporate governance practice requirements under the Listing Rules, namely the audit committee, remuneration committee, nomination committee, risk management committee and ESG committee.

Audit committee

We have established an audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system and internal audit functions of our Group, and to advise our Board. The audit committee comprises three independent non-executive Directors, namely Ms. Liu Xiaoye, Mr. Tian Qiang and Mr. Wei Yi. Ms. Liu Xiaoye, being the chairlady of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Remuneration committee

We have established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to our Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management. The remuneration committee comprises one executive Director and two independent non-executive Directors, namely Mr. Luan Xiaolong, Mr. Tian Qiang and Mr. Wei Yi. Mr. Tian Qiang is the chairman of the committee.

Nomination committee

We have established a nomination committee in compliance with Rule 3.27A of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board regarding the appointment of Directors and Board succession. The nomination committee comprises our Chairman and two independent non-executive Directors, namely Mr. Luan Linjiang, Ms. Liu Xiaoye, and Mr. Tian Qiang. Mr. Luan Linjiang is the chairman of the committee.

Risk management committee

We have established a risk management committee. The primary duties of the risk management committee are to review general goals and fundamental policies of our risk and compliance management, internal control and risk management system of our Group, improve corporate governance of our Group, assess the risks our operations may be exposed to and make recommendations to our Board accordingly. In addition, matters in relation to all related party transactions and connected transactions will need to be reviewed by our risk management committee. This includes (i) collecting and administrating the information of connected persons and related parties; (ii) managing and reviewing connected transactions and related party transactions, and controlling risks associated with connected transactions and related party transactions; (iii) reviewing information and disclosures of connected persons and/or related parties and connected transactions and/or related party transactions in public disclosure documents of our Company; (iv) formulating the regulations and management regulations in relation to our connected transactions and related party transactions; and (v) proposing to our Board for approval after deliberation of the connected transactions and related party transactions. The risk management committee comprises one executive Director and two independent non-executive Directors, namely Mr. Luan Xiaolong, Ms. Liu Xiaoye and Mr. Wei Yi. Ms. Liu Xiaoye is the chairlady of the committee.

ESG committee

We have established a ESG committee according to our ESG strategies and policy. The primary duties of the ESG committee are to support 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. The 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 committee.

COMPENSATION OF DIRECTORS AND MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of salaries, bonuses and other benefits in kind such as contributions to pension plans.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the aggregate amount of emoluments, salaries, allowances, discretionary bonus, defined contribution retirement plans and other benefits in kind (if applicable) paid by us to our Directors (in their role as senior management and employee before their appointment as Directors) were approximately RMB144,000, RMB137,000, RMB160,000 and RMB56,000 respectively. During the Track Record Period, none of our Directors have waived any remuneration.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the aggregate remuneration (including wages, salaries, bonuses, pension costs, housing funds, medical insurance and other social insurances) paid to the five highest paid individuals of our Company were approximately RMB483,000, RMB513,000, RMB626,000 and RMB155,000, respectively.

During the Track Record Period, no remuneration was paid by us nor receivable by our Directors or the five highest remuneration individuals as incentives for joining or as rewards upon joining our Company. During the Track Record Period, no remuneration was paid by us nor receivable by our Directors, past directors or the five highest remuneration individuals as compensation for leaving positions relating to management affairs in any subsidiary of our Company.

Under the arrangements currently in force, we estimate the aggregate emoluments (excluding any discretionary bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2022 are expected to be approximately RMB286,000.

Save as disclosed above, during the Track Record Period, no other amounts have been paid or payable by us or any of our subsidiaries to our Directors or the five highest remuneration individuals.

Save as disclosed above, no Director is entitled to receive other special benefits from our Company.

For remuneration details of all directors as well as information on the highest paid individuals during the Track Record Period, please refer to Notes 9(a) and 33 to the Accountant's Report as set out in Appendix I to this document.

COMPLIANCE ADVISER

We have appointed China Industrial Securities International Capital Limited as our compliance adviser (the "**Compliance Adviser**") pursuant to Rule 3A.19 of the Listing Rules. Our Compliance Adviser will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, our Compliance Adviser will advise our Company in certain circumstances including:

(1) before the publication of any regulatory announcement, circular, or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(3) where we propose to use the proceeds of the [REDACTED] in a manner different from that detailed in this document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this document; and

(4) where the Stock Exchange makes an inquiry to our Company regarding unusual movements in the price or trading volume of its [REDACTED] securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of appointment of our Compliance Adviser shall commence on the [REDACTED] and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

BOARD DIVERSITY POLICY

Our Board has adopted a board diversity policy in accordance with Rule 13.92 of the Listing Rules. With a view to achieving sustainable and balanced development, we are committed to increasing diversity in our Board in order to bring in innovation, fresh and broad business perspectives and enhance the decision-making process of our Board. Our Board is of the view that having diversity will help our Company better understand and meet the needs of the customers and maintain our competitive advantages in the natural gas industry.

Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy and contribution that the selected candidates may bring to our Board, and candidates will be considered against objective criteria, having due regard to the benefits of diversity to our Board. Our nomination committee will monitor the implementation of our Board diversity policy on an ongoing basis. It shall report annually, in our corporate governance report, on our Board's composition under diversified perspectives together with a summary of our Board diversity policy, the measurable objectives for implementing this policy and the progress of achieving our objectives to achieve Board diversity.

In compliance with our Board's diversity policy, our Board currently comprises members from diverse gender, age, cultural and educational background. Our Board comprises six members, including one female Director and five male Directors with a balanced mix of knowledge and skills in various aspects of business management. We have three independent non-executive Directors who have different industry backgrounds, including accounting, legal and business operation. Furthermore, our Board has a relatively wide range of ages, ranging from 30 to 69 years old. Taking into account our business model and specific needs and also the above (including our presence of one female Director out of a total of six Directors), we consider that the composition of our Board satisfies our board diversity policy.

After [REDACTED], our Group will continue to maintain gender diversity through measures implemented by our nomination committee in accordance with our board diversity policy. Within our Group, we conduct performance appraisals periodically by which we may identify and select female employees with a diverse range of knowledge, skills and experiences in different fields who are qualified to become our Board members. We are committed to promote our gender diversity continuously, from the Board downwards to workforce level, by (i) continuing to make appointments based on merits with reference to board diversity as a whole; (ii) by recruiting staff of different gender at all levels of our Group; (iii) providing career development opportunities and more resources in training female staff with the aim of promoting them to the senior management or board of our Company. After [REDACTED], we will maintain at least one female Director and at least 15% female representation in our Board.

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately following the completion of the Capitalisation Issue and the [REDACTED]:

Authorised share capital as at the date of this document:

		Aggregate nominal value *US$*
[2,000,000,000]	Shares of US$0.0001 each	[200,000.00]

Shares issued and to be issued, fully paid or credited as fully paid:

Assuming the [REDACTED] is not exercised, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the [REDACTED] will be as follows:

1,000	Shares in issue as of the date of this document	0.10
[REDACTED]	Shares to be issued pursuant to the Capitalisation Issue	[REDACTED]
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED]	**Total**	[REDACTED]

Assuming the [REDACTED] is exercised in full, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the [REDACTED] will be as follows:

1,000	Shares in issue at the date of this document	0.10
[REDACTED]	Shares to be issued pursuant to the Capitalisation Issue	[REDACTED]
[REDACTED]	Shares to be issued pursuant to the [REDACTED]	[REDACTED]
[REDACTED]	**Total**	[REDACTED]

Assumptions

The above tables assume the [REDACTED] has become unconditional and the Shares are issued pursuant to the [REDACTED] and the Capitalisation Issue. It does not take into account any Share which may be allotted and issued or repurchased by our Company pursuant to the general mandates given to our Directors to allot and issue or repurchase Shares as referred to below.

RANKING

The [REDACTED] and all Shares shall rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this document except for the Capitalisation Issue.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) Listing Rules, at the time of the [REDACTED] and at all times thereafter, we must maintain the minimum prescribed percentage of at least 25% of our total issued share capital in the hands of the public (as defined in the Listing Rules).

GENERAL MANDATE TO ISSUE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to allot and issue Shares. For further details of this general mandate, please refer to "Statutory and General Information — A. Further Information about our Group — 4. Written resolutions of our Shareholders passed on [●] 2022" in Appendix V to this document.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [REDACTED] becoming unconditional, our Directors have been granted a general mandate to repurchase Shares. For further details of this general mandate, please refer to "Statutory and General Information — A. Further Information about our Group — 4. Written resolutions of our Shareholders passed on [●] 2022" in Appendix V to this document.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Act and the terms of our Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Act reduce its share capital by special resolution of shareholders. For details, please refer to "Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital" in Appendix IV to this document.

Pursuant to the Companies Act and the terms of our Memorandum of Association and our Articles of Association, all or any of the special rights attached to our Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares in that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares in that class. For details, please refer to "Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (ii) Variation of rights of existing shares or classes of shares" in Appendix IV to this document.

The following discussion and analysis of our business, financial condition and results of operations are based on and should be read in conjunction with our financial statements as at and for each of the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, including the notes thereto, as set out in the Accountant's Report in Appendix I to this document and other financial information appearing elsewhere in this document. Our consolidated financial statements have been prepared in accordance with HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed "Risk Factors" and "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 the administrative area of Gaomi City, including both urban and rural areas, 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% of the total administrative area of Gaomi City.

During the Track Record Period, we primarily generated revenue from our sale of natural gas in Gaomi City. The sale of PNG is our principal business. For the years ended 31 December 2019, 2020 and 2021 and the 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, our other businesses included the sale of CNG and LNG, the provision of construction and installation services and the sale of gas-burning appliances.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 March 2021. In preparation for the [REDACTED], we underwent the Reorganisation, as detailed in "History, Reorganisation and Corporate Structure" in this document. Following the Reorganisation, our Company became the holding company of all the companies now comprising our Group. The historical financial information of the companies now comprising our Group has been prepared on a consolidated basis and is presented using the respective carrying value of the [REDACTED] business for all periods presented. The historical financial information presents the consolidated results and financial position of our Group as if the current group structure had been in existence throughout the Track Record Period and as if the [REDACTED] business was transferred to our Group at the beginning of the earliest period presented or when such businesses were established, whichever is the shorter period, but excludes certain subsidiaries held by Jiaoyun Gas prior to the completion of the Reorganisation engaged in businesses not relating to the [REDACTED] business (including the supply of centralised heating, equity and debt investments and the provision of financial consulting and related services) (the "**Non-core business**"). The Non-core business is not a part of our Group pursuant to the Reorganisation and was historically managed separately from the [REDACTED] business. For details, please refer to "History, Reorganisation and Corporate Structure", "Business" and "Relationship with Our Controlling Shareholders" in this document. The [REDACTED] business and Non-core business have historically operated as stand-alone businesses and have maintained separated accounting records and management accounts. Inter-company transactions, balances and unrealised gains/losses on transactions between companies within our Group are eliminated on combination.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants. Our historical financial information has been prepared under the historical cost convention, except that investment properties are measured at fair value. The preparation of our historical financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Group's accounting policies. For details of the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to our historical financial information, please refer to Note 4 of the Accountant's Report as set out in Appendix I to this document.

The HKICPA issued a number of new and revised HKFRS during the Track Record Period. For the purpose of preparing our historical financial information, our Group has adopted all applicable new and revised HKFRSs including HKFRS 9 Financial Instruments, HKFRS 15 Revenue from Contracts with Customers and HKFRS 16 Leases ("**HKFRS 16**") throughout the Track Record Period. Certain new standards and amendments to existing standards have been issued but are not effective and have not been adopted early by our Group. These new standards and amendments to existing standards are effective for annual periods beginning on or after 1 May 2022. Our Group intends to adopt the new standards and amendments to existing standards when they become effective. Our Directors are of the view that the adoption of the new standards and amendments to existing standards would not have a material impact on our Group's financial statements. For details, please refer to Note 2.1 of the Accountant's Report as set out in Appendix I to this document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATION

Our results of operations and financial position have been and will continue to be affected by a number of factors, including those set out in "Risk Factors" in this document and those discussed below:

Our Concession right to operate natural gas sales related businesses within the Operating Area

We operate natural gas sales and related businesses under our Concession in Gaomi City, Weifang Municipality of Shandong Province. As at the Latest Practicable Date, our Operating Area represented approximately 70% of the total administrative area of Gaomi City. Pursuant to the Concession Agreement, we are entitled to exclusively sell PNG and provide related services within the Operating Area. During the Track Record Period, we primarily generated revenue from our sale of PNG.

Our Concession has an effective term of 30 years from 18 August 2009. Our Concession may be cancelled under certain circumstances. For more details relating to our Concession, please refer to "Business — Concession Operation — Key Terms of Concession Agreement" in this document. Upon the expiry of our Concession, we will need to go through a prescribed public selection process, such as public bidding process, to renew our Concession under the *Measures for the Administration of the Franchise of Municipal Public Facilities* (*《市政公用事業特許經營管理辦法》*) (the "**Concession Measures**"). According to the Concession Measures, our Group, as the existing Concession grantee, will be given priority in renewing the Concession. If our Concession Agreement is terminated before expiration, or we are not able to renew it or commence alternative operations which are similar in scope and nature to our existing operations in the Operating Area, our business, financial condition and results of operations are likely to be materially and adversely affected. 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 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.

Natural gas pricing mechanism

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

Prior to June 2018, the procurement price for residential usage PNG sourced from our suppliers was restricted to the maximum benchmark gate price set by the NDRC (最高門站價格), while the procurement price for non-residential PNG was determined with reference to the benchmark gate price (基準門站價格) and restricted to 120% of such benchmark gate price. Pursuant to the *Notice on Straightening the Gate Price of Natural Gas for Residential Usage (Fa Gai Jia Ge Gui [2018] No. 794)* (*《國家發展改革委關於理順居民用氣門站價格的通知》(發改價格規[2018]794號)*) issued by the NDRC in May 2018, in order to link up the pricing mechanism between the residential and non-residential usage of natural gas, the procurement price for both residential and non-residential PNG shall be restricted to 120% of the benchmark gate price. During the Track Record Period and as at 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. If the prices of PNG that we procure from our PNG suppliers fluctuate due to changes in prevailing market conditions or regulatory policies, and we are unable to pass on the impact of such price adjustments to our PNG end-users in a timely manner, our revenue, cash flows and results of operations may be materially and adversely affected.

The local pricing bureau, on the other hand, regulates the end-user prices at which PNG is sold to our PNG end-users in our Operating Area. In general, the end-user price for residential PNG is fixed by the local pricing bureau, whereas the end-user price for industrial and commercial PNG is agreed between us and the PNG end-users, subject to the maximum PNG end-user price as determined by the local pricing bureau.

Sensitivity analysis

Any unfavourable changes to the pricing of PNG may adversely affect our revenue, cash flows and results of operations. For illustrative purposes, the table below sets out a sensitivity analysis of the effect of fluctuations in our per unit PNG end-user selling price and per unit procurement price of PNG, respectively, on our profit before tax during the Track Record Period. Fluctuations are assumed to be 5% and 10%, respectively. Prospective [REDACTED] should note that this sensitivity analysis is based on assumptions and is for reference only. As such, it should not be viewed as actual effect.

	Impact on profit before tax				
	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*
Per unit PNG end-user selling price					
+/- 5%	+/-14,089	+/-12,348	+/-15,258	+/-5,241	+/-6,661
+/- 10%	+/-28,178	+/-24,696	+/-30,515	+/-10,482	+/-13,322
Per unit procurement price					
+/- 5%	-/+11,405	-/+9,372	-/+11,760	-/+3,863	-/+4,642
+/- 10%	-/+22,809	-/+18,744	-/+23,520	-/+7,727	-/+9,285

Sales and customer mix

During the Track Record Period, our business mainly comprised (i) the sale of PNG; (ii) the sale of CNG and LNG; (iii) the provision of construction and installation services; and (iv) the sale of gas-burning appliances. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our gross profit margin was 23.4%, 28.2%, 22.0% and 14.4%, respectively. The fluctuation in gross profit margin was partly due to our different sales mix as our different business segments generated different gross profit margins with different trends.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our sale of PNG generated a gross profit margin of 18.0%, 19.5%, 14.3% and 9.3%, respectively, while our sale of CNG and LNG generated a gross profit margin of 30.9%, 25.6%, 21.4% and 22.9%. For the same periods, our construction and installation services generated a gross profit margin of

62.2%, 58.0%, 40.3% and 53.5%, respectively, while our sale of gas-burning appliances generated a gross profit margin of 25.0%, 52.7%, 45.9% and 35.6%, respectively. Fluctuations in the gross profit margin of our sale of PNG are mainly driven by (i) the prices at which we procure PNG from our suppliers; and (ii) the prices at which we sell PNG to our PNG end-users, both of which are subject to the relevant pricing regulations. Our PNG end-user selling prices are generally different for residential PNG end-users and non-residential PNG end-users due to different pricing regulations. Fluctuations in the gross profit margin of our sale of CNG and LNG are mainly driven by the selling and procurement prices of our CNG and LNG. Fluctuations in the gross profit margin of our construction and installation services are driven by the types of projects undertaken by us, while fluctuations in the gross profit margin of our sale of gas-burning appliances are mainly driven by the types of appliances sold.

Consequently, the gross profit margin of and revenue from each of our business segments are affected by our sales and customer mix. Going forward, we will continue to evaluate and adjust our portfolio of product and service offerings from time to time to focus on products and services with higher profit margins, greater market demand and potential to maintain or increase our profitability.

Impact of COVID-19

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 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 outbreak COVID-19, the PRC Government has imposed strict measures across the PRC since around 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. Our sales of PNG to our industrial and commercial PNG end-users decreased in the first few months of 2020 due to the suspension of business operations by some of our PNG end-users a result of the aforesaid measures. Our Directors consider that demands for PNG from our PNG end-users had generally returned to normal levels by the fourth quarter of 2020. In around March to April of 2022, a temporary suspension of business for certain industries and a partial lockdown was also imposed in Gaomi City due to the resurgence of COVID-19. As at the Latest Practicable Date, lock-down measures in most regions of PRC (including Gaomi City in particular) that are relevant to our business have been substantially lifted. For details of the impact of COVID-19 on our business operations, please refer to "Business — Effects of the COVID-19 Outbreak" in this document.

The situation of the COVID-19 pandemic is constantly evolving and it remains uncertain when it will end. The COVID-19 has, and may continue to, adversely affect the global and PRC's economy. As a result, our business operation and financial condition may be adversely affected.

Favourable government policies and regulations

During the Track Record Period, our business and results of operations benefitted from favourable government policies and regulations which promote the consumption of natural gas and encourage the growth of the city natural gas supply market. Since the beginning of our operation, our business growth has been supported from time to time by policies and regulations implemented by the PRC Government which encourage the use of natural gas as a clean alternative to coal consumption. This has had a positive impact on our sale of natural gas, being our primary business segment, and our provision of construction and installation services and sale of gas-burning appliances, being our ancillary business segments.

For example, according to the CIC Report, the PRC Government adopted a series of policies in respect of the coal-to-gas project (煤改氣工程) from 2016 to 2017 which require industrial and residential energy users in Shandong Province to switch from coal to gas for a range of activities such as heating, cooking and hot water supply. Such policies, as well as the "West-East Gas Pipeline Project" ("西氣東輸工程") and the target of realising "natural gas coverage to each village and town" ("村村通和鎮鎮通"), have contributed to an increase in the consumption of natural gas in Shandong Province. In Gaomi City, the *"Opinions on Promoting the Clearing of Coal in the Zero Coal-Burning Restricted Area and Unheated Households"* (*《關於推進禁燃區燃煤清零和未供暖戶清零的意見》*) promulgated by the local government in June 2020 (the "**Zero-coal Policy**") has also contributed to increased natural gas consumption by encouraging the elimination of coal consumption. For further details of favourable government policies and regulations, please refer to "Business — Our Competitive Strengths — We benefit from government policies relating to environmental protection" in this document. Existing and future government policies and regulations relating to environmental protection and the reduction of coal emissions are expected to continue benefitting the natural gas industry, all of which may have a positive impact on our business, financial condition and operating results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our historical financial information. Our significant accounting policies are set out in detail in Note 2 of the Accountant's Report included in Appendix I to this document. Some of our significant accounting policies involve subjective assumptions and estimates, as well as complex judgements by our management relating to accounting items. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Our Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to our historical financial information, are disclosed in Note 4 of the Accountant's Report included in Appendix I to this document.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets out our consolidated statements of comprehensive income with line items in absolute amounts for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	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 (unaudited)*	*RMB'000*
Revenue	354,231	347,943	440,894	135,962	158,253
Cost of sales	(271,495)	(249,912)	(343,677)	(110,494)	(135,485)
Gross profit	82,736	98,031	97,217	25,468	22,768
Administrative expenses	(14,915)	(18,051)	(19,161)	(4,968)	(8,447)
Reversal of net impairment losses on financial assets	2,944	1,699	800	1,805	3
Other income	229	229	15,396	101	1,193
Other gains/(losses), net	1,464	(309)	863	(219)	854
Operating profit	72,458	81,599	95,115	22,187	16,371
Finance income	3,625	3,065	512	105	324
Finance costs	(25,935)	(16,203)	(4,119)	(1,384)	(838)
Finance costs, net	(22,310)	(13,138)	(3,607)	(1,279)	(514)
Profit before income tax	50,148	68,461	91,508	20,908	15,857
Income tax expense	(13,122)	(17,439)	(23,134)	(5,295)	(3,999)
Profit and total comprehensive income for the year/period	37,026	51,022	68,374	15,613	11,858
Profit and total comprehensive income attributable to:					
Owners of our Company	35,223	50,081	67,505	15,253	11,318
Non-controlling interests	1,803	941	869	360	540
	37,026	51,022	68,374	15,613	11,858
Basic and diluted earnings per share for profit attributable to the equity holders of our Company (RMB)	35.22	50.08	67.51	15.25	11.32

NON-HKFRS MEASURE: ADJUSTED NET PROFIT

To supplement our consolidated results which are prepared and presented in accordance with HKFRS, we also used adjusted net profit as an additional financial measure, which is not required by, or presented in accordance with HKFRS. We believe that this non-HKFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating the potential impact of our [REDACTED] expenses, since [REDACTED] expenses are one-off for the purpose of [REDACTED], unrelated to our normal business operations, and is unlikely to recur in the foreseeable future. [REDACTED] expenses were incurred over the years ended 31 December 2020 and 2021 and the four months ended 30 April 2022, due to a prolonged period of preparation for the [REDACTED], hence adjustments were made to reflect our Company's operating performance. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in its isolated form, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. In addition, this non-HKFRS measure may be defined differently from similar terms used by other companies.

The table below sets out the reconciliation of our non-HKFRS measure for the Track Record Period to the nearest measure prepared in accordance with HKFRS.

	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* *(unaudited)*	*RMB'000*
Profit and total comprehensive income for the year/period	37,026	51,022	68,374	15,613	11,858
Non-HKFRS Measure					
Excluding:					
Non-recurring item — [REDACTED] expenses	—	3,974	5,838	1,158	4,192
Adjusted net profit	37,026	54,996	74,212	16,771	16,050

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, all of our revenue was generated from (i) the sale of PNG; (ii) the sale of CNG and LNG; (iii) the provision of construction and installation services; and (iv) the sale of gas-burning appliances. For the years ended 31 December 2019, 2020 and 2021 and the 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, all of our revenue was generated within the PRC.

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

	For the year ended 31 December						For the four months ended 30 April			
	2019		2020		2021		2021		2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
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(1)	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(2)	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

Notes:

(1) For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, nil, nil, approximately RMB12,832,000 and nil, or nil, nil, approximately 21.1% and nil of our revenue from construction and installation services, respectively, were contributed by the Clean Energy Projects.

(2) 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 of our revenue from the sale of gas-burning appliances, respectively, were contributed by the Clean Energy Projects.

Sale of gas

Our sale of gas includes (i) our sale of PNG through our urban pipeline network to retail customers, consisting of residential, commercial and industrial PNG end-users, and to two wholesale customers; and (ii) our sale of CNG and LNG to vehicle users at our CNG and LNG refuelling stations. Revenue from the sale of gas is recognised at a point in time when control of the gas is transferred to the customer, generally on transmission of the gas. Revenue from our sale of gas amounted to approximately RMB317.5 million, RMB269.7 million, RMB327.2 million and RMB142.2 million for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, accounting for approximately 89.6%, 77.5%, 74.2% and 89.9% of our total revenue for the same periods, respectively.

The following table sets out a breakdown of revenue from our sale of gas during the Track Record Period.

	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* (*unaudited*)	*%*	*RMB'000*	*%*
Sale of gas										
PNG	281,783	88.8	246,959	91.6	305,150	93.3	104,820	93.6	133,215	93.7
CNG and LNG	35,677	11.2	22,726	8.4	22,023	6.7	7,123	6.4	9,013	6.3
Total	317,460	100.0	269,685	100.0	327,173	100.0	111,943	100.0	142,228	100.0

(i) Sale of PNG

During the Track Record Period, we primarily supplied PNG to retail customers, consisting of residential, commercial and industrial PNG end-users, via our urban pipeline network. We also supplied PNG to two wholesale customers through the connection of our pipelines to the pipelines of such customers. Revenue from our PNG sales decreased from approximately RMB281.8 million for the year ended 31 December 2019 to approximately RMB247.0 million for the year ended 31 December 2020, primarily attributable to a decrease in our per unit selling price of PNG to industrial PNG end-users. This was due to the temporary price reduction set by the relevant government authorities in the first quarter of 2020. The temporary price reduction was a response to the impacts of the COVID-19 outbreak on industrial production in Gaomi City. Revenue from our PNG sales increased from approximately RMB247.0 million for the year ended 31 December 2020 to approximately RMB305.2 million for the year ended 31 December 2021, primarily attributable to an increase in PNG consumption by industrial PNG end-users as the adverse impacts of the COVID-19 outbreak gradually subsided. Revenue from our PNG sales increased from approximately RMB104.8 million for the four months ended 30 April 2021 to approximately RMB133.2 million for the four months ended 30 April 2022, primarily attributable to an increase in our per unit selling price of PNG to industrial and commercial PNG end-users, as well as an increase in PNG consumption by residential PNG end-users as a result of our implementation of the Clean Energy Projects.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue from our sale of PNG to our retail customers, being our PNG end-users, accounted for approximately 93.6%, 99.3%, 98.4% and 98.2%, respectively, of our revenue from the sale of PNG. For the same periods, the remainder of the revenue from our sale of PNG, which was derived from PNG sales to our two wholesale customers, accounted for approximately 6.4%, 0.7%, 1.6% and 1.8%, respectively, of our revenue from the sale of PNG.

The table below sets out key data relating to our sale of PNG for the periods indicated.

	For the year ended 31 December			For the four months ended 30 April	
	2019	2020	2021	2021	2022
				(unaudited)	
Retail customers					
Industrial PNG end-users					
Sales volume ('000 m^3)	64,434	66,078	75,603	25,535	23,962
As a percentage of total PNG sales volume (%)	68.9	75.1	74.0	71.4	62.3
Average PNG end-user selling price without VAT (RMB/m^3)	3.2	2.9	3.1	3.0	3.9
Revenue (RMB'000)	205,806	188,630	233,468	76,915	92,615
As a percentage of total revenue from PNG sales (%)	73.0	76.4	76.5	73.4	69.5
Residential PNG end-users					
Sales volume ('000 m^3)	13,573	16,610	18,372	7,201	11,578
As a percentage of total PNG sales volume (%)	14.5	18.9	18.0	20.1	30.1
Average PNG end-user selling price without VAT (RMB/m^3)	2.5	2.6	2.6	2.6	2.6
Revenue (RMB'000)	33,935	43,537	48,135	18,793	30,334
As a percentage of total revenue from PNG sales (%)	12.0	17.6	15.8	17.9	22.8
Commercial PNG end-users					
Sales volume ('000 m^3)	7,572	4,527	5,892	2,676	1,966
As a percentage of total PNG sales volume (%)	8.1	5.1	5.8	7.5	5.1
Average PNG end-user selling price without VAT (RMB/m^3)	3.2	2.9	3.2	3.1	4.0
Revenue (RMB'000)	23,884	12,976	18,679	8,394	7,803
As a percentage of total revenue from PNG sales (%)	8.5	5.3	6.1	8.0	5.9
Wholesale customers					
Sales volume ('000 m^3)	7,918	795	2,237	355	973
As a percentage of total PNG sales volume (%)	8.5	0.9	2.2	1.0	2.5
Average PNG end-user selling price without VAT (RMB/m^3)	2.3	2.3	2.2	2.0	2.5
Revenue (RMB'000)	18,158	1,816	4,868	718	2,463
As a percentage of total revenue from PNG sales (%)	6.5	0.7	1.6	0.7	1.8
Total sale of PNG					
Sales volume ('000 m^3)	93,497	88,010	102,104	35,767	38,479
Average PNG end-user selling price without VAT (RMB/m^3)	3.0	2.8	3.0	2.9	3.5
Revenue (RMB'000)	281,783	246,959	305,150	104,820	133,215

Industrial PNG end-users

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue from our sale of PNG to industrial PNG end-users was approximately RMB205.8 million, RMB188.6 million, RMB233.5 million and RMB92.6 million, accounting for approximately 73.0%, 76.4%, 76.5% and 69.5% of our total revenue from PNG sales, respectively.

Our sales volume increased from approximately 64.4 million m^3 for the year ended 31 December 2019 to approximately 66.1 million m^3 for the year ended 31 December 2020 as a result of increased production activity among our industrial PNG end-users. Our sales volume increased to approximately 75.6 million m^3 for the year ended 31 December 2021 as the adverse impacts of the COVID-19 outbreak on industrial operations in Gaomi City gradually subsided. Our sales volume decreased from approximately 25.5 million m^3 for the four months ended 30 April 2021 to approximately 24.0 million m^3 for the four months ended 30 April 2022 due to the resurgence of COVID-19 in March 2022, which had a temporary adverse impact on industrial operations in Gaomi City.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our average selling price of PNG to industrial PNG end-users per m^3 was approximately RMB3.2, RMB2.9, RMB3.1 and RMB3.9, respectively. Our PNG end-user selling price per m^3 decreased from approximately RMB3.2 for the year ended 31 December 2019 to approximately RMB2.9 for the year ended 31 December 2020, primarily due to the temporary price reduction set by the relevant authorities in the first quarter of 2020. Our PNG end-user selling price per m^3 recovered to approximately RMB3.1 for the year ended 31 December 2021. Our PNG end-user selling price per m^3 subsequently increased from approximately RMB3.0 for the four months ended 30 April 2021 to approximately RMB3.9 for the four months ended 30 April 2022.

Residential PNG end-users

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue from our sale of PNG to residential PNG end-users was approximately RMB33.9 million, RMB43.5 million, RMB48.1 million and RMB30.3 million, accounting for approximately 12.0%, 17.6%, 15.8% and 22.8% of our total revenue from PNG sales, respectively.

Our sales volume increased from approximately 13.6 million m^3 for the year ended 31 December 2019 to approximately 16.6 million m^3 for the year ended 31 December 2020. Such growth was mainly driven by an increase in our number of residential PNG end-users from 113,899 as at 31 December 2019 to 124,187 as at 31 December 2020, primarily attributable to the implementation of the Zero-coal Policy and an influx of people moving into newly built residential properties in Gaomi City. Our sales volume increased to approximately 18.4 million m^3 for the year ended 31 December 2021 as our number of residential PNG end-users increased to 142,714 as at 31 December 2021, owing to the same reason above. Our sales volume increased from approximately 7.2 million m^3 for the four months ended 30 April 2021 to approximately 11.6 million m^3 for the four months ended 30 April 2022 as a result of the Clean Energy Projects.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our average selling price of PNG to residential PNG end-users per unit was approximately RMB2.5, RMB2.6, RMB2.6 and RMB2.6, respectively. In general, any fluctuations in our average selling price depends on the number of users within the tiered gas pricing system implemented by the NDRC for residential usage. For details of the tiered gas pricing system, please refer to "Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas — 1. Selling Price of Natural Gas for Residential Usage and Public Service Usage" in this document.

Commercial PNG end-users

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, revenue from our sale of PNG to commercial PNG end-users was approximately RMB23.9 million, RMB13.0 million, RMB18.7 million and RMB7.8 million, accounting for approximately 8.5%, 5.3%, 6.1% and 5.9% of our total revenue from PNG sales, respectively.

Our sales volume decreased from 7.6 million m^3 for the year ended 31 December 2019 to approximately 4.5 million m^3 for the year ended 31 December 2020. Such decrease was primarily attributable to the adverse impacts of the COVID-19 outbreak on commercial activities in Gaomi City. Our sales volume increased to approximately 5.9 million m^3 for the year ended 31 December 2021, primarily attributable to the recovery of commercial activities during the first half of 2021 as the adverse impacts of the COVID-19 outbreak gradually subsided. Our sales volume decreased from approximately 2.7 million m^3 for the four months ended 30 April 2021 to approximately 2.0 million m^3 for the four months ended 30 April 2022 due to the resurgence of COVID-19 in March 2022, which had a temporary adverse impact on commercial activities in Gaomi City.

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our average selling price of PNG to commercial PNG end-users per unit was approximately RMB3.2, RMB2.9, RMB3.2 and RMB4.0, respectively. Our average PNG end-user selling price per m^3 decreased from approximately RMB3.2 for the year ended 31 December 2019 to approximately RMB2.9 for the year ended 31 December 2020 due to the temporary price reduction set by the relevant authorities in the first quarter of 2020. Our average PNG end-user selling price per m^3 recovered to approximately RMB3.2 for the year ended 31 December 2021. Our average PNG end-user selling price per m^3 increased from approximately RMB3.1 for the four months ended 30 April 2021 to approximately RMB4.0 for the four months ended 30 April 2022.

(ii) Sale of CNG and LNG

During the Track Record Period, we supplied CNG and LNG to vehicle users at our CNG and LNG refuelling stations located in Gaomi City. Revenue from our CNG and LNG sales decreased from approximately RMB35.7 million for the year ended 31 December 2019 to approximately RMB22.7 million for the year ended 31 December 2020. This was primarily attributable to more vehicle users opting to fuel their vehicles using petrol instead of gas due to a decline in the prices of petrol, which is commonly used as an alternative fuel for vehicles, which also led to a reduction in our CNG and LNG selling price. Revenue from our CNG and LNG sales remained stable at approximately RMB22.0 million for the year ended 31 December 2021, primarily attributable to increases in our CNG and LNG selling price in reaction to the recovery of petrol prices, and which consequently led to a slight decline in the CNG and LNG transaction volumes of our vehicle users during this period. Revenue from our

CNG and LNG sales increased from approximately RMB7.1 million for the four months ended 30 April 2021 to approximately RMB9.0 million for the four months ended 30 April 2022, primarily attributable to an increase in our average selling price of CNG and LNG as petrol prices increased, as well as an increase in our average CNG and LNG selling price.

Provision of construction and installation services

During the Track Record Period, we provided construction and installation services to property developers, residential PNG end-users and non-residential PNG end-users. Revenue from our construction and installation services is recognised over time, using an input method to measure progress towards complete satisfaction of the services. Revenue from our construction and installation services increased from approximately RMB31.4 million for the year ended 31 December 2019 to approximately RMB52.4 million for the year ended 31 December 2020 as we secured more construction projects due to the implementation of the Zero-coal Policy and an influx of people moving into newly developed residential properties in Gaomi City, which drove up the demand for wall-hung gas boilers and consequently its associated installation services. Revenue from our construction and installation services increased from approximately RMB52.4 million for the year ended 31 December 2020 to approximately RMB60.9 million for the year ended 31 December 2021, owing to the same reasons above. Revenue from our construction and installation services decreased from approximately RMB17.9 million for the four months ended 30 April 2021 to approximately RMB14.5 million for the four months ended 30 April 2022, primarily attributable to a decrease in our provision of such services due to the adverse impacts of COVID-19.

Sale of gas-burning appliances

During the Track Record Period, we engaged in the sale of gas-burning appliances, such as gas stoves, wall-hung gas boilers and water heaters, primarily to property owners and property occupiers. Revenue from the sale of gas-burning appliances is recognised at a point in time when control of the gas-burning appliances is transferred to the customer, generally on delivery. Revenue from our sale of gas-burning appliances increased from approximately RMB5.4 million for the year ended 31 December 2019 to approximately RMB25.8 million for the year ended 31 December 2020, primarily attributable to a significant increase in demand for wall-hung gas boilers brought about by the implementation of the Zero-coal Policy in Gaomi City. Such policy encourages the replacement of coal-burning appliances with gas-burning alternatives. For the same reason, revenue from our sale of gas-burning appliances increased from approximately RMB25.8 million for the year ended 31 December 2020 to approximately RMB52.8 million for the year ended 31 December 2021. Revenue from our sale of gas burning appliances decreased significantly from approximately RMB6.1 million for the four months ended 30 April 2021 to approximately RMB1.6 million for the four months ended 30 April 2022, primarily attributable to a decrease in such sales due to the adverse impacts of COVID-19.

Cost of sales

Our cost of sales primarily consists of (i) cost of natural gas; (ii) materials used in construction and installation services and others; (iii) cost of gas-burning appliances sales; (iv) depreciation; (v) subcontracting costs; (vi) taxes and surcharges; (vii) employee benefit expenses; (viii) utilities; and (ix) repairs and maintenance costs. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our cost of sales was approximately RMB271.5 million, RMB249.9 million, RMB343.7 million and RMB135.5 million, accounting for approximately 76.6%, 71.8%, 78.0% and 85.6% 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, our volume of PNG procured was approximately 104.3 million m^3, 93.7 million m^3, 104.2 million m^3 and 35.5 million m^3, respectively, while our volume of LNG procured was approximately 3,355.0 tonnes, 4,998.1 tonnes, 6,113.4 tonnes and 5,023.3 tonnes, respectively. For the same periods, our average procurement price per unit (without VAT) of PNG was RMB2.19/m^3, RMB2.00/m^3, RMB2.26/m^3 and RMB2.62/m^3, respectively, while our average procurement price per unit of LNG was RMB3,747.7/tonne, RMB2,902.7/tonne, RMB4,950.7/tonne and RMB6,144.2/tonne, respectively.

The following table sets out the components of our cost of sales 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* (*unaudited*)	*%*	*RMB'000*	*%*
Cost of natural gas	240,686	88.7	201,540	80.6	265,800	77.3	95,398	86.3	123,439	91.2
Materials used in construction and installation services	10,610	3.9	17,568	7.0	23,906	7.0	6,260	5.7	5,122	3.8
Cost of gas-burning appliances sold	4,025	1.5	12,068	4.8	28,367	8.3	2,670	2.4	971	0.7
Outsourced construction labour costs	386	0.1	3,434	1.4	11,591	3.4	1,871	1.7	1,279	0.9
Depreciation	7,808	2.9	8,319	3.3	8,628	2.5	2,873	2.6	3,002	2.2
Taxes and surcharges	1,198	0.4	1,902	0.8	2,002	0.6	516	0.5	501	0.4
Employee benefit expenses	1,604	0.6	1,183	0.5	1,034	0.3	266	0.2	365	0.3
Utilities	1,118	0.4	693	0.3	763	0.2	252	0.2	428	0.3
Repairs and maintenance costs	3,068	1.1	2,388	1.0	465	0.1	97	0.1	74	0.1
Others	992	0.4	817	0.3	1,121	0.3	291	0.3	304	0.1
Total	271,495	100.0	249,912	100.0	343,677	100.0	110,494	100.0	135,485	100.0

Cost of sales decreased from approximately RMB271.5 million for the year ended 31 December 2019 to approximately RMB249.9 million for the year ended 31 December 2020, while it increased from approximately RMB249.9 million for the year ended 31 December 2020 to approximately RMB343.7 million for the year ended 31 December 2021. Cost of sales increased from approximately RMB110.5 million for the four months ended 30 April 2021 to approximately RMB135.5 million for the four months ended 30 April 2022, primarily attributable to an increase in our cost of natural gas as a result of an unexpected surge in the average cost of PNG caused by the outbreak of the Russia-Ukraine military conflict in early 2022, and as we purchased a larger volume of LNG (for conversion into PNG) for the four months ended 30 April 2022 to meet customer demand. Given that we procure natural gas on a forecast basis according to estimates of our gas sales in the following period, our cost movements coincided with the movements of our sales as mentioned above.

The following table sets out a breakdown of our cost of sales by nature, 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* (*unaudited*)	*%*	*RMB'000*	*%*
Gas										
PNG sales	230,937	85.1	198,778	79.5	261,410	76.1	93,606	84.8	120,811	89.2
CNG and LNG sales	24,664	9.0	16,897	6.8	17,305	5.0	5,766	5.2	6,948	5.1
Sub-total	255,601	94.1	215,675	86.3	278,715	81.1	99,372	90.0	127,759	94.3
Construction and installation services	11,851	4.4	22,028	8.8	36,356	10.6	8,429	7.6	6,722	5.0
Sale of gas-burning appliances	4,043	1.5	12,209	4.9	28,606	8.3	2,693	2.4	1,004	0.7
Total	271,495	100.0	249,912	100.0	343,677	100.0	110,494	100.0	135,485	100.0

Gross profit and gross profit margin

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our gross profit amounted to approximately RMB82.7 million, RMB98.0 million, RMB97.2 million and RMB22.8 million, respectively. For the same periods, our gross profit margin was approximately 23.4%, 28.2%, 22.0% and 14.4%, respectively. During the Track Record Period, our overall gross profit margin was generally higher than that of similar companies in the natural gas supply industry as (i) the gross profit margin of our sale of PNG is relatively high as a significant portion of our PNG sales are made to commercial and industrial PNG-end users; and (ii) our construction and installation services as well as sale of gas-burning appliances, which have higher gross profit margins compared to other business segments such as the sale of gas, formed a larger proportion of our gross profit amount during the Track Record Period as a result of the implementation of the Zero-coal Policy in Gaomi City. The Zero-coal Policy led to an increase in volume of our construction and installation services as well as sales of gas-burning appliances. As a result, the contribution of these two business segments (both of which have a high gross profit margin compared to our natural gas distribution business segments) to our overall gross profit increased in 2020 and 2021, which partially elevated the relatively lower gross profit margin of our natural gas distribution segments, thereby maintaining our overall gross profit margin during those two years. In 2021, we commenced some of the Clean Energy Projects. As the construction and installation services and sales of gas-burning appliances carried out under the Clean Energy Projects generally have a lower gross profit margin compared with those not carried out as Clean Energy Projects, our overall gross profit margin was lower in 2021 as compared with previous years. Our gross margin for the four months ended 30 April 2022 was 4.3% lower than our gross profit margin for the four months ended 30 April 2021, primarily owing to a surge in our average PNG cost. Although our per unit cost of PNG converted from LNG was relatively high at approximately RMB6,175.6/tonne, it was still cheaper than the average per unit cost of procuring additional PNG (i.e. PNG which exceeds our contracted procurement volume) for the 2021-2022 heating season. 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. Additionally, owing to the temporary partial lockdown measures imposed in Gaomi City from March to April 2022 in response to COVID-19, our construction and installation business experienced a period of operational slowdown. Owing to such slowdown of our construction and installation business, our sales of high profit margin gas-burning appliances was also affected. As a result, the revenue contributions from these two segments, which typically record higher gross profit margins, saw significant short-term decreases for the four months ended 30 April 2022. These factors together brought down our overall gross margin during this period.

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

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

Notes:

(1) For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, nil, nil, approximately RMB2,115,000 and nil, or nil, nil, approximately 8.6% and nil of our gross profit from construction and installation services, respectively, were contributed by the Clean Energy Projects.

(2) For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, nil, nil, approximately RMB10,448,000 and nil, or nil, nil, approximately 43.1% and nil of our gross profit from sales of gas-burning appliances, respectively, were contributed by the Clean Energy Projects.

Gross profit of PNG sales

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our gross profit for the sale of PNG was approximately RMB50.8 million, RMB48.2 million, RMB43.7 million and RMB12.4 million, respectively. The gross profit margin of our sale of PNG increased from approximately 18.0% for the year ended 31 December 2019 to approximately 19.5% for the year ended 31 December 2020. This was because the extent of the decrease in our PNG procurement price, which was a result of the government's initiatives to control the price of procuring PNG in response to the COVID-19 outbreak in 2020, was greater than the decrease in our PNG end-user selling price to industrial PNG end-users, which was a result of the temporary price reduction set by the relevant government authorities in the first quarter of 2020 in response to the COVID-19 outbreak. The gross profit margin of our sale of PNG decreased to approximately 14.3% for the year ended 31 December 2021. This was primarily because our PNG end-user selling price was unable to keep up with the recovery of our PNG procurement cost as the adverse impacts of the COVID-19 outbreak on industrial operations in Gaomi City gradually subsided, which was due to a temporary delay in reacting to such procurement cost increase since our PNG selling prices are subject to government regulatory price control. The gross profit margin of our sale of PNG decreased from approximately 10.7% for the four months ended 30 April 2021 to approximately 9.3% for the four months ended 30 April 2022, primarily attributable to an unexpected surge in our average cost of PNG as a result of the outbreak of the Russia-Ukraine military conflict since February 2022. 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.

Our PNG end-user selling prices for both residential and non-residential (i.e. industrial and commercial) PNG end-users are subject to guidance prices set by Gaomi City Development and Reform Commission. Generally, we adjust our selling prices to commercial and industrial PNG end-users twice a year, to set the prices for the winter and summer seasons respectively. There may also be other instances where we adjust our selling prices to commercial and industrial PNG end-users to comply with pricing guidance by the government, such as in 2020 to encourage the resumption of business activities after the lifting of COVID-19 restrictions. For details of pricing of PNG, please refer to "Business — Sale of PNG — Pricing" and "Regulatory Overview Regulation on Pricing Mechanism Related to Natural Gas" in this document. A significant proportion of our Group's PNG sales were made to commercial and industrial PNG-end users during the Track Record Period, the sale of PNG to which typically has a higher gross profit margin compared to residential PNG-end users due to higher selling prices as the result of less pricing restrictions imposed by government authorities. As such, the gross profit margin of our Group's PNG sales were relatively high during the Track Record Period compared to the average level in the industry.

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

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

During the Track Record Period, we derived most of our PNG sales gross profit from our sale of PNG to retail customers, particularly industrial PNG end-users. Our gross profit from PNG sales to industrial PNG end-users decreased from approximately RMB44.8 million for the year ended 31 December 2019 to approximately RMB39.4 million for the year ended 31 December 2020, primarily attributable to a decrease in revenue from our industrial PNG sales for the reasons explained above, partially compensated by a decrease in PNG procurement costs to a smaller extent during the same period as illustrated in "Business — Procurement cost of natural gas". Our gross profit from PNG sales to industrial PNG end-users remained stable at approximately RMB39.4 million and RMB39.2 million for the years ended 31 December 2020 and 2021, respectively. Despite increases of both the sales volume and per unit selling price of PNG to industrial PNG end-users from the year ended 31 December 2020 to the year ended 31 December 2021, our per unit procurement cost of PNG increased to a larger extent, slightly overtaking our selling price growth. There was a notable increase in our average PNG procurement price from approximately RMB2.00 per m^3 (without VAT) for the year ended 31 December 2020 to approximately RMB2.26 per m^3 (without VAT) for the year ended 31 December 2021, despite the recovery in our average selling price of PNG from approximately RMB2.9 per m^3 for the year ended 31 December 2020 to approximately RMB3.1 per m^3 for the year ended 31 December 2021. As a result, while our gross profit margin for PNG sales to industrial PNG end-users remained stable for the year ended 31 December 2019 to 2020, it subsequently decreased from approximately 20.9% for the year ended 31 December 2020 to approximately 16.8% for the year ended 31 December 2021. Our gross profit from PNG sales to industrial PNG end-users increased from approximately RMB9.9 million for the four months ended 30 April 2021 to approximately RMB16.9 million for the four months ended 30 April 2022. Although the per unit procurement cost of PNG further increased from RMB2.2 per m^3 (without VAT) for the four months ended 30 April 2021 to RMB2.6 per m^3 (without VAT) for the four months ended 30 April 2022, the per unit selling price of PNG to industrial PNG end-users increased to a larger extent pursuant to an upwards adjustment in the regulatory selling price from RMB3.44 per m^3 for January to March 2021 and RMB3.00 per m^3 for March to April 2021 to RMB4.36 per m^3 for January to March 2022 and RMB 4.00 per m^3 for March to April 2022. During the same period, there was no material decline in the sales volume of PNG to industrial PNG end-users.

Due to similar selling price restrictions as well as increase in average procurement cost of PNG mentioned above, our gross profit from PNG sales to commercial PNG end-users saw similar movements during the Track Record Period. It decreased from approximately RMB5.0 million for the year ended 31 December 2019 to approximately RMB2.8 million for the year ended 31 December 2020, and subsequently slightly recovered to approximately RMB3.6 million for the year ended 31 December 2021. It improved from approximately RMB1.4 million for the four months ended 30 April 2021 to approximately RMB1.6 million for the four months ended 31 April 2022. At the same time, our gross profit margin for PNG sales to commercial PNG end-users remained relatively stable at approximately 20.8% and 21.2% for the years ended 31 December 2019 and 2020, respectively, and decreased slightly to approximately 18.8% for the year ended 31 December 2021, primarily due to the increase in our average PNG procurement price as explained above. Our gross profit margin for PNG sales to industrial and commercial PNG end-users increased from 12.9% and 16.2%, respectively, for the four months ended 30 April 2021 to 18.3% and 20.4%, respectively, for the four months ended 30 April 2022. This was primarily attributable to increases in our average selling prices of PNG to such PNG end-users.

In contrast, the selling prices of PNG to residential PNG end-users are highly restricted and capped at a substantially lower level of RMB2.5 per m^3 to RMB2.6 per m^3 during the Track Record Period. Therefore, gross profit from our PNG sales to residential PNG end-users is significantly affected by our PNG procurement cost. Gross profit for the year ended 30 December 2020 was exceptionally high as compared to the other years/periods, because of a significantly lower average cost of PNG during the first half of 2020 due to the COVID-19 lockdowns and restrictions, which led to lower demand for natural gas in the market and hence a lower market price of PNG and LNG as a whole. Our gross profit margin for PNG sales to residential PNG-end users increased significantly from approximately 0.2% for the year ended 31 December 2019 to approximately 13.9% for the year ended 31 December 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). Our PNG sales volume to residential PNG end-users during the first half of 2020 was exceptionally high as most residents stayed at home due to COVID-19 restrictions and lockdowns imposed, yet PNG procurement price was relatively low at that time due to global economic slowdown, hence the gross profit margin of our PNG sales to residential PNG end-users in 2020 as a whole was higher than usual. In comparison, most of our PNG sales to industrial and commercial PNG end-users occurred in the second half of 2020 when COVID-19 restrictions were gradually lifted, yet PNG procurement price at that time also recovered as economic activities resumed, hence the corresponding gross profit margins of our PNG sales to industrial and commercial PNG end-users in 2020 as a whole remained stable compared to that in 2019. Our gross profit margin for PNG sales to residential PNG end-users fell back to approximately 2.0% for the year ended 31 December 2021 as our average cost of PNG recovered. From the second half of 2021 to the first four months of 2022, our residential PNG selling prices were significantly lower than our average cost of PNG, due to tight supplies of PNG in the market which was even further exacerbated by the military conflict between Russia and Ukraine since February 2022. This resulted in a net loss from PNG sales to residential PNG end-users for the four months ended 30 April 2022. Our gross profit margin for PNG sales to residential PNG end-users declined from (0.5%) for the four months ended 30 April 2021 to (20.4%) for the four months ended 30 April 2022, primarily due to an unexpected surge in our average cost of PNG in early 2022, while our average selling price of PNG to such users remained the same. Please also refer to "Risk Factors — Risks relating to our Business — We may not be able to accurately estimate the actual supply and demand of PNG, which may result in a procurement shortfall."

As for PNG sales to wholesale customers, it is mainly determined by our availability of PNG for sale, as well as demand by our wholesale customers. Our gross profit for PNG sales to wholesale customers for the year ended 31 December 2019 was higher than other years/periods, mainly due to a significantly higher sales volume. Our gross profit margin for PNG sales to wholesale customers decreased from approximately 5.4% for the year ended 31 December 2019 to approximately 2.4% for the year ended 31 December 2020, primarily due to a decrease in our average selling price of PNG to wholesale customers, while it remained stable at approximately 2.4% and 2.2% for the years ended 31 December 2020 and 2021. Our gross profit margin for PNG sales to wholesale customers decreased from 2.9% for the four months ended 30 April 2021 to 2.0% for the four months ended 30 April 2022, primarily due to the aforementioned surge in our average cost of PNG.

Gross profit of CNG and LNG sales

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our gross profit for the sale of CNG and LNG was approximately RMB11.0 million, RMB5.8 million, RMB4.7 million and RMB2.1 million, respectively. The gross profit margin of our sale of CNG and LNG decreased from approximately 30.9% for the year ended 31 December 2019 to approximately 25.6% for the year ended 31 December 2020, mainly attributable to decreases in our CNG and LNG selling price as a result of competition from reductions in the price of petrol, which is an alternative energy source to natural gas. The gross profit margin of our sale of CNG and LNG decreased to approximately 21.4% for the year ended 31 December 2021 as the increase in our CNG and LNG procurement price was higher that the increase in our CNG and LNG selling price. Competition from the relatively low price of petrol limited the extent to which we could raise our CNG and LNG selling price. The gross profit margin of our sale of CNG and LNG increased from approximately 19.1% for the four months ended 30 April 2021 to approximately 22.9% for the four months ended 30 April 2022, primarily attributable to an increase in our average selling price of CNG and LNG.

Gross profit of construction and installation services

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our gross profit for construction and installation services was approximately RMB19.5 million, RMB30.4 million and RMB24.5 million and RMB7.7 million, respectively. The gross profit margin of our construction and installation services decreased from approximately 62.2% for the year ended 31 December 2019 to 58.0% for the year ended 31 December 2020 as we installed a larger proportion of wall-hung gas boilers pursuant to the implementation of the Zero-coal Policy, which has a lower gross profit margin due to government guided prices for such installations. The gross profit margin of our construction and installation services further decreased to approximately 40.3% for the year ended 31 December 2021 as we commenced some Clean Energy Projects in July 2021. The construction and installation services carried out by us under Clean Energy Projects generally have a lower gross profit margin compared with those not carried out under Clean Energy Projects. The gross profit margin of our construction and installation services remained relatively stable at approximately 53.0% and 53.5% for the four months ended 30 April 2021 and 2022, respectively. For the four months ended 30 April 2022, no Clean Energy Project took place owing to a partial lockdown in Gaomi City as a result of COVID-19. This brought the gross profit margin of our construction and installation services back on par with that for the four months ended 30 April 2021.

Gross profit of sale of gas-burning appliances

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our gross profit for the sale of gas-burning appliances was approximately RMB1.3 million, RMB13.6 million, RMB24.2 million and RMB0.6 million, respectively. 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, but the price for wall-hung gas boilers sold pursuant to the Clean Energy Project was lower than the price that we normally charge, hence leading to an overall decrease in our gross profit margin. Pursuant to the Clean Energy Project agreements, we charge a package price that includes our construction and installation services together with sales of gas-burning appliances, and such price is fixed by the government at a lower level 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. The gross profit margin of our sale of gas-burning appliances further decreased from approximately 55.8% for the four months ended 30 April 2021 to approximately 35.6% for the four months ended 30 April 2022 as we sold a greater proportion of accessories and parts which have a lower gross profit margin (as opposed to wall-hung gas boilers). This resulted from the temporary suspension of the Clean Energy Projects pursuant to which the sales of standard gas-burning appliances experienced a delay.

Administrative Expenses

Our administrative expenses primarily consists of (i) employee benefit expenses; (ii) [REDACTED] expenses; (iii) vehicle expenses; (iv) repairs and maintenance costs; (v) amortisation; (vi) depreciation; and (vii) utilities expenses. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our administrative expenses were approximately RMB14.9 million, RMB18.1 million, RMB19.2 million and RMB8.4 million, accounting for approximately 4.2%, 5.2%, 4.3% and 5.3% of our total revenue for the same periods, respectively.

The following table sets out a breakdown of our administrative expenses 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* (*unaudited*)	*%*	*RMB'000*	*%*
Employee benefit expenses	10,554	70.8	9,534	52.8	8,365	43.7	2,929	59.0	2,364	28.0
[REDACTED] expenses	—	—	3,974	22.0	5,838	30.5	1,158	23.3	4,192	49.6
Vehicle expenses	882	5.9	709	3.9	653	3.4	123	2.5	81	1.0
Amortisation	148	1.0	142	0.8	196	1.0	77	1.5	99	1.2
Utilities expenses	121	0.8	103	0.6	125	0.7	50	1.0	51	0.6
Depreciation	51	0.3	111	0.6	114	0.6	54	1.1	59	0.7
Repairs and maintenance costs	98	0.7	251	1.4	55	0.3	40	0.8	32	0.4
Others	3,061	20.5	3,227	17.9	3,815	19.8	537	10.8	1,569	18.5
Total	14,915	100.0	18,051	100.0	19,161	100.0	4,968	100.0	8,447	100.0

Administrative expenses increased from approximately RMB14.9 million for the year ended 31 December 2019 to approximately RMB18.1 million for the year ended 31 December 2020 as we incurred [REDACTED] expenses of approximately RMB4.0 million, partially offset by a decrease in employment benefit expenses as our number of employees decreased from 96 to 90 due to the optimisation of our human resources. Administrative expenses increased from approximately RMB18.1 million for the year ended 31 December 2020 to approximately RMB19.2 million for the year ended 31 December 2021 as we increased [REDACTED] expenses of approximately RMB1.9 million. Administrative expenses increased from approximately RMB5.0 million for the four months ended 30 April 2021 to approximately RMB8.4 million for the four months ended 30 April 2022 as our [REDACTED] expenses increased by approximately RMB3.0 million.

Reversal of Net Impairment Losses on Financial Assets

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, we had reversals of net impairment losses on financial assets of approximately RMB2.9 million, RMB1.7 million, RMB0.8 million and RMB3,000, respectively. Such reversal of net impairment losses on financial assets arose from the settlement of trade receivables and other receivables due from related and third parties in respect of interest-free advances, which led to the recovery of amounts which had been previously been written off as impairment losses on financial assets.

Other Income

During the Track Record Period, other income consisted of rental income and government subsidies. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our other income was approximately RMB0.2 million, RMB0.2 million, RMB15.4 million and RMB1.2 million, accounting for approximately 0.1%, 0.1%, 3.5% and 0.8% of our total revenue for the same periods, respectively.

The following table sets out a breakdown of our other income 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* *(unaudited)*	*RMB'000*
Rental income from a related party	229	229	1,941	101	1,193
Government subsidy	—	—	13,455	—	—
Total	229	229	15,396	101	1,193

Our rental income remained stable at approximately RMB0.2 million for the years ended 31 December 2019 and 2020. Our rental income increased to approximately RMB1.9 million for the year ended 31 December 2021, primarily due to an increase in rent for our rental properties which took effect on 1 July 2021. Such rental income was attributable to certain properties leased by us to Jiaoyun Market. Our rental income increased from approximately RMB0.1 million for the four months ended 30 April 2021 to approximately RMB1.2 million for the four months ended 30 April 2022, primarily attributable to the same reason above. For the year ended 31 December 2021, we recorded government subsidy income of approximately RMB13.5 million, primarily attributable to a government subsidy in respect of the coal-to-gas project (煤改氣工程) which was related to our principal business. Such government subsidy was one-off in nature and granted to the two natural gas operators in Gaomi City, of which one is Jiaoyun Gas, for their implementation of coal-to-gas transformation for residential PNG end-users in Gaomi City. This was in accordance with the elimination of coal consumption in the "no-coal" zone from the 2020 heating season onwards as required pursuant to the local government's Zero-coal Policy.

Other Gains/(Losses), Net

During the Track Record Period, other gains/(losses), net consisted of (i) fair value gain on investment property; (ii) losses on disposal of property, plant and equipment; (iii) donations; and (iv) other gains or losses.

The following table sets out a breakdown of our other gains/(losses), net 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* *(unaudited)*	*RMB'000*
Fair value gain on investment properties	1,980	960	1,080	—	780
Losses on disposal of property, plant and equipment	(399)	(228)	(266)	(266)	—
Donations	—	(1,150)	—	—	—
Others	(117)	109	49	47	74
Total	1,464	(309)	863	(219)	854

Our fair value gains on investment properties for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 were due to increases in the market value of our investment property. Our other losses were higher for the year ended 31 December 2020 as we made donations of approximately RMB1.2 million to a charity organisation in Gaomi City in respect of COVID-19 relief.

Finance Income

During the Track Record Period, our finance income consisted of interest income from bank deposits and other interest income. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our finance income was approximately RMB3.6 million, RMB3.1 million and RMB0.5 million and RMB0.3 million, accounting for approximately 1.0%, 0.9%, 0.1% and 0.2% of our total revenue for the same periods, respectively.

Finance Costs

During the Track Record Period, our finance costs consisted of interest expenses in respect of our (i) bank borrowings; (ii) ABS; (iii) lease liabilities in respect of several properties which we leased for our operational needs; and (iv) other interest expenses. Please refer to "— Discussion of Certain Items of Consolidated Balance Sheets — Indebtedness" in this section for further details. For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our finance costs were approximately RMB25.9 million, RMB16.2 million, RMB4.1 million and RMB0.8 million, accounting for approximately 7.3%, 4.7%, 0.9% and 0.5% of our total revenue for the same periods, respectively.

The following table sets out a breakdown of our finance costs 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* *(unaudited)*	*RMB'000*
Interest expense:					
Bank borrowings	12,261	11,267	3,938	1,324	673
ABS	13,509	4,782	—	—	—
Lease liabilities	165	154	181	60	55
Other interest expense	—	—	—	—	110
Total	25,935	16,203	4,119	1,384	838

For details of our ABS and related party transactions, please refer to "— Discussion of Certain Items of Consolidated Balance Sheets — Indebtedness — Borrowings — ABS" and "— Related Party Transactions", respectively, in this section.

Income Tax Expenses

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from tax jurisdictions in which companies comprising our Group domicile or operate. During the Track Record Period, all of our profits were derived from our business in the PRC and our profits generated from our operations were principally subject to the PRC enterprise income tax.

PRC enterprise income tax

For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our effective tax rate was approximately 26.2%, 25.5%, 25.3% and 25.2%, respectively. The tax on our profit before tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in the PRC.

The provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25%. The applicable income tax rate is 25% on the estimated tax assessable profit of each of the companies comprising our Group, determined in accordance with the relevant PRC income tax rules and regulations.

The table below sets out our income tax expense 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* *(unaudited)*	*RMB'000*
Current income tax:					
- PRC enterprise income tax	11,433	16,285	22,486	4,689	3,602
- Deferred income tax	1,689	1,154	648	606	397
Total	13,122	17,439	23,134	5,295	3,999

For the years ended 31 December 2019, 2020 and 2021 and 30 April 2022, our current income tax liabilities (consisting of our current income tax liabilities at the beginning of the period and current income tax for the period) were approximately RMB12.9 million, RMB21.4 million, RMB35.3 million and RMB9.2 million, respectively, while our current income tax payments were approximately RMB7.7 million, RMB8.6 million, RMB29.7 million and RMB8.5 million, respectively. In July 2021, in light of certain tax adjustments, we made a voluntary payment of current income tax in the amount of approximately RMB9.2 million to the relevant tax authority. For details of our tax incident, please refer to "Business — Tax Incident" in this document.

The table below illustrates the reconciliation of the difference between our current income tax liabilities and current income tax paid during the Track Record Period:

	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* *(unaudited)*	*RMB'000*
Current income tax liabilities at the beginning of the year/period *(a)*	1,423	5,136	12,844	12,844	5,639
Current income tax for the year/period *(b)*	11,433	16,285	22,486	4,689	3,602
Current income tax paid *(c)*	(7,720)	(8,577)	(20,453)	(4,627)	(8,514)
Voluntary payment of current income tax*(Note)* *(d)*	—	—	(9,238)	—	—
Total income tax paid *(e)* = *(c)* + *(d)*	(7,720)	(8,577)	(29,691)	(4,627)	(8,514)
Current income tax liabilities as at 30 April 2022 *(f)* = *(a)* + *(b)* + *(e)*					727

Note: Such voluntary payment, which we made in July 2021, was not in the nature of an administrative penalty.

Since the commencement of the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

Profit for the Year

As a result of the foregoing, for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, our net profit was approximately RMB37.0 million, RMB51.0 million, RMB68.4 million and RMB11.9 million, respectively. For the same periods, our net profit margin was approximately 10.5%, 14.7%, 15.5% and 7.5%, respectively.

The accumulated losses incurred by our Group at the beginning of the Track Record Period were primarily attributable to an increase in our number of industrial PNG end-users before the Track Record Period, as a result of the clean energy transmission policies promulgated and coal-to-gas project (煤改氣工程) implemented by the government. In order to serve our new industrial PNG end-users, we incurred significant initial capital expenditures for the construction of new pipelines and the upgrade of our existing pipeline network. Further, as a result of the aforementioned increase in capital expenditures, our Group had entered into various borrowing and other financing arrangements in 2017 and 2018 to support our increased capital expenditure, which had led to increased finance costs for the same years. Moreover, as we were part of the Private Group before the Track Record Period, we were involved in intra-group financing arrangements to provide intra-group financial assistance to parties who are part of the Private Group, for which we borne the finance cost for such financing arrangements. Thus, although there was an increase in revenue from our sale of PNG to industrial PNG end-users, such growth was insufficient to offset the aforementioned initial capital expenditures and finance costs borne by us. Our Group has since then managed to gradually recover the initial capital expenditure and reverted into becoming profitable as such prior investment into our extended pipeline network has resulted in a growth in our sale of PNG to industrial PNG end-users, which generally has a higher gross profit margin compared to our sale of PNG to other types of PNG end-users. Meanwhile, the cessation of all the aforementioned intra-group financing arrangements greatly improved the profitability of our Group.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Four Months ended 30 April 2021 Compared to Four Months ended 30 April 2022

Revenue

(i) Sale of gas

Revenue from our sale of gas increased by approximately RMB30.3 million or 27.1% from approximately RMB111.9 million for the four months ended 30 April 2021 to approximately RMB142.2 million for the four months ended 30 April 2022, primarily attributable to an increase in revenue from our sale of PNG and our sale of CNG and LNG as specified below.

(a) Sale of PNG

Revenue from the sale of PNG was mainly from our industrial PNG end-users during the Track Record Period. It increased by approximately RMB28.4 million or 27.1% from approximately RMB104.8 million for the four months ended 30 April 2021 to approximately RMB133.2 million for the four months ended 30 April 2022, primarily attributable to an increase in our per unit selling price of PNG to industrial and commercial PNG-end users, as well as an increase in PNG consumption by residential PNG end-users as a result of our implementation of the Clean Energy Projects.

(b) Sale of CNG and LNG

Revenue from the sale of CNG and LNG increased by approximately RMB1.9 million or 26.5% from approximately RMB7.1 million for the four months ended 30 April 2021 to approximately RMB9.0 million for the four months ended 30 April 2022, primarily attributable to an increase in our average selling price of CNG and LNG as petrol prices increased.

(ii) Construction and installation services

Revenue from the provision of construction and installation services decreased by approximately RMB3.5 million or 19.3% from approximately RMB17.9 million for the four months ended 30 April 2021 to approximately RMB14.5 million for the four months ended 30 April 2022, primarily attributable to a decrease in our provision of such services due to the adverse impacts of COVID-19.

(iii) Sale of gas-burning appliances

Revenue from the sale of gas-burning appliances decreased by approximately RMB4.5 million or 74.0% from approximately RMB6.1 million for the four months ended 30 April 2021 to approximately RMB1.6 million for the four months ended 30 April 2022, primarily attributable to a decrease in such sales due to the adverse impacts of COVID-19.

Cost of sales

Cost of sales increased by approximately RMB25.0 million or 22.6% from approximately RMB110.5 million for the four months ended 30 April 2021 to approximately RMB135.5 million for the four months ended 30 April 2022, of which the cost of natural gas increased by approximately RMB28.0 million or 29.4%, which was greater than the growth of our natural gas sales. Meanwhile, costs relating to construction and installation services and sales of gas-burning appliances decreased by approximately RMB3.4 million or 31.7%. Such decrease was comparable to the decrease in our revenue from these two business segments during the same period of approximately RMB8.0 million or 33.3%.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased from approximately RMB25.5 million for the four months ended 30 April 2021 to approximately RMB22.8 million for the four months ended 30 April 2022, primarily attributable to a decrease in profit from our construction and installation services and sales of gas-burning appliances. Our gross profit margin decreased from approximately 18.7% for the four months ended 30 April 2021 to approximately 14.4% for the four months ended 30 April 2022, primarily resulting from a surge in our average PNG cost. 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. Our gross profit margin also decreased as the revenue contributions from our construction and installation services and sales of gas-burning appliances (which are business segments which typically record higher gross profit margins) saw significant short term decreases due to the resurgence of COVID-19.

Administrative expenses

Administrative expenses increased by approximately RMB3.5 million or 70.0% from approximately RMB5.0 million for the four months ended 30 April 2021 to approximately RMB8.5 million for the four months ended 30 April 2022 as our [REDACTED] expenses increased by approximately RMB3.0 million.

Reversal of net impairment losses on financial assets

Reversal of net impairment losses on financial assets decreased by approximately RMB1.8 million or 99.8% from approximately RMB1.8 million for the four months ended 30 April 2021 to approximately RMB3,000 for the four months ended 30 April 2022, primarily attributable to a significant decrease in the settlement of other receivables.

Other income

Other income increased by approximately RMB1.1 million or 11.8 times from approximately RMB 0.1 million for the four months ended 30 April 2021 to approximately RMB1.2 million for the four months ended 30 April 2022, primarily attributable to an increase in rental income in respect of certain properties leased by us to Jiaoyun Market.

Other gains and losses, net

Other losses changed from approximately RMB0.2 million for the four months ended 30 April 2021 to other gains of approximately RMB0.9 million for the four months ended 30 April 2022, primarily attributable to fair value gains on our investment properties for the four months ended 30 April 2022.

Finance income

Finance income increased by approximately RMB0.2 million or 3.1 times from approximately RMB0.1 million for the four months ended 30 April 2021 to approximately 0.3 million for the four months ended 30 April 2022, primarily attributable to other unrecognised interest income in respect of the long-term trade receivables of our Clean Energy Projects.

Finance costs

Finance costs decreased by approximately RMB0.6 million or 39.5% from approximately RMB1.4 million for the four months ended 30 April 2021 to approximately RMB0.8 million for the four months ended 30 April 2022, primarily attributable to a decrease in interest expenses in respect of the repayment of our bank borrowings of RMB10.0 million.

Income tax expense

Income tax expense decreased from approximately RMB5.3 million for the four months ended 30 April 2021 to approximately RMB4.0 million for the four months ended 30 April 2022. This decrease was primarily attributable to a decrease in our profit before income tax.

Year ended 31 December 2021 Compared to Year ended 31 December 2020

Revenue

(i) Sale of gas

Revenue from our sale of gas increased by approximately RMB57.5 million or 21.3% from approximately RMB269.7 million for the year ended 31 December 2020 to approximately RMB327.2 million for the year ended 31 December 2021, primarily attributable to an increase in revenue from our sale of PNG as specified below.

(a) Sale of PNG

Revenue from sale of PNG was mainly from our industrial PNG end-users during the Track Record Period. It increased by approximately RMB58.2 million or 23.6% from approximately RMB247.0 million for the year ended 31 December 2020 to approximately RMB305.2 million for the year ended 31 December 2021, primarily attributable to an increase in PNG consumption by industrial PNG end-users as the adverse impacts of the COVID-19 outbreak on industrial operations in Gaomi City gradually subsided, while our PNG end-user selling price recovered from the temporary price reduction that was set by the relevant government authorities in the first quarter of 2020.

(b) Sale of CNG and LNG

Revenue from the sale of CNG and LNG levelled at approximately RMB 22.7 million and RMB22.0 million for the years ended 31 December 2020 and 2021, respectively, primarily attributable to increases in our CNG and LNG selling price in reaction to the recovery of petrol prices, which consequently led to a slight decline in the CNG and LNG transaction volumes of our vehicle users.

(ii) Construction and installation services

Revenue from the provision of construction and installation services increased by approximately RMB8.4 million or 16.1% from approximately RMB52.4 million for the year ended 31 December 2020 to RMB60.9 million for the year ended 31 December 2021, primarily attributable to an increased number of completed construction projects due to the implementation of the Zero-coal Policy and an influx of people moving into newly developed residential properties in Gaomi City, which drove up the demand for wall-hung gas boilers and consequently its associated installation services.

(iii) Sale of gas-burning appliances

Revenue from the sale of gas-burning appliances increased by approximately RMB27.0 million or 104.7% from approximately RMB25.8 million for the year ended 31 December 2020 to RMB52.8 million for the year ended 31 December 2021, primarily attributable to a significant increase in demand for wall-hung gas boilers brought about by the implementation of the Zero-coal Policy in Gaomi City.

Cost of sales

Cost of sales increased by approximately RMB93.8 million or 37.5% from approximately RMB249.9 million for the year ended 31 December 2020 to approximately RMB343.7 million for the year ended 31 December 2021, coinciding with the movements of our sales for the same period.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit remained relatively stable at approximately RMB98.0 million for the year ended 31 December 2020 and approximately RMB97.2 million for the year ended 31 December 2021. Our gross profit margin decreased from approximately 28.2% for the year ended 31 December 2020 to approximately 22.0% for the year ended 31 December 2021, primarily attributable to a decrease in the gross profit margin of our sale of PNG from approximately 19.5% to approximately 14.3%. This resulted primarily from a slower recovery in our PNG end-user selling price as compared to the faster recovery of our PNG procurement price as the adverse impacts of the COVID-19 outbreak on industrial operations in Gaomi City gradually subsided.

Administrative expenses

Administrative expenses increased by approximately RMB1.1 million or 6.1% from approximately RMB18.1 million for the year ended 31 December 2020 to RMB19.2 million for the year ended 31 December 2021 as we incurred [REDACTED] expenses of approximately RMB5.8 million.

Reversal of net impairment losses on financial assets

Reversal of net impairment losses on financial assets decreased by approximately RMB0.9 million or 52.9% from approximately RMB1.7 million for the year ended 31 December 2020 to approximately RMB0.8 million for the year ended 31 December 2021, owing to the accrual of bad debt in respect of a third party.

Other income

Other income increased by approximately RMB15.2 million or 67.2 times from approximately RMB0.2 million for the year ended 31 December 2020 to approximately RMB15.4 million for the year ended 31 December 2021. This increase was primarily attributable to the government subsidy of approximately RMB13.5 million which we received in relation to the coal-to-gas project (煤改氣工程) which was directly related to our principle business.

Other gains and losses, net

Other losses changed from approximately RMB0.3 million for the year ended 31 December 2020 to other gains of approximately RMB0.9 million for the year ended 31 December 2021. This decrease was primarily attributable to our donations to a charity organisation in Gaomi City in respect of COVID-19 relief in January and February 2020.

Finance income

Finance income decreased by approximately RMB2.6 million or 83.3% from approximately RMB3.1 million for the year ended 31 December 2020 to approximately RMB0.5 million for the year ended 31 December 2021. This decrease was primarily attributable to a decrease in interest income from bank deposits due to our gradual cessation of the Non-compliant Bill Financing Arrangements.

Finance costs

Finance costs decreased by approximately RMB12.1 million or 74.6% from approximately RMB16.2 million for the year ended 31 December 2020 to approximately RMB4.1 million for the year ended 31 December 2021. This decrease was primarily attributable to (i) our full repayment of the principal amount of our ABS in June 2020, such that we had no interest expenses in respect of our ABS for the year ended 31 December 2021; and (ii) a decrease in interest expenses due to our gradual cessation of Non-compliant Bill Financing Arrangements.

Income tax expense

Income tax expense increased by approximately RMB5.7 million or 32.7% from approximately RMB17.4 million for the year ended 31 December 2020 to approximately RMB23.1 million for the year ended 31 December 2021. This increase was primarily attributable to an increase in our profit before income tax.

Year ended 31 December 2020 Compared to Year ended 31 December 2019

Revenue

(i) Sale of gas

Revenue from our sale of gas decreased by approximately RMB47.8 million or 15.0% from approximately RMB317.5 million for the year ended 31 December 2019 to approximately RMB269.7 million for the year ended 31 December 2020, primarily attributable to a decrease in revenue from our sale of PNG and our sale of CNG and LNG as specified below.

(a) Sale of PNG

Revenue from our sale of PNG decreased by approximately RMB34.8 million or 12.4% from approximately RMB281.8 million for the year ended 31 December 2019 to RMB247.0

million for the year ended 31 December 2020, primarily attributable to a decrease in our per unit selling price of PNG to industrial PNG end-users due to the temporary price reduction set by the relevant authorities in the first quarter of 2020 as a response to the COVID-19 outbreak on industrial production in Gaomi City.

(b) Sale of CNG and LNG

Revenue from our sale of CNG and LNG decreased by approximately RMB13.0 million or 36.3% from approximately RMB35.7 million for the year ended 31 December 2019 to approximately RMB22.7 million for the year ended 31 December 2020, primarily attributable to more vehicle users opting to use petrol for their vehicles instead of gas due to a decline in petrol prices, which also led to a reduction in our CNG and LNG selling price. LNG procured for the year ended 31 December 2020 was not solely used for our sale of CNG and LNG business, as not all the LNG we procured was eventually consumed by our CNG and LNG customers (being vehicle users which purchased CNG and LNG to refuel their vehicles) due to our conversion of LNG into PNG.

(ii) Construction and installation services

Revenue from the provision of construction and installation services increased by approximately RMB21.0 million or 67.1% from approximately RMB31.4 million for the year ended 31 December 2019 to approximately RMB52.4 million for the year ended 31 December 2020, primarily attributable to an increased number of completed construction projects due to the implementation of the Zero-coal Policy and an influx of people moving into newly developed residential properties, which drove up the demand for wall-hung gas boilers and consequently its associated installation services.

(iii) Sale of gas-burning appliances

Revenue from our sale of gas-burning appliances increased by approximately RMB20.4 million or 378.7% from approximately RMB5.4 million for the year ended 31 December 2019 to approximately RMB25.8 million for the year ended 31 December 2020, primarily attributable to a significant increase in demand for wall-hung gas boilers brought about by the implementation of the Zero-coal Policy in Gaomi City.

Cost of sales

Cost of sales decreased by approximately RMB21.6 million or 7.9% from approximately RMB271.5 million for the year ended 31 December 2019 to approximately RMB249.9 million for the year ended 31 December 2020, coinciding with the movements of our sales of gas for the same period.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB15.3 million or 18.5% from approximately RMB82.7 million for the year ended 31 December 2019 to approximately RMB98.0 million for the year ended 31 December 2020. Our gross profit margin increased from approximately 23.4% for the year ended 31 December 2019 to approximately 28.2% for the year ended 31 December 2020, primarily attributable to an increased proportion of revenue generated from our construction and installation services due to the implementation of the Zero-coal policy in Gaomi City, which had a higher gross profit margin compared to our other business segments.

Administrative expenses

Administrative expenses increased by approximately RMB3.2 million or 21.0% from approximately RMB14.9 million for the year ended 31 December 2019 to approximately RMB18.1 million for the year ended 31 December 2020 as we incurred [REDACTED] expenses of approximately RMB4.0 million, partially offset by a decrease in employment benefit expenses as our number of employees decreased from 96 to 90 due to the optimisation of our human resources.

Reversal of net impairment losses on financial assets

Reversal of net impairment losses on financial assets decreased by approximately RMB1.2 million or 42.3% from approximately RMB2.9 million for the year ended 31 December 2019 to approximately RMB1.7 million for the year ended 31 December 2020, owing to the decreased settlement of other receivables due from related parties in respect of interest-free advances.

Other income

Other income remained stable at approximately RMB0.2 million for the years ended 31 December 2019 and 2020, and consisted of rental income in respect of properties leased by us to Jiaoyun Market.

Other gains and losses, net

We had approximately RMB1.5 million in net gains for the year ended 31 December 2019, while we had approximately RMB0.3 million in net losses for the year ended 31 December 2020. This change was primarily attributable to an increase in other losses due to our donations to a charity organisation in Gaomi City in respect of COVID-19 relief in January and February 2020.

Finance income

Finance income decreased by approximately RMB0.5 million or 15.4% from approximately RMB3.6 million for the year ended 31 December 2019 to approximately RMB3.1 million for the year ended 31 December 2020. This decrease was primarily attributable to decrease in interest income from bank deposits due to our reduced security deposits for bank acceptance notes as a result of less funding demand from our related parties.

Finance costs

Finance costs decreased by approximately RMB9.7 million or 37.5% from approximately RMB25.9 million for the year ended 31 December 2019 to approximately RMB16.2 million for the year ended 31 December 2020. This decrease was primarily attributable to (i) a decrease in interest expenses in respect of our ABS due to our partial repayment of the principal amount; and (ii) a decrease in interest expenses in relation to bank borrowings due to our reduced issuance of bank acceptance notes as a result of less funding demand from our related parties.

Income tax expense

Income tax expense increased by approximately RMB4.3 million 32.9% from approximately RMB13.1 million for the year ended 31 December 2019 to approximately RMB17.4 million for the year ended 31 December 2020. This increase was primarily attributable to an increase in our profit before income tax.

DISCUSSION OF CERTAIN ITEMS OF CONSOLIDATED BALANCE SHEETS

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

	As at 31 December			**As at 30 April**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total non-current assets	189,435	193,440	226,715	226,856
Total current assets	734,666	365,783	91,500	70,886
Total assets	924,101	559,223	318,215	297,742
Total non-current liabilities	7,400	8,507	16,726	17,063
Total current liabilities	871,745	405,323	192,269	159,601
Total liabilities	879,145	413,830	208,995	176,664
Share capital	—	—	—	—
Share premium	—	—	128,002	128,002
Reserves	339	57,975	(94,611)	(93,689)
Retained earnings	30,124	73,484	61,026	71,422
Equity attributable to owners of our Company	30,463	131,459	94,417	105,735
Non-controlling interests	14,493	13,934	14,803	15,343
Total equity	44,956	145,393	109,220	121,078

Current Assets and Current Liabilities

The following table sets out our current assets and current liabilities as at the dates indicated.

	As at 31 December			As at 30 April	As at 31 July
	2019	2020	2021	2022	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Current assets					
Inventories	10,249	14,933	9,338	10,090	11,347
Trade and other receivables	476,166	219,945	14,663	14,800	15,642
Prepayments and other current assets	17,970	16,226	30,129	21,603	23,896
Restricted bank deposits	204,000	75,100	—	—	—
Cash and cash equivalents	26,281	39,579	37,370	24,393	26,408
Total current assets	734,666	365,783	91,500	70,886	77,293
Current liabilities					
Trade and other payables	30,005	40,249	47,817	45,546	40,357
Contract liabilities	87,827	124,249	101,303	85,814	91,596
Current income tax liabilities	5,136	12,844	5,639	727	678
Borrowings	748,397	227,800	37,000	27,000	18,000
Lease liabilities	380	181	510	514	520
Total current liabilities	871,745	405,323	192,269	159,601	151,151
Net current (liabilities)/assets	(137,079)	(39,540)	(100,769)	(88,715)	73,858

As at 30 April 2022, our net current liabilities were approximately RMB88.7 million, consistent of current assets of approximately RMB70.9 million and current liabilities of approximately RMB159.6 million. Our net current liabilities decreased by approximately RMB12.1 million, or 12.0%, from approximately RMB100.8 million as at 31 December 2021 to approximately RMB88.7 million as at 30 April 2022. This was primarily due to a decrease in contract liabilities of approximately RMB15.5 million as we delivered our sold gas and gas-burning products during the 2021-2022 heating season, a decrease in our borrowings as we made a repayment of RMB10.0 million and a decrease in our current income tax liabilities of approximately RMB4.9 million. This was partially offset by a decrease in our cash and cash equivalents of approximately RMB13.0 million and an decrease in our prepayments and other current assets of approximately RMB8.5 million.

As at 31 December 2021, our net current liabilities were approximately RMB100.8 million, consisting of current assets of approximately RMB91.5 million and current liabilities of approximately RMB192.3 million. Our net current liabilities increased by approximately RMB61.2 million, or 2.5 times, from approximately RMB39.5 million as at 31 December 2020 to approximately RMB100.8 million as at 31 December 2021. This was primarily due to a decrease in trade and other receivables of approximately RMB205.3 million due to repayments of other receivables due from related parties in respect of interest-free advances, as well as the release of restricted bank deposits of approximately RMB75.1 million due to the repayment of our bank borrowings, some of which we utilised to distribute an interim dividend of RMB70.0 million during the period. This was partially offset by a decrease in borrowings of approximately RMB190.8 million as a result of the decrease in our bank borrowings and other borrowings relating to our bill financing arrangements, as well as a decrease in contract liabilities by approximately RMB22.9 million in relation to our sale of gas-burning appliances, provision of construction and installation services and sale of PNG.

As at 31 December 2020, our net current liabilities were approximately RMB39.5 million, consisting of current assets of approximately RMB365.8 million and current liabilities of approximately RMB405.3 million. Our net current liabilities decreased by approximately RMB97.5 million, or 71.2%, from approximately RMB137.1 million as at 31 December 2019 to approximately RMB39.5 million as at 31 December 2020. The decrease was primarily due to (i) the repayment of our borrowings of approximately RMB520.6 million for our ABS, bank borrowings and other borrowings relating to our bill financing arrangements; and (ii) an increase in cash and cash equivalents by approximately RMB13.3 million, partially offset by (i) a decrease in trade and other receivables by approximately RMB256.2 million mainly resulting from a decrease in other receivables due from related parties in respect of interest-free advances; (ii) a decrease in restricted bank deposits by approximately RMB128.9 million as we gradually ceased to conduct our Non-compliant Bill Financing Arrangements; and (iii) an increase in contract liabilities by approximately RMB36.4 million in relation to our construction and installation services, PNG sales and sale of gas-burning appliances.

As at 31 December 2019, our net current liabilities were approximately RMB137.1 million, consisting of current assets of approximately RMB734.7 million and current liabilities of approximately RMB871.7 million.

Our net current liabilities position as at 31 December 2019 and 2020 was primarily due to our (i) advances to related parties and third parties; (ii) payment obligations under our ABS; and (iii) bank borrowings and other borrowings relating to our bill financing arrangements, including the Non-compliant Bill Financing Arrangements, and the Deviation from Intended Use of Loan Proceeds. Although we had placed security deposits with banks for the Non-compliant Bill Financing Arrangements and the Deviation from Intended Use of Loan Proceeds, such amount of security deposit is usually lower than the loan amount obtained from such arrangements. Our total current liabilities also included our contractual liabilities which represent our unearned construction and installation services, PNG sales and sale of gas-burning appliances. Hence the net effect of such arrangements gave rise to the net current liabilities position. We have taken the certain measures to improve our net current liabilities position and our liquidity. In June 2020, we repaid the principal amount of our ABS in full. Since 17 June 2020, we have ceased all Non-compliant Financing Arrangements and fully settled all relevant bank acceptance notes by 17 June 2021. Since 18 December 2020, we have ceased all Deviation from Intended Use of Loan Proceeds and fully settled all outstanding amounts under the Relevant Bank Loans by 29 June 2021. Since June 2021, we have ceased to provide non-trade, interest-free cash advances to our related parties. Our current liabilities position as at 31 December 2021 was primarily due to our dividend distribution to shareholders of RMB70.0 million in 2021 and a deemed distribution as a part of the Reorganisation of RMB60.7 million. Our net current liabilities position as at 30 April 2022 was primarily due to the same reasons above.

In order to improve our net current liabilities position, our Directors confirm that: (i) we will continue to closely monitor our net current liabilities position and optimise our future cash depletion plan and composition of our indebtedness in order to achieve a net current assets position; (ii) we have obtained banking facilities, resulting in a total of RMB200.0 million in unutilised banking facilities as at 30 April 2022, and are committed to maintaining stable relationships with our principal banks so as to obtain and/or renew bank borrowings in a timely manner if so required and on terms acceptable to our Group; (iii) when our short-term bank loans become due, we will endeavour to extend the term of such loans refinance such short-term bank loans with long-term bank loans; and (iv) we will actively communicate with the local government to ensure that settlement of trade receivables due from Clean Energy Projects can be made strictly according to the payment schedule agreed in the Clean Energy Project agreements.

We believe that our business operations and financial condition will not be materially and adversely affected by our net current liabilities position. Taking into account the financial resources available to us, including our cash and cash equivalents, anticipated cash flow from operations, proceeds from the [REDACTED] and banking facilities, our Directors believe, and the Sole Sponsor concurs, that we will be able to satisfy our liquidity requirements for the next 12 months.

For details of the risk relating to our net current liabilities, please refer to "Risk Factors — Other Risks Relating to Our Group — We had net current liabilities as at 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022" in this document.

Inventories

During the Track Record Period, our inventories mainly consisted of (i) raw materials such as spare parts and pipes required for building pipeline networks; and (ii) gas-burning appliances such as gas stoves, wall-hung boilers and water heaters. Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Cost comprises direct materials, direct labour and an appropriate proportion of overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The following table sets out a breakdown of the inventories as at the dates indicated.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Natural gas and other construction materials	8,507	8,371	6,936	8,156
Gas-burning appliances	1,742	6,562	2,402	1,934
	10,249	14,933	9,338	10,090

Our inventories increased by RMB0.8 million, or 8.1%, from approximately RMB9.3 million as at 31 December 2021 to approximately RMB10.1 million as at 30 April 2022, as we provided fewer construction and installation services due to the adverse impacts of COVID-19. Our inventories decreased by approximately RMB5.6 million, or 37.6%, from approximately RMB14.9 million as at 31 December 2020 to approximately RMB9.3 million as at 31 December 2021, mainly due to (i) our use of raw materials; and (ii) the delivery of gas-burning appliances to our customers due to a significant increase in our sales of such appliances for the year ended 31 December 2021. Our inventories increased by approximately RMB4.7 million, or 45.7%, from approximately RMB10.2 million as at 31 December 2019 to approximately RMB14.9 million as at 31 December 2020, primarily due to an increase in gas-burning appliances resulting from our increased procurement of wall-hung gas boilers in anticipation of our increased sales of the same, as encouraged by the implementation of the Zero-coal Policy in Gaomi City.

The following table sets out an analysis of our inventories recognised as expenses and included in our cost of sales.

	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* (*unaudited*)	*RMB'000*
Natural gas	240,686	201,540	265,800	95,398	123,439
Construction materials	10,610	17,568	23,906	6,260	5,122
Gas-burning appliances	4,025	12,068	28,367	2,670	971
	255,321	231,176	318,073	104,328	129,532

The following table sets out our average inventories turnover days for the periods indicated.

	For the year ended 31 December			For the four months ended 30 April
	2019	**2020**	**2021**	**2022**
Average inventories turnover days[1]	14	18	13	9

Note:

(1) Average finished goods turnover days are equal to the average balances of finished goods divided by the respective cost of sales and multiplied by 365 days for a year (or 120 days for the four-month period). Average balances of finished goods are equal to balances of finished goods at the beginning of the period plus balances of finished goods at the end of the period and divided by two.

Our average finished goods turnover days were 14, 18, 13 days and 9 days for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. Our turnover days increased to 18 days for the year ended 31 December 2020, mainly due to our increased purchase of gas-burning appliances in preparation for the delivery of our Group's secured construction and installation projects, which generally have higher turnover days. Our purchase of gas-burning appliances increased as we anticipated increased sales to individual customers owing to the influx of people moving into newly developed residential properties in Gaomi City. Our turnover days decreased to 13 days for the year ended 31 December 2021 as our inventories decreased following our use of raw materials and gas-burning appliances for the implementation of the coal-to-gas project (煤改氣工程) and construction and installation work under Clean Energy Projects. Such decrease was also attributable to an increase in our costs of goods sold due to increases in the prices of our inventory as a result of normal market fluctuations.

As at 31 July 2022, approximately RMB4,024,000 or 39.9% of our inventories as at 30 April 2022 had been subsequently sold. Given that we do not keep any PNG as inventories, our inventories mainly comprise of pipelines and other equipment and parts for our construction and installation services, as well as wall-hung gas boilers and related parts of gas appliances for our construction and installation services. Hence the subsequent sales of our inventories are mainly subject to seasonality and dependent on the timing of construction and installation plans. During the period from 1 May 2022 to 31 July 2022, there had not been any significantly large-scale construction and installation works being carried out, hence there was relatively low subsequent sales of our inventories.

Trade and Other Receivables

During the Track Record Period, our trade receivables represented outstanding amounts due from our customers mainly for our products and services. Our other receivables included amounts due from related parties and amounts due from third parties, mainly in relation to our advances to them.

The following table sets out our trade and other receivables as at the dates indicated.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Trade receivables				
- third parties	—	—	19,469	19,636
Less: provision for impairment of trade receivables	—	—	(370)	(374)
	—	—	19,099	19,262
Current				
Trade receivables				
- third parties	3,004	264	13,443	13,566
Less: provision for impairment of trade receivables	(38)	(38)	(284)	(285)
Trade receivables - net	2,966	226	13,159	13,281
Other receivables				
- Amounts due from related parties	466,293	215,627	—	—
- Amounts due from third parties	38,509	33,881	29,877	29,884
	504,802	249,508	29,877	29,884
Less: provision for impairment of other receivables	(31,602)	(29,789)	(28,373)	(28,365)
Other receivables - net	473,200	219,719	1,504	1,519
	476,166	219,945	14,663	14,800
Total trade and other receivables, net	476,166	219,945	33,762	34,062

Our trade and other receivables remained stable at approximately RMB33.8 million and RMB34.1 million as at 31 December 2021 and 30 April 2022, respectively. Our trade and other receivables decreased by approximately RMB186.1 million, or 84.6%, from approximately RMB219.9 million as at 31 December 2020 to approximately RMB33.8 million as at 31 December 2021, primarily due to the full repayment of other receivables due from related parties in respect of interest-free advances. Our trade receivables from third parties increased during the same period, primarily because our service fees payable by the local government for our installation of gas-burning appliances and connection of natural gas to rural households under the Clean Energy Projects were generally to be settled by instalments over a three-year period after completion of each Clean Energy Project, starting from the second half of 2021. Our trade and other receivables decreased by approximately RMB256.3 million, or 53.8%, from approximately RMB476.2 million as at 31 December 2019 to approximately RMB219.9 million as at 31 December 2020, primarily due to a decrease in trade receivables and other receivables due from related parties in respect of interest-free advances. The decrease in trade receivables from third parties in the same period was primarily due to a decrease in our trade receivables due from a wholesale customer of PNG. For details of the aforementioned advances, please refer to "— Related Party Transactions" in this section.

Trade receivables

The following table sets out an ageing analysis of our trade receivables, based on invoice date, as at the dates indicated.

	As at 31 December			**As at 30 April**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	2,966	226	32,874	33,164
1-2 years	—	—	—	—
2-3 years	—	—	—	—
Over 3 years	38	38	38	38
	3,004	264	32,912	33,202

As at 31 December 2021 and 30 April 2022, trade receivables from the Clean Energy Projects amounted to approximately RMB32.4 million and RMB32.7 million, respectively. The portion which is not expected to be recovered by our Group within the next twelve months from the balance sheet date had been classified as non-current trade receivables.

Our trade receivables are generally collectible within 180 days from the invoice date. No interest is charged on the trade receivables. We have made impairment provisions for all of our overdue balances over three years and our Directors consider that these receivables are recoverable with no significant credit losses.

The following table sets out the movements in allowance for impairment of trade receivables.

	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* *(unaudited)*	*RMB'000*
At beginning of the year/ period	38	38	38	38	654
Provision	—	—	616	—	5
At the end of the year/ period	38	38	654	38	659

All trade receivables' carrying amounts approximate their fair values.

The following table sets out our average trade receivables turnover days for the periods indicated.

	For the year ended 31 December			For the four months ended 30 April
	2019	2020	2021	2022
Average trade receivable turnover days(1)	3	2	13	25

Note:

(1) Average trade receivables turnover days are equal to the average gross trade receivables divided by revenue and multiplied by 365 days for a year (or 120 days for the four-month period). Average gross trade receivables are equal to gross trade receivables at the beginning of the period plus gross trade receivables at the end of the period and divided by two.

Given that our revenue model is built on prepayments, we generally have relatively short trade receivables turnover days. Our average trade receivables turnover days was 3, 2, 13 and 25 days for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. The increase of average trade receivables turnover days in 2021 was due to the commencement of Clean Energy Projects, pursuant to which our fees payable by the local government would be settled over three years upon completion of the relevant Clean Energy Project.

Other receivables

The following table sets out a breakdown of our other receivables, as at the dates indicated.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties	466,293	215,627	—	—
Amounts due from third parties*(Note)*	38,509	33,881	29,877	29,884
	504,802	249,508	29,877	29,884
Less: provision for impairment of other receivables	(31,602)	(29,789)	(28,373)	(28,365)
Other receivables - net	473,200	219,719	1,504	1,519

Note: All receivables from third parties were interest-free.

The following table sets out the movements of provision made for our other receivables during the Track Record Period.

	For the year ended 31 December			For the four months ended 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	34,546	31,602	29,789	28,373
Provision	555	401	1,427	—
Reversal	(3,499)	(2,100)	(2,843)	(8)
Written-off	—	(114)	—	—
At the end of the year/period	31,602	29,789	28,373	28,365

The following below table sets out a breakdown of provisions made for our other receivables as at the dates indicated.

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Impairment of other receivables due from third parties	29,317	28,646	28,373	28,365
Impairment of other receivables due from related parties	2,285	1,143	—	—
	31,602	29,789	28,373	28,365

We recorded significant provisions made for our other receivables primarily prior to and also during the Track Record Period, primarily because such other receivables had been outstanding for over three years and it was therefore unclear whether or not they could be recovered.

Reversals of the provision for impairment of other receivables during the Track Record Period primarily arose from the settlement of other receivables from related parties in relation to interest free advances.

The following table sets out a breakdown of the outstanding balance of our other receivables due from third parties, primarily consisting of unsecured and interest-free advances to third parties, as at the dates indicated.

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances unrelated to the normal and ordinary course of business operations	37,852	33,438	29,510	29,496
Deposits or other payments in the normal and ordinary course of business operations	657	443	367	388
	38,509	33,881	29,877	29,884

The following table sets out the movements of our Group's other receivables due from third parties outstanding for each year/ period of the Track Record Period.

	As at 1 January 2019			For the year ended 31 December 2019		As at 31 December 2019			For the year ended 31 December 2020		As at 31 December 2020			For the year ended 31 December 2021		As at 31 December 2021			For the four months ended 30 April 2022		As at 30 April 2022		
	Outstanding balance	Provision made		Amount of advances made	Amount of settlement	Outstanding balance	Provision made		Amount of advances made	Amount of settlement	Outstanding balance	Provision made		Amount of advances made	Amount of settlement	Outstanding balance	Provision made		Amount of advances made	Amount of settlement	Outstanding balance	Provision made	
	RMB'000	*RMB'000*	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	%
Advances unrelated to the normal and ordinary course of business operations	41,296	(31,796)	77.0	84,500	87,944	37,852	(28,862)	76.2	13,900	18,314	33,438	(28,305)	84.6	—	3,929	29,509	(28,082)	95.2	—	13	29,496	(28,075)	95.2
Deposits or other payments in the normal and ordinary business operations	672	(457)	68.0	87	102	657	(455)	69.3	208	422	443	(341)	77.0	72	147	368	(291)	79.0	22	2	388	(290)	74.7
Total	41,968	(32,253)	76.9	84,587	88,046	38,509	(29,317)	76.1	14,108	18,736	33,881	(28,646)	84.5	72	4,076	29,877	(28,373)	95.0	22	15	29,884	(28,365)	94.9

The following table sets out an ageing analysis of our other receivables due from third parties, as at the dates indicated.

	As at 31 December												As at 30 April			
	2019				2020				2021				2022			
	Amounts due from third parties	Provisions	Written off	Percentage impaired	Amounts due from third parties	Provisions	Written off	Percentage impaired	Amounts due from third parties	Provisions	Written off	Percentage impaired	Amounts due from third parties	Provisions	Written off	Percentage impaired
	RMB'000	*RMB'000*	*RMB'000*		*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000*	*RMB'000*	*RMB'000*	
Less than 1 year	69	—	—	0.0%	3,016	—	—	0.0%	31	—	—	0.0%	46	—	—	0.0%
1 - 2 years	5,300	200	—	3.8%	19	—	—	0.0%	2,890	1,427	—	49.4%	2,882	1,419	—	49.2%
2 - 3 years	200	10	—	5.0%	2,300	200	—	8.7%	10	—	—	0.0%	10	—	—	0.0%
Over 3 years	32,940	29,107	—	88.4%	28,546	28,446	114	99.7%	26,946	26,946	—	100.0%	26,946	26,946	—	100.0%
	38,509	29,317	—		33,881	28,646	114		29,877	28,373	—		29,884	28,365	—	

The following table sets out the movements of provision made for our other receivables due from third parties.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
At beginning of the year/period	32,253	29,317	28,646	28,373
Provision	10	90	1,427	—
Reversal	(2,946)	(647)	(1,700)	(8)
Written-off	—	(114)	—	—
At the end of the year/period	29,317	28,646	28,373	28,365

Having conducted a comprehensive assessment of the business and operational situation of those third parties, and their source of funds for repayment of our advances, taking into account the amount of provisions already made, we consider that adequate provision has been made for our other receivables due from third parties and it fully reflects the level of credit risk that our Group could bear.

In respect of the balances of our Group’s other receivables due from third parties during the Track Record Period, they mainly comprised the following categories:

(1) advances made as deposits or other payments in our Group’s normal and ordinary course of business operations.

(2) advances made to an ex-employee of Jiaoyun Property (who now works for an associated company of Jiaoyun Property) as interest-free advances in December 2019. All amounts advanced were fully returned to us by 31 May 2021.

(3) advances made to Shandong Jinfulong Co., Ltd. (山東金孚隆股份有限公司) ("**Shandong Jinfulong**"), an Independent Third Party which was also our PNG customer during the Track Record Period. Shandong Jinfulong is a local shopping mall operator. Such advances existed throughout the Track Record Period. At the time, a cross-guarantee arrangement was in place between Jiaoyun Gas and Shandong Jinfulong, as a result of which each one of them provided guarantee for the benefit of the other in respect of certain bank loans. From January 2019 to September 2020, Shandong Jinfulong encountered temporary working capital shortages. As a guarantor, Jiaoyun Gas would have become directly liable for such loan amounts and therefore instead agreed to advance cash to Shandong Jinfulong for it to bridge its short-term funding gaps from time to time, in order to prevent the triggering of any default that could result in the enforcement of the guarantee. From October 2020 to the Latest Practicable Date, we have not further advanced cash to Shandong Jinfulong.

(4) advances made to nine Independent Third Parties from around 2006 to 2017 as interest-free advances for assisting their temporary cash flow shortages at the time. These Independent Third Parties are personally acquainted to Mr. Luan Linjiang and/or Mr. Luan Xiaolong. To the best knowledge, information and belief of the Directors, those nine Independent Third Parties did not obtain financing directly from banks or other financial institutions due to their creditworthiness at the time. Repayment requests have been made by us against all these nine Independent Third Parties.

(5) advances made to 11 Independent Third Parties which had taken out interest-bearing loans from Gaomi Jiaoyun Microcredit Co., Ltd.* (高密市交運小額貸款股份有限公司) ("**Jiaoyun Microcredit**", a related party) in its ordinary course of lending business in around 2013 to 2014. To the best knowledge, information and belief of the Directors, these 11 Independent Third Parties did not obtain financing directly from banks or other financial institutions due to their creditworthiness at the time. After signing of the loan agreements to which Jiaoyun Gas was not a party, Jiaoyun Microcredit requested for Jiaoyun Gas (which was part of the Private Group at that time) to transfer funds directly to those 11 Independent Third Party borrowers to facilitate its cashflow. Upon default of repayment for these loans by the relevant Independent Third Parties to Jiaoyun Microcredit, from 2014 to 2016, Jiaoyun Microcredit took legal actions against these Independent Third Party borrowers. Jiaoyun Gas was not privy to the relevant loan agreements and therefore could not have taken nor be directly involved in any action against the borrowers. Jiaoyun Microcredit eventually obtained favourable judgments or settlement for the outstanding loan principal amounts by 2016. Subsequently, Jiaoyun Microcredit and Jiaoyun Gas agreed that Jiaoyun Microcredit would assign the creditor's rights to these loans to Jiaoyun Gas, so that Jiaoyun Gas would be entitled to these creditor's rights and directly seek payment from the borrowers. Upon such assignment of creditor's rights in 2016, the nature of such cash advances made by Jiaoyun Gas directly related to the 11 Independent Third Party borrowers, and have been accounted for as unsecured, interest-free cash advances to third parties in our Group's financial statements for the Track Record Period.

Jiaoyun Microcredit is a related party held as to 50% by Jiaoyun Property, 10% by Mr. Luan Linxin and the remaining 40% by an Independent Third Party. Mr. Luan Linjiang (Chairman and executive Director) is the chairman of the board of directors and legal representative of Jiaoyun Microcredit, while Mr. Luan Xiaolong (executive Director and chief executive officer of our Company) is the general manager of Jiaoyun Microcredit. Jiaoyun Microcredit is a licensed microfinancing company in the PRC which carries on the business of provision of small loans. It was and continues to be a member of the Private Group.

To the best knowledge, information and belief of the Directors, except for:

(i) the advances made to the ex-employee of Jiaoyun Property (as disclosed under category (2) above), and

(ii) Shandong Jinfulong (as disclosed under category (3) above) who was the Group's PNG customer during the Track Record Period,

none of the advances have been transferred to any of the Shareholders, Directors, senior management, employees or any of their respective associates of the Company and its subsidiaries, or to any of the Group's customers for their purchases of the Group's products/services.

Shandong Jinfulong was our Group's PNG customer during the Track Record Period as it purchased PNG for heating of the shopping malls and cooking for staff canteen therein. Due to operational and financial difficulties, Shandong Jinfulong leased all of its shopping malls to a new operator in February 2022, Shandong Jinfulong's historical amounts of PNG purchased from our Group is significantly smaller than the amount of cash advanced to it by Jiaoyun Gas.

For categories (1), (2) and (3) above, as confirmed by our Company, the advances under category (2) took place between Jiaoyun Gas and an individual and the advances under categories (1) and (3) resulted from normal business activities and cross-guarantee instead of being loans, therefore, as advised by our PRC Legal Advisers, such advances under categories (1), (2) and (3) did not violate the Lending General Provisions or any mandatory PRC laws and administrative regulations. For categories (4) and (5) above, considering that: (a) such advances were made for the purposes of supporting the business operations of third parties; (b) up to the Latest Practicable date, Jiaoyun Gas had not fully recovered all such advances; (c) the PBOC of Gaomi has confirmed 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; and (d) up to the Latest Practicable Date, our Group did not receive any penalties, investigation or notice from relevant competent authorities in relation to such borrowings, our PRC Legal Advisers are of the view that, (i) such loans were legally binding on relevant parties; (ii) such loans and assignments of creditor's rights did not violate any mandatory PRC laws and administrative regulations; and (iii) the risk of the Group being fined or penalized pursuant to the Lending General Provisions for the above-mentioned third party advances and loan arrangements is low.

As at the Latest Practicable Date, we have already adopted relevant enhanced internal control measures to ensure no third party advances would be made unless necessary for our normal and ordinary course of business operations. Our internal control consultant reviewed such internal control measures, and did not see the need to make further recommendation.

All other receivables' carrying amounts approximate their fair values.

As at 31 July 2022, approximately RMB58,000 or 0.2% of our trade and other receivables as at 30 April 2022 were subsequently settled. Our trade receivables mainly comprise of receivables from PNG sales to wholesale customers and receivables for our Clean Energy Projects. In particular, receivables for our Clean Energy Projects are generally to be settled by instalments over a three-year period after completion as according to the Clean Energy Project agreements.

Moreover, since our sale of PNG business is conducted on a prepayment basis, our trade receivables only come from our other smaller business segments. Therefore, from the perspective of our Group as a whole, we do not consider there to be any material recoverability issue despite the low subsequent settlement, and we consider that no further provision is required to be made.

Prepayments and Other Current Assets

During the Track Record Period, our prepayments and other current assets consisted of (i) prepayments for raw materials, [REDACTED] expenses and other expenses; and (ii) value-added tax recoverable. As at 31 December 2019, 2020 and 2021 and 30 April 2022, our prepayment and other current assets amounted to approximately RMB18.0 million, RMB16.2 million, RMB30.1 million and RMB21.6 million, respectively.

The table below sets out our prepayments and other current assets as at the dates indicated.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for:				
- natural gas and other construction materials	16,002	13,527	24,772	14,687
- [REDACTED] expenses	—	434	2,837	4,109
- other expenses	286	320	344	339
Value-added tax recoverable	1,682	1,945	2,176	2,468
	17,970	16,226	30,129	21,603

Our prepayments and other assets decreased from approximately RMB30.1 million as at 31 December 2021 to approximately RMB21.6 million as at 30 April 2022, primarily due to a decrease in prepayments to Shandong Shihua and PetroChina as we procured less gas from them for the non-heating season. Our prepayments and other assets increased from approximately RMB16.2 million as at 31 December 2020 to approximately RMB30.1 million as at 31 December 2021, primarily due to an increase in prepayment days for our purchases of raw materials from PetroChina and Shandong Shihua as a result of such suppliers' requirements. Our prepayments and other assets decreased from approximately RMB18.0 million as at 31 December 2019 to approximately RMB16.2 million as at 31 December 2020, primarily due to decreased purchases of raw materials from PetroChina and Shandong Shihua.

As at 31 July 2022, approximately RMB13.7 million or 63.4% of our prepayments and other current assets as at 30 April 2022 were subsequently settled.

Restricted Bank Deposits

As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had restricted bank deposits of approximately RMB204.0 million, RMB75.1 million, nil and nil, respectively.

Trade and Other Payables

During the Track Record Period, our trade payables included trade payables to third parties and related parties in relation to our purchases during the ordinary course of business. For details of our transactions of a trade nature with related parties, please refer to "— Related Party Transactions" in this section. Except for our procurement contracts with gas-burning appliances suppliers for Clean Energy Projects (pursuant to which we may generally settle our fees by instalments over three years), we were typically granted credit terms of up to 30 days by our major suppliers during the Track Record Period. Our other payables included other taxes payable, amounts due to related parties, amounts due to third parties and salaries and staff welfare payable. The carrying amounts of trade and other payables of our Group approximate their fair values. As at 31 December 2019, 2020 and 2021 and 30 April 2022, our trade and other payables were RMB30.0 million, RMB40.2 million and RMB55.1 million and RMB52.9 million, respectively.

The table below sets out our trade and other payables as at the dates indicated.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Trade payables				
- third parties	—	—	7,306	7,373
- related parties	—	—	—	—
	—	—	7,306	7,373
Current				
Trade payables				
- third parties	13,606	15,248	25,337	22,962
- related parties	5,486	5,896	4,093	4,806
	19,092	21,144	29,430	27,768
Other payables				
- Value-added tax payable	7,954	11,622	9,074	8,035
- Other taxes payable	311	502	3,630	236
- Amounts due to related parties	1,302	2,652	590	696
- [REDACTED] expenses payable	—	1,660	2,152	5,691
- Salaries and staff welfare payable	1,140	1,288	1,621	1,719
- Others	206	1,381	1,320	1,401
	10,913	19,105	18,387	17,778
	30,005	40,249	47,817	45,546
Total trade and other payables	30,005	40,249	55,123	52,919

Our trade and other payables increased by approximately RMB10.2 million or 34.1% from approximately RMB30.0 million as at 31 December 2019 to approximately RMB40.2 million as at 31 December 2020, primarily attributable to increases in both our trade payables and other payables. The increase in our trade payables was primarily attributable to an increase in our third party trade payables as a result of increased subcontracting costs. The increase in our other payables was primarily attributable to an increase in our value-added tax payables as a result of increased contract liabilities, our other payables due to third parties as we incurred [REDACTED] expenses and our other payables due to related parties as a result of Jiaoyun Shihua's declaration of a dividend. Our trade and other payables increased by approximately RMB14.9 million or 37.0% from approximately RMB40.2 million as at 31 December 2020 to approximately RMB55.1 million as at 31 December 2021, primarily attributable to an increase in third party trade payables as a result of increased subcontracting costs for the construction of our urban pipeline network in support of the implementation of the Clean Energy Projects. Our trade and other payables decreased slightly by RMB2.2 million or 4.0% from approximately RMB55.1 million as at 31 December 2021 to approximately RMB52.9 million as at 30 April 2022, primarily attributable to decreases in both our trade payables and other payables. The decrease in our trade payables was primarily attributable to a decrease in our third party trade payables as we settled our subcontracting costs. The decrease in our other payables was primarily attributable to a decrease in our value-added tax payables and other tax payables as we paid our taxes for the fourth quarter of 2021 in January 2022.

The following table sets out an aging analysis of our trade payables, based on invoice date, as at the dates indicated.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 year	13,612	14,529	34,754	32,789
1 - 2 years	3,937	5,121	1,106	1,451
2 - 3 years	758	521	438	436
Over 3 years	785	973	438	465
	19,092	21,144	36,736	35,141

The table below sets out our average trade payables turnover days for the periods indicated.

	For the year ended 31 December			For the four months ended 30 April
	2019	**2020**	**2021**	**2022**
Average trade payables turnover days[(1)]	26	29	31	32

Note:

(1) Average trade payables turnover days is equal to the average trade payables divided by cost of sales and multiplied by 365 days for a year (or 120 days for the four-month period). Average trade payables are equal to trade payables at the beginning of the period plus trade payables at the end of the period and divided by two.

Our average trade payable turnover days increased to 31 days for the year ended 31 December 2021, mainly due to our commencement of the Clean Energy Projects, involving construction costs of our urban pipeline network which are usually settled according to construction progress and within one year after completion of construction, as well as costs of procurement of gas-burning appliances which are to be settled over the course of three years after completion of each relevant Clean Energy Project upon our receipt of the government subsidy. Our average trade payable turnover days increased to 29 days for the year ended 31 December 2020, primarily attributable to (i) our increased number of completed construction projects and increased procurement of wall-hung gas boilers as a result of the implementation of the Zero-coal Policy in Gaomi City; and (ii) the increase of our VAT-tax payable, which was also due to the implementation of the Zero-coal Policy.

As at 31 July 2022, approximately RMB4.2 million, or 11.9% of the trade payables balance as at 30 April 2022 were subsequently settled.

Contract Liabilities

Our contract liabilities mainly represented the payments received from customers by us while the underlying goods or services are yet to be delivered. There is no significant long-term unsatisfied performance obligations in the Track Report Period.

We recognised the following liabilities related to contract with customers as at the dates indicated:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
PNG sales	58,491	71,724	87,577	78,023
Construction and installation services	27,107	40,114	12,386	6,711
CNG and LNG sales	970	1,387	1,193	1,032
Sale of gas-burning appliances	1,259	11,024	147	48
	87,827	124,249	101,303	85,814

The table below sets out the amount and percentage of contract liabilities subsequently recognised as revenue.

	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* (*Unaudited*)	*%*	*RMB'000*	*%*
PNG sales	56,164	99%	57,825	99%	71,313	99%	40,517	56%	47,603	54%
Construction and installation services	20,953	100%	27,107	100%	40,114	100%	17,782	44%	6,510	53%
CNG and LNG sales	1,481	100%	970	100%	1,387	100%	1,387	100%	1,088	91%
Sale of gas-burning appliances	165	100%	1,259	100%	11,024	100%	3,553	32%	93	63%
	78,763		87,161		123,838		63,239		55,294	

As at 31 December 2019, 2020 and 2021 and 30 April 2022, our contract liabilities were approximately RMB87.8 million, RMB124.2 million, RMB101.3 million and RMB85.8 million. The steady increase of our contract liabilities from 31 December 2019 to 2020 was primarily due to (i) our increased sale of gas-burning appliances and provision of construction and installation services as a result of the implementation of the Zero-coal Policy in Gaomi City; and (ii) an increase in our PNG sales as a result of the increased gas consumption by industrial PNG end-users as a result of favourable government policies and Shandong's general economic growth. Our contract liabilities decreased from approximately RMB124.2 million as at 31 December 2020 to approximately RMB101.3 million as at 31 December 2021 was primarily because (i) our construction and installation projects that were ongoing at the end of 2020 subsequently completed during 2021, such that revenue from our provision of construction and installation services was recognised in 2021, leading to a decrease in the balance of our contract liabilities for this segment as at 31 December 2021; and (ii) a large volume of our goods and products was delivered under our sale of gas-burning appliances segment, in line with the completion of our construction and installation projects during 2021. Our contract liabilities further decreased from approximately RMB101.3 million as at 31 December 2021 to approximately RMB85.8 million as at 30 April 2022 primarily because (i) our PNG end-users usually make more prepayments to us by topping up their accounts starting around September to October each year before the winter heating season, while January to April each year is the peak of the winter heating season when relatively more PNG sales are made, such that revenue from our PNG sales are recognised during this period, leading to a relatively lower balance of contract liabilities as at 30 April 2022; (ii) there was a number of construction and installation projects completed, no new large-scale construction and installation projects commenced, and no new Clean Energy Projects commenced during the four months ended 30 April 2022.

Current Income Tax Liabilities

As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had current income tax liabilities of approximately RMB5.1 million, RMB12.8 million, RMB5.6 million and RMB0.7 million, respectively.

Non-current Assets and Liabilities

Non-current Assets

Our non-current assets primarily consisted of property, plant and equipment, investment properties, right-of-use rights, intangible assets and other non-current assets. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had non-current assets of approximately RMB189.4 million, RMB193.4 million, RMB226.7 million and RMB226.9 million, respectively.

During the Track Record Period, our property, plant and equipment mainly consisted of gas pipelines for our gas operations, buildings in the PRC, plant and machinery and construction in progress. Our property, plant and equipment amounted to RMB107.1 million, RMB109.0 million, RMB118.2 million and RMB117.6 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. Our balance of property, plant and equipment remained relatively stable as at the end of the Track Record Period.

Our investment properties consisted of buildings and land leased to a related party for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022 for the purpose of generating rental income. Investment properties are stated on a fair value basis. Our investment properties amounted to RMB67.7 million, RMB68.6 million, RMB69.7 million and RMB70.5 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively, recording a steady increase over the Track Record Period.

Impairment testing of goodwill

The following table sets out each key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

	As at 31 December			**As at 30 April**
	2019	**2020**	**2021**	**2022**
Revenue growth rate in perpetual period	2%	2%	2%	2%
Gross margin (Note)	17 - 20%	16 - 17%	16 - 17%	16 - 17%
Pre-tax discount rate	11%	10%	11%	11%

Note: Gross margin was adjusted to 16% - 17% following the year ended 31 December 2019 in consideration of the combined effects of COVID-19 and fluctuations in international crude oil prices, as well as the outbreak of the Russia-Ukraine military conflict in early 2022.

Based on the result of the goodwill impairment testing, the estimated recoverable amount of the CGU far exceeded its carrying amount and the headroom was as follows:

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Headroom	40,213	39,652	44,959	45,162

The management performed the sensitivity analysis based on the abovementioned key assumptions. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased to as below:

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue growth rate in perpetual period decreased by 5%	39,611	39,053	44,328	44,503
Gross margin decreased by 5%	24,141	22,720	26,718	26,715
Pre-tax discount rate increased by 5%	36,077	35,570	40,589	40,744

Management has also concluded that there is no reasonably possible change to a key assumption used in determining recoverable amount that would cause the CGU's carrying amount to exceed its recoverable amount.

Non-current Liabilities

Our non-current liabilities primarily consisted of lease liabilities and deferred income tax liabilities. As at 31 December 2019, 2020 and 2021 and 30 April 2022, we had non-current liabilities of approximately RMB7.4 million, RMB8.5 million, RMB16.7 million and RMB17.1 million, respectively. Please refer to "—Indebtedness" in this section for more details.

Indebtedness

The following table sets out the breakdown of our total indebtedness as at the dates indicated.

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	748,397	227,800	37,000	27,000
Lease liabilities	2,502	2,256	2,850	2,727
	750,899	230,056	39,850	29,727

Borrowings

During the Track Record Period, our borrowings consisted of (i) bank borrowings; (ii) other borrowings (representing the borrowings obtained from banks by discounting the bank acceptance notes under our bill financing arrangements); and (iii) our ABS. As at 31 December 2019, 2020 and 2021, 30 April 2022 and 31 July 2022, our borrowings were approximately RMB748.4 million, RMB227.8 million, RMB37.0 million, RMB27.0 million and RMB18.0 million, respectively. Our bank borrowings and other borrowings are unsecured or secured and/or guaranteed, and denominated in RMB. Our ABS is denominated in RMB. For details of our borrowings, please refer to Note 26 to the Accountant's Report set out in Appendix I to this document. For details of our bill financing arrangements and bank loan transfer arrangements, please refer to "Business — Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing" and "Business — Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds" in this document.

	As at 31 December			As at 30 April	As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Non-current					
ABS	124,337	—	—	—	—
Less: Current portion of ABS	(124,337)	—	—	—	—
	—	—	—	—	—
Current					
Bank borrowings					
- guaranteed	173,000	44,000	—	—	—
- secured and guaranteed	37,000	37,000	—	—	—
- secured	13,300	—	37,000	27,000	18,000
	223,300	81,000	37,000	27,000	18,000
Other borrowings					
- secured	400,760	146,800	—	—	—
- unsecured	—	—	—	—	—
	400,760	146,800	—	—	—
Current portion of ABS	124,337	—	—	—	—
Total	748,397	227,800	37,000	27,000	18,000

During the Track Record Period, our borrowings were repayable as follows:

	As at 31 December			As at 30 April	As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Within one year	748,397	227,800	37,000	27,000	18,000

The table below sets out effective coupon/interest rates of our borrowings for the periods indicated.

	For the year ended 31 December			For the four months ended 30 April	For the seven months ended 31 July
	2019	**2020**	**2021**	**2022**	**2022**
ABS	7.7%	7.7%	—	—	—
Bank borrowings	5.6%	5.7%	5.7%	5.7%	5.7%

Bank borrowings

The table below sets out a breakdown of our bank borrowings as at the dates indicated.

	As at 31 December			As at 30 April	As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Guaranteed(1)	173,000	44,000	—	—	—
Secured by properties and guaranteed by certain persons	37,000(2)	37,000(2)	—	—	—
Secured by properties	—	—	37,000(3)	27,000(3)	18,000(3)
Secured by bank deposit	13,300(4)	—	—	—	—
Total	223,300	81,000	37,000	27,000	18,000

Notes:

(1) Guarantees were provided by related parties and Independent Third Parties. Such guarantees by related parties were fully released by 29 June 2021 upon repayment of the relevant bank borrowings.

(2) As at 31 December 2019 and 2020, bank borrowings of RMB37.0 million were guaranteed by Mr. Luan Linjiang, Mr. Luan Linxin, Ms. Cui Shuhua, Ms. Zhang Guozhen, Ms. Guan Lianhua, Mr. Song Xuenong and secured by investment properties of Jiaoyun Gas. Such guarantees and pledged properties were released on 23 June 2021 upon repayment of the bank borrowings.

(3) As at 31 December 2021, 30 April 2022 and 31 July 2022, bank borrowings of RMB37.0 million, RMB27.0 million and RMB18.0 million, respectively were secured by investment properties of Jiaoyun Gas.

(4) As at 31 December 2019, bank borrowings of RMB13.3 million were secured by a bank deposit of RMB14.0 million.

As at 31 July 2022, being the latest practicable date for the purpose of the indebtedness statement, we had an unutilised banking facility of approximately RMB200.0 million.

Other borrowings

The table below sets out a breakdown of our other borrowings as at the dates indicated.

	As at 31 December			As at 30 April	As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*
Secured by bank deposit	264,060	80,100	—	—	—
Secured by bank deposit of a related party *(Note)*	136,700	66,700	—	—	—
Unsecured	—	—	—	—	—
Total	400,760	146,800	—	—	—

Note: As at 31 December 2019 and 2020, other borrowings were secured by bank deposit of Mr. Luan Xiaolong in the amount of RMB106.7 million and RMB36.7 million, respectively.

ABS

In September 2015, our Group entered into an asset-backed special agreement with Minsheng Securities Co., Ltd. in the form of asset securitisation. The ABS was issued by Minsheng Special Plan and is divided into priority level and subprime level with the respective total principals of RMB430 million and RMB45 million. The priority level investors receive interest at a fixed nominal rate ranging from 4.7% to 6.8% per annum, and subprime level investors receive residual investment income distribution. Our Group purchased the entire subprime level of the ABS. Accordingly, the ABS was consolidated by our Group.

The priority level ABS is collateralised by the future earnings relating to our right to sell natural gas within our Concession area in Gaomi City, pipelines, machinery and other affiliated facilities relating to our right to sell natural gas and equity of our Company held by Jiaoyun Group, Jiaoyun Property and Mr. Luan Linjiang.

The table below sets out a breakdown of the balance of our ABS as at the dates indicated.

	As at 31 December			As at 30 April	As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
ABS					
Non-current	—	—	—	—	—
Current	124,337	—	—	—	—
Total	124,337	—	—	—	—

ABS arrangement was at the time a relatively new means of fund raising offered by various financial institutions in the PRC with a view to addressing the funding needs of companies. Our ABS allowed us to pledge our future earnings relating to our right to sell natural gas within the Operating Area, pipelines, machinery and other affiliated facilities relating to the right to sell natural gas, and the equity of our Company in exchange for funding for the Private Group, including ourselves, specifically taking into account our funding needs for the purpose of replacing our aged pipelines, stable cash flow from our natural gas charge and our repayment ability. Apart from using the funds from our ABS for purposes such as the construction of new pipelines and replacement of aged pipelines, we directly transferred a part of the funds obtained from our ABS to Jiaoyun Gas for its other business uses, including making interest-free cash advances to our related parties for the purpose of supporting their working capital and liquidity needs. Further, as advised by our PRC Legal Advisers, save for Article 61 of the Lending General Provisions (貸款通則) issued by the Gaomi Branch of People's Bank of China (the "**Lending General Provisions**"), which provides that financing arrangements or lending transactions between non-financial institutions are prohibited, there are no specific or mandatory provisions under PRC Laws and regulations and the ABS arrangement prospectus which prohibit us from providing the funds obtained from the ABS to our related parties as borrowings. As at 30 November 2020, such funds were fully collected from our related parties. Our Directors confirm that such redirected use of funds did not have any financial impact on our Group.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) we did not encounter any material difficulty in obtaining bank loans and other borrowings or receiving other financing for the purposes of our business operations; (ii) we did not have material defaults in the repayment of our bank and other borrowing or payments of trade and non-trade payables; (iii) we did not breach any covenants; and (iv) we were not requested by banks for the early repayment of our borrowing.

Lease Liabilities

During the Track Record Period, we leased a few properties for our operational needs. Our Directors consider that the adoption of HKFRS 16 did not have a significant impact on our financial position and performance. As at 31 December 2019, 2020 and 2021, 30 April 2022 and 31 July 2022, our lease liabilities amounted to approximately RMB2.5 million, RMB2.3 million, RMB2.9 million, RMB2.7 million and RMB2.6 million, respectively.

The table below sets out a breakdown of our lease liabilities as at the dates indicated.

	As at 31 December			As at 30 April	As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Lease liabilities					
- Current	380	181	510	514	520
- Non-current	2,122	2,075	2,340	2,213	2,115
	2,502	2,256	2,850	2,727	2,635

The table below sets out a maturity analysis of our lease liabilities during the Track Record Period.

	As at 31 December			As at 30 April	As at 31 July
	2019	**2020**	**2021**	**2022**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Leases are payable:					
Within 1 year	400	193	535	538	541
Between 1 and 2 years	193	197	546	432	347
Between 2 and 5 years	602	614	627	631	634
Over 5 years	3,066	2,858	2,644	2,572	2,518
Minimum lease payments	4,261	3,862	4,352	4,173	4,040
Future finance charges	(1,759)	(1,606)	(1,502)	(1,446)	(1,405)
	2,502	2,256	2,850	2,727	2,635

Indebtedness Statement and Confirmation

Except as disclosed in "Financial Information - Discussion of Certain Items of Consolidated Balance Sheets - Indebtedness" in this document, we did not have any outstanding or authorised to be issued but unissued debt securities, term loans, other borrowings or indebtedness in nature of borrowing, acceptance credits, mortgages and charges, contingent liabilities or guarantees. Our Directors confirm that there had been no material adverse change in our indebtedness since 31 July 2022 and up to the date of this document.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We had cash and cash equivalents of approximately RMB26.3 million, RMB39.6 million, RMB37.4 million and RMB24.4 million as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. Our cash and cash equivalents are primarily held in RMB.

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

	For the year ended 31 December			For the four months ended 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from operating activities	76,986	136,464	39,897	1,442
Net cash generated from/(used in) investing activities	51,053	320,231	186,268	(2,474)
Net cash used in financing activities	(123,988)	(443,397)	(228,374)	(11,945)
Net increase/(decrease) in cash and cash equivalents	4,051	13,298	(2,209)	(12,977)
Cash and cash equivalents at beginning of the year	22,230	26,281	39,579	37,370
Cash and cash equivalents at end of the year	26,281	39,579	37,370	24,393

Net Cash Generated from Operating Activities

Net cash generated from operating activities primarily comprises our profit before income tax for the year adjusted by interest received, income tax paid, non-cash and non-operating items, such as depreciation and amortisation, and adjusted by changes in working capital, such as trade and other receivables and trade and other payables.

For the four months ended 30 April 2022, net cash generated from operating activities was approximately RMB1.4 million, which was primarily attributable to (i) the profit before tax of approximately RMB15.9 million; (ii) adjustments for income statement items with non-cash effect of approximately RMB3.0 million; (iii) an outflow of approximately RMB8.9 million for changes in working capital; (iv) interest received of approximately RMB37,000; and (v) income tax paid of approximately RMB8.5 million. Our general working capital changes were primarily attributable to changes in contract liabilities.

For the year ended 31 December 2021, net cash generated from operating activities was approximately RMB39.9 million, which was mainly attributable to (i) the profit before tax of approximately RMB91.5 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB11.3 million; (iii) an outflow of approximately RMB33.7 million for changes in working capital; (iv) interest received of approximately RMB0.5 million; and (v) income tax paid of approximately RMB29.7 million. Our general working capital changes were primarily attributable to changes in trade and other receivables, trade and others payables and contract liabilities.

For the year ended 31 December 2020, net cash generated from operating activities was approximately RMB136.5 million, which was mainly attributable to (i) the profit before tax of approximately RMB68.5 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB19.6 million; (iii) an inflow of approximately RMB53.9 million for changes in working capital; (iv) interest received of approximately RMB3.1 million; and income tax paid of approximately RMB8.6 million. Our general working capital changes were primarily attributable to changes in trade and other payables and contract liabilities.

For the year ended 31 December 2019, net cash generated from operating activities was approximately RMB77.0 million, which was attributable to (i) the profit before tax of approximately RMB50.1 million; (ii) adjustments for income statement items with non-cash effect and non-operating items of approximately RMB26.2 million; (iii) an inflow of approximately RMB4.8 million for changes in working capital; (iv) interest received of approximately RMB3.6 million; and (v) income tax paid of approximately RMB7.7 million. Our general working capital changes were primarily attributable to changes in trade and other payables and contract liabilities.

Net Cash Generated from/(Used in) Investing Activities

For the four months ended 30 April 2022, net cash used in investing activities was approximately RMB2.5 million, which was mainly attributable to purchases of property, plant and equipment.

For the year ended 31 December 2021, net cash generated from investing activities was approximately RMB186.3 million, which was mainly attributable to repayments of loans to related parties of approximately RMB399.2 million, which was partially offset by advances of loans to related parties of approximately RMB194.2 million.

For the year ended 31 December 2020, net cash generated from investing activities was approximately RMB320.2 million, which was mainly attributable to repayments of loans from related parties of approximately RMB1,497.9 million, which was partially offset by advances of loans to related parties of RMB1,164.9 million.

For the year ended 31 December 2019, net cash generated from investing activities was approximately RMB51.1 million, which was mainly attributable to repayments of loans from related parties of approximately RMB1,315.1 million, which was partially offset by advances of loans to related parties of RMB1,252.6 million.

Net Cash Used in Financing Activities

For the four months ended 30 April 2022, net cash used in financing activities was approximately RMB11.9 million, which was mainly attributable to repayments of bank borrowings of RMB10.0 million.

For the year ended 31 December 2021, net cash used in financing activities was approximately RMB228.4 million, which was mainly attributable to (i) repayments of bank borrowings of approximately RMB222.8 million; (ii) dividend to the then shareholders of a subsidiary of approximately RMB70.0 million; and (iii) our acquisition of the [REDACTED] business consisting of Jiaoyun Gas, our onshore holding company, and its operating subsidiary, of approximately RMB60.7 million, partially offset by (i) withdrawal of restricted bank deposits for borrowings of approximately RMB70.1 million; (ii) proceeds from bank borrowings of approximately RMB37.0 million; and (iii) proceeds from our disposal of a then subsidiary, namely Gaoyun Investment, of approximately RMB25.5 million.

For the year ended 31 December 2020, net cash used in financing activities was approximately RMB443.4 million, which was mainly attributable to (i) repayments of bank borrowings of RMB647.2 million; (ii) placement of bank deposits for borrowings of approximately RMB156.7 million; and (iii) repayment of ABS in the amount of approximately RMB125.0 million, which was partially offset by (i) proceeds from bank borrowings of approximately RMB283.1 million; (ii) redemption of bank deposits for borrowings of approximately RMB167.3 million; and (iii) dividend and disposal proceeds relating to our then subsidiary, namely Jiaoyun Thermal, of approximately RMB50.9 million.

For the year ended 31 December 2019, net cash used in financing activities was approximately RMB124.0 million, which was mainly attributable to (i) repayments of bank borrowings of RMB470.8 million; (ii) placement of bank deposits for borrowings of approximately RMB269.3 million; and (iii) repayment of ABS in an amount of approximately RMB105.0 million, which was partially offset by (i) proceeds from bank borrowings of approximately RMB615.6 million; and (ii) redemption of bank deposits for borrowings of RMB133.0 million.

CAPITAL EXPENDITURES

Our historical capital expenditures during the Track Record Period primarily included expenditure for our purchases of equipment and the construction and upgrade of pipelines. We funded our capital expenditure requirements and long-term investments during the Track Record Period mainly from cash flow generated from our operations, ABS and bank borrowings. Our capital expenditure amounted to approximately RMB15.1 million, RMB14.2 million, RMB21.9 million and RMB2.5 million for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively.

Our capital expenditure for the year ending 31 December 2022 is expected to amount to approximately RMB17.2 million, which will be primarily used for pipeline construction. We plan to fund our future capital expenditures using the net proceeds received from the [REDACTED] and internal resources, which include but are not limited to, our cash and cash equivalents and banking facilities. We may reallocate the funds to be utilised for our capital expenditure and future development based on our ongoing business needs.

CAPITAL COMMITMENTS

During the Track Record Period, our Group did not have any capital commitments.

CONTINGENT LIABILITIES

Except as disclosed in "Financial Information - Discussion of Certain Items of Consolidated Balance Sheets - Indebtedness" in this document, we did not have any outstanding loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans, or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities or any covenant in connection therewith as of 31 July 2022, being the latest date for the purpose of the indebtedness statement.

Our Directors have confirmed that there had not been any material change in the indebtedness and contingent liabilities of our Group since 31 July 2022 and up to the Latest Practicable Date.

As at the Latest Practicable Date, we did not have any definitive plan to raise external financing except for the [REDACTED].

WORKING CAPITAL CONFIRMATION

Our future cash requirements will depend on many factors, including our operating income, changing business conditions and future developments, including any potential investments or acquisitions we may decide to pursue. Natural gas is an important sources of energy for the general public. Therefore, we believe that our operating income generated from our business operations will remain stable. Accordingly, we anticipate that net cash generated from operating activities will remain stable going forward.

Our Directors confirm that, taking into account our current cash and cash equivalents, anticipated cash flow from operations, proceeds from the [REDACTED] and banking facilities available to us, as well as the mitigating factors to our net current liabilities as discussed above, we will have available sufficient working capital for our present requirements that is for at least the next 12 months from the date of this document.

After due consideration and discussion with our management and the Reporting Accountants and based on the above, the Sole Sponsor has no reason to believe that our Group cannot meet the working capital requirements for the 12 months from the date of this document.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we carried out certain transactions with related parties as set out in Note 32 of the Accountant's Report included in Appendix I to this document. These included:

(i) purchases of PNG from Shandong Shihua, which were on terms and at prices prescribed in accordance with the benchmark gate price, as elaborated in "Business — Sale of PNG — Pricing", "Regulatory Overview — Regulation on Pricing Mechanism Related to Natural Gas" and "Industry Overview — Analysis of the City Gas Supply Industry in Gaomi City" in this document. Terms and pricing of such transactions are comparable to those with Independent Third Parties and similar transactions in the market. Transactions with Shandong Shihua in respect of our purchase of PNG are expected to continue after [REDACTED] and will constitute a continuing connected transaction of our Company under the Listing Rules. 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 — 4. Natural Gas Sale and Purchase Agreements" in this document;

(ii) purchases of pipes and gas-burning appliances from Yuanhua Trading, which were on terms and at prices determined with reference to the cost at which Yuanhua Trading sourced such parts as part of the bulk purchase arrangement where Yuanhua Trading acted as the procurement agent for the entire Private Group, based on arm's length negotiations. Such terms and pricing were generally more favourable to us as compared to our direct purchases of similar goods from Independent Third Parties. The cost-savings enjoyed by our Group as a result of our procurement of pipes and gas-burning appliances from Yuanhua Trading amounted to approximately RMB0.3 million, RMB0.1 million and RMB20,000 for the years ended 31 December 2019, 2020 and 2021, respectively. We have ceased all transactions involving Yuanhua Trading since 30 June 2021. As the cost-savings mentioned above are only marginal, such termination of all transactions involving Yuanhua Trading is not expected to have material adverse impact on our Group's business and financial performance. For details, please refer to "Business — Our Suppliers — Our Top Five Suppliers" in this document;

(iii) purchases of subcontracting services from Jiaoyun Property where we have engaged Jiaoyun Property as our subcontractor for pipeline construction and installation of natural gas supply facilities, as elaborated in "Business — Our Suppliers — Subcontractors of Pipeline Construction and Installation of Natural Gas Supply Facilities — (i) Jiaoyun Property" in this document. During the Track Record Period, the fees paid by our Group to Jiaoyun Property for such subcontracting of construction and installation services were determined based on arm's length negotiations with reference to the labour fee of workers needed for carrying out the relevant services. 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. Since then, our purchases of subcontracting services from Jiaoyun Property were on terms and at prices comparable to our purchases of similar services with similar labour requirements from Independent Third Parties. 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. Transactions with Jiaoyun Property for its subcontracting services are expected to continue after [REDACTED] and will constitute a continuing connected transaction of our Company under the Listing Rules. 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" in this document;

(iv) provision of construction and installation services to Jiaoyun Property and Guorui Real Estate where we provide services for installation of gas pipelines to our Group's pipeline network for real estate development projects undertaken by them. During the Track Record Period, the fees paid by Jiaoyun Property and Guorui Real Estate to our Group for such construction and installation services were determined with reference to (i) the number of units in each real estate development project; (ii) cost of raw materials and labour needed for carrying out the construction and installation services; and (iii) fee quotes provided by us to other customers which are Independent Third Parties and require similar services. Our construction and installation services were provided to Jiaoyun Property and Guorui Real Estate on terms and at prices comparable to our provision of similar services with similar raw material and labour requirements to Independent Third Parties. Transactions with Jiaoyun Property and Guorui Real Estate in respect of our provision of construction and installation services are expected to continue after [REDACTED] and will constitute continuing connected transactions of our Company under the Listing Rules. 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 — 2. Construction and Installation Services Framework Agreements" in this document;

(v) sale of PNG to Jiaoyun Thermal for its supply of heating to households in Gaomi City, which were on terms and at prices comparable to our sale of PNG to Independent Third Party industrial PNG end-users in Gaomi City. Please also refer to "Relationship with our Controlling Shareholders — Excluded Businesses" in this document;

(vi) sale of CNG to Jiaoyun Taxi, which were on terms and at prices comparable to our sale of CNG to Independent Third Party vehicle users in Gaomi City;

(vii) leasing of properties to Jiaoyun Market. From 1 January 2019 to 30 June 2021, the annual rent for our properties leased to Jiaoyun Market was determined based on arm's length negotiations with reference to the rentable area of such property, which was generally lower than the prevailing market rate for similar premises of a similar rental area in the vicinity of the leased properties. Starting from 1 July 2021, the annual rent for our properties leased to Jiaoyun Market was adjusted to better align with the prevailing market rate for similar properties in the vicinity. The loss of rent borne by our Group as a result of leasing of properties to Jiaoyun Market amounted to approximately RMB3.7 million, RMB3.7 million, RMB2.0 million and nil for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. Our leasing of properties to Jiaoyun Market is expected to continue after [REDACTED] and will constitute a continuing connected transaction of our Company under the Listing Rules. 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 — 1. Jiaoyun Market Tenancy Agreement" in this document;

(viii) leasing of properties from Mr. Luan Linjiang and Jiaoyun Car Transport. During the Track Record Period, the annual rent for our properties leased from Mr. Luan Linjiang and Jiaoyun Car Transport was determined based on arm's length negotiations with reference to the rentable area of each of the properties leased to our Group under the respective tenancy agreements. The terms and pricing for such leases with Mr. Luan Linjiang and Jiaoyun Car Transport were generally more favourable to us as compared to similar transactions in the market. During the Track Record Period, we did not lease any properties from Independent Third Parties. The cost-savings enjoyed by our Group as a result of leasing of properties from Mr. Luan Linjiang and Jiaoyun Car Transport amounted to approximately RMB0.8 million, RMB0.8 million and RMB0.8 million, RMB0.3 million for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. Our leasing of properties from Mr. Luan Linjiang and Jiaoyun Car Transport are expected to continue after [REDACTED]. For details, please refer to "Relationship with our Controlling Shareholders — Transactions entered into before [REDACTED] which would otherwise constitute connected transactions — Tenancy Agreements" in this document;

(ix) issuance of bank acceptance notes to Yuanhua Trading and Jiaoyun Shihua under our Non-compliant Bill Financing Arrangements as elaborated under "Business — Regulatory Compliance — Non-compliance incidents — Non-compliant bill financing" in this document;

(x) interest-free advances to and repayments from related parties as elaborated under "— Related Parties Advances" in this section and "Business — Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds" in this document;

(xi) provision of guarantees for borrowings of related parties, for which we did not charge any guarantee fee or interest;

(xii) secondment of employees from Shandong Shihua and Jiaoyun Property. During the Track Record Period, secondment fees we paid to Shandong Shihua were determined based on arm's length negotiations, while those paid to Jiaoyun Property were determined based on arm's length negotiations with reference to the salaries of those seconded employees at Jiaoyun Property. Such terms were comparable to the cost of staff with similar capabilities and experience. For details of our secondment arrangements during the Track Record Period, please refer to "Business — Employees" in this document; and

(xiii) key management compensation comprising salaries and other short-term employee benefits paid to Directors and other key management. Such compensation amounts were determined based on arm's length negotiations which were comparable to the cost of externally hiring directors and managers with similar capabilities and experience.

Among these related party transactions, purchases of goods and services, and provision of construction and installation services and sale of goods were of trade nature. Out of our related party transactions of non-trade nature, a significant amount was attributable to our advances to related parties within the Private Group.

Related Parties Advances

During the Track Record Period, we were involved in financing arrangements with certain entities within the Private Group, under which we made certain interest-free cash advances to them for the purpose of their temporary cash flow management or liquidity needs. As we were a part of the Private Group during the Track Record Period, such financing arrangements allowed us to provide intra-group financial assistance to other members of the Private Group at lower financing costs. Article 61 of the Lending General Provisions provides that financing arrangements or lending transactions between non-financial institution are prohibited. However, our PRC Legal Advisers have advised that it is unlikely for fines pursuant to the Lending General Provisions to be imposed on us due to the above financing arrangements. For details, please refer to "Business — Regulatory Compliance — Non-compliance incidents — Deviation from Intended Use of Loan Proceeds" in this document. As at 31 December 2019, 2020, 2021 and 30 April 2022, we had outstanding advances to related parties of approximately RMB465.5 million, RMB213.8 million, nil and nil, respectively.

The following table sets out an extract of certain of our balances with related parties arising from our advances to such parties as at the dates indicated.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receivables from related parties				
Advances to related parties				
- Jiaoyun Property	319,460	37,238	—	—
- Guorui Real Estate	107,661	158,196	—	—
- Mr. Luan Xiaolong	38,350	18,350	—	—
	465,471	213,784	—	—

In respect of such advances to and repayment from our related parties, our Directors confirm that, all related party transactions of trade nature were conducted on an arm's length basis; whereas those of non-trade nature were carried on without charging any associated financing costs, and all related party balances of non-trade nature were fully settled prior to 30 June 2021, and all such non-trade related party transactions have ceased thereafter. For further details on related party balances and transactions, please refer to Note 32 in the Accountant's Report in Appendix I to this document.

KEY FINANCIAL RATIOS

The following table sets out our key financial ratios as at the dates and for the periods indicated.

	As at or for the year ended 31 December			As at or for the four months ended 30 April
	2019	**2020**	**2021**	**2022**
Current ratio[1]	84.3%	90.2%	47.6%	44.4%
Quick ratio [2]	83.1%	86.6%	42.7%	38.1%
Return on total assets[3]	4.2%	6.9%	15.6%	11.7%[8]
Return on equity[4]	133.9%	53.6%	53.7%	31.3%[8]
Gearing ratio[5]	1,670.3%	158.2%	36.5%	24.6%
Net debt to equity ratio[6]	1,158.1%	79.4%	2.3%	4.4%
Net profit margin[7]	10.5%	14.7%	15.5%	7.5%

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the year/period.

(2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of the year/period.

(3) Return on total assets is calculated by dividing profit for the year/period by the average level of the total assets for the year/period.

(4) Return on equity is calculated by dividing net profit for the year/period by the average equity for the year/period.

(5) Gearing ratio is calculated by dividing total debt (borrowings and lease liabilities) by total equity as at the end of the relevant year/period.

(6) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the year/period. Net debt is calculated as total debt (borrowings and lease liabilities) less cash and cash equivalents and restricted bank deposits as at the end of the year/period.

(7) Net profit margin is equal to net profit divided by total revenue for the year/period.

(8) Profit for the year is pro rata annualised for illustrative purposes.

Current Ratio

Our current ratio was approximately 84.3%, 90.2%, 47.6% and 44.4% as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. Our current ratio was relatively stable as at 31 December 2019 and 2020, yet decreased to 47.6% as at 31 December 2021 and 44.4% as at 30 April 2022, primarily attributable to a decrease in our total current assets as a result of the full repayment of other receivables due from related parties given the cessation of the Non-compliant Arrangements by June 2021, and a cash outflow for the payment of a RMB70.0 million dividend, which was of a larger magnitude than the decrease in current liabilities resulting from the repayment of our Group's borrowings.

Quick Ratio

Our quick ratio was approximately 83.1%, 86.6%, 42.7% and 38.1% as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. Our quick ratio was relatively stable at approximately 83.1% and 86.6% as at 31 December 2019 and 2020. Our quick ratio decreased to 42.7% as at 31 December 2021 and 38.1% as at 30 April 2022 in a similar manner to our current ratio as described above, and given that we had generally maintained a minimum level of inventory during the Track Record Period.

Return on Total Assets

Our return on total assets was approximately 4.2%, 6.9%, 15.6% and 11.7% for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively.

Our return on total assets was low at approximately 4.2% for the year ended 31 December 2019, primarily attributable to our relatively low net profit owing to significant finance costs arising from ABS-related interest expenses, and a significant amount of related party receivables of approximately RMB466.3 million, as well as restricted bank deposits of approximately RMB204.0 million owing to the Non-compliant Arrangements.

Our return on total assets increased from approximately 4.2% for the year ended 31 December 2019 to approximately 6.9% for the year ended 31 December 2020, primarily attributable to our complete settlement of the ABS, and the complete winding down of the Non-compliant Bill Financing Arrangements since June 2020, leading to decreases in other receivables attributable to such Non-compliant Bill Financing Arrangements and restricted bank deposits of approximately RMB256.2 million and RMB128.9 million, respectively.

Our return on total assets increased from approximately 6.9% for the year ended 31 December 2020 to approximately 15.6% for the year ended 31 December 2021 as our Group's profit for the year largely recovered from the adverse impacts of COVID-19, while our assets for the year continued to decrease due to (i) a decrease in the other receivables attributable to the Non-compliant Arrangements and complete release of restricted bank deposits of approximately RMB186.2 million and RMB75.1 million, respectively, owing to the complete cessation of the Non-compliant Arrangements; (ii) the payment of a one-off dividend; and (iii) acquisition of the [REDACTED] business as a part of the Reorganisation.

Our return on total assets decreased to approximately 11.7% for the four months ended 30 April 2022 as our Group's profit for the year was impacted by increases in our costs of sales and administrative expenses (as we incurred further [REDACTED] expenses), as well as the resurgence of COVID-19.

Return on Equity

Our return on equity was approximately 133.9%, 53.6%, 53.7% and 31.3% for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively.

Our return on equity was exceptionally high at approximately 133.9% for the year ended 31 December 2019, and rationalised to approximately 53.6% for the year ended 31 December 2020. Such decrease was primarily attributable to an increase in our average equity base for the year due to the reversal of negative reserves resulting from our disposal of Jiaoyun Thermal in 2020. Our return on equity levelled off at approximately 53.7% for the year ended 31 December 2021, primarily attributable to an increase in our net profit for the period. On the return side, our net profit reported an increase of approximately 34.0%. On the equity base side, our equity base as of 31 December 2021 decreased owing to (i) a dividend distribution of RMB70.0 million; and (ii) the acquisition of the [REDACTED] business during the course of the Reorganisation. Nevertheless, this decrease was partially recovered by (i) the annual net profit counted towards our retained earnings; and (ii) proceeds from the disposal of Gaoyun Investment. Despite such decrease, from the average equity basis angle, the average equity base from 2020 to 2021 still showed an increase of 33.8% as compared to that from 2019 to 2020. As a result, our return on equity remained largely stable in 2020 and 2021.

Our return on equity decreased to approximately 31.3% for the four months ended 30 April 2022 as our Group's profit for the year was impacted for the reasons described above, while our equity remained stable.

Gearing Ratio

Our gearing ratio was approximately 1,670.3%, 158.2%, 36.5% and 24.6% as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively.

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

Net debt to equity ratio

Our net debt to equity ratio was approximately 1,158.1%, 79.4%, 2.3% and 4.4% as at 31 December 2019, 2020 and 2021 and 30 April 2022, respectively. The general decrease in our net debt to equity ratio over the Track Record Period was primarily due to the same reasons discussed above for the gearing ratio.

Net Profit Margin

Our net profit margin was approximately 10.5%, 14.7%, 15.5% and 7.5% for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, respectively. The increases in our net profit margin over the years ended 31 December 2019, 2020 and 2021 were primarily attributable to the repayment of our ABS and elimination of its finance costs, while our principal business and revenue remained stable during the same period. Our net profit margin decreased to approximately 7.5% for the four months ended 30 April 2022, primarily attributable to a decrease in our net profit for the reasons described above.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risks, including market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Please refer to Note 3.1 to the Accountant's Report set out in Appendix I to this document. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We did not hedge or consider necessary to hedge any of these risks as at the Latest Practicable Date.

DIVIDEND AND DIVIDEND POLICY

In August 2019, Jiaoyun Shihua declared dividends of RMB5.6 million and RMB2.4 million to Jiaoyun Gas and Shandong Shihua, respectively. In September 2020, Jiaoyun Shihua declared dividends of RMB3.5 million and RMB1.5 million to Jiaoyun Gas and Shandong Shihua, respectively. In March 2021, Jiaoyun Gas declared dividends of RMB50 million and RMB20 million to Jiaoyun Group and Jiaoyun Property, respectively. Mr. Luan Linjiang voluntarily gave up his rights to the dividend distribution in March 2021. During the Track Record Period, the above declared dividends of RMB80 million were fully paid.

After completion of the [REDACTED], we expect to declare and distribute approximately 33.0% of our net profit for a given year as dividends to our Shareholders (the "**Dividend Policy**"). Assuming that the [REDACTED] occurs in 2022, 2022 will be the first year for which our net profit will be used for the purposes of declaring and paying dividends in accordance with the Dividend Policy. Any future determination to declare and pay any dividends will require the approval of the Board and will be at their discretion. Our Board will review the Dividend Policy from time to time and determine whether dividends are to be declared and paid based on our future results of operations, capital requirements and surplus, general business and financial conditions and other factors that our Directors consider relevant. In addition, any final dividend for a financial year will be subject to shareholders' approval and the relevant laws. Please refer to "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this document.

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require a foreign-invested enterprise, to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

DISTRIBUTABLE RESERVES

As at 31 December 2021, we did not have any distributable reserves.

[REDACTED] EXPENSES

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

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 April 2022 as if the [REDACTED] had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] been completed as at 30 April 2022 or at any future dates.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2022	**Estimated net proceeds from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at 30 April 2022**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**	
	(Note 1)	*(Note 2)*		*(Note 3)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an [REDACTED] of HK$[REDACTED] per share	101,407	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per share	101,407	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 April 2022 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to the equity owners of the Company as at 30 April 2022 of RMB105,735,000 with adjustments for the intangible assets as at 30 April 2022 of RMB4,328,000.

(2) The estimated net proceeds from the [REDACTED] are based on the indicative [REDACTED] of HK$[REDACTED] and HK$[REDACTED] per share, respectively, after deduction of the [REDACTED] fees and other related expenses (excluding [REDACTED] expenses of approximately RMB[REDACTED] which have been charged to the consolidated statements of comprehensive income up to 30 April 2022) payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Shares which may be issued or repurchased by the Company pursuant to the general mandates.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and Capitalisation Issue have been completed on 30 April 2022 but takes no account of any Shares which may fall to be issued upon the exercise of the[REDACTED] or any Shares which may be issued or repurchased by the Company pursuant to the general mandates.

(4) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets per Share, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB[0.86913]. No representation is made that Renminbi has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) Except as disclosed above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2022.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since the end of the Track Record Period and as at the Latest Practicable Date, we have continued to grow our existing businesses of natural gas sales, construction and installation services and gas-burning appliances sales. Supported by government policies generally favourable to the natural gas industry, the gradual recovery of the industrial climate in Gaomi City from the adverse effects of COVID-19, as well as our solid historical results, we believe that our businesses will continue to grow in the foreseeable future. For details, please refer to "Summary — Recent Developments And No Material Adverse Change" in this document.

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 30 April 2022, being the end date of the periods reported on in the Accountant's Report included in Appendix I to this document, and there is no event since 30 April 2022 that would materially affect the information as set out in the Accountant's Report included in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this document, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTEREST AND PROPERTY VALUATION

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

A reconciliation between our Valued Properties as at 31 July 2022 and such Valued Properties in our consolidated financial statement as at 30 April 2022 as required under Rule 5.07 of the Listing Rules is set forth below:

	(RMB'000)
Market value of our Valued Properties as at 30 April 2022	70,500
Less: valuation deficit	(400)
Valuation as at 31 July 2022 after deducting land premium	70,100

FUTURE PLANS

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

USE OF PROCEEDS

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

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

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

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

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

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

(b) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct new mid-pressure pipelines for connecting our natural gas stations to PNG end-users' pipeline networks of approximately 63.0 km in our Operating Area in 2023:

   (i) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension connecting Lvjia Village (律家村) and Shuangjing Road (雙井路) of approximately 16.0 km; and

   (ii) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension in Jinggou (井溝), connecting Shuangjing Road (雙井路), Tianzhuang Village (田莊) and Qujiadahu (曲家大滸) of approximately 18.0 km;

   (iii) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension in in Hongxiuhe Street (紅繡河街), connecting Xiahai Road (下海路) and Gaozhu Road (高諸路) of approximately 11.0 km; and

   (iv) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension connecting Shuangjing Road (雙井路) and Zhugou (注溝) of approximately 18.0 km.

(c) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to construct new mid-pressure pipelines for connecting our natural gas stations to PNG end-users' pipeline networks of approximately 33.0 km in our Operating Area in 2024:

   (i) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension connecting Weijiao Road (濰膠路) and Lvjia Village (律家村) of approximately 16.0 km; and

   (ii) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]) for the pipeline network extension located in Xiahai Road (下海路), connecting Fenghuang Dajie/Boulevard — S102 (鳳凰大街-S102) of approximately 17.0 km.

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	Expected major capital expenditure	Expected breakeven point[(1)]	Expected investment payback period[(2)]
					(km)	*(RMB million)*		
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-曲家大滸管網建設）	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-高諸路)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 (濰膠路 — 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					101.0	81.0		

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.

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

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

(i) enhancing gas transmission safety. We can further enhance gas transmission safety as an upgrade to our urban pipeline network can prevent gas leakage, thereby minimising the occurrence of accidents due to gas leakage;

(ii) saving maintenance costs and improving operating efficiency. An upgrade to our urban pipeline network can reduce our inspection and maintenance manpower on our urban pipeline network in short-to-mid term, thereby saving our maintenance costs and improving our operating efficiency; and

(iii) improving PNG end-users' usage experience, as the upgrade to our urban pipeline network can further stabilise the transmission pressure of PNG and will elevate our PNG end-users' satisfaction towards our service.

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

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

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

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

Notes:

(1) Breakeven point occurs when the total gross profit generated from our sale of PNG from the projects fully offsets the expenses incurred thereto, including depreciation expenses of capital expenditure and other operating overheads (mainly consist of maintenance cost of the pipelines).

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

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

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

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

(b) approximately [REDACTED]%, or HK$[REDACTED] (equivalent to approximately RMB[REDACTED]), will be used to install Goldcard Meters for over 6,500 households at approximately HK$[REDACTED] (equivalent to approximately RMB[REDACTED]) per household in 2024.

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

Area	Name of project	Details of major construction work	Year of commencement of construction	Expected year of completion of construction	Expected number of Goldcard Meters to be installed	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 (朝陽街道和醴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、大牟家、咸家、夏莊、闞家、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					Over 19,500	11.5		

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REASONS FOR [REDACTED]

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

Facilitate the implementation of our business strategies

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

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

Strengthen our financial position and enhance our working capital

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

- fund-raising through debt financing from banks or financial institutions normally requires pledge of cash deposits, investment properties and certain property, plant and equipment and/or several personal guarantees from our Group and/or our Controlling Shareholders in order to secure bank borrowing, which would increase our reliance on our Controlling Shareholders and negatively affect our liquidity of cash, in case of cash deposits collaterals. Also, there is no assurance that such pledges would be made available by our Controlling Shareholders at all times. As we are committed to minimise related party transactions in order to operate our business independently from connected persons, it is also not in our best interest to rely on debt financing involving personal guarantees or collaterals provided by our Controlling Shareholders and their associates;

- our Directors are of the view that fund-raising through [REDACTED] will reduce our financing costs and increase our financial leverage. We will be exposed to the risks of higher interest rate, finance costs and financial performance if we rely heavily on debt financing, which may negatively affect our financial viability due to principal and interest payments if we choose debt financing to fund our business expansion;

- our Directors are also of the view that funds raised from equity financing are a committed source of funds without any maturity date. Hence it is more suitable than debt financing to our Company at the current stage and it could lower our finance cost in a long run as the lending rates fluctuate from time to time; and

- fund-raising through debt financing could be burdensome to our operations as we need to service debt financing obligations. If we fail to service such debt obligations on time or we are unable to comply with any of the covenants, we could be in default of such debt obligations and our liquidity, financial credibility and financial condition could be materially and adversely affected.

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

Enhance our corporate profile and corporate governance

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

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

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

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

Attract quality talents

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

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

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

SOLE SPONSOR'S AND [REDACTED] INTEREST IN OUR COMPANY

Our Company has appointed China Industrial Securities International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the [REDACTED] and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

Save for their respective interests and obligations under the [REDACTED] and save as disclosed in this document, none of the Sole Sponsor and the [REDACTED] is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group or has any interest in the [REDACTED].

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

[REDACTED]

[REDACTED]

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[REDACTED]

The following is the text of a report set out on pages I-1 to I-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[DRAFT]

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF JY GAS LIMITED AND CHINA INDUSTRIAL SECURITIES INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of JY GAS LIMITED (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to [I-94], which comprises the consolidated balance sheets as at 31 December 2019, 2020, 2021 and 30 April 2022, the company balance sheets as at 31 December 2021 and 30 April 2022, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2019, 2020, 2021 and for the four months ended 30 April 2022 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to [I-94] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [[REDACTED] date] (the "Document") in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2021 and 30 April 2022 and the consolidated financial position of the Group as at 31 December 2019, 2020, 2021 and 30 April 2022 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the four months ended 30 April 2021 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page [I-4] have been made.

Dividends

We refer to Note [29] to the Historical Financial Information which contains information of the dividends paid by the companies now comprising the Group in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong
[Date]

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand of RMB (RMB'000) except when otherwise indicated.

Consolidated Statements of Comprehensive Income

	Note	Year ended 31 December			Four months ended 30 April	
		2019	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Revenue	5(a)	354,231	347,943	440,894	135,962	158,253
Cost of sales	8	(271,495)	(249,912)	(343,677)	(110,494)	(135,485)
Gross profit		82,736	98,031	97,217	25,468	22,768
Administrative expenses	8	(14,915)	(18,051)	(19,161)	(4,968)	(8,447)
Reversal of net impairment losses on financial assets		2,944	1,699	800	1,805	3
Other income	6	229	229	15,396	101	1,193
Other gains/(losses), net	7	1,464	(309)	863	(219)	854
Operating profit		72,458	81,599	95,115	22,187	16,371
Finance income	10	3,625	3,065	512	105	324
Finance costs	10	(25,935)	(16,203)	(4,119)	(1,384)	(838)
Finance costs, net	10	(22,310)	(13,138)	(3,607)	(1,279)	(514)
Profit before income tax		50,148	68,461	91,508	20,908	15,857
Income tax expense	11	(13,122)	(17,439)	(23,134)	(5,295)	(3,999)
Profit and total comprehensive income for the year/ period		37,026	51,022	68,374	15,613	11,858
Profit and total comprehensive income attributable to:						
Owners of the Company		35,223	50,081	67,505	15,253	11,318
Non-controlling interests		1,803	941	869	360	540
		37,026	51,022	68,374	15,613	11,858
Basic and diluted earnings per share for profit attributable to owners of the Company (expressed in RMB'000)	12	35.22	50.08	67.51	15.25	11.32

Consolidated Balance Sheets

	Note	As at 31 December			As at 30 April
		2019	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Non-current assets					
Property, plant and equipment	13	107,143	109,025	118,179	117,592
Investment properties	14	67,680	68,640	69,720	70,500
Right-of-use assets	15	7,542	7,054	11,358	11,147
Intangible assets	16	4,250	4,245	4,332	4,328
Trade receivables	19	—	—	19,099	19,262
Other non-current assets	18	2,820	4,476	4,027	4,027
		189,435	193,440	226,715	226,856
Current assets					
Inventories	21	10,249	14,933	9,338	10,090
Trade and other receivables	19	476,166	219,945	14,663	14,800
Prepayments and other current assets	20	17,970	16,226	30,129	21,603
Restricted bank deposits	22(a)	204,000	75,100	—	—
Cash and cash equivalents	22(b)	26,281	39,579	37,370	24,393
		734,666	365,783	91,500	70,886
Total assets		924,101	559,223	318,215	297,742
Equity					
Share capital	23(a)	—	—	—*	—*
Share premium	23(b)	—	—	128,002	128,002
Reserves	24	339	57,975	(94,611)	(93,689)
Retained earnings		30,124	73,484	61,026	71,422
Equity attributable to owners of the Company		30,463	131,459	94,417	105,735
Non-controlling interests		14,493	13,934	14,803	15,343
Total equity		44,956	145,393	109,220	121,078

		As at 31 December			As at 30 April
	Note	**2019**	**2020**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities					
Non-current liabilities					
Lease liabilities	27	2,122	2,075	2,340	2,213
Trade payables	25	—	—	7,306	7,373
Deferred income tax liabilities	28	5,278	6,432	7,080	7,477
		7,400	8,507	16,726	17,063
Current liabilities					
Trade and other payables	25	30,005	40,249	47,817	45,546
Contract liabilities	5(b)	87,827	124,249	101,303	85,814
Current income tax liabilities		5,136	12,844	5,639	727
Borrowings	26	748,397	227,800	37,000	27,000
Lease liabilities	27	380	181	510	514
		871,745	405,323	192,269	159,601
Total liabilities		879,145	413,830	208,995	176,664
Total equity and liabilities		924,101	559,223	318,215	297,742

* *The amount is less than RMB1,000.*

Company Balance Sheets

	Note	As at 31 December 2021	As at 30 April 2022
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Investments in subsidiaries		128,002	128,002
Current assets			
Other receivables from the shareholders		—*	—*
Prepayments	20	2,837	4,109
		2,837	4,109
Total assets		130,839	132,111
Equity			
Share capital	23(a)	—*	—*
Share premium	23(b)	128,002	128,002
Total equity		128,002	128,002
Liabilities			
Current liabilities			
Other payables due to a subsidiary		2,837	4,109
Total liabilities		2,837	4,109
Total equity and liabilities		130,839	132,111

* *The amount is less than RMB1,000.*

Consolidated Statements of Changes in Equity

		Attributable to owners of the Company						
	Note	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2019		—	—	(3,029)	(1,731)	(4,760)	15,090	10,330
Comprehensive income								
Profit for the year		—	—	—	35,223	35,223	1,803	37,026
Total comprehensive income		—	—	—	35,223	35,223	1,803	37,026
Transactions with owners in their capacity as owners								
Appropriation to safety fund	24(c)	—	—	3,886	(3,886)	—	—	—
Utilisation of safety fund	24(c)	—	—	(2,989)	2,989	—	—	—
Appropriation to statutory reserve	24(b)	—	—	2,471	(2,471)	—	—	—
Dividend to a non-controlling shareholder of a subsidiary	29	—	—	—	—	—	(2,400)	(2,400)
Total transactions with owners in their capacity as owners		—	—	3,368	(3,368)	—	(2,400)	(2,400)
Balance at 31 December 2019		—	—	339	30,124	30,463	14,493	44,956

		Attributable to owners of the Company						
	Note	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2020		—	—	339	30,124	30,463	14,493	44,956
Comprehensive income								
Profit for the year		—	—	—	50,081	50,081	941	51,022
Total comprehensive income		—	—	—	50,081	50,081	941	51,022
Transactions with owners in their capacity as owners								
Appropriation to safety fund	24(c)	—	—	3,935	(3,935)	—	—	—
Utilisation of safety fund	24(c)	—	—	(2,383)	2,383	—	—	—
Appropriation to statutory reserve	24(b)	—	—	5,169	(5,169)	—	—	—
Deemed contribution	24(d)	—	—	50,915	—	50,915	—	50,915
Dividend to a non-controlling shareholder of a subsidiary	29	—	—	—	—	—	(1,500)	(1,500)
Total transactions with owners in their capacity as owners		—	—	57,636	(6,721)	50,915	(1,500)	49,415
Balance at 31 December 2020		—	—	57,975	73,484	131,459	13,934	145,393

		Attributable to owners of the Company						
	Note	Share capital	Share premium	Reserves	Retained earnings	Sub-total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2021		—	—	57,975	73,484	131,459	13,934	145,393
Comprehensive income								
Profit for the year		—	—	—	67,505	67,505	869	68,374
Total comprehensive income		—	—	—	67,505	67,505	869	68,374
Transactions with owners in their capacity as owners								
Appropriation to safety fund	24(c)	—	—	3,531	(3,531)	—	—	—
Utilisation of safety fund	24(c)	—	—	(117)	117	—	—	—
Appropriation to statutory reserve	24(b)	—	—	6,549	(6,549)	—	—	—
Dividends to the then shareholders	29	—	—	—	(70,000)	(70,000)	—	(70,000)
Deemed contribution	24(d)	—	—	25,500	—	25,500	—	25,500
Proceeds from QMHC LIMITED		—	—	610	—	610	—	610
Completion of reorganisation		—	128,002	(128,002)	—	—	—	—
Deemed distribution	24(e)	—	—	(60,657)	—	(60,657)	—	(60,657)
Total transactions with owners in their capacity as owners		—	128,002	(152,586)	(79,963)	(104,547)	—	(104,547)
Balance at 31 December 2021		—	128,002	(94,611)	61,026	94,417	14,803	109,220

		Attributable to owners of the Company						
	Note	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Sub-total**	**Non-controlling interests**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)								
Balance at 1 January 2021		—	—	57,975	73,484	131,459	13,934	145,393
Comprehensive income								
Profit for the period		—	—	—	15,253	15,253	360	15,613
Total comprehensive income		—	—	—	15,253	15,253	360	15,613
Transactions with owners in their capacity as owners								
Appropriation to safety fund	24(c)	—	—	1,177	(1,177)	—	—	—
Utilisation of safety fund	24(c)	—	—	(110)	110	—	—	—
Dividends to the then shareholders	29	—	—	—	(70,000)	(70,000)	—	(70,000)
Deemed contribution	24(d)	—	—	25,500	—	25,500	—	25,500
Total transactions with owners in their capacity as owners		—	—	26,567	(71,067)	(44,500)	—	(44,500)
Balance at 30 April 2021		—	—	84,542	17,670	102,212	14,294	116,506

		Attributable to owners of the Company						
	Note	Share capital	Share premium	Reserves	Retained earnings	Sub-total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2022		—	128,002	(94,611)	61,026	94,417	14,803	109,220
Comprehensive income								
Profit for the period		—	—	—	11,318	11,318	540	11,858
Total comprehensive income		—	—	—	11,318	11,318	540	11,858
Transactions with owners in their capacity as owners								
Appropriation to safety fund	24(c)	—	—	1,014	(1,014)	—	—	—
Utilisation of safety fund	24(c)	—	—	(92)	92	—	—	—
Total transactions with owners in their capacity as owners		—	—	922	(922)	—	—	—
Balance at 30 April 2022		—	128,002	(93,689)	71,422	105,735	15,343	121,078

Consolidated Statements of Cash Flows

	Note	Year ended 31 December			Four months ended 30 April	
		2019	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (Unaudited)*	*RMB'000*
Cash flows from operating activities						
Cash generated from operations	30(a)	81,081	141,976	69,076	4,831	9,919
Interest received		3,625	3,065	512	105	37
Income tax paid		(7,720)	(8,577)	(29,691)	(4,627)	(8,514)
Net cash from operating activities		76,986	136,464	39,897	309	1,442
Cash flows from investing activities						
Purchases of property, plant and equipment		(14,677)	(12,585)	(18,244)	(846)	(2,474)
Payments for land use right		(440)	(1,656)	(3,620)	—	—
Proceeds from disposal of property, plant and equipment	30(b)	398	135	82	82	—
Advances to related parties	32(g)	(1,252,553)	(1,164,875)	(194,230)	(131,433)	—
Repayments from related parties	32(g)	1,315,077	1,497,874	399,163	169,180	—
Advances to third parties	30(c)	(8,576)	(2,933)	(1,759)	—	—
Repayments from third parties	30(c)	11,824	4,271	4,876	1,550	—
Net cash from/(used in) investing activities		51,053	320,231	186,268	38,533	(2,474)
Cash flows from financing activities						
Proceeds from borrowings	30(f)	615,646	283,098	37,000	—	—
Repayments of borrowings	30(f)	(470,808)	(647,190)	(222,800)	(65,000)	(10,000)
Placement of bank deposits restricted for borrowings		(269,315)	(156,729)	—	—	—
Withdrawal of bank deposits restricted for borrowings		132,950	167,329	70,100	60,000	—
Repayments of asset-backed security	30(f)	(105,000)	(125,000)	—	—	—
Interest paid	30(f)	(25,061)	(15,386)	(3,980)	(1,324)	(673)
Dividends paid to a non-controlling shareholder of a subsidiary		(2,400)	—	(1,500)	(1,500)	—
Dividends paid to the then shareholders		—	—	(70,000)	(70,000)	—
Deemed contribution	24(d)	—	50,915	25,500	25,500	—
Deemed distribution	24(e)	—	—	(60,657)	—	—
Prepayments for [REDACTED] expenses		—	(434)	(2,403)	(1,088)	(1,272)
Principal elements of lease payments	30(f)	—	—	(244)	—	—
Capital injection from a non-controlling shareholder		—	—	610	—	—
Net cash used in financing activities		(123,988)	(443,397)	(228,374)	(53,412)	(11,945)
Net increase/(decrease) in cash and cash equivalents		4,051	13,298	(2,209)	(14,570)	(12,977)
Cash and cash equivalents at beginning of the year/period		22,230	26,281	39,579	39,579	37,370
Cash and cash equivalents at end of the year/period		26,281	39,579	37,370	25,009	24,393

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

JY GAS LIMITED (the "Company") was incorporated in the Cayman Islands on 9 March 2021 as an exempted company with limited liability under the Companies Act (Cap.22, Act 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 3-212 Governors Square, 23 Lime Tree Bay Avenue, P.O. Box 30746, Seven Mile Beach, Grand Cayman, KY1-1203, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together the "Group") are principally engaged in the sale of natural gas, mainly piped natural gas ("PNG"), compressed natural gas ("CNG") and liquefied natural gas ("LNG"), the provision of construction and installation services and the sale of gas-burning appliances in Gaomi City, Shandong Province (the "[REDACTED] Business"). The ultimate beneficial owners of the Group are Mr. Luan Xiaolong and Mr. Luan Linjiang (the "Ultimate Beneficial Owners").

1.2 Reorganisation

Prior to the incorporation of the Company and a reorganisation (the "Reorganisation") in preparation for the [REDACTED] of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited as described below, the [REDACTED] Business was operated by Gaomi Jiaoyun Natural Gas Co., Ltd. ("Jiaoyun Gas") and its subsidiary, Gaomi Jiaoyun Shihua Natural Gas Co., Ltd. ("Jiaoyun Shihua"). Jiaoyun Gas and Jiaoyun Shihua are companies incorporated in the People's Republic of China (the "PRC") and beneficially owned by the Ultimate Beneficial Owners.

Prior to the completion of the Reorganisation, Jiaoyun Gas also held interest in certain subsidiaries engaged in other business not relating to the [REDACTED] Business (the "Non-[REDACTED] Business"). The [REDACTED] Business and the Non-[REDACTED] Business are operated independently and managed by different management teams.

The Reorganisation mainly involved the following:

Onshore reorganisation steps

(i) Disposal of subsidiaries engaged in the Non-[REDACTED] Business

In September and October 2020, Jiaoyun Gas entered into two agreements with the entities owned by Mr. Luan Linjiang to dispose of its subsidiaries of Gaomi Jiaoyun Thermal Co., Ltd. (高密交運熱力有限公司) ("Jiaoyun Thermal") and Gaoyun Investment (Shandong) Co., Ltd. (高運投資(山東)有限公司) ("Gaoyun Investment") (former named as Weifang Gaoyun Private Capital Management Co., Ltd. (濰坊市高運民間資本管理有限公司)) respectively, which are engaged in the Non-[REDACTED] Business.

(ii) Deregistration of entity with no operations

On 11 May 2021, Gaomi Jiaoyun Natural Gas Co., Ltd. The Second Gas Station (高密市交運天然氣有限公司第二加氣站), a branch office of Jiaoyun Gas, was deregistered.

(iii) Capital injection into Jiaoyun Gas by QMHC LIMITED

On 28 May 2021, QMHC LIMITED ("QMHC"), a third-party company, injected capital in cash to Jiaoyun Gas for its 1.01% equity interest in Jiaoyun Gas (see step (iv) of the offshore reorganisation steps below for further details). As a result, Jiaoyun Gas became a sino-foreign joint venture enterprise.

(iv) Acquisition of Jiaoyun Gas by Jiaoneng Energy Investment (Shandong) Co., Ltd.

On 23 June 2021, Jiaoneng Energy Investment (Shandong) Co., Ltd. ("JY Gas WFOE") acquired 98.99% of the equity interest in Jiaoyun Gas (see step (v) of the offshore reorganisation steps below for further details). Upon completion of the transaction, Jiaoyun Gas was owned as to approximately 98.99% by JY Gas WFOE and 1.01% by QMHC.

Offshore reorganisation steps

(i) Incorporation of the Company

On 9 March 2021, the Company was incorporated in the Cayman Islands with an authorised capital of US Dollar ("USD") 50,000 divided into 500,000,000 ordinary shares of USD0.0001 each. Upon incorporation, one share of the Company was allotted and issued at par value to an initial subscriber, and was subsequently transferred to LLJ Phoenix Limited ("LLJ Phoenix") controlled by Mr. Luan Linjiang at par value. On the same day, 99 shares, 100 shares and 100 shares of the Company, were allotted and issued at par value to LLJ Phoenix, LXL Phoenix Limited ("LXL Phoenix") controlled by Mr. Luan Xiaolong and SEGM Holding Limited ("SEGM Holding"), respectively. The Company was then equally owned by LLJ Phoenix, LXL Phoenix and SEGM Holding.

(ii) Incorporation of JY GAS HOLDING LIMITED and JY GAS HK Limited

On 23 March 2021, JY GAS HOLDING LIMITED ("JY Gas BVI") was incorporated by the Company in the British Virgin Islands ("BVI"). Upon incorporation, one share, representing the entire issued shares capital of JY Gas BVI, was allotted and issued to the Company.

On 22 April 2021, JY GAS HK Limited ("JY Gas HK") was incorporated in Hong Kong as a direct wholly-owned subsidiary of JY Gas BVI. Upon incorporation, one share, representing the entire issued share capital of JY Gas HK, was allotted and issued to JY Gas BVI.

(iii) Incorporation of JY Gas WFOE

On 28 May 2021, JY Gas WFOE was incorporated in Gaomi City, Shandong Province as a direct wholly-owned subsidiary of JY Gas HK.

(iv) Capital injection into Jiaoyun Gas by QMHC

On 28 May 2021, QMHC, an entity directly and wholly-owned by QMRIG LIMITED (("QMRIG"), which is a subsidiary wholly-owned by QMIG LIMITED ("QMIG")), agreed to inject RMB610,000 to Jiaoyun Gas, in return of 1.01% of its equity interest.

(v) Acquisition of Jiaoyun Gas by JY Gas WFOE

On 23 June 2021, JY Gas WFOE acquired 98.99% equity interest in Jiaoyun Gas at a consideration of RMB60,657,000 from its then shareholders. Upon completion of the transaction, Jiaoyun Gas was 98.99% owned by JY Gas WFOE and 1.01% owned by QMHC.

(vi) Allotment of shares in the Company to LLJ Phoenix and LXL Phoenix

On 24 June 2021, the Company allotted and issued 230 and 460 shares to LLJ Phoenix and LXL Phoenix respectively. Upon the allotment, the Company was owned by LXL Phoenix, LLJ Phoenix and SEGM Holding as to 56.57%, 33.33% and 10.10%, respectively.

(vii) Acquisition of QMRIG by the Company

On 20 July 2021, the Company acquired QMRIG by issuing 1% shares of the Company to QMIG. Upon completion of such equity transfer, QMRIG became a direct wholly-owned subsidiary of the Company and the Company was owned by LXL Phoenix, LLJ Phoenix, SEGM Holding and QMIG as to 56%, 33%, 10% and 1%, respectively.

Upon the completion of the Reorganisation on 20 July 2021 and as of the date of this Historical Financial Information, the Company has direct and indirect interests in the following subsidiaries

Name of subsidiary	Place and date of incorporation	Registered/ issued capital	Attributable equity interest: As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 30 April 2022	As of report date	Principal activities	Note
Directly held by the Company:									
JY Gas Holding Limited	BVI, 23 March 2021	USD50,000	NA	NA	100%	100%	100%	Investment holding	(i)
QMRIG LIMITED	BVI, 30 March 2021	USD100	NA	NA	100%	100%	100%	Investment holding	(i)
Indirectly held by the Company:									
JY GAS HK Limited	Hong Kong, 22 April 2021	HKD1	NA	NA	100%	100%	100%	Investment holding	(i)
QMHC LIMITED	Hong Kong, 6 May 2021	HKD100	NA	NA	100%	100%	100%	Investment holding	(i)
Jiaoneng Energy Investment (Shandong) Company Limited (交能能源投資(山東)有限公司)*	The PRC, 28 May 2021	RMB30,000,000	NA	NA	100%	100%	100%	Investment holding	(i)
Gaomi Jiaoyun Natural Gas Co., Ltd (高密市交運天然氣有限公司)*	The PRC, 14 July 2003	RMB60,610,000	100%	100%	100%	100%	100%	Selling the natural gas and gas-burning appliance, providing construction and installation services	(ii)
Gaomi Jiaoyun Shihua Natural Gas Co., Ltd (高密市交運實華天然氣有限公司)*	The PRC, 7 April 2013	RMB35,000,000	70%	70%	70%	70%	70%	Operating the gas station	(iii)

* *The English names of the subsidiaries represents the best effort by the Company's management in translating their Chinese names as they do not have official English names.*

(i) No statutory audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirement of their respective place of incorporation.

(ii) Jiaoyun Gas had prepared statutory audited financial statements in accordance with PRC accounting principles and regulations for the years ended 31 December 2019 which were audited by 中興華會計師事務所(特殊普通合夥) (Zhongxinghua Certified Public Accountants LLP).

(iii) Jiaoyun Shihua had prepared statutory audited financial statements in accordance with PRC accounting principles and regulations for the years ended 31 December 2019, 2020 and 2021 which were audited by 濰坊信達有限責任會計師事務所 (Weifang Xinda Certified Public Accountants).

1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the [REDACTED] Business is conducted through Jiaoyun Gas and Jiaoyun Shihua. Upon the completion of the Reorganisation, the [REDACTED] Business is transferred to and controlled by the Company. The Company and those companies newly set up during the Reorganisation have not been involved in any other business prior to the Reorganisation. The Reorganisation is merely a recapitalisation of the [REDACTED] Business with no change in management of such business and the Ultimate Beneficial Owners of the [REDACTED] Business remain the same.

Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the [REDACTED] Business and the Historical Financial Information of the companies now comprising the Group has been prepared on a consolidated basis and presented using the respective carrying value of the [REDACTED] Business for all periods presented.

Due to the different nature of the products and business, the [REDACTED] Business and the Non-[REDACTED] Business have been operated as stand-alone businesses and have separate operation teams. Also, separable accounting records and management accounts were maintained and available to capture the results and performance of each business.

The Historical Financial Information has been prepared by including the historical financial information of the Group as if the current group structure had been in existence throughout the Track Record Period and as if the [REDACTED] Business was transferred to the Group at the beginning of the earliest period presented or when such businesses were established, whichever is the shorter period, but excludes the Non-[REDACTED] Business which is not a part of the Group pursuant to the Reorganisation and have historically been managed separately from the [REDACTED] Business.

Inter-company transactions, balances and unrealised gains/losses on transactions between companies within the Group are eliminated on consolidation.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

As at 30 April 2022, the Group's current liabilities exceeded its current assets by approximately RMB88,715,000. Management has prepared a cash flow projection covering a period of not less than twelve months from 30 April 2022. Based on the projection which has taken into account Group's history of its operating performance, its expected future changes in working capital and the undrawn banking facility available from a bank, the directors of the Group (the "Directors") believe that there are sufficient cash resources available to the Group to meet its liabilities as and when they fall due. Accordingly, the Directors consider that it is appropriate to prepare the Historical Financial Information on a going concern basis.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information has been prepared under the historical cost convention except that investment properties are measured at fair value.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

The HKICPA has issued a number of new and revised HKFRS during the Track Record Period. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs including HKFRS 9 Financial Instruments ("HKFRS 9"), HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") and HKFRS 16 Leases ("HKFRS 16") consistently throughout the Track Record Period. New standard and amendments to existing standards that have been issued but are not effective and have not been early adopted by the Group are set out below:

	New standards, amendments and interpretations	**Effective for annual periods beginning on or after**
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance contract (new standard and amendments)	1 January 2023
Amendments to HKAS 8	Definition of accounting estimates	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of financial statements -classification by the borrower of a term loan that contains a repayment on demand clause	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The new standard and amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.2 Principles of consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, statements of changes in equity and balance sheet respectively.

2.2.2 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to shareholders of the Company.

2.3 Business combinations

The acquisition method of accounting is used to account for business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the :

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM").

The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors who make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the functional currency and presentation currency of the Company and its subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statements of comprehensive income within "finance cost — net". All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within "Other gains/(losses) — net".

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

-	Buildings	10 - 20 years
-	Gas pipelines	20 years
-	Machinery and equipment	10 years
-	Motor vehicles, furniture and fittings	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss and presented within 'Other gains/(losses) - net' in the consolidated statements of comprehensive income.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

2.8 Investment properties

Investment properties, principally buildings and land, are held for long-term rental yields and are not occupied by the group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, the Group measure all of its investment property at fair value. A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.

2.9 Intangible assets

(a) Goodwill

Goodwill is measured as described in Note 2.3. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(b) Software licenses

Acquired software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The Group amortises software with a limited useful life using the straight-line method over 10 years.

2.10 Impairment of non-financial assets

Goodwill is not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investments and other financial assets

2.11.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

As of 31 December 2019, 2020, 2021 and 30 April 2022, the Group only has financial assets in the category of financial assets at amortised cost.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are subsequently measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented within "Other gains/(losses) - net" in the consolidated statements of comprehensive income. Impairment losses are presented as separate line item in the statement of comprehensive income.

2.11.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for details.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Costs of purchased inventory are determined after deducting rebates and discounts (if applicable). Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in profit or loss in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiary operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investments property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets and liabilities and where the deferred income tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.21 Employee benefits

(a) Short term obligations

Liabilities for wages and salaries that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(b) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in an independent fund managed by the PRC government. The Group's contributions to these plans are expensed as incurred.

If the employees leave the plans prior to vesting fully in such contributions, the Group has no right to utilise such contributions under the post-employment benefit plan to reduce the existing level of contributions.

(c) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practise that has created a constructive obligation.

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

If contracts involve the sale of multiple elements, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. In addition, when determining the transaction price, the Group consider factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose.

(a) Sale of goods

Revenue from the sale of gas and gas-burning appliances are recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the above goods.

(b) Provision of construction and installation services

Revenue from the installation services of gas pipelines is recognised over time, using an input method to measure progress towards complete satisfaction of the service. The input method recognises revenue on the basis of progress towards complete satisfaction of performance obligation, which is measured based on the Group's effort or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended and cost incurred) relative to the total expected inputs to the satisfaction of that performance obligation.

Upon entering a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the cumulative revenue recognised in profit or loss exceeds cumulative payments made by customers. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in profit or loss.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of trade receivables. A receivable is recognised when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfied its performance obligation.

2.24 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to purchases of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders, where appropriate.

2.27 Leases

As lessee

The Group have leases in respect of land use rights and leased office building in the PRC. Land use rights are with lease terms of 10 to 50 years. Office building rental contracts are typically made for a fixed period of 3 years.

Lease is recognised as a right-of-use assets and a corresponding lease liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. The Group uses the incremental borrowing rate, for the implicit rate cannot be readily determined, which is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use assets in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use assets is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

As lessor

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated balance sheets based on their nature.

2.28 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

(i) The profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares;

(ii) By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (if any).

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

(i) The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

(ii) The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. These risks are managed by the Group's financial management policies and practises described below.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at the respective balance sheet dates, monetary assets/liabilities which are denominated in a currency other than RMB are insignificant.

(ii) Cash flow and fair value interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate borrowings and other financial assets at amortised cost. The cash flow interest rate risks of the Group relate primarily to floating-rate bank borrowings. Management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group's interest rate profile as monitored by management is set out as below.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial instruments with floating interest rates				
Bank borrowings	30,000	30,000	—	—
Financial instruments with fixed interest rates				
Other borrowings	400,760	146,800	—	—
Bank borrowings	193,300	51,000	37,000	27,000
Asset-backed security	124,337	—	—	—
	718,397	197,800	37,000	27,000

The Group's sensitivity to interest rate risk is prepared assuming the amount of floating-rate borrowings at the end of each reporting period were outstanding. Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates on borrowings at floating rates had been 50 basis point higher/lower with all other variables held constant, the impact on post-tax profit were as follows:

	Increase/(decrease)				
	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Impact on post-tax profit at 50 basis point higher	(113)	(113)	—	—	—
Impact on post-tax profit at 50 basis point lower	113	113	—	—	—

(iii) Price risk

The Group has no significant commodity price risk.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash and cash equivalents, restricted bank deposits and trade and other receivables.

(i) Risk management

Credit risk is managed on group basis, except for credit risk relating to trade receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new customers before standard payment and delivery terms and conditions are offered. The Group's credit sales are only made to customers with appropriate credit history. The Group has no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, restricted bank deposits and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk on Group's cash and cash equivalents and restricted bank deposits is limited because the counterparties are banks with high credit ratings. Management does not expect that there will be any significant losses from non-performance by these counterparties.

For gas sales and gas pipelines installation services, the Group receives the advance payment from most of the customers except for certain arrangements with payment installments. The Directors consider the local governments have high-credit quality and are of opinion that adequate provision for uncollectible receivables has been made.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to impairment assessment under the expected credit loss model as prescribed in HKFRS 9.

- Trade receivables, and
- Other receivables

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are considered to be subjected to higher risk of default and are tested individually.

Measurement of expected credit loss on individual basis

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Individually assessed trade receivables	38	38	38	38
Loss allowance	(38)	(38)	(38)	(38)

Measurement of expected credit loss on collective basis

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a specific period before each year end date and the corresponding historical credit losses experienced within the periods. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The loss allowance in respect of these collectively assessed trade receivables amounted to approximately RMB616,000 and RMB621,000 based on an average expected loss rate of approximately 1.87% and 1.87% as at 31 December 2021 and 30 April 2022. The loss allowance as at 31 December 2019 and 2020 was immaterial.

Other receivables

Other receivables mainly include advances to related parties and third parties. Management of the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD").

- Other receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (specifically, when the debtor is more than 1 day past due on its contractual payments) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

- If the financial instrument is credit-impaired (specifically, when the debtor is more than 90 days past due on its contractual payments), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

As at 31 December 2019, 2020, 2021 and 30 April 2022, other receivables from related parties are not considered as credit-impaired and are classified in 'Stage 1'. The balances of other receivables from related parties and the loss allowance in respect of these receivables are as follows:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Expected loss rate (%)	0.49%	0.53%	—	—
Gross carrying amount	466,293	215,627	—	—
Loss allowance provision	2,285	1,143	—	—

As at 31 December 2019, 2020 ,2021 and 30 April 2022, the loss allowance provision for other receivables due from third parties was determined and the expected credit losses below also incorporated forward looking information. Other receivables due from third parties for which are overdue over 3 years are classified in "Stage 3". The related loss allowance provision as of 31 December 2019, 2020, 2021 and 30 April 2022, are determined as follows:

	Within credit period	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables (excluding other receivables from related parties)						
As at 31 December 2019						
Expected loss rate (%)	—	5%	100%	—	100%	76%
Gross carrying amount	9,002	200	200	—	29,107	38,509
Loss allowance provision	—	10	200	—	29,107	29,317
As at 31 December 2020						
Expected loss rate (%)	—	—	50%	100%	100%	93%
Gross carrying amount	5,135	—	200	200	28,346	33,881
Loss allowance provision	—	—	100	200	28,346	28,646
As at 31 December 2021						
Expected loss rate(%)	—	—	50%	—	100%	95%
Gross carrying amount	77	—	2,854	—	26,946	29,877
Loss allowance provision	—	—	1,427	—	26,946	28,373
As at 30 April 2022						
Expected loss rate(%)	—	—	50%	—	100%	95%
Gross carrying amount	99	—	2,839	—	26,946	29,884
Loss allowance provision	—	—	1,419	—	26,946	28,365

Receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and indicators of severe financial difficulty.

Impairment losses on trade and other receivables are separately presented as "Net impairment losses on financial assets" in the consolidated statements of comprehensive income. Subsequent recoveries of amounts previously written off are credited against the same line item.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of borrowing facilities. Due to the dynamic nature of the underlying businesses, the Group maintains a reasonable level of cash and cash equivalents, and further supplements this by keeping committed credit lines available.

The Group's primary cash requirements have been for purchases of materials, machinery and equipment and payment of related debts. The Group finances its working capital requirements through a combination of funds generated from operations, bank borrowings and other means of financing (such as asset-backed security financing management).

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flows.

The table below analyses the undiscounted cash outflows relating to the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019					
Bank and other borrowings	631,457	—	—	—	631,457
Asset-backed security	129,238	—	—	—	129,238
Trade and other payables (excluding salaries and staff welfare payable and tax payable)	20,600	—	—	—	20,600
Lease liabilities (including interest payments)	400	193	602	3,066	4,261
	781,695	193	602	3,066	785,556
As at 31 December 2020					
Bank and other borrowings	231,832	—	—	—	231,832
Trade and other payables (excluding salaries and staff welfare payable and tax payable)	26,837	—	—	—	26,837
Lease liabilities (including interest payments)	193	197	614	2,858	3,862
	258,862	197	614	2,858	262,531

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2021					
Bank and other borrowings	38,010	—	—	—	38,010
Trade and other payables (excluding salaries and staff welfare payable and tax payable)	33,493	3,944	3,287	657	41,381
Lease liabilities (including interest payments)	535	546	627	2,644	4,352
	72,038	4,490	3,914	3,301	83,743
As at 30 April 2022					
Bank and other borrowings	27,238	—	—	—	27,238
Trade and other payables (excluding salaries and staff welfare payable and tax payable)	35,557	3,944	3,287	657	43,445
Lease liabilities (including interest payments)	538	432	631	2,572	4,173
	63,333	4,376	3,918	3,229	74,856

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings and lease liabilities less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheets plus net debt.

As at 31 December 2019, 2020 , 2021 and 30 April 2022, the net debt to total capital ratios were as follows:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings (Note 26)	748,397	227,800	37,000	27,000
Lease liabilities (Note 27)	2,502	2,256	2,850	2,727
Less: cash and cash equivalents (Note 22(b))	(26,281)	(39,579)	(37,370)	(24,393)
Net debt	724,618	190,477	2,480	5,334
Total equity	44,956	145,393	109,220	121,078
Total capital	769,574	335,870	111,700	126,412
Net debt to total capital ratio	94.2%	56.7%	2.2%	4.2%

Due to the increase in the Group's total equity as a result of the Group's profitable operation and the decrease in net debt due to the repayment of borrowings, the Group's total equity increased and net debt decreased, which lead to a significant decrease in the gearing ratio in 2020.

The Group's total equity decreased due to the dividends declared to then shareholders and deemed distribution as a result of the Group's reorganisation, while the Group repaid most of the borrowings, which lead to a further significant decrease in the gearing ratio in 2021.

3.3 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follow:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair value

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments, and
- discounted cash flow analysis.

(iii) Fair value measurements using significant unobservable inputs (Level 3)

As at 31 December 2019, 2020, 2021 and 30 April 2022, the Group does not have any financial assets/liabilities which are required to be measured at fair value.

(b) Non-Financial assets and liabilities

(i) Fair value hierarchy

An independent valuation of the Group's investment properties was performed by the independent and professionally qualified valuer, to determine the fair value of the investment properties as at 31 December 2019, 2020, 2021 and 30 April 2022.

As certain of significant inputs used in the determination of fair value of investment properties are arrived at by reference to certain significant unobservable market data, the fair value of investment properties of the Group are included in level 3 of the fair value measurement hierarchy as follows.

	Level 1	Level 2	Level 3	Total
As at 31 December 2019				
— Investment properties	—	—	67,680	67,680
As at 31 December 2020				
— Investment properties	—	—	68,640	68,640
As at 31 December 2021				
— Investment properties	—	—	69,720	69,720
As at 30 April 2022				
— Investment properties	—	—	70,500	70,500

There were no transfers among different categories during the year.

(ii) Valuation techniques used to determine level 2 and level 3 fair values

The Group obtains independent valuations for its investment properties at least annually. At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The Directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available, the Directors consider information from a variety of sources including:

- current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- discounted cash flow projections based on reliable estimates of future cash flows, and
- capitalised income projections based on a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

The level 3 fair value of investment properties has been derived using the direct comparison approach. The key inputs under this approach are the price per square metre from current year sales of comparable lots of properties in the area (location and size), supplementary land price (i.e. price for renewal of land use rights upon expiring of lease terms) and adjustments ratio for different location, floor and transaction date, etc.

(iii) Fair value measurements using significant unobservable inputs (level 3)

The movements in the level 3 investments properties during the years ended 31 December 2019, 2020, 2021 and the four months ended 30 April 2021 and 2022 are presented in Note 14.

(iv) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements (see (ii) above for the valuation techniques adopted):

	Fair value					**Range of inputs**				
	As at 31 December			**As at 30 April**		**As at 31 December**			**As at 30 April**	
	2019	**2020**	**2021**	**2022**	**Significant unobservable inputs**	**2019**	**2020**	**2021**	**2022**	**Relationship of unobservable inputs to fair value**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*						
Investment properties	67,680	68,640	69,720	70,500	Supplementary land price (RMB)	141/m^2	151/m^2	155/m^2	158/m^2	The higher supplementary land price, the lower fair value
					Adjustments ratio for difference in					
					- location	14%-19%	14%-19%	23%-38%	23%-40%	The lower adjustments factor, the higher fair value
					- floor	80%-100%	80%-100%	80%-100%	80%-100%	The higher adjustments factor, the higher fair value
					- price after adjustments for transaction date (RMB)	4,952/m^2	5,048/m^2	5,950/m^2	6,394/m^2	The higher adjustments factor, the higher fair value

(v) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the Group's investment properties at the end of every financial year. As at 31 December 2019, 2020, 2021 and 30 April 2022, the fair values of the investment properties have been determined by APAC Assets Valuation and Consulting Limited, an independent valuer.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimation of the useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature. Management will increase the depreciation charges where useful lives are less than previously estimated lives. Periodic review could result in a change in useful lives and therefore depreciation expense in the future periods.

(b) Deferred income tax

A deferred income tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Significant management judgement is required to determine the amount of deferred income tax assets that can be recognised based upon the likely timing and the level of future taxable profits of the individual entities together with tax planning strategies.

5 Revenue and segment information

The Company's executive directors are the Group's CODM. The CODM reviews the performance of the Group on a regular basis.

As substantial business operations of the Group relate to the sale of piped natural gas, the CODM makes decisions about resources allocation and performance assessment based on the entity-wide consolidated financial information. Accordingly, there is only one single operating segment for the Group qualified as reportable segment under HKFRS 8 "Operating Segments". No separate segmental analysis is presented in the Historical Financial Information. The Group's total revenues are all from domestic customers in the PRC. Accordingly, no geographical information is presented.

(a) Revenue from external customers

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Revenue recognised at a point in time:					
Revenue from PNG sales	281,783	246,959	305,150	104,820	133,215
Revenue from CNG and LNG sales	35,677	22,726	22,023	7,123	9,013
Revenue from sales of gas-burning appliance	5,392	25,813	52,834	6,089	1,559
	322,852	295,498	380,007	118,032	143,787
Revenue recognised over time:					
Revenue from construction and installation services	31,379	52,445	60,887	17,930	14,466
Total	354,231	347,943	440,894	135,962	158,253

During the years ended 31 December 2019, 2020, 2021 and for the four months ended 30 April 2021 and 2022, no revenue derived from transactions with a single customer represent 10% or more of the Group's total revenue.

(b) Contract liabilities

The Group has recognised the following liabilities related to contract with customers:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
PNG sales	58,491	71,724	87,577	78,023
Construction and installation services	27,107	40,114	12,386	6,711
CNG and LNG sales	970	1,387	1,193	1,032
Sales of gas-burning appliance	1,259	11,024	147	48
	87,827	124,249	101,303	85,814

Contract liabilities of the Group mainly represent the payments received in advance from customers while the underlying goods or services are yet to be delivered by the Group.

Revenue recognised in relation to contract liabilities balance at the beginning of the year/period:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
PNG sales	56,164	57,825	71,313	40,517	47,603
Construction and installation services	20,953	27,107	40,114	17,782	6,510
CNG and LNG sales	1,481	970	1,387	1,387	1,088
Sales of gas-burning appliance	165	1,259	11,024	3,553	93
	78,763	87,161	123,838	63,239	55,294

(c) Unsatisfied performance obligations

There is no significant long-term unsatisfied performance obligations in the Track Record Period. For the above contracts with customers, they are rendered in short period of time, which is generally less than one year, and the Group has elected the practical expedient for not to disclose the remaining performance obligations for these type of contracts.

6 Other income

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Rental income from a related party (Note 32(e)(i))	229	229	1,941	101	1,193
Government subsidy (Note a)	—	—	13,455	—	—
	229	229	15,396	101	1,193

Note:

(a) Jiaoyun Gas has received the subsidy of RMB13,455,000 from the local government in June 2021 for the implementation of zero-coal services and there are no unfulfilled conditions or other contingencies attached to these grants.

7 Other gains/(losses), net

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Fair value gain on investment properties (Note 14)	1,980	960	1,080	—	780
Losses on disposal of property, plant and equipment	(399)	(228)	(266)	(266)	—
Donations	—	(1,150)	—	—	—
Others	(117)	109	49	47	74
	1,464	(309)	863	(219)	854

8 Expenses by nature

Expenses included in cost of sales and administrative expenses are analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Cost of natural gas	240,686	201,540	265,800	95,398	123,439
Materials used in construction and installation services	10,610	17,568	23,906	6,260	5,122
Cost of gas-burning appliance sold	4,025	12,068	28,367	2,670	971
Employee benefit expenses (Note 9)	12,158	10,718	9,399	3,195	2,729
Depreciation and amortisation					
- Property, plant and equipment (Note 13)	7,859	8,430	8,742	2,927	3,061
- Right-of-use assets (Note 15)	488	488	608	188	211
- Intangible assets (Note 16)	11	5	6	3	4
Taxes and surcharges	1,198	1,902	2,002	516	501
Repairs and maintenance costs	3,166	2,639	520	137	106
Utility costs	1,239	796	888	302	479
Vehicle costs	882	709	653	123	81
Outsourced construction labor cost	386	3,434	11,591	1,871	1,279
Auditor's remuneration	67	67	—	—	—
[REDACTED] expenses	—	3,974	5,838	1,158	4,192
Other expenses	3,635	3,625	4,518	714	1,757
Total cost of sales and administrative expenses	286,410	267,963	362,838	115,462	143,932

9 Employee benefit expenses

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Wages, salaries, bonuses and allowances	11,623	10,205	7,289	2,666	1,969
Welfare and other expenses	352	280	591	139	163
Social insurance	153	147	1,279	326	499
Housing subsidies	30	86	240	64	98
	12,158	10,718	9,399	3,195	2,729

Note:

The social insurance and housing subsidies of certain seconded employees are undertaken by related parties of the Group.

(a) Five highest paid individuals

None of the Directors are the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2019, 2020, 2021 and the four months ended 30 April 2021 and 2022 and the emoluments of the Directors are reflected in the analysis presented in Note 33. The emoluments paid or payables to the five highest paid individuals during the years ended 31 December 2019, 2020, 2021 and the four months ended 30 April 2021 and 2022 are as follows:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Wages, salaries, bonuses and allowances	466	489	499	138	110
Welfare and other expenses	17	13	13	11	11
Social insurance	—	6	95	27	28
Housing subsidies	—	5	19	5	6
	483	513	626	181	155

The emoluments to the five highest paid non-director individuals fell within the following bands:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
Emolument bands (in HK dollar)					
Less than HK$1,000,000	5	5	5	5	5

10 Finance income and costs, net

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest income:					
- Bank deposits	3,625	3,065	512	105	37
- Other interest income	—	—	—	—	287
Total finance income	3,625	3,065	512	105	324
Interest expense:					
- Bank borrowings	(12,261)	(11,267)	(3,938)	(1,324)	(673)
- Asset-backed security	(13,509)	(4,782)	—	—	—
- Interest expense of lease liabilities	(165)	(154)	(181)	(60)	(55)
- Other interest expense	—	—	—	—	(110)
Total finance costs	(25,935)	(16,203)	(4,119)	(1,384)	(838)
Finance costs, net	(22,310)	(13,138)	(3,607)	(1,279)	(514)

11 Income tax expense

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Current income tax:					
- PRC enterprise income tax	11,433	16,285	22,486	4,689	3,602
- Deferred income tax (Note 28)	1,689	1,154	648	606	397
	13,122	17,439	23,134	5,295	3,999

A reconciliation of the tax charge applicable to profit before income tax using the applicable tax rates for relevant tax jurisdictions to the tax expenses is as follows:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Profit before income tax	50,148	68,461	91,508	20,908	15,857
Tax calculated at applicable tax rates (25%)	12,537	17,115	22,877	5,227	3,964
Expenses not deductible for taxation purposes	585	324	257	68	35
Income tax expense	13,122	17,439	23,134	5,295	3,999

1. Cayman Islands Income Tax

The Company is incorporated under the law of the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and is not subject to Cayman Islands income tax.

2. British Virgin Islands Income Tax

Under the current laws of the BVI, the BVI subsidiary is not subject to tax on its income or capital gains. In addition, any payments of dividends are not subject to withholding tax in the BVI.

3. Hong Kong Profits Tax

No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

4. PRC Enterprise Income Tax ("EIT")

The income tax of the Group in respect of its operations in PRC was calculated at the tax rate of 25% on the assessable profits for the Track Record Period.

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profit derived after 1 January 2008 are generally subject to a 10% withholding tax ("WHT"). If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be 5%.

During the Track Record Period, the Group does not have any plan for its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC. Accordingly, no deferred income tax liability on WHT was accrued as of the end of each reporting year/period.

12 Earnings per share

Basic earnings per share for the years ended 31 December 2019, 2020, 2021 and the four months ended 30 April 2021 and 2022 are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year/period. The weighted average number of ordinary shares has been retrospectively adjusted for the effect of the issue of shares in connection with the Reorganisation completed on 20 July 2021.

	Year ended 31 December			**Four months ended 30 April**	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
Profit attributable to owners of the Company (RMB'000)	35,223	50,081	67,505	15,253	11,318
Weighted average number of ordinary shares in issue	1,000	1,000	1,000	1,000	1,000
Basic earnings per share (expressed in RMB'000 per share)	35.22	50.08	67.51	15.25	11.32

As the Company has no dilutive instruments during the Track Record Period, the Group's diluted earnings per share equals to its basic earnings per share.

13 Property, plant and equipment

	Buildings	Gas pipelines	Machinery and equipment	Motor vehicles, furnitures and fittings	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019						
Cost	18,105	94,691	28,968	2,828	1,709	146,301
Accumulated depreciation	(4,566)	(22,536)	(13,577)	(2,242)	—	(42,921)
Net book amount	13,539	72,155	15,391	586	1,709	103,380
Year ended 31 December 2019						
Opening net book amount	13,539	72,155	15,391	586	1,709	103,380
Additions	—	—	26	112	12,610	12,748
Transfers	77	13,197	—	—	(13,274)	—
Disposals	—	—	(796)	(1)	—	(797)
Depreciation charges	(898)	(4,813)	(2,304)	(173)	—	(8,188)
Closing net book amount	12,718	80,539	12,317	524	1,045	107,143
As at 31 December 2019						
Cost	18,182	107,888	28,048	2,927	1,045	158,090
Accumulated depreciation	(5,464)	(27,349)	(15,731)	(2,403)	—	(50,947)
Net book amount	12,718	80,539	12,317	524	1,045	107,143
Year ended 31 December 2020						
Opening net book amount	12,718	80,539	12,317	524	1,045	107,143
Additions	—	—	113	517	10,199	10,829
Transfers	—	11,244	—	—	(11,244)	—
Disposals	(64)	—	(296)	(3)	—	(363)
Depreciation charges	(904)	(5,341)	(2,191)	(148)	—	(8,584)
Closing net book amount	11,750	86,442	9,943	890	—	109,025
As at 31 December 2020						
Cost	18,099	119,132	27,771	3,393	—	168,395
Accumulated depreciation	(6,349)	(32,690)	(17,828)	(2,503)	—	(59,370)
Net book amount	11,750	86,442	9,943	890	—	109,025
Year ended 31 December 2021						
Opening net book amount	11,750	86,442	9,943	890	—	109,025
Additions	—	—	—	197	18,162	18,359
Transfers	—	18,015	—	—	(18,015)	—
Disposals	—	—	(345)	(3)	—	(348)
Depreciation charges	(902)	(5,785)	(1,954)	(216)	—	(8,857)
Closing net book amount	10,848	98,672	7,644	868	147	118,179
As at 31 December 2021						
Cost	18,099	137,147	26,476	3,532	147	185,401
Accumulated depreciation	(7,251)	(38,475)	(18,832)	(2,664)	—	(67,222)
Net book amount	10,848	98,672	7,644	868	147	118,179

	Buildings	Gas pipelines	Machinery and equipment	Motor vehicles, furnitures and fittings	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Four months ended 30 April 2022						
Opening net book amount	10,848	98,672	7,644	868	147	118,179
Additions	—	—	—	32	2,460	2,492
Transfers	—	2,472	—	—	(2,472)	—
Depreciation charges	(269)	(2,404)	(332)	(74)	—	(3,079)
Closing net book amount	10,579	98,740	7,312	826	135	117,592
As at 30 April 2022						
Cost	18,099	139,619	26,476	3,564	135	187,893
Accumulated depreciation	(7,520)	(40,879)	(19,164)	(2,738)	—	(70,301)
Net book amount	10,579	98,740	7,312	826	135	117,592
(Unaudited)						
Four months ended 30 April 2021						
Opening net book amount	11,750	86,442	9,943	890	—	109,025
Additions	—	—	—	44	815	859
Transfers	—	733	—	—	(733)	—
Disposals	—	—	(345)	(3)	—	(348)
Depreciation charges	(301)	(1,900)	(657)	(82)	—	(2,940)
Closing net book amount	11,449	85,275	8,941	849	82	106,596
As at 30 April 2021						
Cost	18,099	119,865	26,476	3,379	82	167,901
Accumulated depreciation	(6,650)	(34,590)	(17,535)	(2,530)	—	(61,305)
Net book amount	11,449	85,275	8,941	849	82	106,596

Depreciation charged to profit or loss and capitalised as construction in progress is analysed as follows:

	Year ended 31 December			**Four months ended 30 April**	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Cost of sales	7,808	8,319	8,629	2,873	3,002
Administrative expenses	51	111	113	54	59
	7,859	8,430	8,742	2,927	3,061
Capitalised as construction in progress	329	154	115	13	18
	8,188	8,584	8,857	2,940	3,079

The Group was in the process of applying the ownership certificates for certain buildings as follows:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net book amount of buildings without ownership certificates	6,406	3,841	2,521	2,479

The Directors are of the view that the Group is entitled to the lawful and valid occupancy and uses of these buildings and the related ownership certificates will be obtained in due course. The Directors are also of the opinion that the uses of these buildings without the ownership certificates for the Group's business operations for the time being will not expose the Group to any significant penalties or unfavourable consequences.

As at 31 December 2019, the Group's certain machinery and equipments with carrying amounts of approximately RMB1,711,000 (cost: RMB13,417,000) and certain gas pipelines, had been pledged as part of collateral for the asset-backed security issued by Jiaoyun Gas (Note 26(a)).

The Directors of the Company considered that the Group is able to control the significant residual interests in its gas pipeline facilities at the expiry of the related concession agreements. As such, the Directors concluded that the gas pipeline facilities and the related concession do not fall within the scope of HK(IFRIC) Interpretation 12 "Service Concession Arrangements".

14 Investment properties

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Opening balance at beginning of the year/period	65,700	67,680	68,640	68,640	69,720
Gains from fair value adjustment	1,980	960	1,080	—	780
Closing balance at end of the year/period	67,680	68,640	69,720	68,640	70,500

During the Track Record Period, rental income arising from leasing of investment properties and other gains from the fair value changes of the investment properties are as follows:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Rental income (Notes 6 and 32(e)(i))	229	229	1,941	101	1,193
Fair value gains recognised for the year/period (Note 7)	1,980	960	1,080	—	780

An independent valuation of the investment properties was performed by an independent professionally qualified valuer, APAC Asset Valuation and Consulting Limited, who holds a recognised professional qualification and has experience of the investment properties valued. Investment properties were valued by sale comparison approach where comparison is made based on prices realised or market prices of comparable properties. Comparable properties of similar size, character and location are carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

As at 31 December 2019, 2020, 2021 and 30 April 2022, investment properties with carrying amount of approximately RMB67,680,000, RMB68,640,000, RMB69,720,000 and RMB70,500,000 have been pledged as collateral for bank borrowings of RMB37,000,000, RMB37,000,000, RMB37,000,000 and RMB27,000,000, respectively (Notes 26(b)(ii) and (iii)).

15 Right-of-use assets

	Land use rights	Leased properties	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2019			
Cost	6,081	2,962	9,043
Accumulated amortisation	(670)	(343)	(1,013)
Net book amount	5,411	2,619	8,030
Year ended 31 December 2019			
Opening net book amount	5,411	2,619	8,030
Amortisation charges	(145)	(343)	(488)
Closing net book amount	5,266	2,276	7,542
As at 31 December 2019			
Cost	6,081	2,962	9,043
Accumulated amortisation	(815)	(686)	(1,501)
Net book amount	5,266	2,276	7,542
Year ended 31 December 2020			
Opening net book amount	5,266	2,276	7,542
Amortisation charges	(145)	(343)	(488)
Closing net book amount	5,121	1,933	7,054
As at 31 December 2020			
Cost	6,081	2,275	8,356
Accumulated amortisation	(960)	(342)	(1,302)
Net book amount	5,121	1,933	7,054
Year ended 31 December 2021			
Opening net book amount	5,121	1,933	7,054
Additions	3,976	936	4,912
Amortisation charges	(183)	(425)	(608)
Closing net book amount	8,914	2,444	11,358
As at 31 December 2021			
Cost	10,057	3,211	13,268
Accumulated amortisation	(1,143)	(767)	(1,910)
Net book amount	8,914	2,444	11,358

	Land use rights	Leased properties	Total
	RMB'000	*RMB'000*	*RMB'000*
Four months ended 30 April 2022			
Opening net book amount	8,914	2,444	11,358
Amortisation charges	(68)	(143)	(211)
Closing net book amount	8,846	2,301	11,147
As at 30 April 2022			
Cost	10,057	3,211	13,268
Accumulated amortisation	(1,211)	(910)	(2,121)
Net book amount	8,846	2,301	11,147
(Unaudited)			
Four months ended 30 April 2021			
Opening net book amount	5,121	1,933	7,054
Additions	—	936	936
Amortisation charges	(47)	(141)	(188)
Closing net book amount	5,074	2,728	7,802
As at 30 April 2021			
Cost	6,081	3,211	9,292
Accumulated amortisation	(1,007)	(483)	(1,490)
Net book amount	5,074	2,728	7,802

Amortisation of the Group charged to profit or loss is analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Cost of sales	351	351	418	124	147
Administrative expenses	137	137	190	64	64
	488	488	608	188	211

16 Intangible assets

	Goodwill	Software licenses	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2019			
Cost	4,218	110	4,328
Accumulated amortisation	—	(67)	(67)
Net book amount	4,218	43	4,261
Year ended 31 December 2019			
Opening net book amount	4,218	43	4,261
Amortisation charges	—	(11)	(11)
Closing net book amount	4,218	32	4,250
As at 31 December 2019			
Cost	4,218	110	4,328
Accumulated amortisation	—	(78)	(78)
Net book amount	4,218	32	4,250
Year ended 31 December 2020			
Opening net book amount	4,218	32	4,250
Amortisation charges	—	(5)	(5)
Closing net book amount	4,218	27	4,245
As at 31 December 2020			
Cost	4,218	110	4,328
Accumulated amortisation	—	(83)	(83)
Net book amount	4,218	27	4,245
Year ended 31 December 2021			
Opening net book amount	4,218	27	4,245
Additions	—	93	93
Amortisation charges	—	(6)	(6)
Closing net book amount	4,218	114	4,332
As at 31 December 2021			
Cost	4,218	203	4,421
Accumulated amortisation	—	(89)	(89)
Net book amount	4,218	114	4,332

	Goodwill	Software licenses	Total
	RMB'000	*RMB'000*	*RMB'000*
Four months ended 30 April 2022			
Opening net book amount	4,218	114	4,332
Amortisation charges	—	(4)	(4)
Closing net book amount	4,218	110	4,328
As at 30 April 2022			
Cost	4,218	203	4,421
Accumulated amortisation	—	(93)	(93)
Net book amount	4,218	110	4,328
(Unaudited)			
Four months ended 30 April 2021			
Opening net book amount	4,218	27	4,245
Amortisation charges	—	(3)	(3)
Closing net book amount	4,218	24	4,242
As at 30 April 2021			
Cost	4,218	110	4,328
Accumulated amortisation	—	(86)	(86)
Net book amount	4,218	24	4,242

The amortisation of software licenses has been charged to administrative expenses.

(a) Goodwill

The goodwill was arisen from the acquisition of Jiaoyun Shihua and was allocated to the CGU of Jiaoyun Shihua for impairment testing.

Management performed an impairment assessment on the goodwill at the end of each year and concluded that no impairment charge has to be recognised. The recoverable amount of the CGU of Jiaoyun Shihua has been determined based on a value-in-use calculation using cash flow projection based on a financial budget covering a five-year period approved by management. The pre-tax discount rates applied to the cash flow projections for each year are in a range of approximately 10% to 11%.

The following table sets out each key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
Revenue growth rate in perpetual period	2%	2%	2%	2%
Gross margin	17 - 20%	16 - 17%	16 - 17%	16 - 17%
Pre-tax discount rate	11%	10%	11%	11%

Based on the result of the goodwill impairment testing, the estimated recoverable amount of the CGU far exceeded its carrying amount and the headroom was as follows:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Headroom	40,213	39,652	44,959	45,162

The management performed the sensitivity analysis based on the abovementioned key assumptions have been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased to as below:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue growth rate in perpetual period decreased by 5%	39,611	39,053	44,328	44,503
Gross margin decreased by 5%	24,141	22,720	26,718	26,715
Pre-tax discount rate increased by 5%	36,077	35,570	40,589	40,744

Management has also concluded that there is no reasonably possible change to a key assumption used in determining recoverable amount that would cause the CGU's carrying amount to exceed its recoverable amount.

17 Financial instruments by category

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at amortised cost				
Trade and other receivables (Note 19)	476,166	219,945	33,762	34,062
Restricted bank deposits (Note 22(a))	204,000	75,100	—	—
Cash and cash equivalents (Note 22(b))	26,281	39,579	37,370	24,393
	706,447	334,624	71,132	58,455
Liabilities at amortised cost				
Borrowings (Note 26)	748,397	227,800	37,000	27,000
Trade and other payables (excluding salaries and staff welfare payable and tax payable)	20,600	26,837	40,798	42,929
Lease liabilities (Note 27)	2,502	2,256	2,850	2,727
	771,499	256,893	80,648	72,656

18 Other non-current assets

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for land use rights	2,820	4,476	4,027	4,027

19 Trade and other receivables

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Trade receivables (Note a)				
- third parties	—	—	19,469	19,636
Less: provision for impairment of trade receivables	—	—	(370)	(374)
	—	—	19,099	19,262
Current				
Trade receivables (Note a)				
- third parties	3,004	264	13,443	13,566
Less: provision for impairment of trade receivables	(38)	(38)	(284)	(285)
Trade receivables - net	2,966	226	13,159	13,281
Other receivables				
- Amounts due from related parties (Note 32(i))	466,293	215,627	—	—
- Amounts due from third parties	38,509	33,881	29,877	29,884
	504,802	249,508	29,877	29,884
Less: provision for impairment of other receivables	(31,602)	(29,789)	(28,373)	(28,365)
Other receivables - net	473,200	219,719	1,504	1,519
	476,166	219,945	14,663	14,800
Total trade and other receivables , net	476,166	219,945	33,762	34,062

(a) Aging analysis of trade receivables at each balance sheet date based on their recording dates were as follows:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	2,966	226	32,874	33,164
Over 3 years	38	38	38	38
	3,004	264	32,912	33,202

Trade receivables are mainly recorded based on the dates of transaction. The aging of trade receivables based on their recording dates is basically by reference to their respective dates of invoice.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which use a lifetime expected loss allowance for all trade receivables. Note 3.1 provides for details about the calculation of the allowance.

During the year ended 31 December 2021, the Group has entered into agreements with local governments in the Gaomi City for the sales of certain gas-burning appliance and the provision of certain construction and installation services ("clean energy projects") which are with instalment settlement terms over a period of three years. As at 31 December 2021 and 30 April 2022, trade receivables of the clean energy projects amounted to RMB32,402,000 and RMB32,689,000 respectively. The portion which are not expected to be recovered by the Group within the next twelve months from the balance sheet date has been classified as non-current trade receivables.

(b) Other receivables are unsecured, interest free and repayable on demand.

(c) The carrying amounts of trade and other receivables are all denominated in RMB.

(d) Movements in allowance for impairment of trade receivables is as follows:

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
At beginning of the year/period	38	38	38	38	654
Provision	—	—	616	—	5
At the end of the year/period	38	38	654	38	659

The carrying amounts of trade receivables approximate their fair values.

(e) *Movement of provision for impairment of other receivables is as follows:*

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
At beginning of the year/period	34,546	31,602	29,789	29,789	28,373
Provision	555	401	1,427	—	—
Reversal	(3,499)	(2,100)	(2,843)	(1,805)	(8)
Written-off	—	(114)	—	—	—
At the end of the year/period	31,602	29,789	28,373	27,984	28,365

The carrying amounts of other receivables approximate their fair values.

20 Prepayments and other current assets

The Group

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for:				
- natural gas and other construction materials	16,002	13,527	24,772	14,687
- [REDACTED] expenses	—	434	2,837	4,109
- other expenses	286	320	344	339
Value-added tax recoverable	1,682	1,945	2,176	2,468
	17,970	16,226	30,129	21,603

The Company

	As at 31 December	As at 30 April
	2021	**2022**
	RMB'000	*RMB'000*
Prepayments for [REDACTED] expenses	2,837	4,109

21 Inventories

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Natural gas and other construction materials	8,507	8,371	6,936	8,156
Gas-burning appliance	1,742	6,562	2,402	1,934
	10,249	14,933	9,338	10,090

The inventories recognised as expenses and included in cost of sales are analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Natural gas	240,686	201,540	265,800	95,398	123,439
Construction materials	10,610	17,568	23,906	6,260	5,122
Gas-burning appliance	4,025	12,068	28,367	2,670	971
	255,321	231,176	318,073	104,328	129,532

22 Cash and bank balances

(a) Restricted bank deposits

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Restricted bank deposits	204,000	75,100	—	—

The analysis of restricted bank deposits of the Group on each balance sheet date is as follows:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Security deposits for borrowings	194,000	75,100	—	—
Security deposits for bank borrowings of a related party	10,000	—	—	—
	204,000	75,100	—	—

(b) Cash and cash equivalents

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	1,504	1,825	1,872	1,310
Cash at bank	24,777	37,754	35,498	23,083
	26,281	39,579	37,370	24,393

Cash and bank deposits (including restricted bank deposits) are all denominated in Renminbi.

The carrying amounts of cash and bank deposits approximates their fair values.

23 Share capital and share premium

(a) Share capital

The Company was incorporated on 9 March 2021 with an authorised capital of USD50,000 divided into 500,000,000 ordinary shares of USD0.0001 each.

As of 31 December 2021 and 30 April 2022, 1,000 shares have been issued by the Company and the nominal value of the Company's issued share capital is USD0.1.

(b) Share premium

Share premium of the Company represent the net asset value of the subsidiaries comprising the Group acquired by the Company in excess of the nominal value of the Company's shares issued for the interests of the subsidiaries pursuant to the Reorganisation.

24 Reserves

	Combined capital	Merger reserve	Statutory reserve	Safety fund	Other reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2019	60,000	—	—	2,471	(65,500)	(3,029)
Profit appropriation to statutory reserves	—	—	2,471	—	—	2,471
Safety fund						
- appropriation	—	—	—	3,886	—	3,886
- utilisation	—	—	—	(2,989)	—	(2,989)
Balance at 31 December 2019	60,000	—	2,471	3,368	(65,500)	339
Balance at 1 January 2020	60,000	—	2,471	3,368	(65,500)	339
Profit appropriation to statutory reserves	—	—	5,169	—	—	5,169
Safety fund						
- appropriation	—	—	—	3,935	—	3,935
- utilisation	—	—	—	(2,383)	—	(2,383)
Deemed contribution (Note d)	—	—	—	—	50,915	50,915
Balance at 31 December 2020	60,000	—	7,640	4,920	(14,585)	57,975

	Combined capital	Merger reserve	Statutory reserve	Safety fund	Other reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2021	60,000	—	7,640	4,920	(14,585)	57,975
Profit appropriation to statutory reserves	—	—	6,549	—	—	6,549
Safety fund						
- appropriation	—	—	—	3,531	—	3,531
- utilisation	—	—	—	(117)	—	(117)
Proceeds from QMHC LIMITED	610	—	—	—	—	610
Completion of reorganisation	(60,610)	(67,392)	—	—	—	(128,002)
Deemed contribution (Note d)	—	—	—	—	25,500	25,500
Deemed distribution (Note e)	—	—	—	—	(60,657)	(60,657)
Balance at 31 December 2021	—	(67,392)	14,189	8,334	(49,742)	(94,611)
Balance at 1 January 2022	—	(67,392)	14,189	8,334	(49,742)	(94,611)
Safety fund						
- appropriation	—	—	—	1,014	—	1,014
- utilisation	—	—	—	(92)	—	(92)
Balance at 30 April 2022	—	(67,392)	14,189	9,256	(49,742)	(93,689)
(Unaudited)						
Balance at 1 January 2021	60,000	—	7,640	4,920	(14,585)	57,975
Safety fund						
- appropriation	—	—	—	1,177	—	1,177
- utilisation	—	—	—	(110)	—	(110)
Deemed contribution (Note d)	—	—	—	—	25,500	25,500
Balance at 30 April 2021	60,000	—	7,640	5,987	10,915	84,542

(a) Combined capital

The Reorganisation was completed in July 2021. Combined capital as at 31 December 2019 and 2020 represented the combined registered capital of the companies now comprising the Group after elimination of inter-company investment.

(b) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, when distributing the net profit of each year, the Company's subsidiaries in the PRC shall set aside 10% of its profit after income tax (based on the PRC statutory financial statements and after offsetting accumulated losses from prior years) for the statutory reserve fund (except where the reserve balance has reached 50% of the paid-in capital).

Statutory reserve can be used to make up for the loss or increase the paid-in capital after approval from the appropriate authorities.

(c) Safety fund

Entities operating in dangerous goods production and storage industry are required to maintain a reserve of safety fund which are to be appropriated based on entities' actual revenue on natural gas distribution from the previous year in accordance with rules and regulations as established by the Ministry of Finance and Administration of Work Safety. The safety fund should be utilised specifically for the actual expenditure being used to complete and enhance the entities' safety environments. The safety fund is appropriated from retained earnings and is accumulated and credited to other reserves. Upon the Group has actually incurred the qualifying safety expenditure, the expenditure being incurred will be expensed as cost of sales and an equivalent amount will be deducted from other reserves accordingly.

(d) Deemed contribution

As part of the Reorganisation as mentioned in Note 1.2, Jiaoyun Gas has completed the disposal of its equity interests in Jiaoyun Thermal and Gaoyun Investment which are engaged in the Non-[REDACTED] Business. In accordance with the basis of presentation as set out in Note 1.3, the financial results and positions of the Non-[REDACTED] Business have not been included in this Historical Financial Information.

Accordingly, the investment costs, dividend and proceeds from disposal as described below relating to Jiaoyun Thermal and Gaoyun Investment have been excluded from this Historical Financial Information and been accounted for as deemed contributions in respective year/period:

— The investment costs of Jiaoyun Thermal and Gaoyun Investment of RMB40,000,000 and RMB25,500,000, respectively have been excluded as at 1 January 2019, the beginning of the Track Record Period;

— Jiaoyun Gas received a dividend of RMB10,615,000 which was declared by Jiaoyun Thermal in July 2020;

— In September 2020, Jiaoyun Gas disposed of its entire 80% equity interest in Jiaoyun Thermal to Gaomi Jiaoyun Group Co., Ltd. (高密市交運集團有限公司) ("Jiaoyun Group") (former named as Gaomi Jiaoyun Investment Holdings Co., Ltd. (高密市交運控股有限公司)) at a cash consideration of RMB40,300,000; and

— In March 2021, Jiaoyun Gas disposed of its entire 51% equity interest in Gaoyun Investment to Gaomi Jiaoyun Property Co., Ltd. (高密市交運置業有限公司) ("Jiaoyun Property") at a cash consideration of RMB25,500,000.

(e) Deemed distribution

As part of the Reorganisation as mentioned in Note 1.2, JY Gas WFOE acquired 98.99% equity interest in Jiaoyun Gas at a consideration of RMB60,657,000 from its then shareholders. On 29 June 2021, JY Gas has fully settled the consideration by utilising the Group's internal funding. The settlement of the aforesaid purchase consideration has been accounted for as a deemed distribution to the then shareholders.

25 Trade and other payables

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Trade payables (Note a)				
- third parties	—	—	7,306	7,373
Current				
Trade payables (Note a)				
- third parties	13,606	15,248	25,337	22,962
- related parties (Note 32(i))	5,486	5,896	4,093	4,806
	19,092	21,144	29,430	27,768
Other payables				
- Value-added tax payable	7,954	11,622	9,074	8,035
- Other taxes payable	311	502	3,630	236
- Amounts due to related parties (Note 32(i))	1,302	2,652	590	696
- [REDACTED] expenses payable	—	1,660	2,152	5,691
- Salaries and staff welfare payable	1,140	1,288	1,621	1,719
- Others	206	1,381	1,320	1,401
	10,913	19,105	18,387	17,778
	30,005	40,249	47,817	45,546
Total trade and other payables	30,005	40,249	55,123	52,919

(a) The aging of trade payables is analysed as follows:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 year	13,612	14,529	34,754	32,789
1 - 2 years	3,937	5,121	1,106	1,451
2 - 3 years	758	521	438	436
Over 3 years	785	973	438	465
	19,092	21,144	36,736	35,141

(b) The carrying amounts of trade and other payables are all denominated in Renminbi.

(c) The carrying amounts of trade and other payables approximate their fair values.

26 Borrowings

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Asset-backed security (Note a)	124,337	—	—	—
Less: Current portion of asset-backed security	(124,337)	—	—	—
	—	—	—	—
Current				
Bank borrowings (Note b)				
- guaranteed	173,000	44,000	—	—
- secured and guaranteed	37,000	37,000	—	—
- secured	13,300	—	37,000	27,000
	223,300	81,000	37,000	27,000
Other borrowings (Note c)				
- secured	400,760	146,800	—	—
Current portion of asset-backed security (Note a)	124,337	—	—	—
Total	748,397	227,800	37,000	27,000

(a) Asset-backed security ("ABS")

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Asset-backed security	124,337	—	—	—

In September 2015, the Group entered into an asset-backed security agreement with Minsheng Securities Co., Ltd. (民生証券股份有限公司) in the form of asset securitisation. The ABS issued by Minsheng Special Plan are divided into priority level and subprime level with total principal of RMB430,000,000 and RMB45,000,000 respectively which were repayable by installments prior to June 2020. The priority level investors received interest at a fixed nominal rate ranging from 4.7% to 6.8% per annum, and subprime level investors receive residual investment income distribution. The Group purchased all the subprime level of ABS. ABS was consolidated by the Group.

The priority level ABS was collateralised by the future earnings relating the right to sale natural gas within the concession area in Gaomi City, the shares of Jiaoyun Gas as held by Jiaoyun Group, Jiaoyun Property and Mr. Luan Linjiang and the Group's gas pipelines and certain machinery and equipments (Note 13).

The ABS was fully settled in June 2020.

(b) Bank borrowings are analysed as follow:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed (i)	173,000	44,000	—	—
Secured by properties and guaranteed by six persons (ii)	37,000	37,000	—	—
Secured by properties (iii)	—	—	37,000	27,000
Secured by bank deposit (iv)	13,300	—	—	—
Total	223,300	81,000	37,000	27,000

(i) The guarantor of bank borrowings are as bellow:

	As at 31 December 2019
	RMB'000
Guarantor:	
Shandong Jinfulong Co., Ltd. (山東金孚隆股份有限公司) ("Shandong Jinfulong", a third party)	35,000
Shandong Jinfulong, Mr. Luan Xiaolong, Mr. Luan Linjiang, Jiaoyun Property	14,000
Jiaoyun Group and Mr. Luan Linjiang	30,000
Shengshi International Road and Bridge Construction Co., Ltd. (盛世國際路橋建設有限公司) ("Shengshi Road and Bridge", a third party), Mr. Luan Linjiang and Mr. Luan Linxin	20,000
Jiaoyun Thermal, Shandong Yasheng Heavy Industry Co., Ltd. (山東亞盛重工股份有限公司) ("Shandong Yasheng", a related company) and Mr. Luan Linjiang	15,000
Shandong Jinfulong, Mr. Luan Xiaolong and Mr. Luan Linjiang	30,000
Weifang Huijin Finance Guarantee Co., Ltd. (濰坊市匯金融資擔保有限公司) (a third party) and Jiaoyun Property	29,000
Total	173,000

	As at 31 December 2020
	RMB'000
Guarantor:	
Jiaoyun Group and Mr. Luan Linjiang	30,000
Jiaoyun Thermal, Shandong Yasheng and Mr. Luan Linjiang	14,000
Total	44,000

(ii) As at 31 December 2019 and 2020, bank borrowings of RMB37,000,000 were guaranteed by Mr. Luan Linjiang, Mr. Luan Linxin, Ms. Cui Shuhua, Ms. Zhang Guozhen, Ms. Guan Lianhua, Mr. Song Xuenong and secured by investment properties of Jiaoyun Gas (Note 14).

(iii) As at 31 December 2021 and 30 April 2022, bank borrowings of RMB37,000,000 and RMB27,000,000, respectively, were secured by investment properties of Jiaoyun Gas (Note 14).

(iv) As at 31 December 2019, bank borrowings of RMB13,300,000 were secured by bank deposit of RMB14,000,000.

During the Track Record Period, the proceeds from certain bank borrowings were not used in accordance with their designated use under the terms of the relevant agreements (the "Relevant Bank Borrowings"), which amounted to approximately RMB152 million, RMB81 million, nil and nil, as at 31 December 2019, 2020, 2021 and 30 April 2022, respectively.

(c) Other borrowings

During the years ended 31 December 2019 and 2020, Jiaoyun Gas has made certain bank acceptance notes financing arrangements in order to obtain funding from banks (the "Bill Financing Arrangements").

Jiaoyun Gas instructed banks to issue bank acceptance notes to Gaomi Yuanhua Trading Co., Ltd. (高密市遠華貿易有限公司) ("Yuanhua Trading"), Jiaoyun Shihua and a third party, the aggregate amount of bank acceptance notes issued was greater than the sum of the actual underlying transactions. Such excess amount of bank acceptance notes (the "Relevant Bills") had been discounted to obtain funding and subsequently advancing such funding to other related companies, or endorsed to other related companies by Yuanhua Trading. Jiaoyun Gas has ceased such Bill Financing Arrangements after 17 June 2020.

Despite the facts of the Bill Financing Arrangements was considered as non-compliance of the terms of the acceptance agreements with the banks and the provisions of the relevant PRC laws and regulations, given the measure taken by the Group and after seeking legal advice, the Directors are of the view that such arrangement will have no material financial impact on the Group and all amounts due to the relevant banks had been fully repaid before 17 June 2021. During the years ended 31 December 2019 and 2020, the total nominal value of the Relevant Bills to Yuanhua Trading and Jiaoyun Shihua were approximately RMB440,760,000 and RMB209,230,000, respectively (Note 32(f)). As at 31 December 2019, 2020, 2021 and 30 April 2022, the balances of the Relevant Bills to Yuanhua Trading and Jiaoyun Shihua were approximately RMB400,760,000, RMB146,800,000, nil and nil, respectively.

Other borrowings are analysed as follow:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured by bank deposit of the Group (i)	264,060	80,100	—	—
Secured by bank deposit of a related party (ii)	136,700	66,700	—	—
	400,760	146,800	—	—

(i) As at 31 December 2019 and 2020, other borrowings of RMB264,060,000 and RMB80,100,000 were secured by bank deposit of the Group of RMB180,000,000 and RMB75,100,000, respectively.

(ii) As at 31 December 2019 and 2020, other borrowings of RMB136,700,000 and RMB66,700,000 were secured by bank deposit of Mr. Luan Xiaolong of RMB106,700,000 and RMB36,700,000, respectively.

(d) The Group's borrowings were repayable as follows:

	As at 31 December			**As at 30 April**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	748,397	227,800	37,000	27,000

(e) The exposure of the Group's bank borrowings and ABS to interest rate changes and the contractual repricing or maturity dates at the end of the year/period are as follows:

	As at 31 December			**As at 30 April**
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 6 months	213,337	30,000	37,000	27,000
6 - 12 months	134,300	51,000	—	—
	347,637	81,000	37,000	27,000

(f) The carrying amount of the Group's borrowings are not materially different from their fair value as at each balance sheet date.

(g) The average interest rates applicable to the Group's borrowings are summarised as below.

	Year ended 31 December			**Four months ended 30 April**	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
ABS (including underwriting fee)	7.7%	7.7%	N/A	7.7%	N/A
Bank borrowings	5.6%	5.7%	5.7%	5.7%	5.7%

27 Leases

(a) Amounts recognised in balance sheets in connection with leases

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets (Note 15)				
- Land use rights	5,266	5,121	8,914	8,846
- Leased properties	2,276	1,933	2,444	2,301
	7,542	7,054	11,358	11,147
Lease liabilities				
- Current	380	181	510	514
- Non-current	2,122	2,075	2,340	2,213
	2,502	2,256	2,850	2,727

(b) Amounts recognised in profit or loss in connection with leases

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Depreciation charge (Note 15)					
- Leased properties	343	343	425	141	143
- Land use rights	145	145	183	47	68
	488	488	608	188	211
Interest expenses (Note 10)	165	154	181	60	55

Except that the total cash outflow of financing activities for leases amounted to RMB244,000 during the year ended 31 December 2021, there were no cash outflow during the years ended 31 December 2019, 2020 and the four months ended 30 April 2021 and 2022.

(c) A maturity analysis of lease liabilities is shown in the table below:

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Leases are payable:				
Within 1 year	400	193	535	538
Between 1 and 2 years	193	197	546	432
Between 2 and 5 years	602	614	627	631
Over 5 years	3,066	2,858	2,644	2,572
Minimum lease payments	4,261	3,862	4,352	4,173
Future finance charges	(1,759)	(1,606)	(1,502)	(1,446)
	2,502	2,256	2,850	2,727

28 Deferred income tax

The analysis of deferred income tax assets/(liabilities) is as follows:

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
- be recovered within 12 months	633	298	92	94
- to be recovered more than 12 months	7,902	7,722	8,163	8,085
	8,535	8,020	8,255	8,179
Set-off of deferred income tax liabilities pursuant to set-off provisions	(8,535)	(8,020)	(8,255)	(8,179)
	—	—	—	—
Deferred income tax liabilities:				
- be settled within 12 months	(86)	(28)	(106)	(106)
- to be settled more than 12 months	(13,727)	(14,424)	(15,229)	(15,550)
	(13,813)	(14,452)	(15,335)	(15,656)
Set-off of deferred income tax assets pursuant to set-off provisions	8,535	8,020	8,255	8,179
	(5,278)	(6,432)	(7,080)	(7,477)

The movement of deferred income tax assets and liabilities during the year/period, without taking into consideration the offsetting of the balances within the same tax jurisdiction, is as following:

The gross movement on the deferred income tax assets account is as follows:

	Impairment loss on financial assets	Leased liabilities	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	8,646	684	—	9,330
Debited to profit or loss	(736)	(59)	—	(795)
As at 31 December 2019	7,910	625	—	8,535
As at 1 January 2020	7,910	625	—	8,535
Debited to profit or loss	(453)	(62)	—	(515)
As at 31 December 2020	7,457	563	—	8,020
As at 1 January 2021	7,457	563	—	8,020
(Debited)/credited to profit or loss	(200)	149	286	235
As at 31 December 2021	7,257	712	286	8,255
As at 1 January 2022	7,257	712	286	8,255
Debited to profit or loss	(1)	(31)	(44)	(76)
As at 30 April 2022	7,256	681	242	8,179
(Unaudited)				
As at 1 January 2021	7,457	563	—	8,020
(Debited)/credited to profit or loss	(451)	206	—	(245)
As at 30 April 2021	7,006	769	—	7,775

The gross movement on the deferred income tax liabilities account is as follows:

	Right-of-use assets	Investment properties	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2019	(655)	(12,264)	(12,919)
Credited/(debited) to profit or loss	86	(980)	(894)
As at 31 December 2019	(569)	(13,244)	(13,813)
As at 1 January 2020	(569)	(13,244)	(13,813)
Credited/(debited) to profit or loss	86	(725)	(639)
As at 31 December 2020	(483)	(13,969)	(14,452)
As at 1 January 2021	(483)	(13,969)	(14,452)
Debited to profit or loss	(128)	(755)	(883)
As at 31 December 2021	(611)	(14,724)	(15,335)
As at 1 January 2022	(611)	(14,724)	(15,335)
Credited/(debited) to profit or loss	36	(357)	(321)
As at 30 April 2022	(575)	(15,081)	(15,656)
(Unaudited)			
As at 1 January 2021	(483)	(13,969)	(14,452)
Debited to profit or loss	(199)	(162)	(361)
As at 30 April 2021	(682)	(14,131)	(14,813)

29 Dividends

In August 2019, Jiaoyun Shihua declared dividends of RMB5,600,000 and RMB2,400,000 to Jiaoyun Gas and Shandong Shihua Natural Gas Company Limited (山東實華天然氣有限公司) ("Shandong Shihua"), respectively. In June 2020, Jiaoyun Shihua declared dividends of RMB3,500,000 and RMB1,500,000 to Jiaoyun Gas and Shandong Shihua, respectively.

In March 2021, Jiaoyun Gas declared dividends of RMB70,000,000 to its shareholders. Mr. Luan Linjiang voluntarily gave up his rights to this dividend distribution and the declared amount becomes wholly entitled by Jiaoyun Group and Jiaoyun Property accordingly.

During the Track Record Period, the above declared dividends had been paid.

No dividends have been paid or declared by the Company since its incorporation.

30 Cash generated from operations

(a) Cash generated from operations

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Profit before income tax	50,148	68,461	91,508	20,908	15,857
Adjustments for:					
- Depreciation of property, plant and equipment (Note 13)	7,859	8,430	8,742	2,927	3,061
- Depreciation of right-of-use asset (Note 15)	488	488	608	188	211
- Amortisation of intangible assets (Note 16)	11	5	6	3	4
- Losses on disposal of property, plant and equipment (Note 7)	399	228	266	266	—
- Reversal of net impairment losses on financial assets	(2,944)	(1,699)	(800)	(1,805)	(3)
- Fair value gain on investment properties (Note 7)	(1,980)	(960)	(1,080)	—	(780)
- Finance costs (Note 10)	25,935	16,203	4,119	1,384	838
- Finance income (Note 10)	(3,625)	(3,065)	(512)	(105)	(324)
	76,291	88,091	102,857	23,766	18,864
Changes in working capital:					
- Inventories	763	(4,684)	5,595	2,193	(752)
- Trade and other receivables	1,269	4,499	(30,337)	(995)	(10)
- Prepayments and other current assets	(5,466)	2,178	(11,500)	1,357	9,796
- Trade and other payables	(536)	15,470	25,407	(119)	(2,490)
- Contract liabilities	8,760	36,422	(22,946)	(21,371)	(15,489)
Cash generated from operations	81,081	141,976	69,076	4,831	9,919

(b) *Proceeds from disposal of property, plant and equipment comprise:*

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Net book amount (Note 13)	797	363	348	348	—
Net losses on disposal of property, plant and equipment (Note 7)	(399)	(228)	(266)	(266)	—
Proceeds from disposal of property, plant and equipment	398	135	82	82	—

(c) During the Track Record Period, the Group's cash inflows and outflows with certain third parties of which turnover is quick, amounts are large and maturities are short, are net presented on the consolidated statements of cash flows.

(d) *Major non-cash transactions:*

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Borrowings settled by restricted bank deposits	(118,315)	(118,300)	(5,000)	(5,000)	—
Advances to related parties settled by (Note 32(g)):					
- bank acceptance notes under Bill Financing Arrangement (Note 26(c))	(120,914)	(86,132)	—	—	—
- other bank acceptance notes	(4,149)	(240)	(157)	(30)	—
	(125,063)	(86,372)	(157)	(30)	—
Repayments from related parties through (Note 32(g)):					
- endorsing bank acceptance notes to the Group	920	5,060	9,008	8,658	—
- settle the Group's bank borrowings on behalf of the Group	18,977	—	—	—	—
	19,897	5,060	9,008	8,658	—

(e) Summary of net debt

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and cash equivalents	26,281	39,579	37,370	24,393
Borrowings - repayable within 1 year	(748,397)	(227,800)	(37,000)	(27,000)
Lease liabilities - repayable within 1 year	(380)	(181)	(510)	(514)
Lease liabilities - repayable after 1 year	(2,122)	(2,075)	(2,340)	(2,213)
Net debt	(724,618)	(190,477)	(2,480)	(5,334)
Cash and cash equivalents	26,281	39,579	37,370	24,393
Gross debt - fixed interest rates	(720,899)	(200,056)	(39,850)	(29,727)
Gross debt - floating interest rates	(30,000)	(30,000)	—	—
Net debt	(724,618)	(190,477)	(2,480)	(5,334)

(f) Reconciliation for liabilities from financing activities

	Liabilities from financing activities			
	ABS	**Borrowings**	**Lease liabilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2019	228,628	495,600	2,737	726,965
Cash flows	(105,000)	144,838	—	39,838
Interest charged	13,509	12,261	165	25,935
Interest paid	(12,800)	(12,261)	—	(25,061)
Other non-cash movements	—	(16,378)	(400)	(16,778)
As at 31 December 2019	124,337	624,060	2,502	750,899
As at 1 January 2020	124,337	624,060	2,502	750,899
Cash flows	(125,000)	(364,092)	—	(489,092)
Interest charged	4,782	11,267	154	16,203
Interest paid	(4,119)	(11,267)	—	(15,386)
Other non-cash movements	—	(32,168)	(400)	(32,568)
As at 31 December 2020	—	227,800	2,256	230,056

	Liabilities from financing activities			
	ABS	**Borrowings**	**Lease liabilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2021	—	227,800	2,256	230,056
Cash flows	—	(185,800)	(244)	(186,044)
Interest charged	—	3,938	181	4,119
Interest paid	—	(3,938)	(42)	(3,980)
Lease liabilities recognised	—	—	936	936
Other non-cash movements	—	(5,000)	(237)	(5,237)
As at 31 December 2021	—	37,000	2,850	39,850
As at 1 January 2022	—	37,000	2,850	39,850
Cash flows	—	(10,000)	—	(10,000)
Interest charged	—	673	55	728
Interest paid	—	(673)	—	(673)
Other non-cash movements	—	—	(178)	(178)
As at 30 April 2022	—	27,000	2,727	29,727
(Unaudited)				
As at 1 January 2021	—	227,800	2,256	230,056
Cash flows	—	(65,000)	—	(65,000)
Interest charged	—	1,324	60	1,384
Interest paid	—	(1,324)	—	(1,324)
Lease liabilities recognised	—	—	936	936
Other non-cash movements	—	(5,000)	(173)	(5,173)
As at 30 April 2021	—	157,800	3,079	160,879

31 Contingencies

The Group's guarantees provided for the borrowings of third parties are summarised as follow:

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantee:				
Shandong Jinfulong	70,000	80,000	—	—
Shengshi Road and Bridge	15,200	15,200	—	—
Jinggao Garden Engineering Co., Ltd. (京高園林工程有限公司)	12,000	12,000	—	—
Shandong Jinfulong Logistics Co., Ltd. (山東金孚隆物流有限公司)	—	15,000	—	—
Total	97,200	122,200	—	—

The Group's guarantees provided for the borrowings of related parties are disclosed in Note 32(d).

All of the abovementioned guarantees had been terminated prior to 31 December 2021.

The Group has no material contingent liabilities as at 31 December 2021 and 30 April 2022.

32 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are under common control or joint control in the shareholder' families. Members of key management and their close family member of the Group are also considered as related parties.

In addition to the related party transactions as disclosed in Note 24, Note 26 and Note 29 in this Historical Financial Information, the following is a summary of the significant transactions took place between the Group and its related parties at terms as mutually agreed among the parties concerned during the Track Record Period.

(a) Names and relationships with related parties

The following companies and individuals are significant related parties of the Group that had significant transactions and/or balances with the Group during the Track Record Period.

Names of the major related parties	**Nature of relationship**
Mr. Luan Xiaolong	Director and one of the Ultimate Beneficial Owners of the Company
Mr. Luan Linjiang	Director and one of the Ultimate Beneficial Owners of the Company, the father of Mr. Luan Xiaolong
Gaomi Jiaoyun Market Co., Ltd. (高密市交運市場有限公司) ("Jiaoyun Market")	Controlled by Mr. Luan Linjiang
Jiaoyun Property	The then shareholder of Jiaoyun Gas and controlled by Mr. Luan Linjiang
Jiaoyun Thermal	Controlled by Mr. Luan Xiaolong
Gaomi Jiaoyun Taxi Co., Ltd. (高密市交運出租車有限公司) ("Jiaoyun Taxi")	Controlled by Mr. Luan Linjiang
Guorui Real Estate	Indirectly controlled by Mr. Luan Xiaolong
Gaomi Jiaoyun Construction Machinery Co., Ltd. (高密交運工程機械有限公司) ("Jiaoyun Construction Machinery")	Controlled by Mr. Luan Linjiang
Yuanhua Trading	Indirectly controlled by Mr. Luan Xiaolong
Shandong Yasheng	Controlled by a close family member of Mr. Luan Xiaolong
Shandong Shihua	Minority shareholder of Jiaoyun Shihua
Mr. Luan Linxin	A close family member of Mr. Luan Linjiang
Shandong Gaomi Traffic Car Transport Co., Ltd. (山東高密市交運汽車運輸有限公司) ("Jiaoyun Car Transport")	Indirectly controlled by Mr. Luan Linjiang

(b) Purchases of goods and services

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Shandong Shihua	168,609	137,760	177,517	57,378	70,739
Yuanhua Trading	4,417	4,987	989	987	—
Jiaoyun Property	1,365	1,170	6,423	240	2,013
	174,391	143,917	184,929	58,605	72,752

(c) Providing of construction and installation services and sales of goods

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Jiaoyun Thermal	971	470	—	—	—
Jiaoyun Property	449	883	692	661	—
Jiaoyun Taxi	60	34	101	100	213
Guorui Real Estate	41	472	1,039	854	—
	1,521	1,859	1,832	1,615	213

(d) Provision of guarantees for borrowings of related parties

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
At beginning of the year/period	117,800	99,100	165,000	165,000	—
Provided during the year/period	99,100	165,000	—	—	—
Matured during the year/period	(117,800)	(99,100)	(165,000)	(165,000)	—
At the end of the year/period	99,100	165,000	—	—	—

(e) Property leasing

(i) Rental income

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Jiaoyun Market	229	229	1,941	101	1,193

(ii) Rental expenses

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Mr. Luan Linjiang	229	229	295	98	100
Jiaoyun Car Transport	138	138	186	62	63
	367	367	481	160	163

(f) Amount of bank acceptance notes issued to related parties under the Bill Financing Arrangement (Note 26(c))

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Yuanhua Trading	440,760	205,630	—	—	—
Jiaoyun Shihua	—	3,600	—	—	—
	440,760	209,230	—	—	—

(g) Advances to/ repayments from related parties

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
At beginning of the year/period	422,829	465,471	213,784	213,784	—
Advances during the year/period					
- Cash	1,252,553	1,164,875	194,230	131,433	—
- Non-cash (Note 30(d))	125,063	86,372	157	30	—
	1,377,616	1,251,247	194,387	131,463	—
Repayments during the year/period					
- Cash	(1,315,077)	(1,497,874)	(399,163)	(169,180)	—
- Non-cash (Note 30(d))	(19,897)	(5,060)	(9,008)	(8,658)	—
	(1,334,974)	(1,502,934)	(408,171)	(177,838)	—
At end of the year/period (Note 32(i))	465,471	213,784	—	167,409	—

Notes: As mutually agreed with the parties in concern, the Group did not charge any interest on the advances to related parties.

(h) Expenses of seconded employees

	Year ended 31 December			Four months ended 30 April	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Shandong Shihua	190	240	240	80	80
Jiaoyun Property	10,735	8,063	1,895	1,278	—
	10,925	8,303	2,135	1,358	80

(i) Year-end balances arising from advances to related parties and sales/purchases of goods/services

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receivables from related parties				
Non-trade in nature				
Advances to related parities				
- Jiaoyun Property	319,460	37,238	—	—
- Guorui Real Estate	107,661	158,196	—	—
- Mr. Luan Xiaolong	38,350	18,350	—	—
	465,471	213,784	—	—
Trade in nature				
Amount due from operating activities				
- Jiaoyun Property	822	1,843	—	—
	466,293	215,627	—	—
Prepayments				
- Shandong Shihua	13,387	12,070	16,882	9,296

All the amount due from operating activities and prepayment balances with related parties are trade in nature. Advances to related parties are non-trade in nature, and the Directors confirmed that these balances have been fully settled up to the date of this Historical Financial Information.

	As at 31 December			As at 30 April
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payables to related parties				
Trade payables				
- Yuanhua Trading	5,447	5,857	1,544	1,544
- Jiaoyun Property	—	—	2,510	3,223
- Jiaoyun Construction Machinery	39	39	39	39
	5,486	5,896	4,093	4,806
Other payables				
Trade in nature				
- Jiaoyun Property	1,002	702	572	543
- Mr. Luan Linjiang	300	450	18	84
- Jiaoyun Car Transport	—	—	—	69
Non-trade in nature				
- Shandong Shihua	—	1,500	—	—
	1,302	2,652	590	696

All the trade payable balances with related parties are trade in nature.

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities				
Jiaoyun Property	1,016	1,062	—	—
Guorui Real Estate	—	663	—	—
	1,016	1,725	—	—

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees provided for borrowings of related parties				
Jiaoyun Thermal	70,000	165,000	—	—
Shandong Yasheng	19,700	—	—	—
Yuanhua Trading	9,400	—	—	—
	99,100	165,000	—	—

(j) Key management compensation

Key management includes directors and respective department heads. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December			Four months ended 30 April	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Salaries and other short-term employee benefits					
- Directors	144	137	160	50	56
- Other key management	401	363	422	142	141
	545	500	582	192	197

33 Benefits and interests of directors

Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2019:

Name	Salary	Welfare and other expenses	Social benefits	Housing subsidies	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Luan Linjiang*	60	5	—	—	65
Mr. Luan Xiaolong**	56	5	15	3	79
Mr. Luan Linxin***	—	—	—	—	—
Mr. Wei Yi****	—	—	—	—	—
Mr. Tian Qiang****	—	—	—	—	—
Ms. Liu Xiaoye****	—	—	—	—	—
	116	10	15	3	144

For the year ended 31 December 2020:

Name	Salary	Welfare and other expenses	Social benefits	Housing subsidies	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Luan Linjiang*	67	3	—	—	70
Mr. Luan Xiaolong**	56	3	5	3	67
Mr. Luan Linxin***	—	—	—	—	—
Mr. Wei Yi****	—	—	—	—	—
Mr. Tian Qiang****	—	—	—	—	—
Ms. Liu Xiaoye****	—	—	—	—	—
	123	6	5	3	137

For the year ended 31 December 2021:

Name	**Salary**	**Welfare and other expenses**	**Social benefits**	**Housing subsidies**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Luan Linjiang*	64	4	13	3	84
Mr. Luan Xiaolong**	54	4	15	3	76
Mr. Luan Linxin***	—	—	—	—	—
Mr. Wei Yi****	—	—	—	—	—
Mr. Tian Qiang****	—	—	—	—	—
Ms. Liu Xiaoye****	—	—	—	—	—
	118	8	28	6	160

For the four months ended 30 April 2022:

Name	**Salary**	**Welfare and other expenses**	**Social benefits**	**Housing subsidies**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Luan Linjiang*	22	2	5	1	30
Mr. Luan Xiaolong**	18	2	5	1	26
Mr. Luan Linxin***	—	—	—	—	—
Mr. Wei Yi****	—	—	—	—	—
Mr. Tian Qiang****	—	—	—	—	—
Ms. Liu Xiaoye****	—	—	—	—	—
	40	4	10	2	56

For the four months ended 30 April 2021 (unaudited):

Name	**Salary**	**Welfare and other expenses**	**Social benefits**	**Housing subsidies**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Luan Linjiang*	21	2	5	1	29
Mr. Luan Xiaolong**	14	2	4	1	21
Mr. Luan Linxin***	—	—	—	—	—
Mr. Wei Yi****	—	—	—	—	—
Mr. Tian Qiang****	—	—	—	—	—
Ms. Liu Xiaoye****	—	—	—	—	—
	35	4	9	2	50

* Luan Linjiang is a seconded employee whose social insurance and housing subsidies is undertaken by related parties of the Group and was elected as the chairman and executive Director from 16 August 2021.

** Luan Xiaolong was elected as the executive director and chief executive officer from 16 August 2021.

*** Luan Linxin was elected as a director from 16 August 2021.

**** Wei Yi, Tian Qiang and Liu Xiaoye was elected as a director from [●].

34 Event after the balance sheet date

According to the notice on adjusting the 2022 selling price of PNG for non-residential usage in Gaomi City issued by the Development and Reform Bureau of Gaomi on 4 July 2022, the selling price of PNG sales for non-residential usage has been adjusted downwards by approximately 6.9% with effect from 1 April 2022. Accordingly, the Company's revenue for the month ended 30 April 2022 has been adjusted retrospectively based on the revised selling price.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2022 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2022.

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I in this document, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this document and the Accountant's Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 April 2022 as if the [REDACTED] had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] been completed as at 30 April 2022 or at any future dates.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2022	**Estimated net proceeds from the [REDACTED]**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at 30 April 2022**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**	
	(Note 1)	*(Note 2)*		*(Note 3)*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an [REDACTED] of HK$[REDACTED] per share	101,407	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per share	101,407	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 30 April 2022 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to the equity owners of the Company as at 30 April 2022 of RMB105,735,000 with adjustments for the intangible assets as at 30 April 2022 of RMB4,328,000.

(2) The estimated net proceeds from the [REDACTED] are based on the indicative [REDACTED] of HK$[REDACTED] and HK$[REDACTED] per share, respectively, after deduction of the [REDACTED] fees and other related expenses (excluding [REDACTED] expenses of approximately RMB[REDACTED] which have been charged to the consolidated statements of comprehensive income up to 30 April 2022) payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Shares which may be issued or repurchased by the Company pursuant to the general mandates.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] Shares were in issue assuming that the [REDACTED] and Capitalisation Issue have been completed on 30 April 2022 but takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Shares which may be issued or repurchased by the Company pursuant to the general mandates.

(4) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets per Share, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB[0.86913]. No representation is made that Renminbi has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) Except as disclosed above, no adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2022.

[REDACTED]

[REDACTED]

[REDACTED]

The following is the text of a property valuation report prepared for inclusion in this document, received from APAC Asset Valuation and Consulting Limited, an independent property valuer, in connection with their valuations as of [31 July 2022] of the Property held by the Group.

APAC Asset Valuation and Consulting Limited
5/F., Blissful Building, 243 — 247 Des Voeux Road Central, Hong Kong
Tel: (852) 2357 0059
Fax: (852) 2951 0799

JY GAS LIMITED
3/F., Jiaoyun Group Building
No. 2568 Shi'an Road
Gaomi, Weifang
Shandong Province
The People's Republic of China

[Date of Report]

Dear Sirs,

RE: VALUATION OF VARIOUS BUILDINGS LOCATED AT WEST SIDE OF CHANGAN AVENUE, GAOMI, WEIFANG, SHANDONG PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA (THE "PROPERTY")

In accordance with the instructions from JY GAS LIMITED (the "Company") for us to value the Property held by the Company and its subsidiaries (hereinafter referred to as the "Group") situated in The People's Republic of China (the "PRC"), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at [31 July 2022] (the "valuation date") for the purpose of incorporation into the document issued by the Company.

BASIS OF VALUATION

Our valuation of the Property is our opinion of its market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

We confirm that the valuations are undertaken in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited published by The Stock Exchange of Hong Kong Limited, and the HKIS Valuation Standards 2020 Edition issued by the Hong Kong Institute of Surveyors.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the owners sell the Property on the open markets without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the Property.

No allowance has been made in our valuation report for any charge, mortgage or amount owing on the Property nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value. We have also assumed that any land premium payable for any extension of lease term of the Property have been fully settled.

VALUATION METHODOLOGY

In valuing the Property which is held by the Company for investment purpose, we have adopted the direct comparison approach assuming sale with the benefit of vacant possession in its existing state by making reference to comparable sales evidences as available in the relevant market.

TITLE AND ASSUMPTIONS

We have been provided with copies of extracts of title documents relating to the Property. However, we have not caused title searches to be made for the Property at the relevant government bureaus in the PRC and have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation for the Property in the PRC, we have relied on the legal opinion provided by the Company's PRC Legal Advisers, Jingtian & Gongcheng regarding the title and other legal matters to the Property.

SOURCES OF INFORMATION

We have relied to a very considerable extent on information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, site area and all other relevant matters. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation report are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Company, which is material to our valuation. We were also advised by the Company that no material facts have been omitted from the information provided to us.

SITE INSPECTIONS

Site inspections of the Property were carried out by Ms. Huang Yan Jun (Bsc in Real Estate Management) in August 2021. We have inspected the Property but have not carried out detailed measurements to verify the correctness of the areas in respect of the Property but have assumed that the areas shown on the title documents handed to us are correct. In the course of our inspection, we did not notice any serious defects. However, we have not carried out structural survey nor any tests were made on the services. Therefore, we are not able to report whether the property is free of rot, infestation or any other structural defects. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

CURRENCY

Unless otherwise stated, all monetary amounts in our valuation are in Renminbi (RMB).

Our valuation report is attached.

Yours faithfully,

For and on behalf of
APAC Asset Valuation and Consulting Limited
Vincent Pang
MHKIS, MRICS, RPS (GP)
Director

Note: Mr. Vincent Pang is a Registered Professional Surveyor in General Practice Division with over 25 years valuation experience on properties in Hong Kong and the PRC.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at [31 July 2022]
Various Buildings located at No. 2268 West Shi'an Road, Mishui Jiedao, Gaomi, Weifang, Shandong Province, The PRC	The Property comprises various buildings erected upon 3 parcels of land with a total site area of approximately 44,860.70 sq. m. The Property comprises 6 blocks single to 3-storey commercial buildings with a total gross floor area of approximately 18,379.70 sq. m. The Property was completed in 2000s. The land use rights of the Property have been granted for terms expiring on 4 April 2027, 6 April 2027 and 14 April 2027 respectively for industrial use.	The property was occupied as a retail/wholesale outlet as at the valuation date.	RMB77,300,000 Please refer to note (3)

1. Pursuant to three Real Estate Title Certificates — Lu (2017) Gao Mi Shi Bu Dong Chang Quan Di Nos. 0001008, 0001009 and 0001010, the land use rights of the three parcels of land of the Property with site areas of 17,223.60 sq.m., 17,391.50 sq. m. and 10,245.60 sq. m. respectively were granted to 高密市交運天然氣有限公司 ("Jiaoyun Gas") for land use rights terms expiring on 4 April 2027, 6 April 2027 and 14 April 2027 respectively for industrial use.

2. Pursuant to three Building Ownership Rights Certificates — Lu Wei Fang Quan Zheng Gao Mi Shi Zi Di No. 0002120, 0008680 and 0008681, the building ownership of the buildings of the Property with a total gross floor area of 18,379.70 sq. m. is held by Jiaoyun Gas for commercial use.

3. The market value of the Property is assessed by Market Approach based on the comparable sales evidences as available in the relevant market and we also adopted Income Capitalization Method to counter-check the result of our valuation.

   As per the Real Estate Title Certificates stated in note 1, the land use rights of the Property will be expired in April 2027. According to a certificate issued by the Gaomi Natural Resources and Planning Bureau, the land use rights term of the Property can be extended for commercial use for another 40 years, subject to an additional land premium of 20% of the difference between the standard land values of industrial land and commercial land in April 2027.

   The valuation is based on the assumption that the land use rights term will be renewed for a further term of 40 years commencing from the existing land use rights term expiry dates for commercial use.

   According to the information provided by Jiaoyun Gas and the aforesaid certificate, the estimated additional land premium is based on 20% of the difference between the standard land values of industrial land and commercial land in April 2027, adjusted for the plot ratio and conditions of the land (location and shape of land etc.), and discounted to the valuation date. The amount of the estimated land premium at the valuation date is listed below.

Date of valuation	Estimated Land Premium	Market value after deducting land premium
	(RMB)	*(RMB)*
[31 July 2022]	7,200,000	70,100,000

4. We have been provided with a legal opinion on the Property issued by the Company's PRC Legal Advisers, which contains, inter alia, the followings:

   i. [Jiaoyun Gas is the legal owner of the Property and has legally obtained the land use rights of the Property and is entitled to legally use, occupy, lease, transfer, mortgage or disposed of by other means the land according to the legal uses of the land within the granted land use term;

   ii. Jiaoyun Gas has obtained the building ownership of the buildings of the Property and is entitled to legally use, occupy, lease, transfer, mortgage or disposed of by other means the buildings of the Property; and

   iii. the Property is subject to a mortgage in favour of Shandong Gaomi Village Commercial Bank Company Limited.]

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 March 2021 under the Companies Act (As Revised) of the Cayman Islands (the "Companies Act"). The Company's constitutional documents consist of its [Amended and Restated] Memorandum of Association (the "Memorandum") and its [Amended and Restated] Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were [conditionally] adopted on [●] [with effect from the [REDACTED]]. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

The period of thirty (30) days may be extended for a further period or periods not exceeding thirty (30) days in respect of any year if approved by members by ordinary resolution.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

A Director (including a managing or other executive Director) may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) the giving of any security or indemnity either:-

(aaa) to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or (bbb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(bb) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(cc) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:-

(aaa) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or

(bbb) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to the Directors, his close associate(s) and employee(s) of the Company or any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. Votes (whether on a show of hands or by way of poll) may be cast by such means, electronic or otherwise, as the Directors or the chairman of the meeting may determine.

Any corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any general meeting of the Company or at any meeting of any class of members.

The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member and such corporation shall for the purposes of the Articles be deemed to be present in person at any such meeting if a person so authorised is present thereat.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, the right to speak and to vote, and where a show of hands is allowed, the right to vote individually on a show of hands.

All members have the right to speak and vote at a general meeting except where a member is required, by the rules of the Stock Exchange, to abstain from voting to approve the matter under consideration.

Where the Company has any knowledge that any member is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every financial year and such general meeting must be held within six (6) months after the end of the Company's financial year unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings, on a one vote per share basis. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business or resolution specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

Notwithstanding any provisions in the Articles, any general meeting or any class meeting may be held by means of such telephone, electronic or other communication facilities as to permit all persons participating in the meeting to communicate with each other, and participation in such a meeting shall constitute presence at such meeting.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days. All other general meetings must be called by notice of at least fourteen (14) clear days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy or, for quorum purposes only, two persons appointed by the clearing house as authorised representative or proxy, and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall by ordinary resolution appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by ordinary resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed and approved by the Company by an ordinary resolution passed at a general meeting or in such manner as the members may by ordinary resolution determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members maintained in Hong Kong shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

Unless otherwise provided by the Companies Act, a resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of thirty years from 26 August 2021.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are [REDACTED] on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands ("ES Act") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available on display on the websites as referred to in the paragraph headed "Documents on Display" in Appendix VI to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 9 March 2021. Our Company has established its principal place of business in Hong Kong at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 28 September 2021. Mr. Luan Xiaolong and Ms. Ho Wing Nga (何詠雅女士) have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices in Hong Kong pursuant to the Rule 3.05 of the Listing Rules. The address for service of process on our Company in Hong Kong is the same as our registered place of business in Hong Kong as set out above.

As our Company was incorporated in the Cayman Islands, our operations are subject to the Cayman Companies Act and to our constitution, which comprises the Memorandum and the Articles. A summary of certain provisions of the Memorandum and Articles and relevant aspects of the Cayman Companies Act is set out in "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this document.

2. Changes in the share capital of our Company

On 9 March 2021, our Company was incorporated in the Cayman Islands with an initial authorised share capital of US$50,000 divided into 500,000,000 Shares of par value of US$0.0001 each. At the time of incorporation, one Share was allotted and issued for cash at par to ICS Corporate Services (Cayman) Limited (an Independent Third Party) as the initial subscriber, and was subsequently transferred to LLJ Phoenix at par value. On the same date, 99 Shares, 100 Shares and 100 Shares, respectively, were allotted and issued for cash at par to LLJ Phoenix, LXL Phoenix and SEGM Holding. Our Company was then owned as to 33.33%, 33.33% and 33.33% by LLJ Phoenix (wholly-owned by Mr. Luan Linjiang), LXL Phoenix (wholly-owned by Mr. Luan Xiaolong) and SEGM Holding (wholly-owned by SDJY Holding, which is in turn wholly-owned by Mr. Luan Xiaolong), respectively.

On 24 June 2021, as part of the Reorganisation, our Company issued and allotted 230 and 460 fully-paid Shares to LLJ Phoenix and LXL Phoenix, respectively. On 20 July 2021, as part of the Reorganisation and [REDACTED] Investment, QMIG transferred 100 shares of QMRIG, representing the entire issued share capital of QMRIG, to our Company in consideration of the issue and allotment of 10 Shares to QMIG. Upon completion of such allotment and share swap, our Company became owned as to 56% by LXL Phoenix, 33% by LLJ Phoenix, 10% by SEGM Holding and 1% by QMIG, respectively. For details, please refer to "History, Reorganisation and Corporate Structure — Reorganisation" in this document.

On [●], the authorised share capital of our Company was increased from US$50,000 divided into 500,000,000 Shares to US$[200,000] divided into [2,000,000,000] Shares.

Following the aforesaid increase of the authorised share capital of our Company and conditional on the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise US$[REDACTED] standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par [REDACTED] Shares for allotment and issue on the [REDACTED], credited as fully-paid, at par to the then existing Shareholder(s) in proportion (as near as possible without involving fractions, so that no fraction of a share shall be allotted and issued) to their then shareholdings in our Company. The Shares to be allotted and issued pursuant to the Capitalisation Issue shall carry the same rights in all respects with the then existing issued Shares.

Immediately following completion of the [REDACTED] and Capitalisation Issue (assuming that the [REDACTED] is not exercised), the issued share capital of our Company will be US$[REDACTED] divided into [REDACTED] Shares, all fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

Save as disclosed above, there has been no alteration in the share capital of our Company within two years immediately preceding the date of this document.

3. Changes in the share capital of our subsidiaries

As at the Latest Practicable Date, our Group comprised our Company, two operating subsidiaries, namely Jiaoyun Gas and Jiaoyun Shihua, and five investment holding subsidiaries, namely QMHC, QMRIG, JY Gas BVI, JY Gas HK and JY Gas WFOE.

Save as disclosed below, there have been no changes in the share capital or registered capital of our subsidiaries during the two years preceding the date of this document:

QMHC

QMHC was incorporated in the BVI on 6 May 2021. Upon incorporation, one share and 99 shares, representing the entire issued share capital of QMRIG, were allotted and issued for cash at par to SSC Corporate Services Limited (an Independent Third Party) and QMRIG, respectively. On 13 May 2021, one share held by SSC Corporate Services Limited was transferred to QMRIG at par value.

QMRIG

QMRIG was incorporated in the BVI on 30 March 2021. Upon incorporation, 100 shares, representing the entire issued share capital of QMRIG, were allotted to QMIG. On 20 July 2021, as part of the Reorganisation, QMIG transferred 100 shares of QMRIG to our Company which was settled by ways of the issue and allotment of 10 Shares to QMIG. Please refer to "History, Reorganisation and Corporate Structure — Reorganisation" in this document for further details.

Jiaoyun Gas

As part of the Reorganisation, on 23 June 2021, each of Jiaoyun Group, Jiaoyun Property and Mr. Luan Linjiang entered into an equity transfer agreement with JY Gas WFOE pursuant to which they transferred their respective equity interests of approximately 65.99%, 26.40% and 6.6% in

Jiaoyun Gas to JS Gas WFOE at a total consideration of RMB60.657 million. Upon completion of such transfer, Jiaoyun Gas was owned as to approximately 98.99% by JY Gas WFOE and 1.01% by QMHC. Please refer to "History, Reorganisation and Corporate Structure — Reorganisation" in this document for further details.

JV Gas BVI

On 23 March 2021, JY Gas BVI was incorporated in the BVI with an authorised share capital of 50,000 shares with a par value of US$1 each. On the same day, one share was allotted and issued to our Company for a consideration of US$1, and JY Gas BVI became a directly wholly-owned subsidiary of our Company.

JY Gas HK

On 22 April 2021, JY Gas HK was incorporated in Hong Kong with a total amount of issued share capital HK$1. On the same day, one share was allotted and issued to JY Gas BVI for a consideration of HK$1, and JY Gas HK became an indirect wholly-owned subsidiary of our Company.

JY Gas WFOE

JY Gas WFOE was established in the PRC on 28 May 2021 with an initial registered capital of RMB30 million. Upon establishment, JY Gas WFOE was wholly-owned by JY Gas HK.

4. Written resolutions of our Shareholders passed on [●] 2022

Our Shareholders passed written resolutions on [●] 2022 to resolve that, amongst other things:

(a) the Memorandum was approved and conditionally adopted in substitution for and to the exclusion of the then existing memorandum of association of our Company and the Articles were approved and conditionally adopted in substitution for and to the exclusion of the then existing articles of association of our Company, in each case with effect from the [REDACTED];

(b) the authorised share capital of our Company was increased by US$50,000 to US$[200,000] by the creation of an additional [1,500,000,000] Shares with par value of US$0.0001 each;

(c) conditional upon the share premium account of our Company being credited as a result of the issue of [REDACTED] pursuant to the [REDACTED], our Directors were authorised to allot and issue a total of [REDACTED] Shares (or any other number of Shares as any one Director may determine), credited as fully-paid at par, to our Shareholders whose names appear on the register of members of our Company at close of business on [●] (or such other date as our Directors may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted) to their then respective shareholdings by way of capitalisation of the sum of HK$[REDACTED] (or any other amount as any one Director may determine) standing to the credit of the share premium account of our Company, and such Shares to be allotted and issued pursuant to the Capitalisation Issue shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

(d) conditional on (i) the Listing Committee of the Stock Exchange granting [REDACTED] of, and [REDACTED], the Shares in issue and to be issued as mentioned in this document; (ii) the [REDACTED] having been determined; (iii) the execution and delivery of the [REDACTED] on or around the respective dates as mentioned in this document; (iv) the obligations of the [REDACTED] under the [REDACTED] becoming and remaining unconditional and not being terminated in accordance with the terms of the [REDACTED] or otherwise, in each case on or before the day falling 30 days after the date of this document:

(1) the [REDACTED] and the [REDACTED] were approved and our Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] and such number of Shares as may be allotted and issued upon the exercise of the [REDACTED];

(2) the [REDACTED] was approved;

(3) a general unconditional mandate (the "**Issuing Mandate**") was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or other arrangements regulated by Chapter 17 of the Listing Rules or any specific authority granted by the Shareholders in general meetings, Shares with an aggregate number not exceeding the sum of 20% of the aggregate number of Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue (but excluding any shares that may be issued upon exercise of the [REDACTED]), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever is the earliest;

(4) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to purchase Shares with total number not exceeding 10% of the total number of Shares in issue and to be issued immediately following the completion of the [REDACTED] and the Capitalisation Issue (but excluding any shares that may be issued upon exercise of the [REDACTED]), until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever is the earliest; and

(5) the extension of the general mandate to allot, issue and deal with the Shares as mentioned in sub-paragraph (3) above by the addition to the aggregate number of Shares of our Company which may be allotted and issued or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares of our Company repurchased by our Company pursuant to sub-paragraph (3) above.

5. Reorganisation

In preparation for the [REDACTED] of our Shares on the Stock Exchange, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. For further details with regard to the Reorganisation, please refer to "History, Reorganisation and Corporate Structure" in this document.

6. Repurchases by our Company of its own securities

This section sets out information required by the Stock Exchange to be included in this document concerning the repurchase by our Company of our own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association of our Company and the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, under the Companies Act any repurchases by our Company may be made out of our Company's profits, out of our Company's share premium account, out of the proceeds of a new issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Act, out of capital. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits or from sums standing to the credit of our Company's share premium account or, if authorised by the Articles, and subject to the Companies Act, out of capital.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue and to be issued immediately following the completion of the [REDACTED] and the Capitalisation Issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase, whether on the Stock Exchange or otherwise (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring our Company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities which would result in the number of the listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may request.

(iv) Status of repurchased shares

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of repurchase

A listed company shall not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(vii) Core connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial Shareholder of our Company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his/her/its securities to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases and impact on working capital or gearing position

In repurchasing securities, our Company may only apply funds lawfully available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

There could be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this document) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period.

However, our Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue, could accordingly result in up to approximately [REDACTED] Shares being repurchased by our Company during the period prior to the earliest occurrence of any of the following:

(i) the conclusion of our next annual general meeting; or

(ii) the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands and the Articles.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code.

Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate. Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No connected person of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

(a) an equity transfer agreement dated 11 September 2020 entered into between Jiaoyun Gas and Jiaoyun Group pursuant to which Jiaoyun Gas transferred its 80% equity interest (equivalent to the then paid up registered capital of RMB 40 million contributed by Jiaoyun Gas) in Jiaoyun Thermal to Jiaoyun Group for a consideration of RMB40.3 million;

(b) an equity transfer agreement dated 20 October 2020 entered into between Jiaoyun Gas and Jiaoyun Property pursuant to which Jiaoyun Gas transferred its 51% equity interest (equivalent to the then paid up registered capital of RMB 20.4 million contributed by Jiaoyun Gas) in Gaoyun Investment to Jiaoyun Property for a consideration of RMB25.5 million;

(c) an investment agreement dated 7 June 2021 entered into by Jiaoyun Gas, Jiaoyun Group, Jiaoyun Property, QMHC and Mr. Luan Linjiang, pursuant to which QMHC agreed to make a contribution of RMB610,000 to the registered capital of Jiaoyun Gas;

(d) an equity transfer agreement dated 23 June 2021 entered into between Jiaoyun Group and JY GAS WFOE pursuant to which Jiaoyun Group transferred its 66% equity interest (equivalent to the then paid up registered capital of RMB40 million contributed by Jiaoyun Group) in Jiaoyun Gas to JY GAS WFOE for a consideration of RMB40.38 million;

(e) an equity transfer agreement dated 23 June 2021 entered into between Jiaoyun Property and JY GAS WFOE pursuant to which Jiaoyun Property transferred its 26.4% equity interest (equivalent to the then paid up registered capital of RMB16 million contributed by Jiaoyun Property) in Jiaoyun Gas to JY GAS WFOE for a consideration of RMB16.752 million;

(f) an equity transfer agreement dated 23 June 2021 entered into between Mr. Luan Linjiang and JY GAS WFOE pursuant to which Mr. Luan Linjiang transferred his 6.6% equity interest (equivalent to the then paid up registered capital of RMB4 million contributed by Mr. Luan Linjiang) in Jiaoyun Gas to JY GAS WFOE for a consideration of RMB4.438 million;

(g) the Deed of Indemnity; and

(h) the [REDACTED].

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group is the owner of the following trademarks which are material to the business of our Group:

No.	Trademark	Place of Registration	Class	Registration Number	Registered Owner	Effective Date	Expiry Date
1.		PRC	35	5797 6055	Jiaoyun Gas	28 January 2022	27 January 2032
2.		PRC	40	5798 3272	Jiaoyun Gas	28 January 2022	27 January 2032

(b) Copyright

As at the Latest Practicable Date, our Group is the owner of the following copyright which is material to the business of our Group:

No.	Name of Copyright	Place of Registration	Registered Owner	Registration Number	Date of Registration
1.	Jiaoyun graphics (交運圖形)	PRC	Jiaoyun Gas	國作登字-2021-F-00212195	13 September 2021

(c) Domain Name

As at the Latest Practicable Date, our Group is the owner of the following domain name which is material to the business of our Group:

No.	Domain Name	Registered Owner	Registration Date	Expiry Date
1.	www.gmjytrq.com	Jiaoyun Gas	30 July 2021	30 July 2031

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Interests and short position of our Directors and the chief executive in the Shares, underlying Shares or debentures of our Company and our associated corporations

Immediately following the completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]), the interests and/or short positions (as applicable) of our Directors and the chief executive of our Company in the Shares or underlying Shares or debentures of our Company and any interests and/or short positions (as applicable) in the shares or underlying shares or debentures of any of our Company's associated corporations (within the meaning of Part XV of the SFO) (i) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO), (ii) which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, in each case once our Shares are [REDACTED], will be as follows:

Our Company

Name of Director	Nature of Interest/ Capacity	Number of Shares held[(1)]	Approximate percentage of shareholding
Mr. Luan Xiaolong	Interest in a controlled corporation[(2)]	[REDACTED] (L)	[REDACTED]%
Mr. Luan Linjiang	Interest in a controlled corporation[(3)]	[REDACTED] (L)	[REDACTED]%

Notes:

1. The letter "L" denotes the person's long position in the shares.
2. Our Company will be held as to approximately [REDACTED]% and [REDACTED]% by LXL Phoenix and SEGM Holding, respectively, immediately following the completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]). LXL Phoenix is wholly-owned by Mr. Luan Linjiang. SEGM Holding is wholly-owned by SDJY Holding which is in turn wholly-owned by Mr. Luan Xiaolong. Mr Luan Xiaolong is deemed, or taken to be interested, in all the Shares held by LXL Phoenix and SEGM Holding (through SDJY Holding) for the purpose of the SFO.
3. Our Company will be held as to approximately [REDACTED]% by LLJ Phoenix immediately following the completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]). LLJ Phoenix is wholly-owned by Mr. Luan Linjiang. Mr Luan Linjiang is deemed, or taken to be interested, in all the Shares held by LLJ Phoenix for the purpose of the SFO.

2. Substantial shareholders

Save as disclosed in "Substantial Shareholders — (a) Interest in our Company" and "Substantial Shareholders — (b) Interest in our subsidiaries" in this document, so far as our Directors are aware, immediately following the completion of the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]), no person will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

3. Disclaimers

(a) save as disclosed in "— C. Further Information About Our Directors and Substantial Shareholders — 1. Interests and short position of our Directors and the chief executive in the Shares, underlying Shares or debentures of our Company and our associated corporations" in this Appendix, none of our Directors or chief executive of our Company has any interests and short positions in the Shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;

(b) so far as is known to any of our Directors or chief executive of our Company, no person has an interest or short position in the Shares and underlying shares of our Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 10% or more of the number of shares carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(c) none of our Directors nor any of the persons listed in "— D. Other Information — 7. Qualifications and consents of experts" in this Appendix V is interested, directly or indirectly, in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(d) none of our Directors or the persons listed in "— D. Other Information — 7. Qualifications and consents of experts" in this Appendix is materially interested in any contract or arrangement with our Group subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to the business of our Group;

(e) none of the persons listed in "— D. Other Information — 7. Qualifications and consents of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(f) save as disclosed in "— C. Further Information About Our Directors and Substantial Shareholders — 4. Particulars of Directors' service contracts and appointment letters" in this Appendix , none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and

(g) so far as is known to our Directors, none of our Directors or their associates or any shareholder of our Company (which to the knowledge of our Directors owns 5% or more of the issued share capital of our Company) has any interest in any of the five largest customers of our Group.

4. Particulars of Directors' service contracts and appointment letters

Our executive Directors' service contracts have a term of three years commencing from the [REDACTED] (subject to termination in certain circumstances as stipulated in the relevant service agreement). In certain other circumstances, the service contract can also be terminated by us, including but not limited to certain breaches of our Directors' obligations under the contract or certain misconducts. The appointments of our executive Directors are also subject to the provisions of retirement and rotation of Directors under the Memorandum. The salary of each executive Director after each financial year is subject to adjustment as determined by our Company's remuneration committee and approved by a majority of the members of our Board (excluding our Director whose salary is under review).

The annual remuneration payable to our executive Directors by our Group (excluding any discretionary bonus) is as follows:

Executive Directors	Remuneration (per annum)
Mr. Luan Linjiang	RMB66,000
Mr. Luan Xiaolong	RMB55,000
Mr. Luan Linxin	RMB52,000

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a period of three years commencing from the [REDACTED] (subject to termination in certain circumstances as stipulated in the relevant service agreement).The appointments of the independent non-executive Directors are also subject to the provisions of retirement and rotation of Directors under the Memorandum.

The annual remuneration payable to each of our independent non-executive Directors under the relevant letters of appointment is as follows:

Independent non-executive Directors	**Remuneration (per annum)**
Mr. Wei Yi	RMB50,000
Mr. Tian Qiang	RMB50,000
Ms. Liu Xiaoye	RMB50,000

Save for the above director's fee, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed above, none of our Directors has or is proposed to have a service contract with any member of our Group, other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

5. Directors' remuneration

(i) For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, the aggregate amount of emoluments, salaries, allowances, discretionary bonus, defined contribution retirement plans and other benefits in kind (if applicable) paid by our Group to our Directors (in their role as senior management and employee before their appointment as Directors) were approximately RMB144,000, RMB137,000, RMB160,000 and RMB56,000, respectively.

(ii) For the years ended 31 December 2019 and 2020 and 2021 and the four months ended 30 April 2022, no emoluments had been paid and no benefits in kind had been granted by our Group to our Directors at the time.

(iii) Under the arrangements currently in force, the aggregate emoluments (excluding any discretionary bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2022 are expected to be approximately RMB286,000.

(iv) For the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022, none of our Directors at the time or any past directors of any member of our Group has been paid any sum of money (i) as an inducement to join or upon joining our Group; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(v) There has been no arrangement under which a Director at the time has waived or agreed to waive any emoluments for the years ended 31 December 2019, 2020 and 2021 and the four months ended 30 April 2022.

D. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders [have entered] into the Deed of Indemnity with and in favour of our Company (for itself and on behalf of its subsidiaries) (being the contract referred to in paragraph (g) in "— B. Further Information About Our Business — 1. Summary of material contracts" in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim or estate duty to which any member of our Group may be subject and payable on or before the [REDACTED] and any expenses, costs, fines, penalties or other liabilities which any member of our Group may suffer.

2. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. No material adverse change

Save as disclosed in "Summary — Recent Developments and No Material Adverse Change" in this document, our Directors confirm that, up to the date of this document, there has been no material adverse change in our Group's financial or trading position since 30 April 2022 (being the date on which the latest audited consolidated financial information of our Group was prepared), and there had been no event since 30 April 2022 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this document.

4. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor will receive an aggregate fee of HK$5,000,000 for acting as the sponsor for the [REDACTED].

The Sole Sponsor has made an application on our Company's behalf to the Listing Committee for the [REDACTED] of, and [REDACTED], all the Shares in issue and to be issued as mentioned in this document (including any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED]). All necessary arrangements have been made for the Shares to be admitted into [REDACTED].

5. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately RMB19,950 and are payable by our Company.

6. Promoter

Our Company has no promoter. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

7. Qualifications and consents of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualifications
China Industrial Securities International Capital Limited	A licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountant Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Jingtian & Gongcheng	Legal advisers as to PRC law
Conyers Dill & Pearman	Cayman Islands legal advisers
APAC Asset Valuation and Consulting Limited	Property valuer
China Insights Industry Consultancy Limited	Industry consultant
SHINEWING Risk Services Limited	Internal control adviser

Each of the experts named above has given and has not withdrawn its written consent to the issue of this document with copies of its reports, letters, opinions, summaries of opinions (as the case may be), all of which are dated the date of this document and made for incorporation in this document, and/or references to its names included herein in the form and context in which they respectively appear.

8. Binding effect

This document shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Bilingual document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and Chinese language version of this document, the English language version shall prevail.

10. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.13% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of Shares.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the [REDACTED] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

11. Miscellaneous

(a) Within the two years immediately preceding the date of this document:

(i) save as disclosed in "History, Reorganisation and Corporate Structure" in this document, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and

(iv) no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of our subsidiaries;

(b) no founder, management or deferred Shares nor any debenture in our Company or any of our subsidiaries have been issued or agreed to be issued;

(c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;

(d) the principal register of members of our Company will be maintained in the Cayman Islands by [REDACTED] and a branch register of members of our Company will be maintained in Hong Kong by [REDACTED]. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to [REDACTED];

(e) no company within our Group is presently listed on any stock exchange or traded on any trading system;

(f) our Directors have been advised that under the Companies Act the use of a Chinese name by our Company does not contravene the Companies Act;

(g) our Company has no outstanding convertible debt securities or debentures;

(h) there is no arrangement under which future dividend declared by our Company have been waived or agreed to be waived;

(i) none of the persons whose names are listed in "— D. Other Information — 7. Qualifications and consents of experts" in this Appendix:

(i) is interested beneficially or non-beneficially in any shares in any member of our Group; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group; and

(j) there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of the [REDACTED];

(b) the written consents referred to in "Statutory and General Information — D. Other Information — 7. Qualifications and consents of experts" in Appendix V to this document; and

(c) a copy of each of the material contracts referred to in "Statutory and General Information — B. Further Information About Our Business — 1. Summary of material contracts" in Appendix V to this document.

DOCUMENTS ON DISPLAY

The following documents will be published on the websites of the Stock Exchange at www.hkexnews.hk and our website at www.gmjytrq.com up to and including the date which is 14 days from the date of this document:

(a) the Memorandum and the Articles;

(b) the Accountant's Report on our Group for the Track Record Period from PricewaterhouseCoopers, the text of which is set out in Appendix I to this document;

(c) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this document;

(d) the audited consolidated financial statements of our Group for the Track Record Period;

(e) the letter of advice issued by Conyers Dill & Pearman, our legal advisers as to Cayman Islands law, summarising the constitution of our Company and certain aspects of Cayman Islands company law as referred to in Appendix IV to this document;

(f) the legal opinion issued by Jingtian & Gongcheng, our PRC Legal Advisers, in respect of general matters and property interests of our Group and summarising certain laws and regulations in the PRC applicable to us as referred to in "Regulatory Overview" in this document;

(g) the Property Valuation Report prepared by APAC Asset Valuation and Consulting Limited, our Property Valuer, the text of which is set out in Appendix III to this document;

(h) the fair rent letter issued by APAC Asset Valuation and Consulting Limited, our Property Valuer, in respect of certain properties leased to our connected persons as referred to in "Connected Transactions" in this document;

(i) the industry report commissioned by our Company and prepared by China Insights Industry Consultancy Limited, our industry consultant, for the purpose of this document as referred to in "Industry Overview" in this document;

(j) the internal control report prepared by SHINEWING Risk Services Limited, our internal control adviser, in relation to Non-compliant Bill Financing Arrangements and the Deviation from Intended Use of Loan Proceeds;

(k) the Cayman Islands Companies Act;

(l) the written consents referred to in "Statutory and General Information — D. Other Information — 7. Qualifications and consents of experts" in Appendix V to this document;

(m) the material contracts referred to in "Statutory and General Information — B. Further Information About Our Business — 1. Summary of material contracts" in Appendix V to this document; and

(n) the service agreements and letters of appointment referred to in "Statutory and General Information — C. Further Information About Our Directors and Substantial Shareholders — 4. Particulars of Directors' service contracts and appointment letters" in Appendix V to this document.