
SUMMARY

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

BUSINESS OVERVIEW

We are a cross-provincial heat service provider mainly operating in the “Three North Region”. According to the Frost & Sullivan Report, we were ranked amongst the top 50 companies in terms of aggregate heat service area in the “Three North Region” in 2022 with a market share of approximately 0.5% in terms of aggregate actual heat service area and were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022 with a market share of approximately 2.4% in terms of aggregate actual heat service area. We are principally engaged in the provision of heat services to residential and non-residential heat service customers under concession rights. As at the Latest Practicable Date, our total actual heat service area (measured in terms of GFA) was approximately 41.9 million sq.m., representing approximately 10.0% of our total Concession Area of approximately 419.9 million sq.m. under our Concession Agreements. In addition to our provision of heat services, which is considered as a public utility business, we also provide heat-related (i) engineering construction services; and (ii) EMC services. We have had over a decade of operational experience since we started our operation in 2010.

BUSINESS MODEL

As at the Latest Practicable Date, we held five concessions in operation and one concession under construction, amongst which three were operating in Shanxi Province, one was operating in Gansu Province, one was operating in Inner Mongolia Autonomous Region and one was a project under construction in Henan Province. Under our concession rights, we operate our heat services business in our Concession Boundary Area. Being a concession grantee, we make long-term investments for the purpose of our heat service operation given that we have the exclusive right to operate and benefit from such investments for a fixed term. For details in relation to our six Concession Agreements, see “Business – Heat services – Our Concession Agreements” in this document.

SUMMARY

During the Track Record Period, the majority of the revenue from our provision of heat services and engineering construction services was derived from our projects under the Concession Agreements, all of which are structured in the form of a BOT model. For the years ended 31 December 2020, 2021 and 2022, revenue derived from our provision of heat services amounted to approximately RMB973.3 million, RMB1,035.2 million and RMB1,098.9 million, representing approximately 70.7%, 80.2% and 76.1% of our total revenue, respectively.

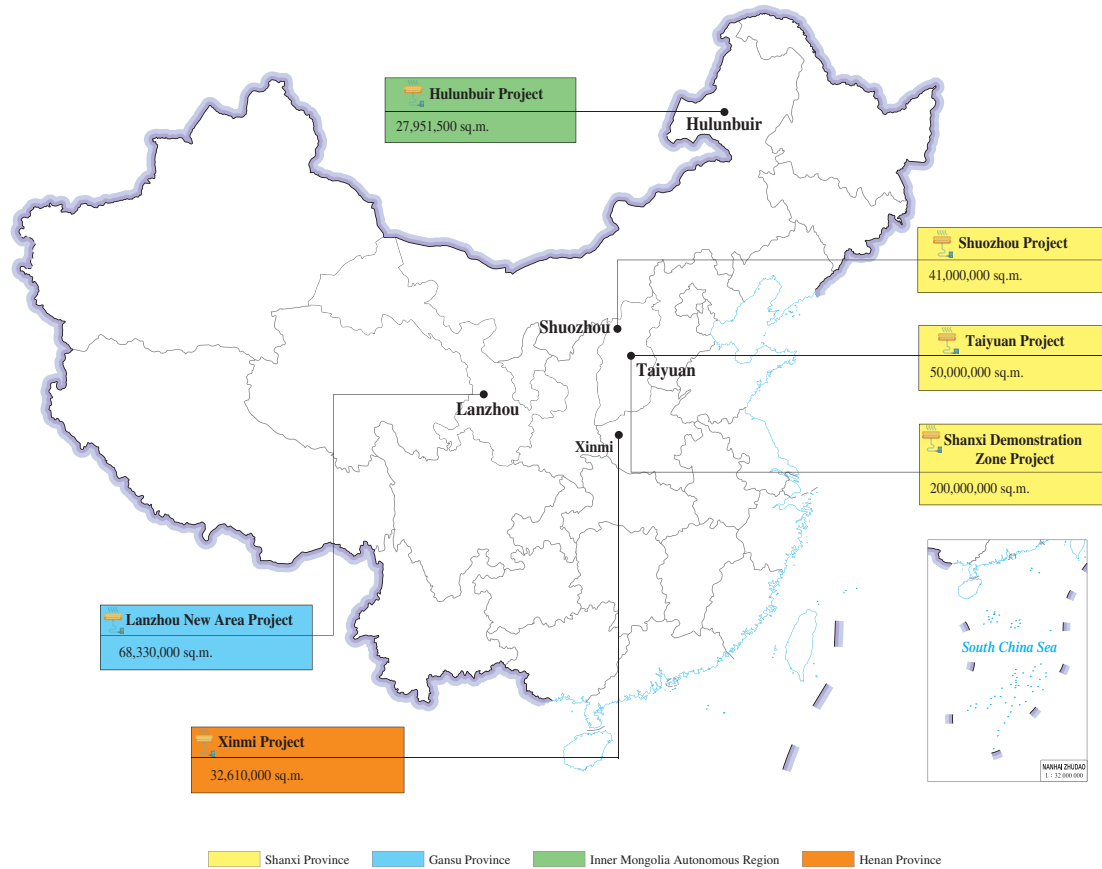
Heat services

The “Three North Region” experiences very cold weather during the winter especially the areas north of the Qinling Mountain-Huaihe River (秦嶺-淮河以北地區). Our provision of heat services is therefore affected by seasonality. According to the Frost & Sullivan Report, the total heat service area (measured in terms of GFA) in the PRC increased from 8.8 billion sq.m. in 2018 to 11.2 billion sq.m. in 2022. This growth is mainly driven by an increase in demand for heat services resulting from urbanisation and an increase in the PRC’s population, as well as an increase in demand for heat services in the areas south of Qinling Mountain-Huaihe River (秦嶺-淮河以南地區).

As at the Latest Practicable Date, we had an aggregate Concession Area of approximately 419.9 million sq.m., of which 291.0 million sq.m. was in Shanxi Province, 68.3 million sq.m. was in Gansu Province, 28.0 million sq.m. was in Inner Mongolia Autonomous Region and 32.6 million sq.m. was in Henan Province. As at the same date, within our Concession Areas, we had an aggregate actual heat service area of approximately 41.9 million sq.m., of which 25.2 million sq.m. was in Shanxi Province, 8.5 million sq.m. was in Gansu Province and 8.2 million sq.m. was in Inner Mongolia Autonomous Region. During the Track Record Period, we maintained a broad customer base in relation to our heat services under our concessions. As at 31 December 2020, 2021 and 2022, we had approximately 265,800, 282,400 and 303,900 heat service customers respectively. Pricing of our heat services is subject to regulatory control. For details on the pricing of our heat services, see “Regulatory overview – Pricing” and “Business – Heat distribution – Pricing” in this document.

SUMMARY

The map below illustrates the location of the cities in which we had heat service projects under concessions and our respective Concession Area in such cities as at the Latest Practicable Date.



During the Track Record Period and up to the Latest Practicable Date, we relied on four types of heat sources for all of our heat service projects under concession rights comprising (i) heat procured from cogeneration plants; (ii) heat produced by our coal-fired boilers; (iii) residual heat collected at cogeneration plants; and (iv) geothermal heat. For details of our heat source portfolio, see “Business – Heat sources” in this document. For the years ended 31 December 2020, 2021 and 2022, the amount of heat procured by us from cogeneration plants amounted to approximately 18.6 million GJ, 18.2 million GJ and 19.2 million GJ, accounting for approximately 76.3%, 78.3% and 79.2% of the total amount of heat sourced by our Group, respectively. The amount of heat sourced by us from our coal-fired boilers amounted to approximately 2.3 million GJ, 2.1 million GJ and 2.1 million GJ, accounting for approximately 9.4%, 8.8% and 8.7% of the total amount of heat sourced by our Group for the years ended 31 December 2020, 2021 and 2022, respectively. The amount of residual heat collected by us at cogeneration plants amounted to approximately 3.4 million GJ, 2.8 million GJ, and 2.8 million GJ, accounting for approximately 13.8%, 12.0% and 11.3% of the total amount of heat sourced by our Group for the same years, respectively; and the amount of geothermal heat extracted by us from underground water amounted to approximately 0.1 million GJ, 0.2 million GJ and 0.2 million GJ, accounting for approximately 0.5%, 0.9% and 0.8% of the total amount of heat sourced by our Group for the same years, respectively.

SUMMARY

Engineering construction services

Pursuant to our Concession Agreements, we are required to provide engineering construction services for construction of the heat service facilities required for our provision of heat services. Pursuant to the relevant Concession Agreements, we were contracted and were granted the exclusive rights by the grantors of our heat service concessions to invest in, build or arrange for the development of the heat service-related assets. Upon the expiration of our Concession Agreements, all heat service-related assets invested (and, in some cases, under construction at the time) by us and the right to use in relation to heat service-related assets which were not invested by us shall be transferred to the relevant concession grantor (or, in some cases, parties by the designated grantor). For details of the ownership and transfer of our operational assets, see “Business – Heat services – Our Concession Agreements” in this document.

EMC services

During the Track Record Period, we provided energy-conservation services to an energy consuming enterprise to achieve certain energy saving goals under an EMC. Under the EMC, we were responsible for installing certain equipment and machinery for the purpose of energy saving and operating and managing the residual heat collection facilities. In return, we were entitled to a share of profit accrued from energy conserved as a result of our energy-conservation services provided. For details of our EMC services, see “Business – Provision of EMC services” in this document.

MAJOR SUPPLIERS AND MAJOR CUSTOMERS

During the Track Record Period, our top five suppliers included suppliers of (i) heat; (ii) coal for our production of heat; and (iii) heat-service related equipment and machinery. Purchases from our largest supplier in the years ended 31 December 2020, 2021 and 2022 amounted to approximately RMB100.6 million, RMB88.8 million and RMB89.3 million, representing approximately 10.1%, 10.2% and 8.8% of our total purchases, respectively. Purchases from our top five suppliers in the years ended 31 December 2020, 2021 and 2022 in aggregate amounted to approximately RMB402.1 million, RMB337.2 million and RMB385.6 million, representing approximately 40.5%, 38.7% and 38.0% of our total purchases, respectively. Our Directors confirm that save for Shuangliang Eco-Energy mainly supplying us with materials and equipment for the construction of the infrastructure for our heat service, none of our Directors, their respective associates or any shareholder (who to the knowledge of our Directors owned 5% or more of our Shares) held any interest in any of our top five suppliers during the Track Record Period.

SUMMARY

During the Track Record Period, our top five customers principally included the customers of our engineering construction services and provision of heat services under our Concession Agreements. Revenue generated from our largest customer in the years ended 31 December 2020, 2021 and 2022 amounted to approximately RMB399.9 million, RMB201.1 million and RMB206.5 million, representing approximately 29.1%, 15.6% and 14.3% of our total revenue, respectively. Revenue generated from our top five customers in the years ended 31 December 2020, 2021 and 2022 in aggregate amounted to approximately RMB520.4 million, RMB406.1 million and RMB428.0 million, representing approximately 37.8%, 31.4% and 29.6% of our total revenue, respectively. Our Directors confirm that none of our Directors, their respective associates or any shareholder (who to the knowledge of our Directors owned 5% or more of our Shares) held any interest in any of our top five customers during the Track Record Period.

OUR COMPETITIVE STRENGTHS

We believe that we possess the following competitive strengths: (i) we operate under multiple concession rights and were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report; (ii) we are a cross-provincial heat service provider capable of managing multiple heat service projects in different provinces of the PRC; (iii) we are able to utilise diversified heat sources, providing clean and quality heat services; (iv) we possess in-house research and development capabilities, which allow us to improve the efficiency of our heat service operation with a view to maintaining and improving our market position; (v) we have a digitalised heat services management software tool and a customer service system which control our cross-provincial operation and enhance our operational efficiency; and (vi) we have an experienced and committed management team. For details, see “Business – Our competitive strengths” in this document.

OUR BUSINESS STRATEGIES

We intend to (i) bolster our business presence in the “Three North Region” and enlarge our customer base; (ii) expand our national footprint and increase our market share; and (iii) continue to retain and recruit talented professionals for our business and management teams. For details, see “Business – Our strategies” in this document.

OUR BUSINESS HISTORY AND DEVELOPMENT

The history of our business can be traced back to 2010 when our Company was founded by Shuangliang Eco-Energy (stock code: 600481.SH), a joint stock limited company and the shares of which have been listed on Shanghai Stock Exchange since 22 April 2003. The principal business of Shuangliang Eco-Energy is the manufacturing and sales of products of (i) energy-saving and water-saving systems; and (ii) new energy systems (新能源系統). On 25 October 2010, Shanxi Shuangliang Renewable Energy became an indirect non wholly-owned subsidiary of Shuangliang Eco-Energy and a major operating subsidiary of our Company, and mainly focuses on the business of provision and distribution of heat, particularly utilising heat

SUMMARY

from local cogeneration plant. Leveraging on the experiences and industry insight of our management team, we have gradually developed our expertise and know-how to operate our heat services business. In January 2012, Shanxi Shuangliang Renewable Energy obtained the first concession right to provide heat services in Shuo Cheng District, Shuo Zhou City through entering into the Shuo Zhou Concession Agreement. On 22 October 2015, for the purpose of streamlining the operation of Shuangliang Eco-Energy Group, Shuangliang Eco-Energy transferred the entire equity interest in our Company to Shuangliang Technology, one of the shareholders of Shuangliang Eco-Energy. The transfer led to a clear separation of operations and management between Shuangliang Eco-Energy Group and our Group. Upon completion of the said transfer, Shuangliang Eco-Energy Group remained as one of our suppliers to supply materials and equipment for the construction of the infrastructure for our heat services business. For details of our business history and development, see “History, development and corporate structure – Our business history and development” in this document. For details of the transactions between our Group and Shuangliang Eco-Energy Group, see “Connected transactions” in this document.

In August 2016, our Company became listed on the NEEQ. Subsequently, in March 2018, our Company decided to delist from the NEEQ taking into consideration, amongst others, our Company’s long term development strategy and the preparation for the [REDACTED]. For details of our Company’s listing on NEEQ, see “History, development and corporate structure – Corporate history of our Company” in this document.

OUR CONTROLLING SHAREHOLDERS

Shuangliang Eco-Energy was our sole Shareholder since the establishment of our Company on 3 September 2010 and prior to completion of the transfer of its then entire equity interest in our Company to one of its shareholders, namely Shuangliang Technology on 22 October 2015. For details, see “History, development and corporate structure” in this document. Immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shuangliang Technology and Jiangsu Lichuang will hold approximately [REDACTED] and [REDACTED] of the registered capital of our Company, respectively. As at the Latest Practicable Date, Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Mr. Miao Zhiqiang (繆志強先生), Ms. Miao Shuya (繆舒涯女士), Mr. Miao Heida (繆黑大先生), Mr. Jiang Rongfang (江榮方先生), Mr. Ma Peilin (馬培林先生) and Mr. Ma Fulin (馬福林先生) (together the “**Individual Shareholders**”) were the legal and beneficial owners of the entire issued share capital of both Shuangliang Technology and Jiangsu Lichuang. Since the Individual Shareholders have decided to restrict their ability to exercise direct control over our Company by holding their equity interests through Shuangliang Technology and Jiangsu Lichuang, all of Shuangliang Technology, Jiangsu Lichuang and the Individual Shareholders will be regarded as a group of our Controlling Shareholders under the Listing Rules. For details, see “Relationship with our Controlling Shareholders” in this document.

SUMMARY

CONTINUING CONNECTED TRANSACTIONS

We have entered into, and expect to continue after the [REDACTED], certain transactions which will constitute partially exempt continuing connected transactions under the Listing Rules upon the [REDACTED]. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of these partially exempt continuing connected transactions. For details, see “Connected transactions” and “Waivers from strict compliance with the Listing Rules” in this document.

COMPETITION

According to the Frost & Sullivan Report, the heat services industry in the PRC is fragmented with a large number of market players. Currently, most market players in the heat services industry in the PRC fall into three categories: specialised heat services providers, subsidiaries of power generation groups and property developers. The major players in the heat services industry in the PRC are specialised heat services providers and most of these players are State-owned enterprises. In 2022, the total actual heat services area in the PRC was 11,239.4 million sq.m. The majority of the top 10 players in the PRC were State-owned enterprises and all of these top 10 players were non-listed companies. The aggregate heat services area of the top 10 players accounted for more than 16.0% of the total actual heat services area in the PRC in 2022, with the tenth largest heat services provider having an actual heat services area of more than 100.0 million sq.m., which is larger than our Group’s actual heat service area of 41.9 million sq.m.. During the Track Record Period, our Group mainly operated in the “Three North Region” and derived revenue from our provision of heat services in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region. We were ranked No. 9 in terms of aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report. The top 10 players in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region took up approximately 46.0%, while our Group, as the No. 9 player in these areas, took up approximately 2.4% of the aggregate actual heat service area of these three areas in 2022. The majority of the top 10 players in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region were State-owned enterprises which mainly focused on providing heat services in their own provinces or cities.

While the heat services industry in the PRC has traditionally been dominated by State-owned enterprises, according to the Frost & Sullivan Report, favourable government policies have encouraged more non-State-owned enterprises to enter the heat services market in recent years. Since 2003, the State has introduced various guiding opinions for a reform of the heat services industry with a view to encouraging the marketisation of the public utilities industry. Such reform introduces a market competition mechanism into the heat services industry, promotes the commercialisation of heat services and establishes a new urban heating system that is economical, safe, clean and efficient. As a non-State-owned heat services provider, our business operations are generally more flexible and efficient as compared with our State-owned peers, primarily due to the fact that being a non-State-owned heat services provider enables us to promptly react to the needs of our customers and therefore provide higher quality heat services.

SUMMARY

During the Track Record Period, we were able to demonstrate a proven track record of operating in multiple regions, namely Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region, while the majority of the top 10 players in the PRC operated in only one province in the PRC. When compared to our peers, the cross-provincial nature of our business provides us with a competitive advantage for future business expansion to other regions by utilising our existing experience and know-how in the provision of heat services business. For example, we successfully obtained a concession right to provide heat services in Xinmi of Henan Province in December 2021. With over a decade of operational experience, we believe that we have developed strong capabilities in managing and operating our heat services business as to cater to the different demand and requirement of our customers located in different regions of the PRC. We believe that our cross-provincial market presence enables us to achieve cost efficiency in all key stages of our operations, as demonstrated by our ability to effectively manage our operations in multiple locations. We also believe that we are capable of successfully entering the heat services market in other regions of the PRC.

The provision of heat services, which is a public utility, is a regulated industry in the PRC. According to the Frost & Sullivan Report, operators must have adequate heating resources, experienced staff and heat service facilities of a substantial scale in order to obtain the relevant business qualifications and/or concession rights to operate in the heat services industry. According to Frost & Sullivan, among the top 10 players in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, only two players held concession rights for the exclusive provision of heat services. Our concession rights relating to Taiyuan and Shuozhou of Shanxi Province, Lanzhou of Gansu Province, Hulunbuir of Inner Mongolia Autonomous Region and Xinmi of Henan Province allowed us to compete against other market players in the heat services industry by providing heat services exclusively in our Concession Areas within the concession period (which normally has an initial term of 30 years). In line with the steady expansion of our customer base and actual heat service area as a result of urbanisation and municipal planning, our business had grown steadily over the Track Record Period as supported by our concession rights.

Our ability to offer a variety of heating solutions to our heat service customers as supported by a range of heat sources further sets us apart from our competitors in the heat service market which use one or two types of heat sources. During the Track Record Period and up to the Latest Practicable Date, we relied on four types of heat sources for all of our heat service projects under concession rights comprising (i) heat procured from cogeneration plants; (ii) heat produced by our coal-fired boilers; (iii) residual heat collected at cogeneration plants; and (iv) geothermal heat, for all of our heat service projects under concession rights. As accredited by the Lanzhou New Area Ecology and Environment Bureau* (蘭州新區生態環境局), our coal-fired boilers which we currently use in our Lanzhou New Area Project comply with the relevant pollutant emission standard. Further, we apply absorption heat pump technologies in the collection of residual heat for two of our projects, namely the Shuozhou Project and the Lanzhou New Area Project. Our residual heat collection and utilisation system, which mainly comprises lithium bromide absorption heat pumps (溴化鋰吸收式熱泵), is used to collect residual heat which is released by steam turbines during the power generation process at the cogeneration plants or the coal-fired power plants. In addition, we have built an origin station (首站) with a set of residual heat collection and utilisation system and collection devices and equipment (氣水換熱站) which comprises, among other things, our absorption heat pump technologies with steam and condensation water supply in the cogeneration plants. This approach demonstrates our ability to achieve energy efficiency and reduce regional emissions.

SUMMARY

Our technological know-how and investment into research and development further set us apart from our competitors. As at the Latest Practicable Date, we had 72 patents registered with CNIPA, of which five were inventions relating to heat service systems during the cogeneration process. We believe that such systems are considered to be leading technologies in the industry. For the details of our intellectual property rights, see "Business – Intellectual property" and "Statutory and general information – Further information about our business – Intellectual property rights" in Appendix VII to this document.

As a result of our competitive strengths and favourable government policies as described above, we also believe that we will be able to continue growing our heat services business in the future. See "Industry overview – Competitive analysis of the heat services industry in the PRC" in this document for further details on the markets in which we operate and for a discussion of our competition.

SERVICE CONCESSION ARRANGEMENTS

During the Track Record Period, most of our heat service projects in operation were undertaken under service concession arrangements in the form of a BOT model. A service concession arrangement is an arrangement whereby a government or other public sector body, being the grantor, enters into a contract with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets (such as roads, bridges, tunnels, airports, energy distribution networks and supply plants). The grantor and the private operator typically enter into a service concession agreement which regulates the price and scope of services that the operator provides by utilising the infrastructure assets. The grantor also controls any significant residual interest in the infrastructure assets at the end of the arrangement.

During the Track Record Period, majority of the revenue from our provision of heat services and engineering construction services was derived from concession arrangements under the Concession Agreements. These Concession Agreements were structured in the form of a BOT model. Pursuant to the BOT model, we were contracted and were granted the exclusive rights by our concession grantors to invest in, build, and arrange for the development and operation of the infrastructure assets (i.e. heat service facilities) required for our provision of heat services. During the concession period, we are entitled to operate and generate revenue from such infrastructure assets through the operation of our heat services business. Upon expiry of the concession period, in the event that the concession rights are not renewed, all heat service-related assets invested (and, in some cases, under construction at the time) by us and the right to use in relation to heat service-related assets which were not invested by us will be transferred to the relevant concession grantor or party(ies) designated by the concession grantor. The compensation payable (if any) by the concession grantor to us for such transfer of assets shall be based on the assessed value of the transferred assets (which, in some cases, is determined by a third party asset valuation agency jointly appointed by us and the concession grantor).

During the Track Record Period, under IFRIC 12 Service Concession Arrangements, we recognised intangible assets to the extent of the right to charge our heat service customers during the construction phase of heat service facilities. As such, the intangible assets represented a significant portion of the total assets of our Group. The intangible assets were excluded in the calculation of our Group's [REDACTED] adjusted consolidated tangible financial information, resulting in the [REDACTED] adjusted consolidated net tangible liabilities of our Group attributable to owners of our Company per Share.

SUMMARY

Accounting treatment for service concession arrangements

The accounting treatment for service concession arrangements involves judgement and affects the presentation of our results of operations. Under IFRIC 12 Service Concession Arrangements, we recognise revenue for the construction of heat service facilities for our heat service projects. During the initial construction and the upgrading and expansion of the heat service facilities, our Group recognises revenue from “engineering construction services” in the accountant’s report as set out in Appendix I to this document. However, our Group does not receive any actual payment in cash from the relevant government authorities. We only receive cash payment when we start providing heat services, which is when we are able to charge our heat service customers. There is a mismatch between the cash outflow for our construction cost during the construction phase and the cash inflow from our heat service customers during the operation phase. The amount equivalent to the revenue from “engineering construction services” is recorded as intangible assets in our consolidated statement of financial position, and is calculated as the estimated total construction costs plus a reasonable profit margin determined by an independent valuer, based on the prevailing market rate applicable to similar construction services. During the operation phase of our heat service projects, the entire sum of heat service fee is recorded as operating revenue.

Our Group applies an intangible asset model under IFRIC 12 Service Concession Arrangements. An intangible asset (operating concessions) is recognised to the extent that the accumulating right to charge our heat service customers is dependent upon the usage or amount of our heat services rendered, which is not an unconditional right to receive cash. The intangible asset is amortised on a straight-line basis over the operation period when it becomes available for use, that is, at the point in time when we exercise our concession rights to charge public users.

The following table sets out the movements in the balances of our Group’s intangible assets (operating concessions) during the Track Record Period.

	Intangible assets (operating concessions)
	<i>RMB’000</i>
As at 1 January 2020	2,852,216
Additions	458,969
Amortisation	<u>(164,396)</u>
As at 31 December 2020	3,146,789
Additions	208,132
Disposal	(4,348)
Amortisation	<u>(183,008)</u>

SUMMARY

	Intangible assets (operating concessions) <u>RMB'000</u>
As at 31 December 2021	3,167,565
Additions	359,084
Disposal	(4,640)
Amortisation	(193,770)
Impairment	(9,398)
As at 31 December 2022	<u><u>3,318,841</u></u>

Operating concessions are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

During the operating period when heat services are provided, revenue is recognised on a straight line basis over the scheduled period (i.e. usually from October of each year to April of the following year) because the customer simultaneously receives and consumes the benefits provided by our Group.

The following table sets out our revenue generated from our engineering construction services by whether they were accounted for under IFRIC 12 Service Concession Arrangements for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%
Engineering construction services for our concession operations (IFRIC 12 Service Concession Arrangements)	349,356	96.5	208,133	90.8	271,010	89.9
Engineering construction services provided to customers (Non-IFRIC 12 Service Concession Arrangements) ^(Note)	<u>12,694</u>	<u>3.5</u>	<u>21,014</u>	<u>9.2</u>	<u>30,557</u>	<u>10.1</u>
Total	<u><u>362,050</u></u>	<u><u>100.0</u></u>	<u><u>229,147</u></u>	<u><u>100.0</u></u>	<u><u>301,567</u></u>	<u><u>100.0</u></u>

Note: Engineering construction services provided to customers (non-IFRIC 12 Service Concession Agreements) were mostly one-off in nature. Majority of our revenue from these one-off engineering construction services was derived from a reformation project in Shuozhou City. For details of the reformation project, see “Financial information – Revenue – Engineering construction services” in this document.

SUMMARY

For details, see “Financial information – Critical accounting policies and estimates – IFRIC 12 Service Concession Arrangements” in this document.

SUMMARY OF OUR RESULTS OF OPERATIONS

The following tables set out a summary of the major components of our results of operations during the Track Record Period. For details, see “Financial information” in this document, and the accountant’s report as set out in Appendix I to this document.

	For the year ended 31 December		
	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	1,376,321	1,290,635	1,443,732
Cost of sales	(1,084,931)	(976,969)	(1,146,851)
Gross profit	291,390	313,666	296,881
Profit before income tax	143,927	206,731	186,336
Profit and total comprehensive income for the year	98,316	171,060	140,375
Attributable to:			
– Owners of our Company	66,830	110,696	96,431
– Non-controlling interests	31,486	60,364	43,944

Our net profit increased by approximately RMB72.7 million or 74.0% from approximately RMB98.3 million for the year ended 31 December 2020 to approximately RMB171.1 million for the year ended 31 December 2021, primarily attributable to an increase in gross profit of our heat services due to the expansion of our actual heat service area. Such increase was mainly attributable to a combined effect of (i) an increase in gross profit and other income by an aggregate amount of approximately RMB47.5 million in the year ended 31 December 2021; (ii) a provision of impairment losses on financial assets and contract assets of approximately RMB13.5 million being recorded in the year ended 31 December 2020 while a reversal of impairment losses on financial assets and contract assets of approximately RMB1.0 million was recorded in the year ended 31 December 2021; and (iii) a decrease in net finance costs by approximately RMB14.3 million during the year ended 31 December 2021.

SUMMARY

Our net profit decreased by approximately RMB30.7 million or 17.9% from approximately RMB171.1 million for the year ended 31 December 2021 to approximately RMB140.4 million for the year ended 31 December 2022. Such decrease was mainly due to (i) a decrease in gross profit which was primarily attributable to the decrease in price subsidies for our Shuozhou Project, and other income by an aggregate amount of approximately RMB36.6 million; and (ii) an increase in net finance costs by approximately RMB5.6 million, which were partially offset by an increase in the amount of reversal of impairment losses made on financial assets and contract assets by approximately RMB22.1 million for the year ended 31 December 2022.

Revenue

The following table sets out our revenue by type of service/product for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Heat services						
– Fees from customers for provision and distribution of heat	739,940	53.8	778,442	60.3	853,542	59.1
– Price subsidies from local government	167,908	12.1	182,500	14.2	161,676	11.2
– Pipeline connection fee	65,429	4.8	74,211	5.7	83,725	5.8
Sub-total	973,277	70.7	1,035,153	80.2	1,098,943	76.1
Engineering construction services	362,050	26.3	229,147	17.8	301,567	20.9
EMC services	4,157	0.3	3,972	0.3	3,002	0.2
Heat transmission services	16,961	1.2	14,533	1.1	5,521	0.4
Sale of goods	16,344	1.2	5,756	0.4	23,581	1.6
Designing services	1,658	0.1	518	0.1	6,585	0.5
Others ^(Note)	1,874	0.2	1,556	0.1	4,533	0.3
Total	1,376,321	100.0	1,290,635	100.0	1,443,732	100.0

Note: Others mainly represent revenue generated from (i) technical service; (ii) rental fees; and (iii) other service fees.

SUMMARY

During the Track Record Period, our revenue was mainly generated from (i) our heat services; and (ii) our engineering construction services, the majority of which was generated in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region. For the three years ended 31 December 2022, our revenue generated from heat services amounted to approximately RMB973.3 million, RMB1,035.2 million and RMB1,098.9 million, representing approximately 70.7%, 80.2% and 76.1% of our total revenue, respectively; and our revenue generated from engineering construction services amounted to approximately RMB362.1 million, RMB229.1 million and RMB301.6 million, representing approximately 26.3%, 17.8% and 20.9% of our total revenue, respectively.

Our revenue generated from heat services comprised (i) fees from customers for provision and distribution of heat; (ii) price subsidies from local government; and (iii) pipeline connection fee. For the three years ended 31 December 2022, our aggregate revenue from (a) fees from customers for provision and distribution of heat; and (b) price subsidies from local government accounted for approximately 93.3%, 92.8% and 92.4% of our revenue generated from heat services, respectively. Our revenue generated from engineering construction services was mainly related to our concession operation. For the three years ended 31 December 2022, our revenue generated from provision of construction work services relating to our concession operation accounted for approximately 96.5%, 90.8% and 89.9% of our revenue from engineering construction services, respectively.

Our revenue decreased by approximately RMB85.7 million from approximately RMB1,376.3 million for the year ended 31 December 2020 to approximately RMB1,290.6 million for the year ended 31 December 2021, primarily due to the decrease in our revenue generated from engineering construction services from approximately RMB362.1 million to approximately RMB229.1 million which was mainly attributable to a one-off construction of primary distribution pipelines for our Shuozhou Project in order to extend and connect our heat distribution network to a cogeneration plant as a new heat source to enhance our heat transmission efficiency in 2020, partially offset by the increase in our revenue generated from heat services from approximately RMB973.3 million to approximately RMB1,035.2 million, which was mainly attributable to the increase in the actual heat service area of our Shuozhou Project and Hulunbuir Project. Our revenue increased by approximately RMB153.1 million from approximately RMB1,290.6 million for the year ended 31 December 2021 to approximately RMB1,443.7 million for the year ended 31 December 2022, primarily due to an increase in our revenue generated from both of the engineering construction services and heat services which was primarily attributable to (i) a general increase of constructions activities for our concession projects; and (ii) an increase in the actual heat service area brought by the expansion of our concession projects in general during the year.

SUMMARY

The following table sets out our revenue generated from (i) fees from customers for the provision and distribution of heat by heat service project under concession; (ii) price subsidies from the local government in Shuozhou; and (iii) engineering construction services by heat service project under concession for the years indicated:

	For the year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Taiyuan Project			
Fees from customers for the provision and distribution of heat	106,178	122,545	135,768
Engineering construction services for construction of heat service facilities	<u>16,474</u>	<u>22,976</u>	<u>28,726</u>
<i>Sub-total</i>	122,652	145,521	164,494
Shanxi Demonstration Zone Project			
Fees from customers for the provision and distribution of heat	7,371	9,917	17,263
Engineering construction services for construction of heat service facilities	<u>19,502</u>	<u>67,695</u>	<u>39,338</u>
<i>Sub-total</i>	26,873	77,612	56,601
Shuozhou Project			
Fees from customers for the provision and distribution of heat	267,605	283,724	292,320
Engineering construction services for construction of heat service facilities	231,956	18,599	44,815
Price subsidies	<u>167,908</u>	<u>182,500</u>	<u>161,676</u>
<i>Sub-total</i>	667,469	484,823	498,811
Lanzhou New Area Project			
Fees from customers for the provision and distribution of heat	166,929	151,411	185,108
Engineering construction services for construction of heat service facilities	<u>56,230</u>	<u>94,649</u>	<u>139,085</u>
<i>Sub-total</i>	223,159	246,060	324,193

SUMMARY

	For the year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Hulunbuir Project			
Fees from customers for the provision and distribution of heat	187,376	203,100	217,803
Engineering construction services for construction of heat service facilities	25,194	4,214	10,520
<i>Sub-total</i>	212,570	207,314	228,323
Xinmi Project			
Fees from customers for the provision and distribution of heat	–	–	–
Engineering construction services for construction of heat service facilities ^(Note)	–	–	8,526
<i>Sub-total</i>	–	–	8,526
Total	1,252,723	1,161,330	1,280,948

Note: It mainly represented (i) procurement of pipelines, devices and equipment; and (ii) construction of heat service facilities for heat transmission for the preparation of the Xinmi Project in two of the areas according to the local urban developments.

For further details relating to our revenue, please see “Financial information – Description of major components of our results of operations – Revenue” in this document.

Cost of sales

During the Track Record Period, our cost of sales mainly included (i) costs of purchase of heat; (ii) construction costs; (iii) amortisation of intangible assets; and (iv) materials consumed. Our cost of sales decreased from approximately RMB1,084.9 million for the year ended 31 December 2020 to approximately RMB977.0 million for the year ended 31 December 2021, which was primarily attributable to the decrease in costs for the construction of primary distribution pipelines for our Shuozhou Project. Our cost of sales increased from approximately RMB977.0 million for the year ended 31 December 2021 to approximately RMB1,146.9 million for the year ended 31 December 2022, which was in line with the increase in our revenue from the provision of our heat services and engineering construction services during the year. For further details, please see “Financial information – Description of major components of our results of operations – Cost of sales” in this document.

SUMMARY

Gross profit and gross profit margin

The following table sets out our gross profit and gross profit margin by type of service/product for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Heat services	232,090	23.8	270,453	26.1	239,446	21.8
Engineering construction services	46,569	12.9	30,239	13.2	39,800	13.2
EMC services	3,281	78.9	2,298	57.9	(307)	(10.2)
Heat transmission services	5,998	35.4	6,253	43.0	3,438	62.3
Sale of goods	3,050	18.7	3,812	66.2	11,026	46.8
Designing services	(282)	(17.0)	233	45.0	2,964	45.0
Others	684	36.5	378	24.3	514	11.4
Total	<u>291,390</u>	21.2	<u>313,666</u>	24.3	<u>296,881</u>	20.6

Heat services

Gross profit from our heat services increased from approximately RMB232.1 million for the year ended 31 December 2020 to approximately RMB270.5 million for the year ended 31 December 2021. Such increase was mainly attributable to an improvement of profitability of the Hulunbuir Project mainly as a result of an increase in our actual heat service area and a decrease in our cost of sales for the Hulunbuir Project since there was a downward adjustment on unit cost of heat procurement in the region during the year, and an increase in our revenue from pipeline connection fee. Gross profit from our heat services decreased from approximately RMB270.5 million for the year ended 31 December 2021 to approximately RMB239.4 million for the year ended 31 December 2022, primarily due to the decrease in price subsidies for the Shuozhou Project and the increase in procurement prices of coal for our Lanzhou New Area Project during the same year due to the substantial increase in coal price.

The gross profit margin of our heat services increased from approximately 23.8% for the year ended 31 December 2020 to approximately 26.1% for the year ended 31 December 2021, which was primarily attributable to an improvement in the profitability of the Hulunbuir Project as explained above. The gross profit margin of our heat services decreased from approximately 26.1% for the year ended 31 December 2021 to approximately 21.8% for the year ended 31 December 2022, primarily due to the reasons for the decrease in our gross profit as explained above for the same year.

SUMMARY

Engineering construction services

Gross profit from our engineering construction services decreased from approximately RMB46.6 million for the year ended 31 December 2020 to approximately RMB30.2 million for the year ended 31 December 2021 primarily because there was no large-scale construction for primary distribution pipelines in 2021. Gross profit from our engineering construction services increased from approximately RMB30.2 million for the year ended 31 December 2021 to approximately RMB39.8 million for the year ended 31 December 2022 due to the increase in construction activities for our concession projects.

The gross profit margin for our engineering construction services remained stable at approximately 12.9%, 13.2% and 13.2% for the years ended 31 December 2020, 2021 and 2022, respectively.

For further details, please see “Financial information – Description of major components of our results of operations – Gross profit and gross profit margin” in this document.

Price subsidies from local government

During the Track Record Period, we recognised revenue from the price subsidies for our Shuozhou Project in the amount of approximately RMB167.9 million, RMB182.5 million and RMB161.7 million, respectively.

The provision of price subsidies was contemplated under the Interim Measures and we were contractually entitled to the price subsidies under the Shuozhou Concession Agreement. Price subsidies from local government were recognised as revenue over a scheduled heat service period according to IFRS 15 on the basis that there was a reasonable assurance on a recurring basis provided by a fixed formula that such subsidies could be received. For price subsidies from local government to be recognised as revenue generated in our Group’s ordinary and usual course of business in accordance with IFRS 15, since (i) we are a cross-provincial heat service provider providing heat services in concessions which we held pursuant to the Concession Agreements; (ii) the Shuozhou Concession Agreement is regarded as a contract between us and our customer. Shuozhou government, being a contracting party to the Shuozhou Concession Agreement, is considered as a customer in the whole concession arrangement according to Appendix A to IFRS 15; (iii) the amount of the price subsidies was determined by the specific formula stipulated under the No. 45 of 2016 Minutes, which was effectively determined on the basis of the shortfall of the heat rate charged by our Group below the relevant heat service cost, marked up by a certain percentage and providing the operator a reasonable return; and (iv) there was a reasonable assurance on a recurring basis provided by a fixed formula that the price subsidies could be received. Further, as confirmed by Frost & Sullivan, it is not uncommon that heat service companies may receive subsidies from local governments (including price subsidies), and it is not uncommon that such price subsidies are assessed based on pre-determined formulae with reference to heat rates charged and relevant heat service costs. Based on the above, our Directors are of the view that price subsidies from the local government are considered as revenue generated from the ordinary activities of our

SUMMARY

Group and meets the definition of “revenue” under IFRS 15 – Contracts with Customer. The reporting accountant of our Company concurs with the aforementioned view of our Directors. After considering the view of the reporting accountant of our Company, the Sole Sponsor concurs with the view of our Directors set out above. For detailed discussion regarding the revenue recognition of price subsidies from local government, see “Financial information – Description of major components of our results of operations – Revenue – Heat services – (ii) Price subsidies from local government” in this document.

SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	As at 31 December		
	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Total non-current assets	4,174,547	4,162,205	4,085,748
Total current assets	859,903	821,426	1,158,481
Total non-current liabilities	2,078,198	2,412,919	2,611,364
Total current liabilities	2,343,567	1,788,316	1,710,303
Net current liabilities	1,483,664	966,890	551,822
Net assets	612,685	782,396	922,562
Non-controlling interests	92,179	151,597	195,445

As at 31 December 2020, 2021 and 2022, our net current liabilities were approximately RMB1,483.7 million, RMB966.9 million and RMB551.8 million, respectively. Such net current liabilities primarily consisted of our (i) trade and other payables; (ii) borrowings; and (iii) contract liabilities. During the Track Record Period, we had substantial planned capital expenditures for the purchase of property, plant and equipment and our construction of heat service facilities, resulting in a significant amount of other payables for the acquisition of intangible assets. During this period, we also had a substantial amount of borrowings which was mainly used to support our capital expenditures, and which contributed to our net current liability position. As at 31 December 2020 and 2021, some of our borrowings (in the amounts of approximately RMB193.0 million and RMB179.0 million, respectively), were classified as current liabilities due to our failure to comply with certain covenants and financial undertakings in respect of two long-term bank borrowings, leading to a higher level of current liabilities for those years. As at 31 December 2022, Hulunbuir Shuangliang had re-complied with such financial covenants, and accordingly, we reclassified the loan amounting to RMB158.0 million as at 31 December 2022 as non-current liabilities according to the original payment schedules as set out in the relevant loan contract. As at 31 December 2022, Lanzhou Shuangliang had not re-complied with such financial covenants. In March 2020, we obtained from the lending bank a letter of waiver from strict compliance with certain financial covenants, which continued to take effect as at the Latest Practicable Date as confirmed by a

SUMMARY

supplemental interview with the lending bank on 24 February 2023. Accordingly, we reclassified Lanzhou Shuangliang’s loan amounting to approximately RMB286.1 million, RMB271.9 million and RMB203.1 million as at 31 December 2020, 2021 and 2022, respectively, as non-current liabilities according to the original payment schedules as set out in the relevant loan contract. As such, our Directors are of the view that there would not be any financial consequences for the failure to comply with the financial covenants. Our net current liabilities during the Track Record Period were also attributable to a significant amount of contract liabilities (which represented the advance receipts from customers in relation to our heat services and pipeline connection fee) at the end of each year. Such contract liabilities will be recognised as revenue in the following years when the relevant services are provided. See “Risk factors – Risks relating to our business and industry – We had net current liabilities as at 31 December 2020, 2021 and 2022” in this document for the risk relating to our net current liabilities.”

Our senior management closely monitors our Group’s financial performance so as to improve our liquidity position. Our Group generated cash inflow from operating activities for the years ended 31 December 2020, 2021 and 2022, which amounted to approximately RMB442.5 million, RMB500.0 million and RMB617.8 million, respectively.

Our net assets increased from approximately RMB612.7 million as at 31 December 2020 to approximately RMB782.4 million as at 31 December 2021, primarily due to our net profit of approximately RMB171.1 million for the year ended 31 December 2021, the effect of which was partially offset by the transactions with non-controlling interests of approximately RMB1.5 million. Our net assets further increased from approximately RMB782.4 million as at 31 December 2021 to approximately RMB922.6 million as at 31 December 2022, primarily due to our net profit of approximately RMB140.4 million for the year ended 31 December 2022.

SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	For the year ended 31 December		
	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Net cash generated from			
operating activities	442,542	500,027	617,839
Net cash used in investing activities	(340,136)	(98,725)	(117,858)
Net cash used in financing activities	(66,755)	(356,943)	(258,098)
Net increase in cash and cash			
equivalents	35,651	44,359	241,883
Cash and cash equivalents at beginning			
of the year	56,175	91,826	136,185
Cash and cash equivalents at end of the			
year	91,826	136,185	378,068

SUMMARY

For detailed discussions regarding our Group’s cash flows during the Track Record Period, see “Financial information – Liquidity and capital resources – Cash flows” in this document.

KEY FINANCIAL RATIOS

The following table sets out our key financial ratios as at the dates and for the years indicated.

	As at/for the year ended 31 December		
	2020	2021	2022
Current ratio ⁽¹⁾	0.4	0.5	0.7
Quick ratio ⁽²⁾	0.4	0.4	0.6
Return on total assets ⁽³⁾	2.0%	3.4%	2.7%
Return on equity ⁽⁴⁾	17.4%	24.5%	16.5%
Gearing ratio ⁽⁵⁾	2.1	1.4	1.0
Net debt to equity ratio ⁽⁶⁾	2.0	1.2	0.5
Interest coverage ⁽⁷⁾	2.5 times	3.5 times	3.2 times
Net profit margin ⁽⁸⁾	7.1%	13.3%	9.7%

Notes:

- (1) Current ratio is calculated by dividing total current assets by total current liabilities as at the end of the year.
- (2) Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of the year.
- (3) Return on total assets is calculated by dividing net profit by the average balances of the total assets for the year.
- (4) Return on equity is calculated by dividing net profit by the average balances of equity for the year.
- (5) Gearing ratio is calculated by dividing total borrowings by total equity as at the end of the year.
- (6) Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the year. Net debt is calculated as total borrowings less cash and cash equivalents as at the end of the year.
- (7) Interest coverage is calculated based on the profit before interest and income tax for the year divided by respective finance costs for the year.
- (8) Net profit margin is equal to net profit divided by total revenue for the year.

For details of the above ratios, see “Financial information – Key financial ratios” in this document.

SUMMARY

DIVIDEND AND DIVIDEND POLICY

No dividend had been paid or declared by our Company during the Track Record Period. We currently aim to pay a total dividend in respect of each financial year of not less than 30% of our annual distributable profit. The declaration and payment of future dividends will be subject to various factors, including our future earnings and cash inflows, future plan for use of funds, long-term development of our business, statutory reserves, discretionary common reserve funds, legal and regulatory restrictions, and other factors which our Directors consider relevant. We may declare and pay dividends by way of cash or by other means that we consider appropriate in the future. Distribution of dividends will be decided by our Board at their discretion and will be subject to Shareholders’ approval. In addition, our dividend policy will also be subject to our Articles of Association, the PRC Company Law, any other applicable PRC laws and regulations. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

- (1) recovery of accumulated losses, if any;
- (2) allocation to the statutory common reserve fund an amount of no less than 10% of our profit after tax, as determined under PRC GAAP; and
- (3) allocation, if any, to a discretionary common reserve fund an amount approved by the shareholders in a shareholders’ meeting.

We are a joint stock limited company established in the PRC, hence, payment of dividends is subject to restrictions under PRC laws. For relevant PRC restrictions on payment of dividends in the PRC, see “Risk factors – Risks relating to conducting business in the PRC – Payment of dividends is subject to restrictions under PRC laws” and “Financial Information – Dividend and dividend policy” in this document.

CAPITAL EXPENDITURES

Our historical capital expenditures during the Track Record Period primarily included expenditures for our purchases of property, plant and equipment and construction of heat service facilities. We funded our capital expenditures requirements and long-term investments during the Track Record Period mainly from cash flow generated from our operations and bank facilities. Our capital expenditures amounted to approximately RMB270.6 million, RMB305.1 million and RMB288.9 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Our capital expenditures for the year ending 31 December 2023 are expected to amount to approximately RMB324.8 million, which will be primarily used for procuring raw materials/contracting for constructing heat service facilities for expansion of our heat services. We plan to fund our future capital expenditures using the [REDACTED] from the [REDACTED] and internal resources, including but not limited to our cash and cash equivalents and banking facilities. We may reallocate the funds to be utilised for our capital expenditures and future development based on our ongoing business plans.

SUMMARY

CAPITAL COMMITMENTS

During the Track Record Period, we had capital expenditures contracted for but not yet incurred. Our capital commitments were mainly related to intangible assets that we purchased for the construction of heat service facilities in order to expand our existing heat service project and preparing for a new heat service project. Such intangible assets were related to our operating concessions and software, and amounted to approximately RMB69.0 million, RMB111.3 million and RMB58.0 million as at 31 December 2020, 2021 and 2022, respectively. The significant increase in such intangible assets from approximately RMB69.0 million as at 31 December 2020 to approximately RMB111.3 million as at 31 December 2021 was primarily due to our acquisition of an operating concession in Xinmi of Henan Province in early 2021.

[REDACTED] EXPENSES

The estimated total [REDACTED] expenses, including [REDACTED] commissions (based on the mid-point of the [REDACTED] range and assuming that the [REDACTED] is not exercised) for the [REDACTED], are approximately RMB[REDACTED] million (HK\$[REDACTED] million), representing approximately [REDACTED]% of the gross proceeds from the [REDACTED]. Such estimated total [REDACTED] expenses include (i) [REDACTED] related expenses, including [REDACTED] commission of approximately RMB[REDACTED] million (HK\$[REDACTED] million); (ii) fees and expenses of our legal advisers and reporting accountant of approximately RMB[REDACTED] million (HK\$[REDACTED] million); and (iii) other fees and expenses of approximately RMB[REDACTED] million (HK\$[REDACTED] million). Up to 31 December 2022, [REDACTED] expenses of approximately RMB4.2 million (HK\$4.6 million) were expensed through the statement of profit or loss, while as at 31 December 2022, approximately RMB37.6 million (HK\$41.3 million) was recognised as prepaid [REDACTED] expenses, and such amount is expected to be recognised directly as a deduction from equity upon the [REDACTED]. For the year ending 31 December 2023, an estimated amount of approximately RMB[REDACTED] million (HK\$[REDACTED] million) is expected to be expensed through the statement of profit or loss and an additional amount of approximately RMB[REDACTED] million (HK\$[REDACTED] million) is expected to be recognised directly as a deduction from equity upon the [REDACTED].

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since the end of the Track Record Period and up to the Latest Practicable Date, our Directors have confirmed that our heat services business has remained stable in all material aspects. The number of our concessions remained at six since the end of the Track Record Period and up to the Latest Practicable Date. Our total number of heat service customers did not change materially since the end of the Track Record Period and up to the Latest Practicable Date. For the 2022/2023 heat service period, the monthly heat rates applicable to the Lanzhou New Area Project (inclusive of VAT) increased from RMB5.0 per sq.m. for the 2021/2022 heat service period to RMB5.8 per sq.m. for residential users, and from the range of RMB7.0 per sq.m. to RMB9.2 per sq.m. for the 2021/2022 heat service period to the range of RMB8.0 per sq.m. to RMB10.2 per sq.m. for non-residential users, while the monthly rates charged by us to residential and non-residential users for our other heat service projects remained the same.

SUMMARY

Our revenue from the provision and distribution of heat increased by approximately 9.6% for the year ended 31 December 2022 as compared to the previous year as a result of the organic growth of our heat services business. Our Directors confirm that there was no material adverse change to the provision and distribution of heat services for the 2022/2023 heat service period.

Since the resurgence of COVID-19 in 2022, the relevant local governments have taken certain measures to prevent further spread of COVID-19, including but not limited to sudden partial or complete lockdowns, restrictions on domestic and interregional travel and restrictions on public activities. The lockdowns and restrictions on public activities in some cities have interrupted certain public services, for example, the granting of construction planning permits by government bureaux, the construction materials supply chain and construction work carried out by our subcontractors. Therefore, certain engineering construction services have been temporarily affected. Despite the aforementioned measures, our revenue from the provision of engineering construction services increased by approximately 31.6% for the year ended 31 December 2022 as compared to the previous year. Our Directors are of the view that there was no material adverse impact on our provision and distribution of heat services for the 2022/2023 heat service period as a whole. As at the Latest Practicable Date, the aforementioned government measures had been lifted, leading to the gradual resumption of normal commercial and industrial business operations.

Our Directors have confirmed that, since 31 December 2022 (being the date to which our Company's latest consolidated financial results were prepared) and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements in the accountant's report as set out in Appendix I to this document.

The actual impact caused by the COVID-19 outbreak will depend on its subsequent development. Our Directors will continue to assess the impacts of COVID-19 on the business and financial performance of our Group and will closely monitor the risks and uncertainties arising thereof.

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 global pandemic. As at the Latest Practicable Date, measures responding to COVID-19 relating to temporary travel restrictions and shutdown of certain business operations had been lifted, leading to the gradual resumption of normal commercial and industrial business operations.

During the year ended 31 December 2020, we received a government subsidy of RMB4,335.7 for purchasing supplies such as masks for the prevention of COVID-19. During the Track Record Period, we did not receive any other government subsidy and/or financial assistance in relation to the outbreak of COVID-19.

SUMMARY

In respect of our heat services

Our provision of heat services has not been interrupted since the COVID-19 outbreak as the provision of heat services is a basic necessity in northern China. For example, northern China experienced the shutdown of certain industrial and commercial business operations from February to April of 2020. However, due to the fact that heat service fees were calculated based on heat service area (instead of actual consumption of heat) and were prepaid by our customers prior to the commencement of the heat service period, and also our customers were able to resume normal business operation as soon as the local governments lifted restrictions once the spread of COVID-19 was under control, our Directors consider that the demand for heat service from our heat service customers did not materially fluctuate due to the COVID-19 measures. Since the COVID-19 outbreak, we have not experienced any material dispute with our heat suppliers and coal suppliers for the provision of our heat services, nor have we encountered any difficulty in securing sufficient heat sources to ensure the stability of our heat services.

We encountered delays in the settlement of trade receivables by some of our customers, being mainly property development companies and property management companies, since the outbreak of COVID-19 as their business activities have been interrupted. The balance of our trade receivables (excluding notes receivables and lease receivables) aged over one year amounted to approximately RMB78.3 million, RMB93.5 million and RMB91.6 million, representing approximately 19.7%, 24.5% and 17.4% of our trade receivables (excluding notes receivables and lease receivables) as at 31 December 2020, 2021 and 2022, respectively. For the years ended 31 December 2020, 2021 and 2022, our trade receivables (excluding notes receivables and lease receivables) aged over one year from property development companies and property management companies amounted to approximately RMB47.2 million, RMB52.1 million and RMB55.3 million, representing approximately 60.2%, 55.7% and 60.4% of our trade receivables (excluding notes receivables and lease receivables) aged over one year, respectively. These customers faced temporary interruption of business activities and financial difficulties in their business operations which led to longer settlement periods or their inability in settling the amount due to us. However, taking into account the necessity of heat for such customers, we did not suspend our heat services to them and instead entered into negotiations with them in good faith to make settlement for our heat services at a later time. In light of this, our Group has adopted various measures to manage credit risk. We consider that the delays in the settlement of trade receivables will not have a material adverse impact on our business and operation in the long term. For details of the measures adopted by our Group to manage credit risk and the subsequent settlement of our Group’s trade receivables, see “Financial information – Discussion of certain items of consolidated statements of financial position – Current assets and current liabilities – Trade receivables” in this document.

SUMMARY

In respect of our engineering construction services

Our provision of engineering construction services was not materially affected by the outbreak of COVID-19 during the Track Record Period. Our Directors have confirmed that we closely monitored the construction progress of our contractors for the provision of our engineering construction services, and we managed to complete all required engineering construction services during the Track Record Period. For details of the impact of COVID-19 on our engineering construction services following the Track Record Period, see “– Recent developments and no material adverse change” in this section.

For the elaboration of effects of the COVID-19 outbreak on our business operations, see “Business – Effects of the COVID-19 outbreak” in this document. Our Directors are of the view that the outbreak of COVID-19 did not have and will not have any material adverse impact on the operations and financial performance of our Group.

STATISTICS OF THE [REDACTED]⁽¹⁾

[REDACTED]

SUMMARY

[REDACTED]

We estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million) from the [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 H Share (being the mid-point of the indicative [REDACTED] range) and that the [REDACTED] is not exercised.

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

- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], will be used for construction of new peak-shaving boiler (which will be a coal-fired boiler) in our heat source peak-shaving station for our Lanzhou New Area Project. We expect that construction for the project will be completed prior to the 2023/2024 heat service period;
- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], will be used for the construction of primary distribution pipelines and heat service facilities, procurement of relevant equipment and devices for our heat service operation and future expansion of our Xinmi Project. We expect that our heat service operation in Xinmi will commence from the 2023/2024 heat service period in or around November 2023; and
- approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], will be used as working capital and other general corporate purposes.

For details, see “Future plans and [REDACTED]” in this document.

SUMMARY

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 business operation is concentrated in the “Three North Region”, and we are susceptible to any adverse development in economic conditions, government policies or business environment in this region; (ii) our concession rights for our heat services business will expire or may be terminated before expiration; (iii) we may not be entitled to any form of government grants or subsidies, including price subsidies for our Shuozhou Project in the future, under the applicable PRC laws and regulations that are evolving from time to time; (iv) we may encounter difficulties in expanding our heat services business if we fail to obtain new concession rights or grow our actual heat service area under the current concession rights; (v) our actual heat service area may be adjusted due to unanticipated events; (vi) we may not be able to successfully manage all of the risks associated with our cross-provincial operation which spans a number of different geographical locations in the PRC; (vii) there are title defects associated with the heat exchange stations currently used by us and certain properties we lease and any dispute, order or requirement which may affect our right to use these properties may materially and adversely affect our business operation; (viii) any shortage of, disruption or suspension to our heat sources could materially and adversely affect our heat service business; (ix) our heat rates may not be adjusted proportionally and/or we may not receive sufficient subsidy for our heat service operations to sufficiently cover the potential reduction in pipeline connection fee due to any change in its mechanism; and (x) the amount of intangible assets on our consolidated statements of financial position increased correspondingly as we recorded revenue from engineering construction services under IFRIC 12 and such amount represented a significant portion of the assets on our consolidated statements of financial position and if our intangible assets are impaired, our results of operations and financial position may be adversely affected.

See “Risk factors” in this document carefully before making any investment decision in the [REDACTED].

PROPERTY VALUATION

According to the property valuation report prepared by Vincorn Consulting and Appraisal Limited, an independent valuer we engaged, as set out in Appendix IV to this document, the market value of the property interests held by us for property activities in the PRC as at 31 March 2023 was approximately RMB264.8 million. See “Business – Properties” and Appendix IV in this document for further details on our properties.

NON-COMPLIANCE INCIDENTS

During the Track Record Period, our Group had rectified certain incidents which did not fully comply with the PRC laws and regulations. See “Business – Regulatory compliance – Non-compliance incidents” in this document.

SUMMARY

Title defects associated with heat exchange stations in use

As at the Latest Practicable Date, there were 465 heat exchange stations in use for our provision of heat services to heat service customers. Of these 465 heat exchange stations, 464 heat exchange stations (comprising 451 third-party owned heat exchange stations and 13 self-owned heat exchange stations) are located on third-party owned land, while one self-owned heat exchange station is located on our land. There were title defects associated with the 465 heat exchange stations for our heat service operations, mainly because the parties which requested us to provide heat services lacked complete and valid authority to grant us the lawful right to use the heat exchange stations and/or the land. In respect of the 464 heat exchange stations located on third-party owned land, we either obtained written permissions from or entered into agreements with lessors for the use of the stations and/or land, but such lessors did not provide all of the requisite title certificates to us. As advised by our PRC Legal Advisers, we should obtain written permissions or enter into the abovementioned agreements with the owners who possess the relevant title certificates in order to obtain proper authorisation for the continuous use of the heat exchange stations and/or the land. Nonetheless, we have obtained land use right certificates in respect of 274 heat exchange stations, and obtained confirmations from competent government authorities confirming that the lessors have the right to grant us the use of 132 heat exchange stations and/or the land. In respect of one self-owned heat exchange station which we constructed on our land, we have entered into a State-owned construction land use right transfer agreement with the Shanxi Demonstration Zone Land Administration, and have fully paid the consideration under the aforementioned construction land use right transfer agreement. As at the Latest Practicable Date, we were in the process of obtaining the construction planning permit (建設規劃許可) and construction commencement permit (建設施工許可) for such heat exchange station, after which we expect to conduct the construction acceptance check (竣工驗收) and will obtain the real estate certificate (不動產權證書) in due course.

Despite there are title defects associated with the heat exchange stations and the land on which the heat exchange stations are located, our PRC Legal Advisers are of the view that the imperfect titles associated with these heat exchange stations and the land are unlikely to have any material adverse effect on our daily operations, and would not affect the validity of our Concession Agreements and the legality of our heat service operations in any material respect. Our Directors, after considering the advice from our PRC Legal Advisers, are of the view that (a) the risk of us being evicted from the heat exchange stations currently used by us, or being requested to remove or relocate our equipment and machinery installed therein leading to the disruption of our operation, is remote, mainly because (i) we have never been evicted from any heat exchange stations used by us since we began the operation of our first concession in 2012; and (ii) pursuant to the Measures of City Yellow Line Management (《城市黃線管理辦法》) promulgated by the Ministry of Construction of the PRC (now known as MOHURD) and the Standard for Urban Residential Area Planning and Design (《城市居住區規劃設計標準》) promulgated by the MOHURD, heat exchange stations cannot (by law) be demolished or relocated without proper authorisation from relevant government authorities, and we have an obligation to ensure stable heat services to our heat service customers despite the existence of the title defects; and (b) the risks arising from the title defects, whether individually or

SUMMARY

collectively, did not have and are unlikely to have a material adverse impact on our provision of heat services, financial position and results of our operations, mainly because (i) to the best knowledge of our Directors, we have never been penalised, nor threatened to be penalised by the relevant competent government authorities for the abovementioned title defects; (ii) even if we are requested to demolish the heat exchange station or relocate the equipment and machinery and connecting pipelines installed to a new heat exchange station, we believe we would receive advanced notices and the relevant government authorities will assist us in finding alternative premises for the new heat exchange station in a timely manner; and (iii) the cost of relocation is modest, and Shuangliang Technology (one of our Controlling Shareholders) has undertaken that it will help us find alternative locations and indemnify us against all costs resulting from such relocation, as well as all penalties or compensation that we may be required to pay as a result of the title defects. After considering the advice from our PRC Legal Advisers and based on its own independence due diligence conducted, the Sole Sponsor concurs with the view of our Directors set out above. For details, see “Business – Properties – Heat exchange stations for our heat service operation” in this document.