

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 [REDACTED]. There are risks associated with any investment. Some of the particular risks in [REDACTED] are set out in “Risk factors” in this document. You should read that section carefully before you decide to [REDACTED].

BUSINESS OVERVIEW

We are a cross-provincial heat service provider mainly operating in the “Three North” region. We 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. 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 under our Concession Agreements of approximately 419.9 million sq.m.. On top of 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 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 can operate our heat services business in our Concession Boundary Area. Being a concession grantee, we can make long-term investments for the purpose of our heat service operation knowing 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.

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. During the Track Record Period, we recognised revenue for our provision of (i) heat services; and (ii) engineering construction services for our heat service projects under our concessions. During the Track Record Period, the majority of our revenue was derived from our provision of heat services relating to our five operating concessions. 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.

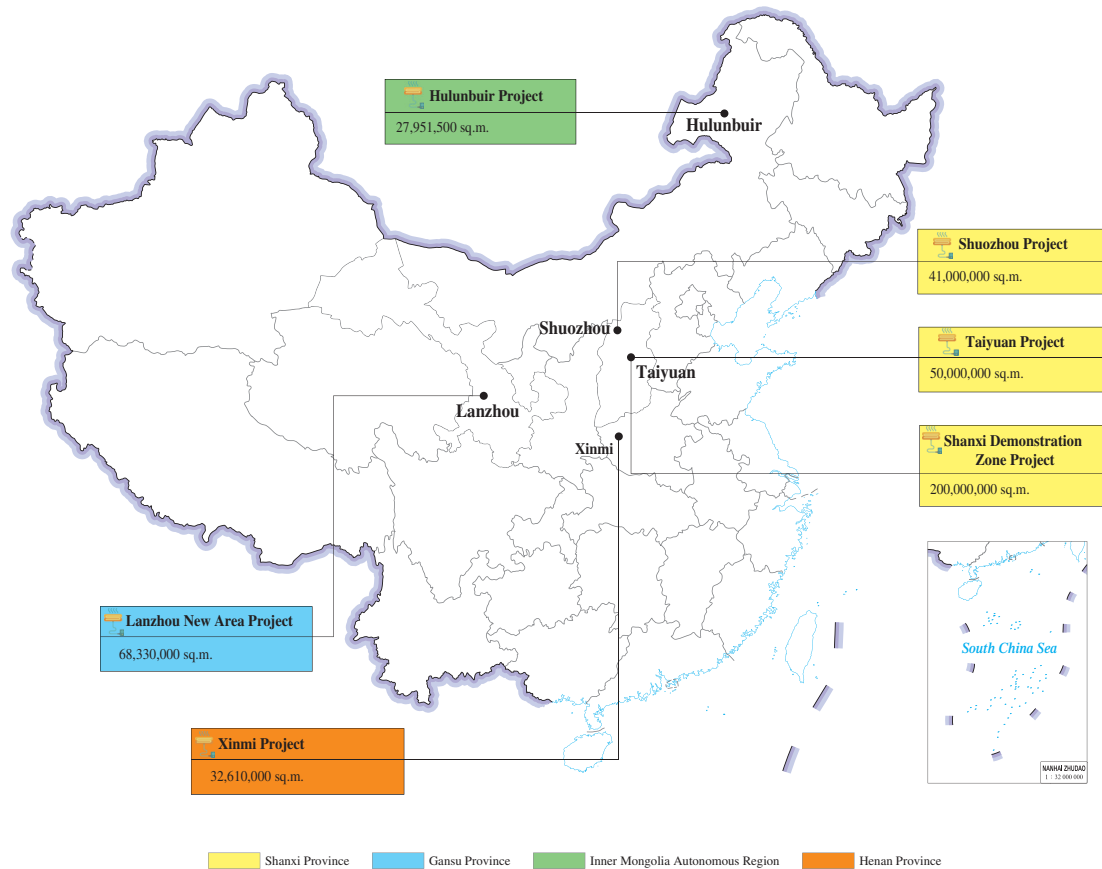
Heat services

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. For the years ended 31 December 2020, 2021 and 2022, revenue generated from our heat services was 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. 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 – Pricing” in this document.

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The map below illustrates the location of 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. For details of our heat source portfolio, see “Business – Heat sources” in this document.

Engineering construction services

Pursuant to our Concession Agreements, we are required to provide engineering construction services for the construction of the heat service facilities required for our provision of heat services. Pursuant to the relevant Concession Agreements, the grantors of our heat service concessions contracted with us 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 in use (and, in some cases, under construction) 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 – 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 are responsible for installing certain equipment and machinery for the purpose of energy saving. We are also responsible for operating and managing the residual heat collection facilities. In return, we are 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 (i) suppliers of heat; (ii) suppliers of coal for our production of heat; and (iii) suppliers of heat-service related equipment and machinery. Purchases from our largest supplier in each of the years ended 31 December 2020, 2021 and 2022 amounted to approximately RMB100.6 million, RMB88.8 million and RMB89.3 million, respectively, representing approximately 10.1%, 10.2% and 8.8% of our total purchases for the respective years. Purchases from our top five suppliers in each of the years ended 31 December 2020, 2021 and 2022 in aggregate amounted to

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approximately RMB402.1 million, RMB337.2 million and RMB385.6 million, respectively, representing approximately 40.5%, 38.7% and 38.0% of our total purchases for the respective years. Our Directors confirm that save for Shuangliang Eco-Energy, 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.

During the Track Record Period, our top five customers were principally derived from our Concession Agreements, and included the customers of our engineering construction services and provision of heat services (which are mainly occupants of the actual heat service areas under our Concession Agreements), as well as a civil engineering services provider as customer for our engineering construction services. Sales to our largest customer in each of the years ended 31 December 2020, 2021 and 2022 amounted to approximately RMB399.9 million, RMB201.1 million and RMB206.5 million, respectively, representing approximately 29.1%, 15.6% and 14.3% of our total revenue for the respective years. Sales to our top five customers in each of the years ended 31 December 2020, 2021 and 2022 in aggregate amounted to approximately RMB520.4 million, RMB406.1 million and RMB428.0 million, respectively, representing approximately 37.8%, 31.4% and 29.6% of our total revenue for the respective years. 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; (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 an integrated digitalised heat services management platform which controls our cross-provincial operation and enhances 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 we were 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 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 our Company’s preparation for [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 the sole Shareholder since our establishment on 3 September 2010 and prior to the transfer of the entire equity interest in our Company by Shuangliang Eco-Energy to Shuangliang Technology on 22 October 2015. For details, see

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“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. 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**”) are 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.

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which will constitute continuing connected transactions for our Company under the Listing Rules upon [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 the 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 China 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 China are specialised heat services providers and most of the players are State-owned companies. In 2022, the total actual heat services area in China was 11,239.4 million sq.m. The majority of the top 10 players were State-owned companies. The aggregate heat services area of the top 10 companies 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.. We 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. 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.

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.

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. 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 enable us to compete against other market players including State-owned enterprises in the heat services industry by allowing us to provide heat services exclusively in our Concession Areas. 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 has grown steadily over the Track Record Period with our concession rights. Moreover, we believe that our cross-provincial market presence enables us to achieve cost efficiency in all key stages of our operations, which has demonstrated our ability to effectively manage our operations in multiple locations. We believe we are capable of successfully entering the heat services market in other regions in the PRC. Our diversified heat sources, research and development capabilities and integrated digitalised heat services management platform have also helped us to grow our business and further set us apart from other competitors in the heat service market. As a consequence 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.

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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, contracts 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 concession agreement(s) which regulate 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 Agreements, which are service concession arrangements. These Concession Agreements were structured in the form of a BOT model. Pursuant to the BOT model, our concession grantors contracted with and granted to us the exclusive rights 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, all heat service-related assets in use by us will be transferred to the relevant concession grantor or parties designated by the concession grantor. The compensation payable (if any) by the concession grantor to us for such transfer of assets will be determined on the relevant terms thereunder.

Accounting treatment for service concession arrangements

The accounting treatment for service concession arrangements involves judgment 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 until we have begun 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 revenue from “engineering construction services” is recorded as an intangible asset on 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 accumulated 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 forth 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	(164,396)
As at 31 December 2020	3,146,789
Additions	208,132
Disposal	(4,348)
Amortisation	(183,008)

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	Intangible assets (operating concessions)
	<i>RMB'000</i>
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	3,318,841

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 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	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Engineering construction services						
– construction services for our concession operations (IFRIC 12 Service Concession Arrangements)	349,356	96.5	208,133	90.8	271,010	89.9
– construction services provided to customers (Non-IFRIC 12 Service Concession Arrangements)	12,694	3.5	21,014	9.2	30,557	10.1
Total	362,050	100.0	229,147	100.0	301,567	100.0

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.

	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
Administrative expenses (Provision)/reversal of impairment losses on financial assets and contract assets	(124,951)	(141,306)	(139,589)
Other income	(13,548)	995	23,118
Other losses – net	48,384	73,584	53,742
	(157)	(19)	(3,603)

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	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit	201,118	246,920	230,549
Finance costs – net	(66,473)	(52,149)	(57,751)
Profit and total comprehensive income for the year	98,316	171,060	140,375
Profit and total comprehensive income attributable to:			
– Owners of the Company	66,830	110,696	96,431
– Non-controlling interests	31,486	60,364	43,944
	<u>98,316</u>	<u>171,060</u>	<u>140,375</u>

Our net profit increased by approximately RMB72.7 million or 73.4% from approximately RMB98.3 million for the year ended 31 December 2020 to approximately RMB171.1 million for the year ended 31 December 2021. 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.

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 2022. Such decrease was mainly due to (i) a decrease in gross profit 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 in 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
Others ^(Note)	36,837	2.7	22,363	1.7	40,220	2.8
Total	<u>1,376,321</u>	<u>100.0</u>	<u>1,290,635</u>	<u>100.0</u>	<u>1,443,732</u>	<u>100.0</u>

Note: “Others” mainly include heat transmission services, the sale of heat services-related goods, and designing services.

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During the Track Record Period, our revenue was mainly generated from (i) our heat services; and (ii) our engineering construction services. During the Track Record Period, all of our revenue was generated in the PRC.

Heat services

Fees from customers for provision and distribution of heat

The table below sets out our revenue generated from customers for our provision and distribution of heat by customer type for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%
Residential	433,627	58.6	484,139	62.2	519,806	60.9
Non-residential	306,313	41.4	294,303	37.8	333,736	39.1
Total	739,940	100.0	778,442	100.0	853,542	100.0

Revenue from our heat services to residential heat service customers increased steadily during the Track Record Period as a result of an increase in the total number of our residential heat service customers that used heat during the heat service periods, along with the growth of demand for our heat services leading to the expansion of our actual heat service area under our concessions. During the Track Record Period, the monthly heat rates for our residential heat service customers ranged from RMB2.5 per sq.m. to RMB5.8 per sq.m. in the regions we are operating. The monthly heat rate for residential heat service customers for our Lanzhou New Area Project increased from RMB5.0 per sq.m. to RMB5.8 per sq.m. for the 2022/2023 heat service period. Save for such increase, the heat rates remained unchanged in each of Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region during the Track Record Period.

The revenue from our heat services to non-residential heat service customers decreased for the year ended 31 December 2021 as a result of a decrease in the total number of our non-residential heat service customers due to the cessation of our heat services provided to certain non-residential heat service customers in Lanzhou City during 2021 (such as hotel operators and other commercial operators whose businesses were closed). The revenue from our non-residential heat service customers increased to approximately RMB333.7 million for the year ended 31 December 2022 as compared to approximately RMB294.3 million in 2021 due to the increase in total number of our non-residential heat service customers during the year. During the Track Record Period, the monthly heat rate for our non-residential heat service customers ranged from RMB4.8 per sq.m. to RMB10.2 per sq.m.. The monthly heat rates for non-residential heat service users for our Lanzhou New Area Project increased to the range of RMB8.0 per sq.m. to RMB10.2 per sq.m. for the 2022/2023 heat service period from the range of RMB7.0 per sq.m. to RMB9.2 per sq.m. for the 2019/2020, 2020/2021 and 2021/2022 heat service periods. Save for such increase, the heat rates for our non-residential heat service users remained unchanged in each of Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region during the Track Record Period.

Price subsidies from local government

During the Track Record Period, 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 that such subsidies will be received. Under the Announcement No. 45 of the State Administration of Taxation in 2019, the government subsidies directly linked to income or quantity of its sales of goods, services, intangible assets and real estates were subject to value-added tax with effect from 1 January 2020. Value-added tax in the amount of RMB15.1 million, RMB16.4 million and RMB14.6 million were deducted from the subsidies recognised as part of our revenue for the years ended 31 December 2020, 2021 and 2022, respectively. As such, the deduction of such value-added tax had an offsetting effect on the amount of subsidies recognised as part of our revenue for the years ended 31 December 2020, 2021 and 2022. Revenue from price subsidies increased from approximately RMB167.9 million for the year ended 31 December 2020 to approximately RMB182.5 million for the year ended 31 December 2021 primarily as a result of the expansion of our Shuozhou Project leading to the increase in revenue from provision and distribution of heat during the same period. Revenue from price subsidies decreased from approximately RMB182.5 million for the year ended 31 December 2021 to approximately RMB161.7 million for the year ended 31 December 2022, because of the decrease in relevant heat service costs used in the calculation of price subsidies.

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Pipeline connection fee

For the years ended 31 December 2020, 2021 and 2022, revenue from pipeline connection fee was approximately RMB65.4 million, RMB74.2 million and RMB83.7 million, respectively. Revenue from our pipeline connection fee increased during the Track Record Period, primarily attributable to an increase in the total number of property developers and property owners or occupants who first connect their properties to our primary distribution pipelines.

Engineering construction services

Revenue from our engineering construction services decreased from approximately RMB362.1 million for the year ended 31 December 2020 to approximately RMB229.1 million for the year ended 31 December 2021, primarily attributable to the general expansion of our concession operation in 2021 without any further large-scale construction activities as well as a general decrease in construction activities. For the year ended 31 December 2022, revenue from our engineering construction services increased by approximately 31.6% to approximately RMB301.6 million as compared to approximately RMB229.1 million in 2021. The increase was mainly due to (i) the increase in demand for heat services, resulting in more engineering construction activities to facilitate our provision of heat services; and (ii) the construction project of a new peak-shaving boiler in our heat source peak-shaving station for our Lanzhou New Area Project.

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, 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.

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
	RMB'000	%	RMB'000	%	RMB'000	%
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
Others ^(Note)	402	11.4	611	29.5	3,478	31.3
Total	291,390	21.2	313,666	24.3	296,881	20.6

Note: “Others” mainly include heat transmission services, the sale of heat service-related goods, and designing services.

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

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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 such project since there was a downward adjustment on the unit cost of heat procurement in the region during the year. Such increase was also attributable to an increase in 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 (i) the decrease in price subsidies revenue for the Shuozhou Project for the year ended 31 December 2022; and (ii) an increase in costs resulting from a substantial increase in coal price, resulting in an increase in procurement prices for our Lanzhou New Area Project during the same year.

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, 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 gross profit explained above for the corresponding period.

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, mainly attributable to expansions in Taiyuan Project and Lanzhou New Area Project.

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.

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 construction services for 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 were 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, we have 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 loan contract. Our net current liabilities during the Track Record Period were also attributable to a significant amount of contract liabilities (which

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represented the advance receipts from customers in relation to heat service 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 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, and further increased to approximately RMB922.6 million as at 31 December 2022 mainly as a result of our net profit being recorded over the Track Record Period. The continuous increase in our net assets throughout the Track Record Period was mainly attributable to the profit and total comprehensive income recorded for each of the three years ended 31 December 2022.

SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
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

Net cash from operating activities

Net cash from operating activities primarily consists of (i) profit before tax; (ii) adjustments for non-cash profit or loss items such as amortisation of intangible assets and profit from construction services under concession operations; and (iii) change in working capital. Net cash inflows from operating activities was approximately RMB442.5 million, RMB500.0 million and RMB617.8 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Net cash from operating activities increased from approximately RMB442.5 million for the year ended 31 December 2020 to approximately RMB500.0 million for the year ended 31 December 2021, and further increased to approximately RMB617.8 million for the year ended 31 December 2022. Such increases were primarily due to the continuous expansion of our Group’s heat services business, as well as the measures adopted by our Group to improve payment collection. For detailed discussions regarding our net cash from operating activities during the Track Record Period, see “Financial information – Liquidity and capital resources – Cash flows – Net cash from operating activities” in this document.

Net cash used in investing activities

During the Track Record Period, our net cash flows from investing activities were principally used in (i) purchases and disposal of financial assets at fair value through profit or loss; (ii) purchases of intangible assets; (iii) loans provided and repaid to a related party; and (iv) proceeds from financing arrangements with a third party. Our net cash used in investing activities was approximately RMB340.1 million, RMB98.7 million and RMB117.9 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Net cash used in investing activities decreased from approximately RMB340.1 million for the year ended 31 December 2020 to approximately RMB98.7 million for the year ended 31 December 2021, primarily attributable to the repayment of the loans and interest by the related party, as well as government grants received in relation to our purchase of intangible assets. Net cash used in investing activities increased from approximately RMB98.7 million for the year ended 31 December 2021 to approximately RMB117.9 million for the year ended 31 December 2022, primarily due to (i) a change from release of restricted cash for intangible assets to a cash inflow of restricted cash of approximately RMB[38.8] million and (ii) an

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increase in disposal of intangible assets; which was partially offset by a reduction in disposal of financial assets at fair value through profit or loss during the year. For detailed discussions regarding our net cash used in investing activities during the Track Record Period, see “Financial information – Liquidity and capital resources – Cash flows – Net cash used in investing activities” in this document.

Net cash used in financing activities

During the Track Record Period, our net cash flows from financing activities mainly included (i) proceeds from and repayment of borrowings; (ii) loans and repayment of loans from a related party; and (iii) payments for lease liabilities. Our net cash used in financing activities amounted to approximately RMB66.8 million, RMB356.9 million and RMB258.1 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Net cash used in financing activities increased significantly from approximately RMB66.8 million for the year ended 31 December 2020 to approximately RMB356.9 million for the year ended 31 December 2021, primarily attributable to a decrease in our proceeds from borrowings of approximately RMB494.2 million, which was partially offset by a decrease in our repayment of borrowings by approximately RMB141.2 million. Net cash used in financing activities decreased from approximately RMB356.9 million for the year ended 31 December 2021 to approximately RMB258.1 million for the year ended 31 December 2022. The decrease was primarily due to an increase in our repayment of borrowings of approximately RMB976.6 million, which was partially offset by proceeds from borrowings of approximately RMB846.0 million during the year. For detailed discussions regarding our net cash used in/generated from financing activities during the Track Record Period, see “Financial information – Liquidity and capital resources – Cash flows – Net cash used in/generated from financing activities” 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	0.4	0.5	0.7
Quick ratio	0.4	0.4	0.6
Return on total assets	2.0%	3.4%	2.7%
Return on equity	17.4%	24.5%	16.5%
Gearing ratio	2.1	1.4	1.0
Net debt to equity ratio	2.0	1.2	0.5
Interest coverage	2.5 times	3.5 times	3.2 times
Net profit margin	7.1%	13.3%	9.7%

Return on total assets

During the Track Record Period, the changes of our Group’s return on total assets were generally in line with the changes in our net profit during the same years.

Return on equity

Our Group’s return on equity increased from 17.4% for the year ended 31 December 2020 to 24.5% for the year ended 31 December 2021 as the increase in our Group’s net profit outpaced the increase in our Group’s equity. Our return on equity decreased from 24.5% for the year ended 31 December 2021 to 16.5% for the year ended 31 December 2022, mainly due to an increase in net profit for the year.

Gearing ratio

Our gearing ratio improved from 2.1 as at 31 December 2020 to 1.4 as at 31 December 2021, and further improved to 1.0 as at 31 December 2022 mainly due to the continuing increase in our Group’s total equity as well as the continuing decrease in our total borrowings throughout the Track Record Period.

Net debt to equity ratio

Our Group’s net debt to equity ratio decreased from 2.0 as at 31 December 2020 to 1.2 as at 31 December 2021, and further decreased to 0.5 as at 31 December 2022, mainly due to a continuing increase in our retained earnings and non-controlling interests and a decrease in our borrowings over the Track Record Period.

Interest coverage

Our Group’s interest coverage ratio increased from 2.5 times for the year ended 31 December 2020 to 3.5 times for the year ended 31 December 2021, because of the combined effect of (i) the increase in our Group’s profit before finance costs and tax; and (ii) the decrease

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in finance costs as a result of the decrease in overall borrowings. Our Group’s interest coverage ratio decreased to 3.2 times for the year ended 31 December 2022 due to the combined effect of (i) a slight increase in finance costs and (ii) a decrease in our Group’s profit before finance costs and tax compared to that for the year ended 31 December 2022.

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

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 net 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 our business and industry – 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 services for 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] received 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.

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 Province in early 2021.

[REDACTED] EXPENSES

The estimated total [REDACTED] expenses, including [REDACTED], (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), which represents 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

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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\$4.9 million) were expensed through the statement of profit or loss, while as at 31 December 2022, approximately RMB37.6 million (HK\$44.3 million) was recognised as prepaid [REDACTED] expenses, which 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 provision of 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 to RMB5.8 per sq.m. for residential users and RMB8.0 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. 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 is 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 the 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 inessential 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 is 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 have 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) 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 have 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.

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In respect of our heat services

Our provision of heat services has not been interrupted since the COVID-19 outbreak as 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 are usually calculated based on heat service area (instead of actual consumption of heat) and are 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 government lifted restrictions once the spread of COVID-19 was under control, our Directors consider that demands 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 since the outbreak of COVID-19 as their business activities have been interrupted. The balance of our trade 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 total trade receivables as at 31 December 2020, 2021 and 2022, respectively. 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.

In respect of our engineering construction services

Our engineering construction services were 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 to facilitate our provision of heat 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 “Summary – Recent developments and no material adverse change.”

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.

STATISTICS OF THE [REDACTED]

[REDACTED]

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[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 that the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per H Share (being the mid-point of the indicative [REDACTED] range set out on the cover page of this document).

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 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 new 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.

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. 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. 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 forth 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 December 2022 was approximately RMB193.2 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.