

RISK FACTORS

You should carefully consider all of the information in this document, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial position and results of operations could be materially and adversely affected by any of these risks. The [REDACTED] of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory environment which may differ significantly from those prevailing in other jurisdictions. For more information concerning the legal and regulatory system of the PRC and certain material matters set forth below, see “Regulatory overview”, “Appendix III – Taxation and foreign exchange”, “Appendix V – Summary of principal PRC and Hong Kong legal and regulatory provisions” and “Appendix VI – Summary of Articles of Association” in this document.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

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.

Our business operation is predominantly concentrated in the “Three North” region. As at 31 December 2020, 2021 and 2022, our actual heat service area of approximately 37.4 million sq.m., 39.8 million sq.m. and 41.9 million sq.m., respectively was from the “Three North” region. During the Track Record Period, all of our revenue was generated from services provided to properties in the “Three North” region. Due to such concentration, and due to the fact that the provision of heat services is a regulated industry in the PRC, any adverse development in government policies or business environment in the “Three North” region will materially and adversely affect our business, financial position and results of operations.

Our operations rely heavily on the following development factors in the “Three North” region, most of which are beyond our control:

- changes in the economic condition, the level of economic activities and the pace of urban development;
- the future regional development prospects; and
- changes in government regulations and policies regarding the heat services industry and its related businesses.

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Our concession rights for our heat services business will expire or may be terminated before expiration.

We are principally engaged in the provision of heat services under concession rights in Shanxi Province, Gansu Province, Henan Province and Inner Mongolia Autonomous Region. As at the Latest Practicable Date, we had concession rights under six Concession Agreements to provide heat services for a total Concession Area of approximately 419.9 million sq.m., of which 291.0 million sq.m. was situated in Shanxi Province, 68.3 million sq.m. in Gansu Province, 32.6 million sq.m. in Henan Province and 28.0 million sq.m. in Inner Mongolia Autonomous Region, respectively.

The initial term under each of our Concession Agreements is 30 years, except for the Taiyuan Concession Agreement which has a term of 25 years. Pursuant to some of our Concession Agreements, the concession grantor has the right to select a new concession grantee in accordance with the applicable laws and regulations upon the expiration of the concession period. If we perform well during the concession period, we shall have priority in re-obtaining the concession under the same conditions. The Concession Agreements may be terminated prior to expiration under certain circumstances, which include but not limited to: (i) mutual agreement of the parties; (ii) occurrence of force majeure events; (iii) occurrence of any serious suspension of heat services caused by our default which seriously affected public welfare and safety. For more information relating to the terms of our Concession Agreements, see “Business – Our Concession Agreements” in this document.

We cannot assure you that the Concession Agreements will not be terminated prior to their expiration or we will be successful in renewing their terms prior to or upon their expiration. If any of our Concession Agreements is terminated for whatever reasons, or we are not able to extend and/or renew them upon expiration, our business, financial position and results of operations would be materially and adversely affected.

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.

Since the beginning of the 2015/2016 heat service period for our Shuozhou Project and during the Track Record Period, we have been entitled to price subsidies for our Shuozhou Project from the Shuozhou government as the heat rates charged by us were insufficient to cover our relevant heat service costs, and our heat rates were not adjusted upwards in a timely manner. For the years ended 31 December 2020, 2021 and 2022, we recognised such price subsidies for the Shuozhou Project in the amounts of approximately RMB167.9 million, RMB182.5 million and RMB161.7 million, representing approximately 12.2%, 14.1% and 11.2% of our total revenue for the same years, respectively. On 10 April 2020, the NDRC published the “Measures for the Supervision and Review of the Pricing Cost of Urban Centralised Heat Services (Draft for Comments)” (《城鎮集中供熱定價成本監審辦法(徵求意見稿)》) (the “**Draft Measures for the Supervision and Review of the Pricing Cost**”) which were open for public consultation between 10 April 2020 and 9 May 2020. For more information, see “Regulatory overview – Pricing” in this document. If the Draft Measures for

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the Supervision and Review of the Pricing Cost were promulgated, we cannot assure you whether the Shuozhou government will conduct assessment on relevant heat service costs which may subsequently lead to a reduction in price subsidies received by us. Any significant reduction in, delay or failure of payment of price subsidies may also affect the recognition of the subsidy receivable as our revenue and may require us to make impairment provision for the receivables previously recognised, and could have a material adverse effect on our business, financial condition and operating results. For more information relating to price subsidies, see “Business – Heat distribution – Pricing” in this document.

The provision of heat services is considered to be a public utility business in northern China. It is regulated and at the same time supported by the PRC Government and local governments (which strive to maintain stability of heat services and livelihood) by way of government grants. For the years ended 31 December 2020, 2021 and 2022, we recognised government grants in the amounts of approximately RMB32.5 million, RMB58.7 million and RMB37.5 million, representing approximately 2.4%, 4.5% and 2.6% of our total revenue for the same years, respectively. However, we may not be necessarily nor may we be automatically eligible for all or any government grants nor can we assure you that the government grants to which we are currently entitled or enjoy will not be reduced or withdrawn by the relevant authority. Although our Concession Agreements stipulate that we may be able to obtain government grants, some of these government grants were subject to the discretion of local governments and we cannot predict, or guarantee the amount to be granted for any specific project. There is no assurance that our Group will receive in full the government grants to be provided to which we currently entitled for future financial years. If the amounts of these government grants are reduced or withdrawn in the future, our financial position may be adversely affected.

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.

We seek to obtain new concession rights to expand our heat services business nationally, including the “Three North” region and other regions when opportunities arise. In order to be eligible, we need to meet certain requirements such as capital sufficiency, technology support and experience in the industry. Furthermore, designation of heat service areas is subject to municipal planning by the relevant local governments. There is no assurance that we can fully meet the requirements formulated by the relevant authorities in order to become eligible to obtain new concession rights to expand our business presence.

In addition, we may not be able to expand our actual heat service area as planned within the Concession Area covered by our existing concession rights. Even though we have the right to operate heat service projects in the current total Concession Area conferred upon us pursuant to the Concession Agreements, expansion of our actual heat service area is subject to various factors (including but not limited to economic development, urbanisation process and growth of property construction and population). We cannot assure you that our actual heat service area will increase in a scale or at a rate as projected.

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Our actual heat service area may be adjusted due to unanticipated events.

Our actual heat service area may increase or decrease, and such adjustments in the size of our actual heat service area can be due to factors (such as the requests of government authorities and changes in governments' municipal plannings) beyond our control. If we are requested by any relevant government authorities to reduce our actual heat service area, our revenue from our provision of heat services may decrease and our business and results of operations may be adversely affected. In the event of an increase in our actual heat service area, we may not have sufficient capital expenditure to invest in, build or arrange for the development of infrastructure assets (i.e. heat service facilities) as required. We may negotiate with the concession grantors and/or relevant governmental authorities with respect to (i) the extent and the timing of any such constructions if, upon cost analysis, these construction activities will require capital expenditure more than what we are able to incur; and (ii) if a transfer of the relevant heat service facilities is needed. We may also seek to reduce our actual heat service area in order to focus on providing quality heat services to our existing actual heat service area. However, there is no assurance that any such negotiation to change the extent and the timing of the construction or reduce our actual heat service area will be successful. We cannot assure you that there will not be any change in the governments' municipal plannings, nor can we assure you that our actual heat service area will remain unchanged.

To ensure the continuous provision of heat services to Lanzhou New Area Vocational Education Park, in August 2017, Lanzhou Bureau requested us to provide our heat services to Lanzhou New Area Vocational Education Park* (蘭州新區職業教育園區), which had a heat service area of 580,000 sq.m. as at 22 June 2018. Subsequently, we were requested by Lanzhou Bureau to cease our provision of heat services for such area in April 2020. For the year ended 31 December 2020, revenue generated from our heat services business in such area was approximately RMB39.8 million.

In addition, in respect of our Taiyuan Project, based on the Proposal of City-wide Heat Services Coverage in Taiyuan (2017) (《2017年太原市清潔供熱全面覆蓋實施方案》) and the Notice of Constructing Primary and Secondary Urban Underground Pipelines in 2017 (《關於下達2017年第一批城市主次幹道項目建設任務計劃的通知》), we needed to construct certain additional heat service facilities within our Concession Area as required by the relevant local authority, where unplanned capital expenditures would be required from us. To avoid such unanticipated capital expenditures, we subsequently entered into negotiation and were approved by the local authority to reduce the size of that Concession Area by 86.0 million sq.m. (the "**Subject Area**"). For details, see "Business – Heat services – Heat service projects under concession operation – Reduction of the size of the Concession Boundary Area for our Taiyuan Project and the possible transfer of heat facilities in relation to the Subject Area which is currently under negotiation" in this document. As at the Latest Practicable Date, we were still in negotiation with the grantor of our Taiyuan Project for the transfer of all our heat service facilities in the Subject Area but no agreement had yet been reached between us and the grantor or the new operator on the transfer and the amount of consideration (if any). There is no certainty as to if and when the parties will reach such an agreement.

We cannot assure you that there will not be any other events which may lead to any adjustments in the size of our actual heat service area in the future, as a result of which our business operation and results of operations may be adversely affected.

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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.

During the Track Record Period and up to the Latest Practicable Date, we had business operations in Taiyuan and Shuozhou of Shanxi Province, Lanzhou of Gansu Province and Hulunbuir of Inner Mongolia Autonomous Region. Therefore, we are exposed to a number of risks due to the span of our geographical locations. These risks include (i) inability to rapidly adapt to the local culture and operational practice; (ii) failure to comply with local laws and regulations, for example, regulations relating to pricing and heat service qualifications; (iii) failure to obtain appropriate heat sources; (iv) failure to properly handle local governments, especially our relationships with our concession grantors; (v) insufficient financial, operational, managerial and human resources to support cross-provincial operation and business expansion; (vi) failure to improve our information technology systems in time to cater for the demands of our cross-provincial operation, in particular, our heat production monitoring system and heat transmission monitoring system which enables us to manage our operations in different geographical locations; and (vii) failure to establish our corporate image and promote our corporate culture successfully. If we are not able to effectively manage any or all of these risks, or if we are not able to achieve the intended results of operations in each of the local markets we enter, in a timely manner or at all, our business, financial position and results of operations may be materially and adversely affected.

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.

As at the Latest Practicable Date, there were 465 heat exchange stations for our provision of heat services to heat service customers. Of these 465 heat exchange stations, one heat exchange station was constructed on our land, while the other 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. Further, as at the Latest Practicable Date, no real estate certificates had been obtained for three of our leased properties in which some of our offices are located.

There were title defects associated with the 465 heat exchange stations for our heat service operations. In respect of one self-owned heat exchange station which we constructed on our land, 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. In respect of the other 464 heat exchange stations located on third-party owned land, we either obtained written permissions from or entered into agreements with grantors for the use of the stations and/or land. However, to the best of our Directors' knowledge, such grantors did not provide all of the requisite title certificates to us. As we are not the owner to the land and/or these heat exchange stations, we do not have the authority or responsibility to apply for the relevant title certificates. For details, see “Business – Properties – Heat exchange stations for our heat service operation” in this document. If we are unable to continue to use the heat

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exchange stations and operate the equipment installed therein, or fail to remove and relocate the equipment to another heat exchange station in a timely manner or on commercially reasonable terms, or at all, or are subject to substantial claims or penalties, our ability to provide heat services will be materially and adversely affected, which may in turn materially and adversely affect our business, financial position and results of operation.

In respect to the three leased properties for which no real estate certificate has been obtained as at the Latest Practicable Date, see "Business – Properties – Leased properties" in this document for more information. We may be required to relocate our offices currently occupying those four properties, which may adversely disrupt our business operation.

Any shortage of, disruption or suspension to our heat sources could materially and adversely affect our heat services business.

During the Track Record Period, we were engaged in heat production in Taiyuan City and Shuozhou City of Shanxi Province and Lanzhou of Gansu Province. We procured heat from cogeneration plants for our provision of heat services in Taiyuan City and Shuozhou City of Shanxi Province and Hulunbuir of Inner Mongolia Autonomous Region, and utilised geothermal heat as a heat source for our Shanxi Demonstration Zone Project. For the years ended 31 December 2020, 2021 and 2022, in terms of amount of heat, approximately 23.7%, 21.7% and 21.2% of our heat was self-produced and approximately 76.3%, 78.3% and 78.8% of our heat was procured from local cogeneration plants, respectively.

Our heat production is dependent on our production facilities which are subject to various operating risks and disruptions, including but not limited to sufficiency of supply of coal or other fuel, suspension of utilities, breakdown or failure of equipment, labour disputes, natural disasters and industrial incidents. The occurrence of any of these may limit or disrupt our ability to produce heat and interrupt our continuous provision of heat services, which may give rise to significant losses, such as revenue losses due to disrupted production. Where our heat services rely on heat procured from cogeneration plants, we cannot assure you that there will not be any disruption to the operation of those cogeneration plants. Where our heat services rely on geothermal heat produced from underground water, we cannot assure you that there will be no interruption to our extraction of underground water due to the varying practice in respect of issuing licences and permits in relation to geothermal heat in Shanxi Province. Furthermore, while our concession rights to operate our heat services business are valid for a long-term period, we did not enter into any long-term agreements with cogeneration plants to secure heat sources. For more information in relation to our heat procurement, see "Business – Heat sources" in this document.

During the Track Record Period and up to the Latest Practicable Date, we have implemented safety production procedures and emergency response plans to ensure our stable provision of heat services in case of heat source shortage, disruption or suspension. However, if such safety production procedures and emergency response plans are ineffective or fail to perform, our provision of heat services to our heat service customers could be materially and adversely affected.

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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.

During the Track Record Period, we received pipeline connection fee from property developers and property owners or occupants in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region when they first connected their properties to our primary distribution pipelines. We charged such pipeline connection fee according to our Concession Agreements and heat service agreements. On 23 December 2020, the Opinion on Sorting Out and Standardising the Charges for Urban Water, Electricity, Gas and Heat Supply Industry to Promote the High-quality Development of the Industry (Guo Ban Han [2020] No. 129) (《關於清理規範城鎮供水供電供氣供暖行業收費促進行業高質量發展意見》(國辦函[2020]129號)) (“**Guo Ban Han No. 129**”) was issued by the General Office of the State Council to local governments. It took effect from 1 March 2021 and provided that by 2025, among other things, (i) the right to charge for interface fees, centralised network construction fees, grid connection fees and other similar fees (including pipeline connection fees) by urban centralised heat service enterprises in northern heating areas from their users shall be cancelled if these fees were charged without legal and effective policy basis; (ii) such cancellation shall be gradually implemented by local governments in conjunction with the introduction of reasonable adjustments to the price of heat services and upon the establishment of a governmental subsidy mechanism; and (iii) the timing for implementation of such cancellation shall be determined by local governments.

In 2021, each of the relevant pricing authorities of Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province published corresponding guidance plans with a view to introducing and implementing the changes necessitated by Guo Ban Han No. 129. It is contemplated that the actual cancellation, along with the implementation of reasonable price adjustments and subsidy mechanism, would as a guiding principle take place no later than the end of 2025. As at the Latest Practicable Date, our PRC Legal Advisers advised that they have not found through public enquiries that any of the local governments of Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province have announced any detailed policies in relation to the complete cancellation of the right to charge the above-mentioned fees, or details of the corresponding price adjustments and governmental subsidy mechanisms that will be introduced.

In the event that we cease charging pipeline connection fee and if we cannot adjust our heat rates proportionally and/or receive governmental subsidy for our heat service operations, our financial position may be adversely affected. For the details, see “Business – Heat distribution – Pricing – Pipeline connection fee” and “Regulatory overview – Pricing – Charges for interface fees, centralised network construction fees, grid connection fees and other similar fees” in this document.

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Fluctuation in heat procurement cost may materially and adversely affect our profitability.

During the Track Record Period, we procured heat from cogeneration plant operators in Shanxi Province and Inner Mongolia Autonomous Region for our operation of Taiyuan Project, Shuzhou Project and Hulunbuir Project. For the years ended 31 December 2020, 2021 and 2022, the average heat procurement cost (without VAT) was approximately RMB22.9/GJ, RMB23.7/GJ and RMB23.4/GJ, and our heat procurement cost was approximately RMB369.3 million, RMB368.2 million and RMB398.9 million, representing approximately 34.0%, 37.7% and 34.8% of our total cost of sales for the same years, respectively. Heat procurement price we pay for heat procurement is subject to regulatory control. The price determined by the local government and the pricing bureau is binding on us. Since we may not necessarily be able to transfer all of the increased heat procurement cost to our heat service customers, our profitability may be materially and adversely affected if heat procurement price increases significantly. According to a sensitivity analysis conducted for illustrative purposes, an increase of 5% in our average heat procurement cost would have decreased our profit before tax by approximately RMB19.0 million, RMB18.8 million and RMB20.0 million for the years ended 31 December 2020, 2021 and 2022, respectively. Similarly, an increase of 10% in our average heat procurement cost would have decreased our profit before tax by approximately RMB38.0 million, RMB37.6 million and RMB40.1 million for the same periods, respectively. As we are unable to predict the fluctuation of heat procurement price, we may not be able to adjust our business model in a timely manner or at all, thus affecting our business and results of operations.

Fluctuation in coal procurement cost may materially and adversely affect our profitability.

Coal is the primary raw material used for the heat production through our coal-fired boilers in Lanzhou of Gansu Province. Accordingly, our heat services business in Lanzhou is, to a certain extent, subject to fluctuations in coal price. For the years ended 31 December 2020, 2021 and 2022, our coal procurement cost was approximately RMB60.8 million, RMB74.4 million and RMB109.4 million, respectively, accounting for approximately 5.6%, 7.6% and 9.5% of our total cost of sales. For the year ended 31 December 2021, our total cost of procurement of coal consumed increased by approximately RMB13.6 million, representing a significant increase of approximately 22.4% as compared to the year ended 31 December 2020. Such increase in total cost of procurement of coal consumed for our heat services was mainly attributable to the increase in the unit procurement price of coal during 2021, which was in line with the overall increase in the price of coal in the PRC. According to the Frost & Sullivan Report, the price of coal in China experienced a notable increase in 2021 and 2022, where the Coal Price Index increased from 163 to 220 in 2021, and further increased to 241 in 2022, as affected by increased international coal price and insufficient domestic supply. Since we may not necessarily be able to transfer the increased coal procurement cost to our heat service customers, particularly because the heat rates which we charge to our heat service users are required to follow the benchmark heat rate determined and approved by the local pricing authorities, our profitability may be materially and adversely affected if coal prices increase significantly. As we are unable to predict the fluctuation of coal price, we may not be able to adjust our business model in a timely manner or at all, thus affecting our business and results of operations.

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As a result of the ongoing military conflict between Russia and Ukraine in 2022 and 2023, the United States, European Union, United Kingdom, Switzerland and other countries have imposed, and may further impose, economic sanctions and export controls targeting certain Russian entities and/or individuals. Such imposition of broad economic sanctions and controls has affected, and may continue to affect the global economy and the global prices of commodities such as coal. Russia is one of China's main suppliers of coal. According to the Frost & Sullivan Report, the coal price index in the PRC is expected to increase to 257 for 2023 as a result of the Russia-Ukraine military conflict and insufficient domestic supply and increased in domestic demand. If coal prices increase significantly, we may not necessarily be able to pass on the increased costs of procuring coal to our heat service customers. In such case, our profitability, results of operations and financial condition may be adversely affected.

What we can charge for our heat services is subject to guided prices prescribed from time to time by the PRC Government at various levels and therefore our profitability may be materially and adversely affected if these pricing policies are not favourable to us.

According to the PRC Pricing Law, the PRC Government may direct, guide or adjust the pricing throughout the heat service value chain, including but not limited to heat procurement price with cogeneration plants and heat rates chargeable to heat service users. On 10 April 2020, the NDRC published the "Administrative Measures for the Price and Fee Control of Urban Centralised Heat Services (Draft for Comments)" (《城镇集中供热价格和收费管理办法(征求意见稿)》) (the "**Draft Measures for the Price and Fee Control**") which were open for public consultation between 10 April 2020 and 9 May 2020. As at the Latest Practicable Date, there had been no further announcements from the NDRC as to whether they will be amended, supplemented or revised, or adopted and promulgated. As advised by our PRC Legal Advisers, the local governments shall follow such draft measures in the determination of and adjustments to the heat rates once they are promulgated. The Draft Measures for the Price and Fee Control also laid out certain provisions stating that determination of and adjustments to heat rates are to be formulated and implemented by local competent pricing authorities, by taking into account "actual circumstances of the locality" or "actual circumstance" and "regional differences". As such, prevailing heat procurement price and heat rates may vary at different provinces, autonomous regions, municipalities and cities due to different economic conditions, living conditions and heat production costs.

The PRC Government may adjust any such pricing as a result of different considerations including but not limited to (i) fluctuations in the costs of raw materials; (ii) changes in heat demand levels and (iii) overall economic development. We, however, do not have direct control over the prices or their adjustments and we may not be able to transfer all or any of our increased costs to our heat service customers. For example, when the price of coal exceeds a certain degree, the PRC Government may increase the ex-factory price of the cogeneration enterprises correspondingly. Such adjustment would result in an increase of our heat procurement cost. According to a sensitivity analysis conducted for illustrative purposes, an increase of 5% in our average heat procurement cost would have decreased our profit before tax by approximately RMB19.0 million, RMB18.8 million and RMB20.0 million for the years ended 31 December 2020, 2021 and 2022, respectively. Similarly, an increase of 10% in our

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average heat procurement cost would have decreased our profit before tax by approximately RMB38.0 million, RMB37.6 million and RMB40.1 million for the same years, respectively. If we cannot proportionally adjust our heat rates in a timely manner, we may record a lower profit or even loss. For further information about the pricing of our heat services, see "Business – Heat distribution – Pricing" in this document. In the event of an increase in costs due to circumstances beyond our control, such as increases in our heat procurement costs, changes in laws, rules or government regulations or orders, or force majeure events, we may apply to the relevant local pricing authority for an adjustment of our heat rates. Such application is made based on circumstances which we believe constitute grounds for adjustment, taking into account (i) our relevant heat service costs; (ii) our operating costs and expenses; and (iii) reasonable profits. Based on this application, the local pricing authority may allow us to adjust the heat rates which we charge to our heat service users. However, we cannot assure you that (i) any such application will be approved; (ii) the corresponding adjustments will be made; or (iii) the local pricing authority will not make downward adjustment on the heat rates. We also cannot assure you that we will be able to operate under a cost structure which is in line with the price adjustments. If we are not able to transfer all or any of our increased costs to our heat service customers, or the local pricing authority decides to make downward adjustment on the heat rates, we may not be able to maintain our profitability. As a result, our financial position and results of operations may be materially and adversely affected.

Our property valuation is based on certain assumptions which, by their nature, are subjective and uncertain, and may materially differ from actual results and may not accurately reflect our financial position.

We are required to reassess the fair value of our investment properties at the end of each reporting period. Under IFRS, gains or losses arising from changes in fair value of our investment properties are included in our consolidated statements of comprehensive income for the period in which they arise. For the years ended 31 December 2020, 2021 and 2022, our Group recorded fair value losses of investment properties of approximately RMB6.3 million, RMB2.0 million and RMB5.3 million, respectively. The property valuation report with respect to the appraised value of our properties set out in Appendix IV to this document is based on various assumptions which, by their nature, are subjective and uncertain, and may differ from actual results. These assumptions include the followings: (i) the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests; (ii) allowances have been made neither for any charges, mortgages or amounts owing on the property interests, nor for any expenses or taxations which may be incurred in effecting a sale; and (iii) the owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term of the land use rights. Unforeseeable changes in general and local economic conditions or other factors beyond our control may also affect the value of our properties. As a result, the valuation of our properties may differ materially from the price we could receive in an actual sale of the properties in the market. Therefore, they may not accurately reflect our financial position and should not be taken as their actual realisable value.

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The fair value measurements of our financial assets at fair value through profit or loss require the use of estimates that are based on significant unobservable inputs in the valuation technique, which is inherently subject to uncertainty.

During the Track Record Period, our level 3 financial assets at fair value through profit or loss consisted of our investment in wealth management products issued by banks in the PRC with expected investment return rates ranged from 2.10% to 3.88% per annum. As at 31 December 2020, 2021 and 2022, such financial assets at fair value through profit or loss amounted to approximately RMB11.0 million, RMB17.1 million and nil, respectively.

The wealth management products were measured at fair value with significant unobservable inputs used in the valuation technique. Our management determines the fair value of our level 3 investment using respective expected return rates of the wealth management products. See note 3.3 to the accountant's report as set out in Appendix I to this document for more information about the fair value measurement of our level 3 financial assets at fair value through profit or loss. Any changes in the unobservable inputs will affect the estimated fair value of our level 3 financial assets at fair value through profit or loss, which lead to uncertainty in accounting estimation. A substantial decrease in the fair value of our financial assets at fair value through profit or loss may have an adverse effect on our financial position as well as our results of operations if we hold any financial assets at fair value through profit or loss in the future.

There is no assurance that we will continue to receive the preferential tax treatment or other incentives we currently enjoy.

During the Track Record Period, some of our subsidiaries were entitled to preferential tax treatments as well as other incentives pursuant to the relevant laws and regulations:

- under the PRC EIT Law, in general, foreign-invested enterprises and domestic companies are subject to a uniform tax rate of 25%. Enterprises qualified as High and New Technology Enterprises (高新技術企業) are entitled to an enterprise income tax rate of 15% rather than the 25% uniform tax rate. The preferential tax treatment continues as long as an enterprise can retain its High and New Technology Enterprise status. Taiyuan Renewable Energy, Shanxi Shuangliang New Energy and Shanxi Demonstration Zone Heat Supply have been accredited as a High and New Technology Enterprise and thus enjoyed the preferential corporate income tax rate of 15% during preferential tax period since November 2018, September 2019, and December 2020, respectively.
- pursuant to the Notice of Implementation of the State Taxation Administration on Relevant Tax Policies on Western Development (《國家稅務局關於落實西部大開發有關稅收政策具體實施意見的通知》), a company located in western part of the PRC and principally engaged in the category of encouraged business activities that generates a revenue accounting for over 70% of its total revenue is entitled to enjoy a reduced rate of EIT at 15% since 1 October 2014 if it has filed with and approved by the local tax bureau. During the Track Record Period, both Hulunbuir Shuangliang and Lanzhou Shuangliang have been entitled to the 15% preferential tax rate.

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- according to the Provisional Regulations on VAT of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council in 2017, the Notice relating to Preferential Policies for VAT, Real Estate Tax and Urban Land Use Tax for Heat Supply Enterprises (《關於供熱企業增值稅、房產稅、城鎮土地使用稅優惠政策的通知》) released by MOF and the State Taxation Administration in 2016 and the Notice relating to Continuing Preferential Policies for VAT, Real Estate Tax and Urban Land Use Tax for Heat Supply Enterprises (《關於延續供熱企業增值稅、房產稅、城鎮土地使用稅優惠政策的通知》) released by MOF and the State Taxation Administration in 2019, heat service operators in the “Three North” region (including Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region) enjoy preferential policies in relation to VAT, real estate tax and urban land use tax.

See “Taxation and foreign exchange” as set out in Appendix III to this document for more details. During the Track Record Period, our revenue generated from provision of heat services to our residential heat service customers was exempted from VAT and our land and buildings used for production and supply of heat were exempted from real estate tax and urban land use tax.

- Gansu Smart Energy were exempted from corporate income tax for the first three years since its first tax year, and is entitled to a 50% reduction of the applicable tax rate for the subsequent three years (三免三減半) pursuant to the Announcement on Implementations of the Collection Management Issues Concerning Energy Saving Service Enterprise’s Energy Management Contract Project EIT Preferential Policies to Facilitate the Development of Energy Conservation Service Industry (《關於落實節能服務企業合同能源管理項目企業所得稅優惠政策有關徵收管理問題的公告》).

The PRC Government may review the preferential policies on an as-needed basis and may amend these policies from time to time. There is no assurance that we will continue to receive these preferential tax treatments in the future and our tax expenses may increase, which could materially and adversely affect our financial position and results of operations.

We are subject to a broad range of environmental, safety and health laws and regulations in the PRC, compliance with which may be difficult or expensive. Failure to comply with these laws and regulations may render us subject to penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licences or permits required for our business operation.

Our business operations are regulated by various environmental, safety and health laws and regulations as set out in “Regulatory overview” in this document. Failure to comply with these regulations may result in penalties, fines, governmental sanctions, proceedings and/or suspension or revocation of our licences or permits required for our business operation. Given the breadth and complexity of these regulations, we have established efficient compliance and monitoring systems to ensure our compliance with all relevant laws and regulations. However, environmental, safety and health laws and regulations are constantly evolving in the PRC, and

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the PRC Government may impose additional or more stringent laws or regulations in the future. In such case, we may need to improve our compliance monitoring system and incur substantial costs to ensure full and timely compliance with such laws and regulations. There is no assurance that we will be able to pass on such costs to our customers. We may also need to invest significant time and resources to cater for changes in laws and regulations or newly-promulgated laws and regulations. This may increase our operating costs or result in the delay of our business expansion, thereby affecting our financial position and results of operations.

We may face claims and/or early termination from our heat service customers should we fail to perform our heat service agreements or fail to meet legal and regulatory requirements.

We need to provide heat services to heat service customers according to our heat service agreements and in compliance with all applicable laws and regulations. For example, under our heat service agreements, our heat service period should follow the period prescribed by the measures adopted by the relevant local authority for the administration of heat services and use. Our provision of heat services shall also be on a continuous and stable basis, and subject to the applicable laws, regulations and heating measures promulgated and amended by the relevant authorities from time to time. Further, we are required to patrol and inspect heat service facilities regularly to ensure heat service safety. According to our heat service agreements, if we fail to comply with the terms of the agreements or the standards prescribed by the relevant regulations, our heat service customers may lodge requests of refunding heating fees, and may even terminate our heat services in whole or in part prior to the expiration of the heat service agreements. In addition, our customers may take legal actions against us if they consider that our services are inconsistent with our service standards that we have agreed to. The claims against us and/or the termination of our heat services in whole or in part prior to the expiration of the heat service agreements may adversely affect our business, financial position, results of operations and prospects.

Our heat service operation is affected by seasonality.

Heat services are affected by seasonality. Pursuant to all relevant rules and regulations applicable in our Concession Area, heat service period usually begins from October each year to April of the following year. Heat service operators shall strictly follow this prescribed heat service period. Furthermore, revenue derived from the provision of heat services is recognised over the period by reference to the progress towards full and complete discharge of the obligations stipulated in the heat service agreements. As a result, our revenue is generally higher in the first and fourth quarter during each financial year. For the years ended 31 December 2020, 2021 and 2022, in respect of our heat services segment, revenue generated in the first and fourth quarter of the year in aggregate amounted to approximately 91.3%, 91.5% and 91.7% of our total revenue generated from the provision of heat services in that year. Therefore, our quarterly or interim results may not be a meaningful indicator of our overall performance.

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Heat services are affected by the overall weather condition during the heat service period.

Heat services are subject to the weather condition during the heat service period. Usually, higher level of heat consumption is required for the purpose of maintaining a desired in-room temperature in colder heat service period as the outdoor temperature is generally lower. Higher heat consumption in turn increases the demand for heat procurement from cogeneration plants and coal consumption, which then increases the overall costs in heat services, and vice versa. According to a sensitivity analysis, for illustrative purposes, if the average outdoor temperature in our actual heat service area had been 1°C colder for each of the years ended 31 December 2020, 2021 and 2022 and in order to maintain a desired in-room temperature as aforementioned, our costs of purchase of heat would have increased by approximately 1.4%, 1.5% and 1.7%, respectively. We may experience cold winters with severe weather condition which is out of our control. As a result, our financial performance of heat services may vary depending on weather condition during heat service period and you should not predict our results of operation merely based on our financial performance of heat service business in a particular year.

Our EMC services were launched with limited history.

We launched our first and only EMC project in 2017. We have limited experience in operating this line of business. We have encountered and expect to continue to encounter risks and difficulties experienced in relation to the management of our EMC project. These risks and difficulties may be heightened depending on the development of that sector of the market. Managing these risks and difficulties depends on, amongst other things, our ability to: (i) maintain effective control of operating costs and expenses for our management of EMC project; (ii) generate revenue as anticipated from our EMC project; (iii) develop and maintain internal personnel, systems and procedures to comply with the regulatory requirements applicable to the EMC industry and carbon emissions trading market; and (iv) respond to competitive market conditions in the relevant industries. If we fail to manage our EMC business, our results of operations and financial position may be adversely affected.

Changes in accounting standards applicable to service concession arrangements and changes in our judgements and assumptions in applying these accounting standards may have a material impact on our results of operation and financial position.

We apply IFRIC 12 Service Concession Arrangements and other relevant accounting standards for the preparation of our consolidated financial statements in connection with, among others, our service concession arrangements. These accounting standards may be changed or amended from time to time. Any changes in these accounting standards may result in changes in the recognition, measurement and/or classification of our revenue, expenses, assets and liabilities, which could have material impacts on our results of operations and financial position. Moreover, in applying these accounting standards, we are required to make judgements, estimates and assumptions with respect to our revenue, expenses, assets and liabilities. These estimates and assumptions are not readily apparent from other sources and are based on historical experience and other factors that we consider to be relevant. For more

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information on the accounting treatment of our acquisition of the concession right and operation of our heat service projects under our Concession Agreements, including construction revenue recognised, see "Financial information – Key factors affecting our results of operations – IFRIC 12 Service Concession Arrangements" in this document. There is no assurance that our estimates and assumptions can always be accurate, and we may have to make necessary changes and adjustments in response to the relevant policies governing these estimates and assumptions, in which case our results of operations and financial position could be materially and adversely affected.

There is a mismatch between the cash outflow for our construction cost and the cash inflow for our projects accounted for under IFRIC 12 Service Concession Arrangements.

Under IFRIC 12 Service Concession Arrangements, while we recognise construction revenue for our heat service projects, we do not receive any actual cash payment for our construction services from the local government. The actual cash inflow for our construction cost for our heat service projects is received at a later stage in the form of cash payment during the operation phase of our respective heat service projects over the stipulated concession periods. Therefore, there is a mismatch between the cash outflow for our construction cost during the construction phase and the cash inflow we can receive when we charge our heat service customers during the operation phase. Usually, we receive payment from our customers over a period of 25 to 30 years, which only begins upon commencement of the provision of heat services. Therefore, during the construction phase of our heat service projects, we are required to rely on our internal resources and external financing to supplement cash flows from operations in order to meet our payment obligations in full and on time. If we fail to secure sufficient external financing or generate sufficient cash from our operations to finance our projects, or if our finance costs increase materially, our business, financial position, results of operation and prospects may be materially and adversely affected.

We may not receive sufficient cash payments from projects for which construction costs have been incurred, if the relevant project does not materialise or if the actual cash receipts in the operation phase of the project are significantly smaller than expected. We may need to recognise impairments in the subsequent periods for the related intangible assets. For the accounting treatment of revenue generated from our construction services in connection with our heat service projects, see "Financial information – Key factors affecting our results of operations – IFRIC 12 Service Concession Arrangements" in this document. Impairments or write-offs may occur in the future, in which case our financial position and results of operations may be materially and adversely affected.

Meanwhile, due to the varied profit margin of different stages of our BOT heat service projects, our overall profit margin, which takes into account of our profit margins from different stages, may be affected during the construction phase of the BOT projects. Should we undertake more engineering construction services in the future, our overall profit margin may be affected.

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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.

Our Group’s intangible assets amounted to approximately RMB3,169.9 million, RMB3,190.7 million and RMB3,341.0 million as at 31 December 2020, 2021 and 2022, respectively, representing a significant portion of the assets on our consolidated statements of financial position during the Track Record Period. We recorded our revenue from engineering construction services under IFRIC 12 that correspondingly increased intangible assets on our consolidated statements of financial position. Determining whether such intangible assets are impaired requires an estimation of the recoverable amount of the individual cash generating units to which the intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires our Group to estimate the future cash flows expected to arise from the individual cash generating units and suitable discount rates in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts, circumstances and the existing government policies, applicable to the relevant operation which results in downward revision of future cash flow, we may need to recognise impairments or write-offs in the subsequent periods for the related intangible assets. No impairment was required after our Directors’ impairment assessment during the Track Record Period. However, we cannot assure you that impairments or write-offs will not occur in the future, in which case our financial position and results of operations may be materially and adversely affected.

Breach of financial covenants under our bank borrowings may result in repayment on demand which may materially and adversely affect our liquidity and financial position.

As at 31 December 2020, 2021 and 2022, our bank borrowings were approximately RMB1,308.6 million, RMB1,061.3 million and RMB881.2 million, respectively, some of which are subject to the fulfilment of covenants relating to certain debt servicing financial indicators.

As at 31 December 2020 and 2021, certain bank loan amounting to approximately RMB193.0 million, and RMB179.0 million was classified as current liability in the consolidated statements of financial position as our Group did not comply with certain financial undertakings, respectively. For more details, see “Financial information – Discussion of certain items of consolidated statements of financial position – Indebtedness – Borrowings” in this document. Our lending banks may impose additional operating and financial restrictions on us and the terms of our existing facility agreements, which may adversely affect our financial position. In addition, our lenders may conclude that we are at risk of not being able to repay the indebtedness due to our failure to fulfill the financial covenants. As a result, we may fail to renew or obtain bank borrowings. If any such possible situation materialises, it is likely to materially and adversely affect our liquidity and financial position.

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We are subject to credit risk with respect to trade receivables and contract assets.

Our trade receivables mainly consisted of the amounts receivable from (i) the local government providing the price subsidies; (ii) customers of our heat services, such as governmental institutions and property management companies; and (iii) the customer of our EMC services. As at 31 December 2020, 2021 and 2022, our average trade receivables turnover days were 135.2 days, 133.9 days and 145.0 days, respectively. Our contract assets mainly represented our rights to receive consideration in respect of our engineering construction services provided to our customers. As at 31 December 2020, 2021 and 2022, our contract assets amounted to approximately RMB44.1 million, RMB58.7 million and RMB14.6 million, respectively. For details about our trade receivables and contract assets, see “Financial information – Discussion of certain items of consolidated statements of financial position – Trade receivables” and “Financial information – Discussion of certain items of consolidated statements of financial position – Contract assets” in this document.

With regards to trade receivables, there can be no assurance that all such amounts due from our customers would be settled on time, or that such amounts will not continue to increase in the future. Accordingly, we may face credit risk in collecting trade receivables due from customers. If significant amounts due to us are not settled on time or substantial impairment is incurred, it could materially and adversely affect our business, results of operations and financial position. With regards to contract assets, we cannot guarantee that all our contract assets are recoverable in the future, and our business operations and cash flow are subject to the risk of delay in payment from our customers. We also cannot assure you that we will be able to fully recover the outstanding amounts due from our customers, if at all, or that our customers will settle the amounts in a timely manner. If a customer delays its payment, or fails to settle the payment to us, our cash flow and working capital may be materially and adversely affected.

We may be exposed to impairment losses on prepayments and other receivables.

Our prepayments and other receivables primarily consisted of (i) amounts due from a related party mainly attributable to the loan financing arrangement with Beijing Zhongchuang; (ii) deposits required for utility services; (iii) consideration receivable from disposal of right-of-use assets; and (iv) prepayments to our suppliers related to our engineering construction services. For details, see “Financial information – Discussion of certain items of consolidated statements of financial position – Current assets and current liabilities – Prepayments and other receivables” in this document. There can be no assurance that we will not have bad debts in the future. In the event that the actual recoverability of prepayments and other receivables is lower than the expected level, we may need to make provision for impairment of prepayments and other receivables, which could adversely affect our cash flow position and our ability to meet our working capital requirements, thereby materially and adversely affecting our business, financial position and results of operations.

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We engage contractors to carry out construction works of our heat service facilities including primary distribution pipelines and heat exchange stations and we may not have full control over them.

We engage some third party contractors to construct heat service facilities, including primary distribution pipelines and heat exchange stations. When selecting contractors, we consider factors such as construction capability, past experience, industry reputation, quality, price, skill and requisite qualifications and licences. We require them to carry out their work in accordance with relevant quality, safety and environmental standards. However, our control over them is limited. We cannot assure you that they will comply with the standards at all times, which could result in us being subject to a breach of the relevant laws and regulations. Neither can we assure you that any such contractors will provide satisfactory services or complete works within the agreed timeframe. Any removal or termination of unsatisfactory third-party labour service providers would require us to seek new providers, which would result in delays and adversely affect our operations accordingly. In the event of fraud or misconduct by a labour service provider, we might be exposed to material liability and be held responsible for damages, fines or penalties and our reputation may suffer.

We hire dispatched staff in some supporting positions.

We hired dispatched staff through dispatch agencies at four of our operating subsidiaries in the PRC. During the Track Record Period, four of our subsidiaries breached the prescribed statutory maximum threshold of dispatched staff. These dispatched staff were mainly hired for positions with supporting nature. Pursuant to the Interim Provisions on Labour Dispatch (《勞務派遣暫行規定》) (the “**Interim Provisions**”) which came into effect on 1 March 2014, an employer shall strictly control the number of dispatched staff to make sure that it does not exceed 10% of the total number of its workers. In order to reduce the percentage of dispatched staff engaged by us to a level that complies with the Interim Provisions, we scaled down our engagements with dispatched staff. As at the Latest Practicable Date, we completed the rectification process and brought the dispatch staff level within the limit prescribed by the Interim Provisions. See “Business – Employees – Dispatched staff” and “Business – Regulatory compliance – Non-compliance incidents – (2) Dispatched staff” in this document for details. We cannot guarantee if we can always have sufficient workers to perform different types of services in the future at our subsidiaries.

We incur contract liabilities primarily from payments received by us in advance in respect of (i) our provision and distribution of heat; and (ii) pipeline connection fee, and may not be able to settle such contract liabilities if we cannot fulfil our obligations.

Contract liabilities we incurred were primarily due to the advances received from customers in relation to the provision and distribution of heat as we generally receive payment from customers before the heat service period, pipeline connection service and construction and maintenance services. Such contract liabilities will be recognised as revenue in the following years when the relevant services are provided by us, and will not involve cash outflow in the future.

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As at 31 December 2020, 2021 and 2022, our contract liabilities amounted to approximately RMB1,916.0 million, RMB2,091.5 million and RMB2,262.0 million, respectively. If we cannot provide our services, our reputation and the relationship with the customers will be affected, and we will not be able to settle our contract liabilities and therefore cannot recognise revenue, which may in turn adversely affect our results of operations and financial condition, including our cash and liquidity position.

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

We had net current liabilities of approximately RMB1,483.7 million, RMB966.9 million and RMB551.8 million as at 31 December 2020, 2021 and 2022, respectively, mainly comprised of contract liabilities in respect of (i) our provision and distribution of heat, and (ii) pipeline connection fee; and borrowings for our daily operation. For details, see “Financial information – Discussion of certain items of consolidated statements of financial position – Current assets and current liabilities” in this document. We may continue to record net current liabilities in the future.

We may not have sufficient capital in support of our business expansion.

Under the Concession Agreements, we are required to invest in, build, arrange for the development and operation of the infrastructure assets (i.e. heat service facilities) required for the provision of our heat services. These construction activities may increase with the expansion of our actual heat service area, which requires significant capital expenditures. If we fail to have sufficient capital when and where there is a need to carry out a number of large-scale construction activities at the same time, these construction activities may be delayed and our business, results of operation and prospects may be materially and adversely affected.

We may face liquidity risks and may not be able to generate returns from our investments in our associates if they do not declare dividends.

Our interests in the associates are not as liquid as other investment products and there is no cash flow until dividends are received even if profits are reported under equity accounting. During the Track Record Period, we had not received any dividend from our investments in our associates. We may not be able to generate returns from our investments in our associates if they do not declare any dividends in the future.

Risks relating to natural disasters, pandemics, epidemics, acts of terrorism or war in the PRC and globally may materially and adversely affect our business. In particular, the outbreak of COVID-19 could materially and adversely affect our results of operations and financial position.

Natural disasters, pandemics, epidemics, acts of terrorism or war or other factors that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood of people in the areas where we have or plan to have business operations. In particular, due to their geographic regions, some of these areas are susceptible to the threat of floods, earthquakes, sandstorms, snowstorms, fires or droughts, power shortages or failures, as well as potential wars, terrorist attacks or epidemics such as Ebola, SARS, H1N1, H5N1, H7N9.

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Towards the end of 2019, a highly infectious novel coronavirus spread across the PRC. The World Health Organisation, or the WHO, later named it COVID-19. WHO is closely monitoring and evaluating the situation. On 30 January 2020, the WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern, or the PHEIC. In March 2020, the WHO characterised the outbreak of COVID-19 a pandemic. Many countries have imposed unprecedented measures to halt the spread of the COVID-19, including strict city lockdowns and travel bans. In China, although COVID-19 had been largely contained, lockdown and other measures may still be introduced in certain cities if new cases emerge. Such measures may disrupt business in major industries and adversely affect the overall business sentiment and environment in China, which in turn may lead to slower overall economic recovery in China.

The prolonged outbreak of COVID-19 may have serious implications for the global economy due to a slowdown at manufacturing sites and industrial sites in the PRC as well as reduced demand by PRC consumers or customers of other countries/territories being affected. As we are principally engaged in the provision of heat services business, and the provision of such heat services are a necessity in northern China in winter, our financial performance may remain stable for the future financial years. Despite our public utility business nature, we cannot assure you that our business operations will remain unaffected in the long run if the COVID-19 is still in existence. In addition, we may incur extra costs related to our precautionary measures and disinfection works which may result in losses under our lump-sum charge. From January 2020 and up to the Latest Practicable Date, we incurred an aggregate cost of approximately RMB89,600 for purchasing protective masks and other medical and cleaning supplies. Our engineering construction services and EMC services may be affected by the outbreak given the uncertainty and volatility of COVID-19. We may also need to quarantine some or all of our employees, or disinfect our operational premises and/or office buildings, given the span of our cross-provincial operation, to prevent the spread of the COVID-19 if any of our employees was suspected of contracting or contracted an epidemic disease.

Accidents in our business may expose us to liabilities and reputational risks.

Accidents may occur in the ordinary course of our business. We are therefore exposed to risks in relation to work safety, for example, injuries by our employees and/or contractors, which may also damage our reputation within the heat service industry in the PRC. During the Track Record Period and up to the Latest Practicable Date, none of our employees and/or contractors had been involved in any major accident during the course of their employment and the relevant PRC authorities had not imposed any penalty on us for incidents of non-compliance of any health and safety laws or regulations in the PRC. We may also experience business disruptions and it becomes mandatory for us to implement additional safety measures if accident occurs or where relevant competent authorities order us to modify our business. To the extent that we incur additional costs, our business, financial position and results of operations may be materially and adversely affected.

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We are exposed to claims by our employees, contractors or other third parties that may arise due to our employees’ or contractors’ negligence or recklessness when performing repair and maintenance works. In such cases, we may be held liable for the injuries of employees, contractors and our heat service customers. We may experience interruptions to our business and may be required to change the manner in which we operate due to governmental investigations or the implementation of safety measures upon occurrence of the above-mentioned accidents. Any of the foregoing incidents could adversely affect our business, financial position and results of operations.

There are uncertainties about the recoverability of our deferred income tax assets which could affect our financial position and results of operations.

We recorded deferred income tax assets of RMB41.1 million, RMB49.1 million and RMB53.7 million, respectively, as at 31 December 2020, 2021 and 2022. We periodically assess the probability of the realisation of deferred tax assets, using significant judgements and estimates with respect to historical operating results, expectations of future earnings and tax planning strategies. In particular, deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised. However, there is no assurance that our expectation of future earnings could be accurate due to factors beyond our control, such as general economic conditions and negative development of the regulatory environment, in which case, we may not be able to recover our deferred tax assets which thereby could have an adverse effect on our results of operations.

Interruptions and security risks to our heat services management platform may result in disruption to our business operation.

Our heat services management platform is crucial to our business operation. It helps us to manage key operational functions such as processing operational data and facilitating communications. Further, we rely on our heat services management platform to manage our cross-provincial business operation, hence, we need to continuously maintain and upgrade this platform to meet evolving requirements of our operations and customer needs and preferences. However, we may fail to adequately upgrade our heat services management platform to meet the market demands and customers’ needs. In addition, we cannot assure that damages or interruptions caused by power outages, computer viruses, hardware and software failures, telecommunication failures, fires, natural disasters, security breaches and other similar occurrences relating to our information systems will not occur going forward. In an unlikely event that any of these accidents occur, we may need to incur significant costs in restoring any damaged system to resume our business operation. Failures in or disruptions to our heat services management platform and loss or leakage of information, including but not limited to confidential information, could cause transaction errors and processing inefficiencies. We may thus experience adverse effects on our business and results of operations. For more information relating to our heat services management platform, see “Business – Heat services management platform” in this document.

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Based on a written confirmation that we received from the Office of the Jiangyin Cybersecurity Affairs Commission* (江陰市委網絡安全和信息化委員會辦公室), being the relevant competent authority to provide such confirmation, it was confirmed that we are not an operator of key information facilities and/or online platform operator, hence, we are not subject to the Cybersecurity Review Measures (2021). Based on the same confirmation, it was also confirmed that if the Draft Regulations On Network Data Security Management are formally issued in the future, such regulations will not apply to our business (provided that our business remains unchanged) and we will therefore not be required to apply for the cybersecurity review in order to be listed in Hong Kong. Based on the foregoing, our Directors and our PRC Legal Advisers are of the view that the Draft Regulations On Network Data Security Management will not affect our Group's compliance with the relevant laws and regulations, and that the business operations and financial position of our Group would not be affected in any material aspect on the premise that no material change would occur to our Group. However, as advised by our PRC Legal Advisers, the exact details of Cybersecurity Review Measures (2021) and the Draft Regulations On Network Data Security Management and the current regulatory regime remains unclear, and the PRC Government authorities may have wide discretion in the interpretation and enforcement of these laws. As such, our Directors and PRC Legal Advisers cannot preclude the possibility that new rules or regulations promulgated in the future will impose additional compliance requirements on our Group in relation to cybersecurity review, which may result in, among others, an increase in our cost of compliance and expected time required in case we conduct further capital raising in future.

These laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. The evolving PRC regulations regarding (i) data collection, usage and transfer; and (ii) cybersecurity may lead to future restrictions and the establishment of new regulatory agencies, and we may bear more legal responsibilities and compliance costs, which may have an adverse effect on our prospects. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our technology infrastructure are exposed and exploited, our reputation and brands could be severely damaged and we could incur significant liability, and our business, financial position and results of operations could be adversely affected.

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could subject us to significant liabilities and other costs.

Our success depends partially on our ability to use and develop new design, technology and industrial know-how without infringing the intellectual property rights of third parties. As at the Latest Practicable Date, we have registered eight domain names, eight trademarks and 25 copyrights. As at the same date, we also had 72 patents registered with CNIPA. In addition, we had two inventions and three utility models pending registration for patents. We also rely on and expect to continue to rely on a combination of confidentiality and licence agreements, as well as trademark and domain name protection laws, to protect our proprietary rights. See "Business – Intellectual property" in this document for more information. Central to our continuous business operation is constant technology renovation, therefore, these intellectual property are crucial to our heat services business. Third parties may assert intellectual property

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claims against us during the course of our operation in the future. The validity and scope of claims relating to the intellectual property rights of heat service development and technology may involve complex scientific, legal and factual questions and analysis, which results in uncertainty and ambiguity. In addition, enforceability, scope and validity of laws governing intellectual property rights in the PRC are uncertain and still evolving, and could involve substantial risks to us. If we were unable to detect unauthorised use of, or take appropriate steps to enforce, our intellectual property rights, it could have a material adverse effect on our business, financial position and results of operations. Any future third parties assertion of copyright or patent infringement or violations of other intellectual property rights against us may involve us in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. A determination not in favour of us in any such litigation or proceedings could subject us to significant liability to third parties. We may need to seek licences from third parties, to pay ongoing royalties. We may also be subject to injunctions prohibiting the development and operation of our heat services business. Moreover, we may suffer damages to our reputation, which in turn could have a material adverse effect on our business, financial position and results of operations.

Our success depends on the continued services of our Directors, supervisors, senior management and other qualified employees.

Our continued success is highly dependent upon the endeavours of our Directors, supervisors, senior management and other qualified employees who are experienced in the provision of heat services and other related industries. We believe their experience, professional skills and status in this industry stand us apart from other heat service operators in the PRC. If a material number of our qualified employees leave and we are unable to promptly hire and integrate a suitable replacement, our business, financial position and results of operations may be materially and adversely affected. In addition, the future growth of our business will depend, partially, on our ability to attract and retain qualified personnel in all aspects of our business, including heat service personnel with requisite skills and qualifications. If we are unable to attract and retain these qualified personnel, our growth may be limited and our business, financial position and results of operation could be materially and adversely affected. See "Directors, supervisors and senior management" in this document for the managerial structure of our Group.

Our insurance coverage may not extensively cover the risks related to our business.

During the Track Record Period and up to the Latest Practicable Date, we maintained insurance policies which cover potential losses or damages in respect of our business operations. These insurance policies cover, among other things, our properties, equipment and machinery, pipelines, vehicles, computers and other properties owned by us. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material business interruptions or material insurance claims. For more details, see "Business – Insurance" in this document.

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We cannot assure you that our existing insurance coverage will be extensive or available to cover the damage, liabilities or losses which we may incur in the course of our business. While expanding our business, we may face potential risk exposure due to the change of regulatory schemes, and may be subject to certain losses and/or claims as a result. Moreover, there are certain losses for which insurance is not available in the PRC on commercially practicable terms, such as losses suffered due to business interruptions, earthquakes, typhoons, flooding, war or civil disorder. In these cases, there could be a material adverse effect on our business, financial position and results of operations.

We may be subject to penalties for our failure to contribute to social insurance fund and housing provident fund on behalf of some of our employees.

During the Track Record Period, some of our PRC subsidiaries did not fully contribute to certain social insurance funds and housing provident funds for their employees. Therefore, we may be subject to late fees and fines for our insufficient contributions to the social insurance funds and housing provident funds. As at the Latest Practicable Date, we had not received any notice from the local government authorities regarding any claim for inadequate contribution of our current and former employees.

According to the relevant PRC laws and regulations, if we do not pay the full amount of social insurance contributions as required, the relevant PRC authorities may demand that we pay the outstanding social insurance contributions by the deadline stipulated by them and we may be liable for a late payment fee equal to 0.05% of the outstanding amount for each day of delay. We may be liable to a fine of one to three times the amount of the outstanding contributions if we fail to make such payments by the deadline stipulated by them. In respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within the time period stipulated by relevant authorities. If payment is not made within such stipulated time period, relevant PRC authorities may apply to PRC courts for compulsory enforcement. See "Business – Employees – Social insurance and housing provident fund contributions" and "Business – Regulatory compliance – Non-compliance incidents – (1) Social insurance and housing provident fund contributions" in this document for more information.

The relevant local government authorities may in the future require us to pay the outstanding amount within a specific time limit or impose late or additional fees or fines on us, which may adversely affect our financial position and results of operation.

We may be involved in legal and other disputes and claims from time to time arising out of our operations.

We may be involved in legal and other disputes and claims from time to time arising out of our operations. We may, from time to time, be involved in disputes with regard to damages to property with and subject to claims by property owners and tenants to whom we provide heat services and related services. Disputes may also arise if they are dissatisfied with our services. In addition, they may take legal actions against us if they perceive that our services are inconsistent with our service standards we agreed to. Furthermore, we may, from time to time, be involved in disputes with, and subject to claims lodged by other parties involved in our

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business, including our contractors, suppliers and employees, or other potential claimants who sustain injuries or damages while visiting properties where our heat services reach. All of these disputes and claims may lead to legal or other proceedings or cause negative publicity against us, thereby resulting in damage to our reputation, substantial costs and diversion of resources and management’s attention from our business activities. Any such dispute, claim or proceeding may have a material adverse effect on our business, financial position and results of operations.

We are subject to civil actions lodged by our tenants against us.

During the Track Record Period and up to the Latest Practicable Date, we leased out a number of premises of our investment properties. The tenants of these premises were unable to register the tenancy agreements entered into between us and our tenants with the relevant local housing administrative authorities, as we were not able to present the real estate certificate (不動產權證書), which is required by the prevalent local administrative procedures for the purpose of registering tenancy agreements. According to the Real Estate Management Law of the PRC (《中華人民共和國城市房地產管理法》) and the Measures of Commercial Real Estate Leasing Activities (《商品房屋租賃管理辦法》), relevant local governments may require the relevant parties to rectify the non-registration within a certain period of time. If the relevant parties fail to make rectifications within the specified time, they may face a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease agreement. Therefore, it is possible that civil actions may be lodged by the tenants against us for our failure to produce a real estate certificate to them to facilitate their registration of leases. Any such dispute, claim or proceeding may have a material adverse effect on our business, financial position and results of operations. See “Business – Properties – Other properties occupied by us – (a) Shantou Complex”, “Business – Properties – Leased properties” in this document for further details.

RISKS RELATING TO OUR INDUSTRY

Any future changes in laws or regulations or enforcement policies in relation to the heat service industry could materially and adversely affect our business, results of operations and financial position.

Concession operation and the heat service industry are subject to a broad range of laws and regulations in the PRC. Currently, all major aspects of heat service industry are regulated and enforced by the relevant government authorities, including procurement price, retail price, and pipeline network construction and emission standards. For details, see “Regulatory overview” in this document.

Any change in the existing laws and regulations which may impact the heat service industry or their interpretation may affect our business operations or require us to incur additional compliance costs or make costly and time-consuming changes to our operations, either of which could materially and adversely affect our business, results of operations and financial position. If we fail to comply with such new or revised laws and regulations, we may be subject to administrative fines or other penalties, which could also materially and adversely affect our business, results of operations and financial position.

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We may be subject to penalties for our failure to obtain or renew certain permits, licenses, certificates or other relevant PRC governmental approvals/checks necessary for our business operations.

Some of the licences, permits and certificates are subject to periodic review and renewal by the government authorities and the standards of compliance required may change over time. In addition, the eligibility criteria for such licences, permits and certificates may change from time to time and we may be required to observe stricter compliance standards in respect of such licences, permits and certificates. We may also be required to obtain additional licences, permits and certificates for our operations. During the Track Record Period, we failed to obtain mining permit for extracting geothermal heat as required under the relevant PRC laws and regulations. For details, see "Business – Regulatory compliance – Non-compliance incidents – (3) Failure to obtain mining permit for extracting geothermal heat" in this document.

We are also required under relevant PRC laws and regulations to complete relevant construction acceptance checks in relation to certain properties for our business operation. During the Track Record Period, we failed to obtain certain construction permits and/or complete relevant construction acceptance check for (a) 14 heat exchange stations constructed by us for our Shanxi Demonstration Zone Project and Shuozhou Project, and (b) our peak shaving station for our Lanzhou New Area Project. According to relevant PRC laws and regulations, we may be subject to administrative fine and penalties. For details, see "Business – Properties – Heat exchange stations for our heat service operation – Failure to obtain certain construction planning permits and/or complete relevant construction acceptance check for the construction of certain properties" in this document.

In the event of the introduction of any new laws and regulations or changes in the interpretation of any existing laws and regulations that increase compliance costs for us, or prohibit or make it more expensive for us to continue with the operation of any part of our business, our financial position and results of operations may be materially and adversely affected. We may also become unable to obtain or renew required permits and/or licences that are crucial to heat services due to some established or unvarying administrative practices in some locations. As any established or unvarying administrative practice may evolve from time to time, our inability to obtain these permits and/or licences may render us susceptible to administrative penalties, and we cannot assure you that we can obtain required permits and/or licences in a timely manner. See "Business – Regulatory compliance – Licences, permits and certificates" in this document for further details.

We also cannot assure you that the competent PRC government authorities will not release new laws, regulations or policies to regulate the completion of construction acceptance checks in the future. We may not be able to comply with such new laws, regulations or policies in a timely manner and we may be subject to fines, which may adversely affect our financial conditions and results of operation.

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We may incur additional costs should the PRC Government adopt more stringent or additional environmental laws or requirements.

We are subject to national and local environmental protection regulations in the PRC. Such environmental laws and regulations levy fees for the discharge of waste substances above prescribed levels and impose fines for serious violations. Environmental protection authorities may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage. We expect that our annual environmental compliance costs will maintain at similar level after [REDACTED]. See "Business – Environmental, social and governance – Environmental protection" in this document for further details. If the relevant environment protection policies are strengthened, we may be required to invest more with respect to environmental protection which may materially and adversely affect our profitability.

The relevant environmental protection administration authorities may impose more stringent standards in the future which would increase our operational costs to meet such higher standards. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, we cannot assure you that the PRC Government will not impose additional laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers. We may need to upgrade existing technologies and facilities to meet the standards imposed by the relevant regulatory authorities, which will require higher financial, human and other resources.

Competition in the heat service industry may increase and if we fail to maintain our competitiveness, our financial performance could be materially and adversely affected.

According to the Frost & Sullivan Report, the heat service industry in China is highly fragmented, with a large number of local service providers. As a cross-provincial heat service provider, we currently compete primarily with local heat service providers in China while our future competitions may also involve those heat service providers with cross-provincial operations. If we are unable to improve our services quality, maintain our operating efficiency and control our costs, maintain a good cooperative relationship with the local government, we may not be able to compete effectively against our existing or new competitors and our sustainability and growth opportunities may be limited, which will materially and adversely affect our revenue and profitability.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

We are vulnerable to adverse changes in economic, political and social conditions and government policies in the PRC.

We manage all of our business operations from our headquarters in the PRC. Accordingly, our financial position, results of operations and prospects are, to a large degree, subject to the economic, political, social and legal conditions in the PRC. The PRC economy differs from that of most developed countries in many respects, including the extent of government involvement, level of economic development, investment control, resource allocation, growth rate and control over foreign exchange. Before its adoption of reform and open-door policies beginning in 1978, the PRC was primarily a planned economy. Since then, the PRC economy has been transitioning to become a market economy with socialist characteristics.

For approximately four decades, the PRC Government has implemented economic reform measures to utilise market forces in the PRC economy. Many of the reform measures are unprecedented or experimental and are expected to be modified from time to time. Other political, economic and social factors may lead to further readjustment or introduction of other reform measures. This reform process and any changes in laws and regulations or the interpretation or implementation thereof in the PRC may have a material impact on our operations or may adversely affect our financial position and results of operations.

While the PRC economy has grown significantly in recent years, this growth has been geographically uneven among various sectors of the economy and during different periods. We cannot assure you that the PRC economy will continue to grow, or that if there is growth, such growth will be steady and uniform. Any economic slowdown may materially and adversely affect our business. In the past, the PRC Government has periodically implemented a number of measures intended to slow down certain segments of the economy which the PRC Government believed was overheating. We cannot assure you that the various macroeconomic measures and monetary policies adopted by the PRC Government to guide economic growth and allocate resources will be effective in improving the growth rate of the PRC economy. In addition, such measures, even if they benefit the overall PRC economy in the long term, may reduce demand for our services and therefore materially and adversely affect our business, financial position and results of operations.

Fluctuations in exchange rates and governmental control of currency conversion may have a material adverse impact on your investment.

The exchange rate of the RMB fluctuates against the HKD, USD and other foreign currencies and is affected by the policies of the PRC Government and changes in international and domestic political and economic conditions. In light of the trend towards RMB internationalisation, the PRC Government may announce further changes to the exchange rate system, and we cannot assure you that the RMB will not appreciate or depreciate significantly in value against the HKD, USD or other foreign currencies.

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All of our revenue, liabilities and assets are denominated in RMB, while our [REDACTED] from the [REDACTED] will be denominated in HKD. Material fluctuations in the exchange rate of the RMB against the HKD may negatively impact the value and amount of any dividends payable on our Shares. For example, significant appreciation of the RMB against the HKD could reduce the amount of RMB received from converting [REDACTED] or proceeds from future financing efforts to fund our operations. Conversely, significant depreciation of the RMB may increase the cost of converting our RMB-denominated cash flow into HKD, thereby reducing the amount of cash available for paying dividends on our Shares or carrying out other business operations.

The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. See “Taxation and foreign exchange – Foreign exchange controls of the PRC” as set out in Appendix III to this document. We receive all our revenue in RMB. The foreign exchange control system may prevent us from obtaining sufficient foreign currency to satisfy our currency demands. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends or other payments to our Shareholders, or otherwise satisfy our foreign currency denominated obligations, if any.

The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of indebtedness denominated in foreign currencies. The restrictions on foreign exchange transactions under capital accounts could also affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us.

Inflation in the PRC could negatively affect our profitability and growth.

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation. In response, the PRC Government has implemented policies from time to time to control inflation, such as restricting the availability of credit by imposing tighter bank lending policies or higher interest rates. The PRC Government may, from time to time, take similar measures in response to future inflationary pressures. Rampant inflation without the PRC Government’s mitigation policies would likely increase our costs, thereby materially reducing our profitability. There is no assurance that we will be able to pass any additional costs to our customers. On the other hand, such control measures may also lead to slower economic activity and we may see reduced demand for our services.

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Uncertainties with respect to the PRC legal system could limit the legal protection available to you.

The legal system of the PRC entails inherent uncertainties that could limit the legal protection available to our Shareholders. As we conduct all of our business operations in China, we are principally governed by PRC laws, rules and regulations. The PRC legal system is based on the civil law system. Unlike the common law system, the civil law system is established on the written statutes and their interpretation by the competent authorities, while prior legal decisions and judgements have limited significance as precedents. The PRC Government has been developing a commercial law system, and has made significant progress in promulgating laws and regulations related to economic affairs and matters, such as corporate organisation and governance, foreign investments, commerce, taxation and trade.

However, many of these laws and regulations are relatively new. There may be a limited volume of published decisions regarding their interpretation and implementation, or the relevant local administrative rules and guidance on implementation and interpretation have not been put into place. Further, there may be laws and regulations in draft forms for public consultation with no further explanations or detailed enforcement decisions announced by the PRC Government. For example, on 10 April 2020, the NDRC published the Draft Measures for the Price and Fee Control and the Draft Measures for the Supervision and Review of the Pricing Cost (collectively, the “**Draft Measures**”) which were open for public consultation between 10 April 2020 and 9 May 2020. As at the Latest Practicable Date, there had been no further announcements from the NDRC as to whether the Draft Measures will be amended, supplemented or revised, or adopted and promulgated. Thus, there are uncertainties involved in their enactment timetable, which may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have retroactive effect. Consequently, we may not be aware of any violation of these policies and rules until sometime after such violation has occurred. Furthermore, the legal protection available to you under these laws, rules and regulations may be limited. Any legal proceeding or regulatory enforcement action in the PRC may be protracted and result in substantial costs and diversion of resources and management’s attention.

You may experience difficulties in effecting service of legal process and enforcing judgements against us and our management based on Hong Kong or other foreign laws.

We are incorporated under the laws of the PRC with limited liability, and majority of our assets are located in the PRC. In addition, a majority of our Directors and supervisors and all of our senior management personnel reside within the PRC, and substantially all their assets are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon us or most of our Directors, supervisors and senior management.

On 14 July 2006, the Supreme People’s Court of the PRC and the Hong Kong government entered into the *Arrangement on Reciprocal Recognition and Enforcement of judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned*

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(《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”). Under the Arrangement, where any designated PRC court or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil or commercial case under a choice of court agreement in writing, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgement. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly selected as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgement rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. In addition, the Arrangement has expressly provided for “enforceable final judgement,” “specific legal relationship” and “written form”. A final judgement that does not comply with the Arrangement may not be recognised and enforced in a PRC court.

On 18 January 2019, the Supreme People’s Court of the PRC and the Hong Kong government entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region* (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the “**2019 Arrangement**”). Under the 2019 Arrangement, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the effective judgements in civil and commercial cases subject to the conditions set forth therein. Although the 2019 Arrangement has been signed, the outcome and effectiveness of any action brought under the 2019 Arrangement may still be uncertain. We cannot assure you that an effective judgement that complies with the 2019 Arrangement can be recognised and enforced in a PRC court.

Holders of our H Shares who are foreign individuals may be subject to PRC withholding tax on dividends from us and PRC income tax on our H shares, and there are uncertainties as to the PRC tax obligations of holders of our H Shares who are foreign enterprises.

Under applicable PRC tax laws, regulations and rules, non-PRC resident individuals and enterprises who are holders of our H Shares are subject to different tax obligations. Under the Individual Income Tax Law of the PRC (2018 Revision) (《中華人民共和國個人所得稅法(2018修訂)》) and its implementation regulations, non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate for dividends received from us and the gains realised upon the sale or other disposition of the H Shares held by them. We are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside, reduce or provide an exemption for the relevant tax obligations. Generally, a tax rate of 10% shall apply to the dividends paid by domestic non-foreign-invested enterprises issuing shares in Hong Kong to overseas resident individuals, pursuant to the Circular of the State Taxation Administration on Individual Income Tax Collection Issues upon Abolishment of Document Guoshuifa [1993] No. 045 (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》). Where the 10% tax rate is not applicable, the withholding company shall: (i) return the excessive tax amount pursuant to the relevant procedures if the applicable tax rate is below 10%; (ii) withhold such

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income tax payable by the foreign individual at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (iii) withhold such foreign individual income tax at a rate of 20% if no double tax treaty is applicable.

For non-PRC resident enterprises that are set up in accordance with the laws of the foreign country (region) whose actual administration institution is outside China, but have set up institutions or establishments in China or, without institutions or establishments set up in China but have income originating from China, under the PRC EIT Law, dividends paid by us and the gains realised by such non-PRC resident enterprises from the sales or other disposition of H Shares are subject to PRC enterprise income tax at a rate of 20%. In accordance with the EIT Rules and the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders Which are Overseas Non-resident Enterprises (《關於中國居民企業向境外H股非居民企業股東派發股息 代扣代繳企業所得稅有關問題的通知》) issued by the SAT, such tax rate has been reduced to 10%, which is subject to a further reduction under an applicable treaty or a special arrangement between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise. On 21 August 2006, China and Hong Kong entered into the Arrangements between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), pursuant to which any non-PRC-resident enterprise registered in Hong Kong that holds directly at least 25% of the shares of our Company shall pay enterprise income tax for the dividends declared and paid by us at a tax rate of 5% subject to the satisfaction of certain conditions such as approval by the relevant PRC tax authority.

There are significant uncertainties as to the interpretation and enforcement of the relevant PRC tax laws, regulations and rules, including whether the reductions, exemptions and other beneficial tax treatments mentioned above will be revoked in the future such that all non-PRC resident individual holders of our H Shares will be subject to PRC individual income tax at a flat rate of 20%. There are also significant uncertainties as to how the PRC tax authorities interpret the relevant PRC tax laws, regulations and rules, such as the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends paid to non-PRC resident individual holders of our H Shares and on gains realised on sale or other disposition of our H Shares. PRC's tax laws, rules and regulations may also change. Any ambiguities relating to, or any changes to, applicable PRC tax laws, regulations and rules as well as their interpretations and enforcement could materially and adversely affect the value of your investment in our H Shares.

Payment of dividends is subject to restrictions under PRC laws.

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

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

The approval of, or filing with, CSRC or other regulatory authorities may be required in connection with the [REDACTED] and future offering activities, and we cannot predict whether we will be able to obtain all necessary approval or complete such filing.

The PRC Government has recently indicated an intent to exert more oversight and control over securities offerings and other capital markets activities that are conducted overseas and foreign investment in PRC-based companies like us.

On 6 July 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities in accordance with the Law (the “**Opinions on Securities Activities**”). The Opinions on Securities Activities emphasised the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by PRC-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by PRC-based overseas-listed companies.

On 17 February 2023, CSRC formally released the Trial Measures for the Administration of Overseas Issuance and Listing of Securities by Domestic Companies (the “**Overseas Issuance and Listing Measures**”, 《境內企業境外發行證券和上市管理試行辦法》), which are expected to take effect on 31 March 2023. According to the Notice on the Administration Arrangement for the Overseas Issuance and Listing of Securities Record-filings (《關於境內企業境外發行上市備案管理安排的通知》), PRC companies that have received the approval from CSRC on their overseas issuance and listing before the Overseas Issuance and Listing Measures become effective can continue their overseas issuance and listing of securities within the validity period of the approval, and are not subject to the record-filing procedures

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stipulated in the Overseas Issuance and Listing Measures. We obtained the approval from CSRC for the [REDACTED] and the [REDACTED] on 8 November 2022, and such approval is valid until 7 November 2023. If the [REDACTED] is not completed within the validity period of the approval of CSRC, we will be required to complete the necessary filing procedures for the [REDACTED] and the [REDACTED].

RISKS RELATING TO THE [REDACTED]

[REDACTED] of our H Shares in the [REDACTED] will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The [REDACTED] of our H Shares is higher than the consolidated net tangible book value per Share immediately prior to the [REDACTED]. Therefore, [REDACTED] of our H Shares in the [REDACTED] may experience an immediate dilution. In addition, holders of our Shares may experience further dilution of their interest if we issue additional Shares in the future to raise additional capital.

There has been no prior [REDACTED] for our H Shares and the liquidity and [REDACTED] of our H Shares may be volatile.

Prior to the [REDACTED], there was no [REDACTED] for our H Shares. The initial [REDACTED] range for our H Shares was the result of negotiations among us, the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]), and such [REDACTED] may differ significantly from the [REDACTED] for our H Shares following the [REDACTED]. We have applied for the [REDACTED] of, and the [REDACTED], our H Shares on the Stock Exchange. However, there is no assurance that the [REDACTED] will result in the development of an active and liquid [REDACTED] for our H Shares.

There is no assurance that the market for our H Shares will develop, or if it does develop, will be sustained following the [REDACTED] or that the market price of our H Shares will not decline following the [REDACTED].

The [REDACTED] of our Shares may be highly volatile. Several factors, some of which are beyond our control, such as variations in our results of operations, changes in our pricing policy, the addition or departure of key personnel, changes in profit forecast or recommendations by financial analysts, litigation or the removal of the restrictions on share transactions, could cause large and sudden changes to the volume and price at which our Shares will [REDACTED].

In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume volatility that is not related to the operating performance of any particular company.

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Holders of our Shares are subject to the risk that the price of our H Shares could fall during the period before [REDACTED] of our H Shares begins.

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

The sales or potential sales of substantial amounts of our H Shares in the [REDACTED] (including any future offering) may affect the prevailing [REDACTED] of our H Shares and our ability to raise [REDACTED] the future, and future additional issuance of securities may dilute your [REDACTED].

The sales of substantial amounts of our H Shares or other securities related to our H Shares in the [REDACTED], or the [REDACTED] of new H Shares or other securities, or the market anticipation that such sales or issuance may occur, may cause fluctuations in the [REDACTED] of our H Shares, and may materially and adversely affect our ability to raise [REDACTED] at a time and at [REDACTED] as we see fit in the future. Furthermore, if we [REDACTED] in future [REDACTED], the [REDACTED] of the Shareholders may be diluted.

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into H Shares in the future, and such converted shares may be [REDACTED] on an overseas stock exchange, provided that prior to the conversion and [REDACTED] of such converted shares, any requisite internal approval by our Shareholders in a general meeting is duly obtained and the approvals from relevant PRC regulatory authorities are obtained. However, the PRC Company Law provides that in relation to the [REDACTED] of a company, the shares of that company which are issued prior to the [REDACTED] shall not be transferred within one year from the date of [REDACTED] of the public offering. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Stock Exchange one year after this [REDACTED], which at that time could further increase the number of our H Shares available in the market and negatively impact the [REDACTED] of our H Shares.

We may need additional capital, and the sale or issue of additional Shares or other equity securities could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the [REDACTED] from the [REDACTED], we may require additional cash resources to finance our continued growth or other future developments. We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell additional equity securities, which could result in additional dilution to our Shareholders.

RISK FACTORS

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

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial position, operating and capital expenditures requirements, distributable profits as determined under PRC GAAP or IFRSs (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors to be relevant to the declaration or suspension of dividend payments. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See "Financial information – Dividend and dividend policy" in this document for further details of our dividend policy. In addition, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

There is no assurance of the accuracy or comparability of facts and statistics contained in this document with respect to the PRC, its economy or its heat service industry.

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

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

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

RISK FACTORS

Forward-looking information is subject to risks and uncertainties.

This document contains forward-looking statements and information relating to us and our operations and prospects that are based on our current beliefs and assumptions as well as information currently available to us. When used in this document, the words “anticipate,” “believe,” “estimate,” “expect,” “plans,” “prospects,” “going forward,” “intend” and similar expressions, as they relate to us or our business, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to risks, uncertainties and various assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialise, or if any of the underlying assumptions prove incorrect, actual results may diverge significantly from the forward-looking statements in this document. Whether actual results will conform with our expectations and predictions is subject to a number of risks and uncertainties, many of which are beyond our control, and reflect future business decisions that are subject to change. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange.

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

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

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