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## Application Proof of



# Wise Living Technology Co., Ltd (慧居科技股份有限公司)

(the “Company”)

*(A joint stock limited liability company incorporated in the People’s Republic of China)*

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# Wise Living Technology Co., Ltd 慧居科技股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

[REDACTED]

Number of [REDACTED] under the : [REDACTED] H Shares (subject to the [REDACTED])  
Number of [REDACTED] : [REDACTED] H Shares (subject to re-allocation)  
Number of [REDACTED] : [REDACTED] H Shares (subject to the [REDACTED] and re-allocation)  
Maximum [REDACTED] : [REDACTED] per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.00565% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)  
Nominal value : RMB1.00 per H Share  
Stock code : [●]

[Sole Sponsor, [REDACTED]]



[REDACTED]

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The [REDACTED] is expected to be fixed by agreement between the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] (Hong Kong time) and, in any event, not later than [REDACTED] (Hong Kong time). The [REDACTED] will be not more than [REDACTED] and is currently expected to be not less than [REDACTED]. If, for any reason, the [REDACTED] is not agreed by [REDACTED] (Hong Kong time) among the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

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

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] and the [REDACTED] (for itself and on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. See “[REDACTED] Arrangements and Expenses – [REDACTED] – Grounds for Termination” in this document. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this document, including the risk factors set out in “Risk Factors” in this document.

The [REDACTED] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The [REDACTED] are being offered and sold only outside the United States in offshore transactions in accordance with Regulation S.

[REDACTED]

[REDACTED]

**IMPORTANT**

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[REDACTED]

**IMPORTANT**

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[REDACTED]

## EXPECTED TIMETABLE

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[REDACTED]

## EXPECTED TIMETABLE

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[REDACTED]

## EXPECTED TIMETABLE

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[REDACTED]

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## SUMMARY

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

### **BUSINESS OVERVIEW**

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

### **BUSINESS MODEL**

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

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

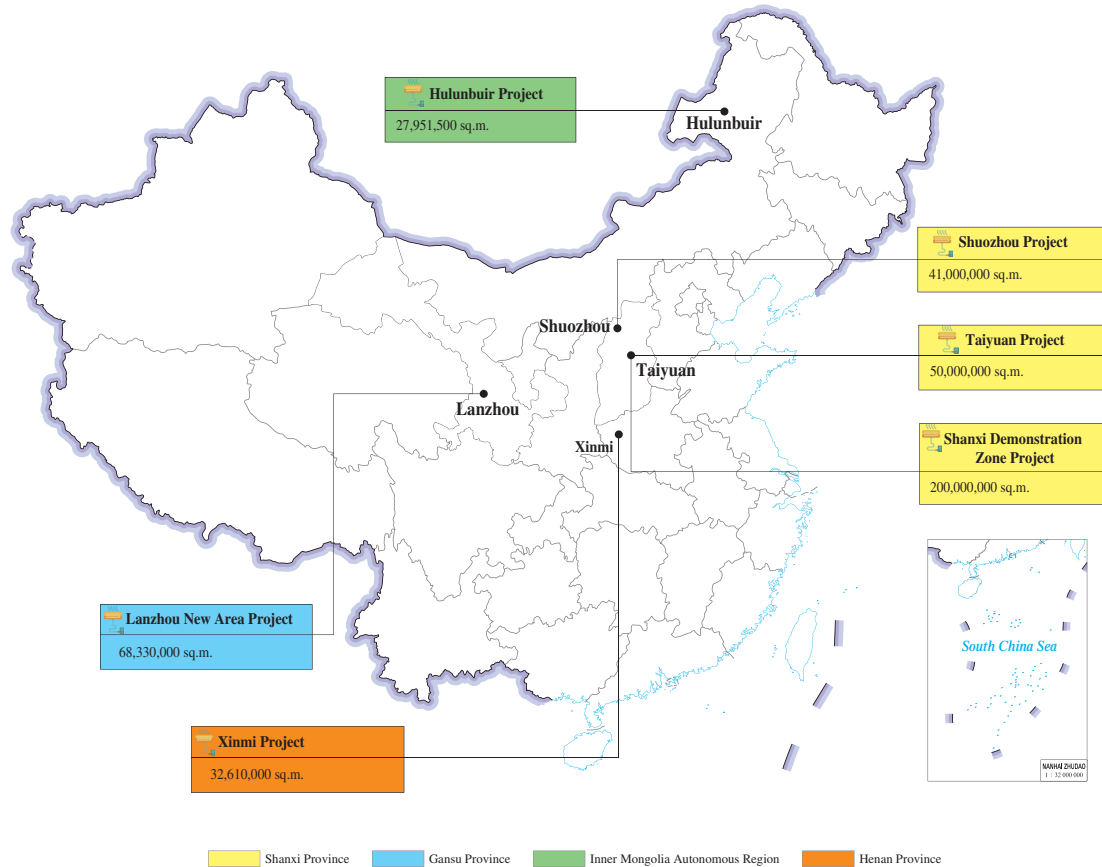
### **Heat services**

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

As at the Latest Practicable Date, we had an aggregate Concession Area of approximately 419.9 million sq.m., of which 291.0 million sq.m. was in Shanxi Province, 68.3 million sq.m. was in Gansu Province, 28.0 million sq.m. was in Inner Mongolia Autonomous Region and 32.6 million sq.m. was in Henan Province. As at the same date, within our Concession Areas, we had an aggregate actual heat service area of approximately 41.9 million sq.m., of which 25.2 million sq.m. was in Shanxi Province, 8.5 million sq.m. was in Gansu Province and 8.2 million sq.m. was in Inner Mongolia Autonomous Region. For the years ended 31 December 2020, 2021 and 2022, revenue generated from our heat services was approximately RMB973.3 million, RMB1,035.2 million and RMB1,098.9 million, representing approximately 70.7%, 80.2% and 76.1% of our total revenue, respectively. During the Track Record Period, we maintained a broad customer base in relation to our heat services under our concessions. As at 31 December 2020, 2021 and 2022, we had approximately 265,800, 282,400 and 303,900 heat service customers respectively. Pricing of our heat services is subject to regulatory control. For details on the pricing of our heat services, see “Regulatory overview – Pricing” and “Business – Pricing” in this document.

## SUMMARY

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



During the Track Record Period and up to the Latest Practicable Date, we relied on four types of heat sources for all of our heat service projects under concession rights. For details of our heat source portfolio, see “Business – Heat sources” in this document.

### Engineering construction services

Pursuant to our Concession Agreements, we are required to provide engineering construction services for the construction of the heat service facilities required for our provision of heat services. Pursuant to the relevant Concession Agreements, the grantors of our heat service concessions contracted with us to invest in, build or arrange for the development of the heat service-related assets. Upon the expiration of our Concession Agreements, all heat service-related assets in use (and, in some cases, under construction) by us shall be transferred to the relevant concession grantor (or, in some cases, parties by the designated grantor). For details of the ownership and transfer of our operational assets, see “Business – Our Concession Agreements” in this document.

### EMC services

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

### MAJOR SUPPLIERS AND MAJOR CUSTOMERS

During the Track Record Period, our top five suppliers included (i) suppliers of heat; (ii) suppliers of coal for our production of heat; and (iii) suppliers of heat-service related equipment and machinery. Purchases from our largest supplier in each of the years ended 31 December 2020, 2021 and 2022 amounted to approximately RMB100.6 million, RMB88.8 million and RMB89.3 million, respectively, representing approximately 10.1%, 10.2% and 8.8% of our total purchases for the respective years. Purchases from our top five suppliers in each of the years ended 31 December 2020, 2021 and 2022 in aggregate amounted to

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## SUMMARY

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approximately RMB402.1 million, RMB337.2 million and RMB385.6 million, respectively, representing approximately 40.5%, 38.7% and 38.0% of our total purchases for the respective years. Our Directors confirm that save for Shuangliang Eco-Energy, none of our Directors, their respective associates or any shareholder (who to the knowledge of our Directors owned 5% or more of our Shares) held any interest in any of our top five suppliers during the Track Record Period.

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

### OUR COMPETITIVE STRENGTHS

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

### OUR BUSINESS STRATEGIES

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

### OUR BUSINESS HISTORY AND DEVELOPMENT

The history of our business can be traced back to 2010 when we were founded by Shuangliang Eco-Energy (stock code: 600481.SH), a joint stock limited company and the shares of which have been listed on Shanghai Stock Exchange since 22 April 2003. The principal business of Shuangliang Eco-Energy is the manufacturing and sales of products of (i) energy-saving and water-saving systems; and (ii) new energy systems (新能源系統). On 22 October 2015, for the purpose of streamlining the operation of Shuangliang Eco-Energy Group, Shuangliang Eco-Energy transferred the entire equity interest in our Company to Shuangliang Technology, one of the shareholders of Shuangliang Eco-Energy. The transfer led to a clear separation of operations and management between Shuangliang Eco-Energy Group and our Group. Upon completion of the said transfer, Shuangliang Eco-Energy Group remained as one of our suppliers to supply materials and equipment for the construction of the infrastructure for our heat services business. For details of our business history and development, see “History, development and corporate structure – Our business history and development” in this document. For details of the transactions between our Group and Shuangliang Eco-Energy Group, see “Connected transactions” in this document.

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

### OUR CONTROLLING SHAREHOLDERS

Shuangliang Eco-Energy was the sole Shareholder since our establishment on 3 September 2010 and prior to the transfer of the entire equity interest in our Company by Shuangliang Eco-Energy to Shuangliang Technology on 22 October 2015. For details, see

## SUMMARY

“History, development and corporate structure” in this document. Immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shuangliang Technology and Jiangsu Lichuang will hold approximately [REDACTED] and [REDACTED] of the registered capital of our Company, respectively. Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Mr. Miao Zhiqiang (繆志強先生), Ms. Miao Shuya (繆舒涯女士), Mr. Miao Heida (繆黑大先生), Mr. Jiang Rongfang (江榮方先生), Mr. Ma Peilin (馬培林先生) and Mr. Ma Fulin (馬福林先生) (together the “**Individual Shareholders**”) are the legal and beneficial owners of the entire issued share capital of both Shuangliang Technology and Jiangsu Lichuang. Since the Individual Shareholders have decided to restrict their ability to exercise direct control over our Company by holding their equity interests through Shuangliang Technology and Jiangsu Lichuang, all of Shuangliang Technology, Jiangsu Lichuang and the Individual Shareholders will be regarded as a group of our Controlling Shareholders under the Listing Rules. For details, see “Relationship with our Controlling Shareholders” in this document.

### CONTINUING CONNECTED TRANSACTIONS

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

### COMPETITION

According to the Frost & Sullivan Report, the heat services industry in the PRC is fragmented with a large number of market players. Currently, most market players in the heat services industry in China fall into three categories: specialised heat services providers, subsidiaries of power generation groups and property developers. The major players in the heat services industry in China are specialised heat services providers and most of the players are State-owned companies. In 2022, the total actual heat services area in China was 11,239.4 million sq.m. The majority of the top 10 players were State-owned companies. The aggregate heat services area of the top 10 companies accounted for more than 16.0% of the total actual heat services area in the PRC in 2022, with the tenth largest heat services provider having an actual heat services area of more than 100.0 million sq.m.. We were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report. See “Industry overview – Competitive analysis of the heat services industry in the PRC” in this document for further details on the markets in which we operate and for a discussion of our competition.

While the heat services industry in the PRC has traditionally been dominated by State-owned enterprises, according to the Frost & Sullivan Report, favourable government policies have encouraged more non-State-owned enterprises to enter the heat services market in recent years. Since 2003, the State has introduced various guiding opinions for a reform of the heat services industry with a view to encouraging the marketisation of the public utilities industry. Such reform introduces a market competition mechanism into the heat services industry, promotes the commercialisation of heat services and establishes a new urban heating system that is economical, safe, clean and efficient.

The provision of heat services, which is a public utility, is a regulated industry in the PRC. According to the Frost & Sullivan Report, operators must have adequate heating resources, experienced staff and heat service facilities of a substantial scale in order to obtain the relevant business qualifications and/or concession rights to operate in the heat services industry. Our concession rights relating to Taiyuan and Shuozhou of Shanxi Province, Lanzhou of Gansu Province, Hulunbuir of Inner Mongolia Autonomous Region and Xinmi of Henan Province enable us to compete against other market players including State-owned enterprises in the heat services industry by allowing us to provide heat services exclusively in our Concession Areas. In line with the steady expansion of our customer base and actual heat service area as a result of urbanisation and municipal planning, our business has grown steadily over the Track Record Period with our concession rights. Moreover, we believe that our cross-provincial market presence enables us to achieve cost efficiency in all key stages of our operations, which has demonstrated our ability to effectively manage our operations in multiple locations. We believe we are capable of successfully entering the heat services market in other regions in the PRC. Our diversified heat sources, research and development capabilities and integrated digitalised heat services management platform have also helped us to grow our business and further set us apart from other competitors in the heat service market. As a consequence of our competitive strengths and favourable government policies as described above, we also believe that we will be able to continue growing our heat services business in the future.

## SUMMARY

### SERVICE CONCESSION ARRANGEMENTS

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

During the Track Record Period, majority of the revenue from our provision of heat services and engineering construction services was derived from Concession Agreements, which are service concession arrangements. These Concession Agreements were structured in the form of a BOT model. Pursuant to the BOT model, our concession grantors contracted with and granted to us the exclusive rights to invest in, build, and arrange for the development and operation of the infrastructure assets (i.e. heat service facilities) required for our provision of heat services. During the concession period, we are entitled to operate and generate revenue from such infrastructure assets through the operation of our heat services business. Upon expiry of the concession period, all heat service-related assets in use by us will be transferred to the relevant concession grantor or parties designated by the concession grantor. The compensation payable (if any) by the concession grantor to us for such transfer of assets will be determined on the relevant terms thereunder.

### Accounting treatment for service concession arrangements

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

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

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

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

## SUMMARY

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

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

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

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

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

See “Financial information – Critical accounting policies and estimates – IFRIC 12 Service Concession Arrangements” in this document.

### SUMMARY OF OUR RESULTS OF OPERATIONS

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

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,376,321	1,290,635	1,443,732
Cost of sales	(1,084,931)	(976,969)	(1,146,851)
<b>Gross profit</b>	<b>291,390</b>	<b>313,666</b>	<b>296,881</b>
Administrative expenses (Provision)/reversal of impairment losses on financial assets and contract assets	(124,951)	(141,306)	(139,589)
Other income	(13,548)	995	23,118
Other losses – net	48,384	73,584	53,742
	(157)	(19)	(3,603)



## SUMMARY

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

Our net profit increased by approximately RMB72.7 million or 73.4% from approximately RMB98.3 million for the year ended 31 December 2020 to approximately RMB171.1 million for the year ended 31 December 2021. Such increase was mainly attributable to a combined effect of (i) an increase in gross profit and other income by an aggregate amount of approximately RMB47.5 million in the year ended 31 December 2021; (ii) a provision of impairment losses on financial assets and contract assets of approximately RMB13.5 million being recorded in the year ended 31 December 2020 while a reversal of impairment losses on financial assets and contract assets of approximately RMB1.0 million was recorded in the year ended 31 December 2021; and (iii) a decrease in net finance costs by approximately RMB14.3 million during the year ended 31 December 2021.

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

### Revenue

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

	For the year ended 31 December					
	2020		2021		2022	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Heat services						
– Fees from customers for provision and distribution of heat	739,940	53.8	778,442	60.3	853,542	59.1
– Price subsidies from local government	167,908	12.1	182,500	14.2	161,676	11.2
– Pipeline connection fee	65,429	4.8	74,211	5.7	83,725	5.8
<b>Sub-total</b>	973,277	70.7	1,035,153	80.2	1,098,943	76.1
Engineering construction services	362,050	26.3	229,147	17.8	301,567	20.9
EMC services	4,157	0.3	3,972	0.3	3,002	0.2
Others <sup>(Note)</sup>	36,837	2.7	22,363	1.7	40,220	2.8
<b>Total</b>	1,376,321	100.0	1,290,635	100.0	1,443,732	100.0

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

## SUMMARY

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

### *Heat services*

#### *Fees from customers for provision and distribution of heat*

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

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

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

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

### *Price subsidies from local government*

During the Track Record Period, price subsidies from local government were recognised as revenue over a scheduled heat service period according to IFRS 15 on the basis that there was a reasonable assurance that such subsidies will be received. Under the Announcement No. 45 of the State Administration of Taxation in 2019, the government subsidies directly linked to income or quantity of its sales of goods, services, intangible assets and real estates were subject to value-added tax with effect from 1 January 2020. Value-added tax in the amount of RMB15.1 million, RMB16.4 million and RMB14.6 million were deducted from the subsidies recognised as part of our revenue for the years ended 31 December 2020, 2021 and 2022, respectively. As such, the deduction of such value-added tax had an offsetting effect on the amount of subsidies recognised as part of our revenue for the years ended 31 December 2020, 2021 and 2022. Revenue from price subsidies increased from approximately RMB167.9 million for the year ended 31 December 2020 to approximately RMB182.5 million for the year ended 31 December 2021 primarily as a result of the expansion of our Shuozhou Project leading to the increase in revenue from provision and distribution of heat during the same period. Revenue from price subsidies decreased from approximately RMB182.5 million for the year ended 31 December 2021 to approximately RMB161.7 million for the year ended 31 December 2022, because of the decrease in relevant heat service costs used in the calculation of price subsidies.

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### *Pipeline connection fee*

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

### *Engineering construction services*

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

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

### **Cost of sales**

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

### **Gross profit and gross profit margin**

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

	For the year ended 31 December					
	2020		2021		2022	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Heat services	232,090	23.8	270,453	26.1	239,446	21.8
Engineering construction services	46,569	12.9	30,239	13.2	39,800	13.2
EMC services	3,281	78.9	2,298	57.9	(307)	(10.2)
Heat transmission services	5,998	35.4	6,253	43.0	3,438	62.3
Sale of goods	3,050	18.7	3,812	66.2	11,026	46.8
Others <sup>(Note)</sup>	402	11.4	611	29.5	3,478	31.3
<b>Total</b>	<b>291,390</b>	<b>21.2</b>	<b>313,666</b>	<b>24.3</b>	<b>296,881</b>	<b>20.6</b>

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

### **Heat services**

Gross profit from our heat services increased from approximately RMB232.1 million for the year ended 31 December 2020 to approximately RMB270.5 million for the year ended 31 December 2021. Such increase was mainly attributable to an improvement of profitability of

## SUMMARY

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

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

### *Engineering construction services*

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

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

## SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

As at 31 December 2020, 2021 and 2022, our net current liabilities were approximately RMB1,483.7 million, RMB966.9 million and RMB551.8 million, respectively. Such net current liabilities primarily consisted of our (i) trade and other payables; (ii) borrowings; and (iii) contract liabilities. During the Track Record Period, we had substantial planned capital expenditures for the purchase of property, plant and equipment and construction services for our construction of heat service facilities, resulting in a significant amount of other payables for the acquisition of intangible assets. During this period, we also had a substantial amount of borrowings which were mainly used to support our capital expenditures, and which contributed to our net current liability position. As at 31 December 2020 and 2021, some of our borrowings (in the amounts of approximately RMB193.0 million and RMB179.0 million, respectively), were classified as current liabilities due to our failure to comply with certain covenants and financial undertakings in respect of two long-term bank borrowings, leading to a higher level of current liabilities for those years. As at 31 December 2022, we have re-complied with such financial covenants, and accordingly, we reclassified the loan amounting to RMB158.0 million as at 31 December 2022 as non-current liabilities according to the original payment schedules as set out in the loan contract. Our net current liabilities during the Track Record Period were also attributable to a significant amount of contract liabilities (which

## SUMMARY

represented the advance receipts from customers in relation to heat service and pipeline connection fee) at the end of each year. Such contract liabilities will be recognised as revenue in the following years when the relevant services are provided. See “Risk factors – Risks relating to our business and industry – We had net current liabilities as at 31 December 2020, 2021 and 2022” in this document for the risk relating to our net current liabilities.”

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

Our net assets increased from approximately RMB612.7 million as at 31 December 2020 to approximately RMB782.4 million as at 31 December 2021, and further increased to approximately RMB922.6 million as at 31 December 2022 mainly as a result of our net profit being recorded over the Track Record Period. The continuous increase in our net assets throughout the Track Record Period was mainly attributable to the profit and total comprehensive income recorded for each of the three years ended 31 December 2022.

### SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

#### Net cash from operating activities

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

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

#### Net cash used in investing activities

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

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

## SUMMARY

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

### Net cash used in financing activities

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

Net cash used in financing activities increased significantly from approximately RMB66.8 million for the year ended 31 December 2020 to approximately RMB356.9 million for the year ended 31 December 2021, primarily attributable to a decrease in our proceeds from borrowings of approximately RMB494.2 million, which was partially offset by a decrease in our repayment of borrowings by approximately RMB141.2 million. Net cash used in financing activities decreased from approximately RMB356.9 million for the year ended 31 December 2021 to approximately RMB258.1 million for the year ended 31 December 2022. The decrease was primarily due to an increase in our repayment of borrowings of approximately RMB976.6 million, which was partially offset by proceeds from borrowings of approximately RMB846.0 million during the year. For detailed discussions regarding our net cash used in/generated from financing activities during the Track Record Period, see “Financial information – Liquidity and capital resources – Cash flows – Net cash used in/generated from financing activities” in this document.

### KEY FINANCIAL RATIOS

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

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

### Return on total assets

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

### Return on equity

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

### Gearing ratio

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

### Net debt to equity ratio

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

### Interest coverage

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

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## SUMMARY

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

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

### **DIVIDEND AND DIVIDEND POLICY**

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

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

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

### **CAPITAL EXPENDITURES**

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

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

### **CAPITAL COMMITMENTS**

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

### **[REDACTED] EXPENSES**

The estimated total [REDACTED] expenses, including [REDACTED], (based on the mid-point of the [REDACTED] range and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately RMB[REDACTED] million (HK\$[REDACTED] million), which represents approximately [REDACTED]% of the gross proceeds from the [REDACTED]. Such estimated total [REDACTED] expenses include (i) [REDACTED] related expenses, including [REDACTED] commission, of approximately RMB[REDACTED] million (HK\$[REDACTED] million); (ii) fees and expenses of our legal

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## SUMMARY

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advisers and reporting accountant of approximately RMB[REDACTED] million (HK\$[REDACTED] million); and (iii) other fees and expenses of approximately RMB[REDACTED] million (HK\$[REDACTED] million). Up to 31 December 2022, [REDACTED] expenses of approximately RMB4.2 million (HK\$4.9 million) were expensed through the statement of profit or loss, while as at 31 December 2022, approximately RMB37.6 million (HK\$44.3 million) was recognised as prepaid [REDACTED] expenses, which is expected to be recognised directly as a deduction from equity upon the [REDACTED]. For the year ending 31 December 2023, an estimated amount of approximately RMB[REDACTED] million (HK\$[REDACTED] million) is expected to be expensed through the statement of profit or loss and an additional amount of approximately RMB[REDACTED] million (HK\$[REDACTED] million) is expected to be recognised directly as a deduction from equity upon the [REDACTED].

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Since the end of the Track Record Period and up to the Latest Practicable Date, our Directors have confirmed that our provision of heat services business has remained stable in all material aspects. The number of our concessions remained at six since the end of the Track Record Period and up to the Latest Practicable Date. Our total number of heat service customers did not change materially since the end of the Track Record Period and up to the Latest Practicable Date. For the 2022/2023 heat service period, the monthly heat rates applicable to the Lanzhou New Area Project (inclusive of VAT) increased to RMB5.8 per sq.m. for residential users and RMB8.0 to RMB10.2 per sq.m. for non-residential users, while the monthly rates charged by us to residential and non-residential users for our other heat service projects remained the same. Our revenue from the provision and distribution of heat increased by approximately 9.6% for the year ended 31 December 2022 as compared to the previous year as a result of the organic growth of our heat services business. Our Directors confirm that there is no material adverse change to the provision and distribution of heat services for the 2022/2023 heat service period.

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

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

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

### EFFECTS OF THE COVID-19 OUTBREAK ON OUR BUSINESS OPERATIONS

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) was first reported in late 2019 and continues to spread across the PRC and globally. In March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As at the Latest Practicable Date, measures responding to COVID-19 relating to temporary travel restrictions and shutdown of certain business operations have been lifted, leading to the gradual resumption of normal commercial and industrial business operations.

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



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## SUMMARY

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### *In respect of our heat services*

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

We encountered delays in the settlement of trade receivables by some of our customers since the outbreak of COVID-19 as their business activities have been interrupted. The balance of our trade receivables aged over one year amounted to approximately RMB78.3 million, RMB93.5 million and RMB91.6 million, representing approximately 19.7%, 24.5% and 17.4% of our total trade receivables as at 31 December 2020, 2021 and 2022, respectively. In light of this, our Group has adopted various measures to manage credit risk. We consider that the delays in the settlement of trade receivables will not have a material adverse impact on our business and operation in the long term.

### *In respect of our engineering construction services*

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

For the elaboration of effects of the COVID-19 outbreak on our business operations, see “Business – Effects of the COVID-19 outbreak” in this document.

### **STATISTICS OF THE [REDACTED]**

[REDACTED]

## SUMMARY

### [REDACTED]

We estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million from the [REDACTED], after deducting the [REDACTED] commissions and other estimated expenses payable by us in connection with the [REDACTED], assuming that the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per H Share (being the mid-point of the indicative [REDACTED] range set out on the cover page of this document).

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

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

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

### RISK FACTORS

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

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

### PROPERTY VALUATION

According to the property valuation report prepared by Vincorn Consulting and Appraisal Limited, an independent valuer we engaged, as set forth in Appendix IV to this document, the market value of the property interests held by us for property activities in the PRC as at 31 December 2022 was approximately RMB193.2 million. See “Business – Properties” and Appendix IV in this document for further details on our properties.

### NON-COMPLIANCE INCIDENTS

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

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions shall have the following meanings.*

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“AFRC”	Accounting and Financial Reporting Council of Hong Kong
“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on 26 May 2022 to take effect on the [REDACTED], as amended or supplemented from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Zhongchuang”	Beijing Zhongchuang Financial Leasing Company Limited* (北京中創融資租賃有限公司), a company with limited liability established in the PRC on 19 October 2012, the registered capital of which is held as to 10% by Shuangliang Technology and 90% by Earnstar Holding Limited. Earnstar Holding Limited is an associate of Mr. Ma Fulin (馬福林先生) (our non-executive Director and one of our Controlling Shareholders) and Mr. Ma Peilin (馬培林先生) (our supervisor and one of our Controlling Shareholders). Hence, Beijing Zhongchuang is a connected person of our Company
“Board” or “Board of Directors”	the board of directors of our Company
“business day” or “Business Day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

[REDACTED]

## DEFINITIONS

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[REDACTED]

“China” or “PRC”	the People’s Republic of China, excluding, for the purpose of this document, Hong Kong, Macau Special Administrative Region and Taiwan
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“CNIPA”	China National Intellectual Property Administration (中華人民共和國國家知識產權局), which is the relevant national authority responsible for organising and coordinating intellectual property protection works and dealing with patent laws and administration

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## DEFINITIONS

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“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “the Company” or “Wise Living Technology”	Wise Living Technology Co., Ltd (慧居科技股份有限公司), formerly known as Jiangsu Shuangliang Contract Energy Management Company Limited* (江蘇雙良合同能源管理有限公司), Shuangliang Eco-Energy Systems (Jiangsu) Company Limited* (雙良節能系統(江蘇)有限公司) and Wise Living Technology Limited* (慧居科技有限公司), a company with limited liability established in the PRC on 3 September 2010 and converted into a joint stock company with limited liability on 29 December 2015
“Concession Agreements”	the Shuozhou Concession Agreement, the Taiyuan Concession Agreement, the Hulunbuir Concession Agreement, the Lanzhou New Area Concession Agreement, the Shanxi Demonstration Zone Concession Agreement and the Xinmi Concession Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules. Unless the context requires otherwise, each of Shuangliang Technology, Jiangsu Lichuang, Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Mr. Miao Zhiqiang (繆志強先生), Ms. Miao Shuya (繆舒涯女士), Mr. Miao Heida (繆黑大先生), Mr. Jiang Rongfang (江榮方先生), Mr. Ma Peilin (馬培林先生) and Mr. Ma Fulin (馬福林先生) is a Controlling Shareholder. They are considered as a group of our Controlling Shareholders as the individual Shareholders above have decided to restrict their ability to exercise direct control over our Company by holding their equity interests through Shuangliang Technology and Jiangsu Lichuang
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Cybersecurity Review Measures (2021)”	Measures for Cybersecurity Review (《網絡安全審查辦法》), which was issued on 28 December 2021, and was implemented on 15 February 2022
“Datong Renewable Energy”	Datong City Renewable Energy Heating Company Limited* (大同市再生能源供熱有限公司), a company with limited liability established in the PRC on 25 September 2009, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 70% by Taiyuan Renewable Energy, 15% by Mr. Zhang Quan (張權先生) (a director of Datong Renewable Energy), 10% by Mr. Li Wen (李文先生) (a supervisor of Datong Renewable Energy), and 5% by Ms. Zhao Lihong (趙麗紅女士) (a director of Datong Renewable Energy). Mr. Zhang Quan, Mr. Li Wen and Ms. Zhao Lihong are connected persons of our Company at the subsidiary level
“Deed of Indemnity”	a deed of indemnity dated [●] entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries)
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Domestic Share(s)”	share(s) issued by our Company in the PRC, which are subscribed for in RMB
“Draft Regulations On Network Data Security Management”	Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》) which was promulgated by Cyberspace Administration of China (中華人民共和國互聯網信息辦公室) on 14 November 2021
“EIT”	enterprise income tax
“EIT Rules”	the Regulation on the Implementation of the PRC EIT Law (《中華人民共和國企業所得稅法實施條例》) which was promulgated on 28 November 2007 and became effective on 1 January 2008, and was subsequently amended and became effective on 23 April 2019

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## DEFINITIONS

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“Extreme Conditions”	extreme conditions caused by super typhoons, including but not limited to serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons, as announced by the Hong Kong government
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent global market research and consulting company
“Frost & Sullivan Report”	an industry report prepared by Frost & Sullivan, which was commissioned by us
“Gansu Shuangliang”	Gansu Shuangliang Energy System Investment Company Limited* (甘肅雙良能源系統投資有限公司), a company with limited liability established in the PRC on 27 February 2013, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 80% by Wise Living Energy and 20% by Lanzhou Hanhai Trading Company Limited* (蘭州瀚海商貿有限公司) which is a connected person of our Company at the subsidiary level
“Gansu Smart Energy”	Gansu Shuangliang Smart Energy Management Company Limited* (甘肅雙良智慧能源管理有限公司), a company with limited liability established in the PRC on 6 July 2016, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Gansu Shuangliang

[REDACTED]

“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
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## DEFINITIONS

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“H Share(s)” ordinary share(s) in the share capital of our Company with nominal value of RMB1.00 each, which is/are to be subscribed for and traded in HK dollars and is/are to be listed on the Stock Exchange

[REDACTED]

“Hohhot Wise Living” Hohhot Wise Living Clean Energy Company Limited\* (呼和浩特慧居清洁能源有限公司), a company with limited liability established in the PRC on 17 May 2019, which was wholly owned by Wise Living Energy prior to its deregistration on 1 November 2021

“Hong Kong” or “HK” the Hong Kong Special Administrative Region of the People’s Republic of China

“Hong Kong dollars” or “HK dollars” or “HK\$” or “HKD” Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]



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## DEFINITIONS

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[REDACTED]

“Hulunbuir Concession Agreement”	the concession agreement dated 20 September 2013 entered into between Hulunbuir City of Inner Mongolia Autonomous Region Housing Urban-Rural Construction Committee* (內蒙古自治區呼倫貝爾市住房和城鄉建設委員會) (currently known as Hulunbuir City of Inner Mongolia Autonomous Region Housing and Urban-Rural Development Bureau* (內蒙古自治區呼倫貝爾市住房和城鄉建設局)) and Hulunbuir Shuangliang, and renewed on 18 February 2019, pursuant to which we provide heat services and engineering construction services in Hailar district of Hulunbuir city under our Hulunbuir Project
“Hulunbuir Project”	Hulunbuir Inner City Area Municipal Heat Services Project (呼倫貝爾市中心城區城鎮供熱項目), a project established pursuant to the Hulunbuir Concession Agreement
“Hulunbuir Shuangliang”	Hulunbuir Shuangliang Energy System Company Limited* (呼倫貝爾雙良能源系統有限公司), a company with limited liability established in the PRC on 11 March 2013, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 85% by Wise Living Energy and 15% by Hulunbuir Dongsheng Energy Investment Company limited* (呼倫貝爾市東升能源投資有限公司) which is a connected person of our Company at the subsidiary level
“IFRIC”	International Financial Reporting Interpretations Committee

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## DEFINITIONS

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“IFRIC 12” or “IFRIC 12 Service Concession Arrangements”	Hong Kong (IFRIC) Interpretation 12 Service Concession Arrangements (HK(IFRIC)-Int 12), which sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	individual(s) or companies who or which is/are not a connected person(s) of our Company and is/are independent of our Company
“Inner Mongolia Wise Living”	Inner Mongolia Wise Living Tianlang Clean Energy Company Limited* (內蒙古慧居天朗清潔能源有限公司), a company with limited liability established in the PRC on 28 June 2018, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 77.89% by Wise Living Energy and 22.11% by Inner Mongolia Environmental Governance Construction Company Limited* (內蒙古環境治理工程有限公司) which is a connected person of our Company at the subsidiary level

[REDACTED]

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## DEFINITIONS

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[REDACTED]

- “Interim Measures” Interim Measures for the Price Control of Urban Heat Services (《城市供熱價格管理暫行辦法》) as jointly issued by the NDRC and the then Ministry of Construction, promulgated on 3 June 2007 and implemented on 1 October 2007
- “Jiangsu Lichuang” Jiangsu Lichuang New Energy Company Limited\* (江蘇利創新能源有限公司), a company with limited liability established in the PRC on 24 December 1997, the registered capital of which is held as to 20% by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders), 15% by Mr. Miao Wenbin (繆文彬先生) (our non-executive Director and one of our Controlling Shareholders), 10% by Mr. Miao Zhiqiang (繆志強先生) (one of our Controlling Shareholders), 10% by Ms. Miao Shuya (繆舒涯女士) (one of our Controlling Shareholders), 10% by Mr. Miao Heida (繆黑大先生) (one of our Controlling Shareholders), 15% by Mr. Jiang Rongfang (江榮方先生) (one of our Controlling Shareholders), 10% by Mr. Ma Fulin (馬福林先生) (our non-executive Director and one of our Controlling Shareholders) and 10% by Mr. Ma Peilin (馬培林先生) (our supervisor and one of our Controlling Shareholders). Hence, Jiangsu Lichuang is considered to be one of our Controlling Shareholders
- “Jiangyin Hotel” Jiangyin International Grand Hotel Company Limited\* (江陰國際大酒店有限公司), a company with limited liability established in the PRC on 26 March 1996, the registered capital of which is held as to 75% by Shuangliang Group Co. and 25% by SL International Investments Co. Ltd. which is a company incorporated in the British Virgin Islands with limited liability and a connected person of our Company. Shuangliang Group Co. is an associate of Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders). Hence, Jiangyin Hotel is a connected person of our Company

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## DEFINITIONS

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[REDACTED]

“Lanzhou Bureau”	Lanzhou New Area Urban and Rural Construction and Transportation Bureau* (蘭州新區城鄉建設和交通管理局), which is the relevant competent authority in charge of all matters in respect of our concession right for the Lanzhou New Area Project
“Lanzhou New Area Concession Agreement”	the concession agreement entered into between Lanzhou New Area Management Committee* (蘭州新區管理委員會) and Lanzhou Shuangliang in January 2014, and renewed in June 2019, pursuant to which we provide heat services and engineering construction services in Lanzhou New Area of Lanzhou city under our Lanzhou New Area Project
“Lanzhou New Area Project”	Lanzhou New Area Project (蘭州新區南部區域集中供熱項目), a project established pursuant to the Lanzhou New Area Concession Agreement
“Lanzhou Shuangliang”	Lanzhou New Area Shuangliang Thermal Power Company Limited* (蘭州新區雙良熱力有限公司), a company with limited liability established in the PRC on 31 July 2013, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Gansu Shuangliang
“Lanzhou Wise Living”	Lanzhou Wise Living Thermal Engineering Company Limited* (蘭州慧居熱力工程有限公司), a company with limited liability established in the PRC on 27 August 2018, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Gansu Shuangliang
“Latest Practicable Date”	5 March 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this document

[REDACTED]

“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
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## DEFINITIONS

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[REDACTED]

“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Lvliang Renewable Energy”	Lvliang City Renewable Energy Heat Supply Company Limited* (呂梁市再生能源供熱有限公司), a company with limited liability established in the PRC on 30 November 2009, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 90% by Taiyuan Renewable Energy and 10% by Mr. Xue Ming (薛銘先生) who is a connected person of our Company at the subsidiary level
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel to the GEM operated by the Stock Exchange
“Mandatory Clauses”	the “Mandatory Clauses for Articles of Association of Companies to be Listed Overseas” (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on 27 August 1994
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOHURD”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

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## DEFINITIONS

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“NEEQ”	the National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“NPC”	the National People’s Congress (全國人民代表大會) of the PRC

[REDACTED]

“People’s Congress”	the legislative apparatus of the PRC, including the NPC and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them (人民代表大會)
“PRC Company Law” or “Company Law”	the Company Law of the PRC (《中華人民共和國公司法》) which was promulgated on 29 December 1993 and became effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC EIT Law”	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) which was promulgated on 16 March 2007 and became effective on 1 January 2008, and was subsequently amended and became effective on 29 December 2018

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## DEFINITIONS

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“PRC GAAP”	the China Accounting Standards (企業會計準則) as promulgated and amended from time to time and their interpretations, guidelines and implementation rules, which collectively are accepted as generally accepted accounting principles in the PRC
“PRC Government” or “State”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“PRC Legal Advisers”	Llinks Law Offices, our legal advisers as to PRC law
“PRC Pricing Law”	the Pricing Law of the PRC (《中華人民共和國價格法》) which was promulgated on 29 December 1997 and became effective on 1 May 1998

[REDACTED]

“R&D”	research and development
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Persons”	the [Sole Sponsor], [REDACTED], the [REDACTED], [the [REDACTED]], [the [REDACTED]], [the [REDACTED]], any of their or our Company’s respective directors, officers, employees, partners, agents or advisers or any other persons involved in the [REDACTED]
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)

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## DEFINITIONS

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“SAT” or “State Taxation Administration”	the State Taxation Administration of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shaanxi Gas Group New Energy Development”	Shaanxi Gas Group New Energy Development Company Limited* (陝西燃氣集團新能源發展股份有限公司), formerly known as Shaanxi Gas Group New Energy Development Limited* (陝西燃氣集團新能源發展有限公司), a joint stock company with limited liability established in the PRC on 21 March 2013. Shaanxi Gas Group New Energy Development is held as to 10% by Wise Living Energy and 90% in aggregate by four other shareholders which are Independent Third Parties
“Shanghai Tongsheng LP”	Shanghai Tongsheng Yongying Enterprise Management Centre (Limited Partnership)* (上海同盛永盈企業管理中心(有限合夥)), formerly known as Jiangyin Tongsheng Enterprise Management Centre (Limited Partnership)* (江陰同盛企業管理中心(有限合夥)), a limited partnership established in the PRC on 22 January 2016, which is held as to 68.5% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates and 31.5% in aggregate by three other shareholders. Shanghai Tongsheng LP is an associate of Mr. Miao Shuangda. Hence, Shanghai Tongsheng LP is a connected person of our Company
“Shanxi Carbon Trading”	Shanxi Shuangliang Carbon Trading Management Company Limited* (山西雙良碳交易管理有限公司), a company with limited liability established in the PRC on 6 May 2016, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Shanxi Shuangliang Renewable Energy



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## DEFINITIONS

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“Shanxi Demonstration Zone Concession Agreement”	the concession agreement dated 18 September 2018 entered into between Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone* (山西轉型綜合改革示範區管理委員會) and Shanxi Demonstration Zone Heat Supply, pursuant to which we provide heat services and engineering construction services in Shanxi Transformation and Comprehensive Reform Demonstration Zone of Shanxi province under our Shanxi Demonstration Zone Project
“Shanxi Demonstration Zone Heat Supply”	Shanxi Transformation and Comprehensive Reform Demonstration Zone Heat Supply Company Limited* (山西轉型綜改示範區供熱有限公司), a company with limited liability established in the PRC on 19 September 2018, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Taiyuan Renewable Energy
“Shanxi Demonstration Zone Project”	Shanxi Transformation and Comprehensive Reform Demonstration Zone Xiaohe Industrial Park and Science and Technology Innovation City Heat Services Project (山西轉型綜合改革示範區瀟河產業園區和科技創新城供暖服務項目), a project established pursuant to the Shanxi Demonstration Zone Concession Agreement
“Shanxi New Energy Equipment”	Shanxi Shuangliang New Energy Equipment Manufacturing Company Limited* (山西雙良新能源裝備製造有限公司), a company with limited liability established in the PRC on 8 January 2018, which was wholly owned by Taiyuan Renewable Energy prior to its deregistration on 26 May 2020
“Shanxi Shuangliang New Energy”	Shanxi Shuangliang New Energy Thermoelectric Engineering Design Company Limited* (山西雙良新能源熱電工程設計有限公司), a company with limited liability established in the PRC on 6 June 2016, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Shanxi Shuangliang Renewable Energy

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## DEFINITIONS

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“Shanxi Shuangliang Renewable Energy”	Shanxi Shuangliang Renewable Energy Industry Group Company Limited* (山西雙良再生能源產業集團有限公司), formerly known as Shanxi Shuangliang Renewable Energy Development and Utilisation Company Limited* (山西雙良再生能源開發利用有限公司), Shanxi Kelai Renewable Energy Development and Utilisation Company Limited* (山西科萊再生能源開發利用有限公司) and Shanxi Kelai Technology Company Limited* (山西科萊科技有限公司), a company with limited liability established in the PRC on 15 February 2006, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 51% by Wise Living Energy and 49% in aggregate by five other shareholders
“Shanxi Smart Life”	Shanxi Smart Life Property Service Company Limited* (山西惠生活物業服務有限公司), a company with limited liability established in the PRC on 9 November 2016, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Taiyuan Renewable Energy
“Share(s)”	ordinary share(s) in the capital of our Company with nominal value of RMB1.00, comprising our Domestic Share(s) and our H Share(s)
“Shareholder(s)”	holder(s) of the Shares
“Shentou Second Power Station”	Shanxi Shentou Second Power Station* (山西神頭二電廠), a notable regional power plant station located in Shuozhou of Shanxi Province, which comprise a number of cogeneration plants, including but not limited to the cogeneration plants owned by State Energy Group Shanxi Shentou No. 2 Power Plant Co., Ltd.* (國家能源集團山西神頭第二發電廠有限公司) and Shanxi Datang International Shentou Power Generation Co., Ltd.* (山西大唐國際神頭發電有限責任公司)

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## DEFINITIONS

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- “Shuangliang Boiler”                      Jiangsu Shuangliang Boiler Company Limited\* (江蘇雙良鍋爐有限公司), a company with limited liability established in the PRC on 30 March 2000, the registered capital of which is held as to 66.7% by Shuangliang Technology (one of our Controlling Shareholders) and 33.3% by SL International Investments Co. Ltd. which is a company incorporated in the British Virgin Islands with limited liability and a connected person of our Company. Shuangliang Boiler is an associate of Shuangliang Technology. Hence, Shuangliang Boiler is a connected person of our Company
- “Shuangliang Eco-Energy”                      Shuangliang Eco-Energy Systems Co., Ltd. (雙良節能系統股份有限公司), formerly known as Jiangsu Shuangliang Air-conditioning Limited\* (江蘇雙良空調設備股份有限公司) and Jiangsu Shuangliang Trane Lithium Bromide Refrigerator Company Limited\* (江蘇雙良特靈溴化鋰製冷機有限公司), a joint stock company with limited liability established in the PRC on 5 October 1995 and listed on Shanghai Stock Exchange (stock code: 600481.SH), the then sole shareholder of our Company since the establishment of our Company and up to 22 October 2015. Shuangliang Eco-Energy is controlled by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders). Hence, Shuangliang Eco-Energy is a connected person of our Company
- “Shuangliang Eco-Energy Group”                      Shuangliang Eco-Energy and its subsidiaries from time to time
- “Shuangliang Eco Engineering”                      Jiangsu Shuangliang Energy-Saving Eco Engineering Technique Company Limited\* (江蘇雙良節能環保工程技術有限公司), formerly known as Jiangsu Shuangliang Air-conditioning Installation Company Limited\* (江蘇雙良空調安裝有限公司), a company established in the PRC on 3 July 2003, the registered capital of which is held as to 90% by Shuangliang Eco-Energy and 10% by Jiangsu Lichuang. Shuangliang Eco-Energy is an associate of Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders). Hence, Shuangliang Eco Engineering is a connected person of our Company

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## DEFINITIONS

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- “Shuangliang Group Co.” Shuangliang Group Company Limited\* (雙良集團有限公司), formerly known as Jiangsu Shuangliang Group Limited\* (江蘇雙良集團有限公司), Jiangsu Shuangliang Group Company\* (江蘇雙良集團公司) and Jiangyin Lithium Bromide Refrigerator Factory\* (江陰市溴化鋰製冷機廠), a company with limited liability established in the PRC on 25 December 1987, the registered capital of which is held as to 68% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates and 32% in aggregate by four other shareholders. Shuangliang Group Co. is an associate of Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders). Hence, Shuangliang Group Co. is a connected person of our Company
- “Shuangliang New Energy Equipment” Jiangsu Shuangliang New Energy Equipment Company Limited\* (江蘇雙良新能源裝備有限公司), formerly known as Zhongye Jiaonai (Jiangyin) Equipment Manufacturing Company Limited\* (中冶焦耐(江陰)設備製造有限公司), a company with limited liability established in the PRC on 1 November 2007, the registered capital of which is held as to 85% by Shuangliang Eco-Energy and 15% by Jiangsu Lichuang. Shuangliang New Energy Equipment is an associate of Shuangliang Eco-Energy. Hence, Shuangliang New Energy Equipment is a connected person of our Company
- “Shuangliang Spandex” Jiangsu Shuangliang Spandex Co., Ltd.\* (江蘇雙良氨綸有限公司), formerly known as Jiangsu Shuangliang Special Fibre Company Limited\* (江蘇雙良特種纖維有限公司), a company with limited liability established in the PRC on 31 May 2002, the registered capital of which is held as to 6.4% by Shuangliang Technology, 65.7% by Jiangyin Youli Investment Management Company Limited\* (江陰友利投資管理有限公司) which is a wholly-owned subsidiary of Shuangliang Technology, and 27.9% by Kinsale Technology Limited which is a company incorporated in the British Virgin Islands with limited liability and a connected person of our company. Shuangliang Spandex is an associate of Shuangliang Technology. Hence, Shuangliang Spandex is a connected person of our Company

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## DEFINITIONS

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“Shuangliang Technology”	Jiangsu Shuangliang Technology Company Limited* (江蘇雙良科技有限公司), formerly known as Jiangsu Shuangliang Boiler Company Limited* (江蘇雙良鍋爐有限公司), a company with limited liability established in the PRC on 18 December 1997, one of our Controlling Shareholders. The registered capital of Shuangliang Technology is held as to 20% by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders), 15% by Mr. Miao Wenbin (繆文彬先生) (our non-executive Director and one of our Controlling Shareholders), 10% by Mr. Miao Zhiqiang (繆志強先生) (one of our Controlling Shareholders), 10% by Ms. Miao Shuya (繆舒涯女士) (one of our Controlling Shareholders), 10% by Mr. Miao Heida (繆黑大先生) (one of our Controlling Shareholders), 15% by Mr. Jiang Rongfang (江榮方先生) (one of our Controlling Shareholders), 10% by Mr. Ma Fulin (馬福林先生) (our non-executive Director and one of our Controlling Shareholders) and 10% by Mr. Ma Peilin (馬培林先生) (our supervisor and one of our Controlling Shareholders)
“Shuozhou Concession Agreement”	the concession agreement dated 18 January 2012 entered into between Shuozhou City Housing Urban-Rural Construction Administration Bureau* (朔州市住房保障和城鄉建設管理局) and Shanxi Shuangliang Renewable Energy, pursuant to which we provide heat services and engineering construction services in Shuocheng district of Shuozhou city under our Shuozhou Project
“Shuozhou Electricity Sales”	Shuozhou Shuangliang Electricity Sales Company Limited* (朔州市雙良售電有限公司), a company with limited liability established in the PRC on 20 July 2017, and our then wholly owned subsidiary prior to our disposal of it on 23 June 2020
“Shuozhou Project”	Shuozhou Municipal Cogeneration Centralised Heat Services Project (朔州市熱電聯產集中供熱項目), a project established pursuant to the Shuozhou Concession Agreement

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## DEFINITIONS

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“Shuozhou Renewable Energy”	Shuozhou City Renewable Energy Thermal Company Limited* (朔州市再生能源熱力有限公司), a company with limited liability established in the PRC on 23 May 2011, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 90% by Shanxi Shuangliang Renewable Energy and 10% by Taiyuan Renewable Energy
“Sinopec New Star”	Sinopec New Star Shuangliang Geothermal Thermal Power Company Limited* (中石化新星雙良地熱能熱電有限公司), a company with limited liability established in the PRC on 17 September 2014, the registered capital of which is held as to 51% by Sinopec Green Energy Geothermal Development Co., Limited* (中石化綠源地熱能開發有限公司), 40% by Taiyuan Renewable Energy and 9% by Shanxi Taiyangneng Solar Thermal Power Generation Co., Limited* (山西欽陽能光熱發電有限公司). Hence, the registered capital of Sinopec New Star is indirectly held as to 40% by our Company
“SOE(s)”	State-owned enterprise(s)
“Sole Sponsor” or “Guotai Junan Capital”	Guotai Junan Capital Limited, a corporation licenced to carry out type 6 (advising on corporate finance) regulated activity under the SFO
“Southern Taiyuan Heat Supply”	Southern Taiyuan Heat Supply Co., Ltd* (太原市南部供熱有限公司), a company with limited liability established in the PRC on 28 April 2013, which was wholly owned by Shanxi Shuangliang Renewable Energy prior to its deregistration on 9 March 2020
“Special Regulations”	Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) which was promulgated by the State Council on 4 August 1994

[REDACTED]

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## DEFINITIONS

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[REDACTED]

“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Taixin Renewable Energy”	Taixin Renewable Energy Heating (Shanxi) Co., Ltd.* (太忻再生能源供熱(山西)有限公司), a company with limited liability established in the PRC on 23 March 2022, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Shanxi Shuangliang Renewable Energy
“Taiyuan Concession Agreement”	the concession agreement dated 21 November 2012 entered into between Taiyuan Urban Administration Committee* (太原市城鄉管理委員會) and Taiyuan Renewable Energy, pursuant to which we provide heat services and engineering construction services in areas of Taiyuan city namely south of South Central Street (南中環街以南), east of West Ring Expressway (西環高速公路以東), west of Binhe West Road (濱河西路以西), and north of Gucheng Main Street (古城大街以北) under our Taiyuan Project
“Taiyuan Project”	Taiyuan Municipal Centralised Heat Services (Condensation Heat) Project (太原市集中供熱(冷凝熱)項目), a project established pursuant to the Taiyuan Concession Agreement
“Taiyuan Renewable Energy”	Taiyuan City Renewable Energy Heat Supply Company Limited* (太原市再生能源供熱有限公司), a company with limited liability established in the PRC on 22 May 2009, an indirect non wholly-owned subsidiary of our Company, which is wholly owned by Shanxi Shuangliang Renewable Energy

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## DEFINITIONS

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“Tech-Thermal (Zhengzhou)” Wise Living Tech-Thermal Power (Zhengzhou) Company Limited\* (慧居科技熱力(鄭州)有限公司), a company with limited liability established in the PRC on 10 December 2020, an indirect non wholly-owned subsidiary of our Company, the registered capital of which is held as to 80% by Wise Living Energy and 20% by Zhengzhou Qindu Thermal Power Company Limited (鄭州溱都熱力有限責任公司) which is a connected person of our Company at the subsidiary level

“Track Record Period” the three financial years ended 31 December 2022

[REDACTED]

“USD” United States dollars, the lawful currency of the United States

“U.S.” or “United States” the United States of America, its territories, its possessions and all areas subject to its jurisdiction

“U.S. Securities Act” the United States Securities Act of 1933, as amended, and the rules and regulations promulgated under it

“VAT” value added tax

[REDACTED]

“Wise Living Energy” Wise Living Energy Technology Company Limited\* (慧居能源科技有限公司), formerly known as Wise Living Technology Jiangsu Energy System Investment Company Limited\* (慧居科技江蘇能源系統投資有限公司), a company with limited liability established in the PRC on 29 November 2016, a direct wholly-owned subsidiary of our Company



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## DEFINITIONS

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“Wise Living Energy (Baotou)”	Wise Living Energy (Baotou) Company Limited* (慧居能源(包頭)有限公司), a company with limited liability established in the PRC on 26 November 2020, an indirect wholly-owned subsidiary of our Company, which is wholly owned by Wise Living Energy
“Wise Living Energy (Gansu)”	Wise Living Energy Technology (Gansu) Company Limited* (慧居能源科技(甘肅)有限公司), a company with limited liability established in the PRC on 31 December 2020, an indirect wholly-owned subsidiary of our Company, which is wholly owned by Wise Living Energy
“Wise Living Environmental Energy”	Wise Living Environmental Energy Technology (Beijing) Company Limited* (慧居環能科技(北京)有限公司), a company with limited liability established in the PRC on 11 April 2019, the registered capital of which was held as to 80% by Wise Living Energy and 20% by Hou Chao (Shanghai) Industrial Centre (Limited Partnership)* (厚朝(上海)實業中心(有限合夥)) prior to its deregistration on 24 March 2020
“Wuxi Hundun”	Wuxi Hundun Energy Technology Co., Ltd.* (無錫混沌能源技術有限公司), a company with limited liability established in the PRC on 8 November 2018, the registered capital of which is held as to 83.8% by Shanghai Tongsheng LP, 5.8% by Jiangyin Yongyou Smart Technology Equity Investment Fund (Limited Partnership)* (江陰用友數智化科技股權投資基金(有限合夥)), 4.5% by Shuangliang Technology, 3.5% by Jiangyin State-owned Capital Holding Group Financial Investment Company Limited* (江陰國有資本控股集團金融投資有限公司) and 2.4% by Wuxi Liande Investment Partnership (Limited Partnership)* (無錫聯德投資合夥企業(有限合夥)). Shanghai Tongsheng LP is an associate of Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and Shuangliang Technology is our Controlling Shareholder. Hence, Wuxi Hundun is a connected person of our Company

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\* For identification purposes only.

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## DEFINITIONS

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“Xinmi Concession Agreement”	the concession agreement dated 7 December 2021 entered into between Xinmi People’s Government* (新密人民政府) and Tech-Thermal (Zhengzhou), pursuant to which we shall provide heat services and engineering construction services in Baizhai town (白寨鎮), Yuecun town (岳村鎮), Quliang town (曲梁鎮), Liuzhai town (劉寨鎮), Dakui town (大隗鎮) and Goutang town (苟堂鎮) of Xinmi city under our Xinmi Project
“Xinmi Project”	Xinmi City Centralised Heat Services Project (新密市集中供熱項目), a project established pursuant to the Xinmi Concession Agreement
“Zhengzhou Wise Living”	Zhengzhou Wise Living Thermal Power Company Limited* (鄭州慧居熱力有限公司), a company with limited liability established in the PRC on 17 November 2018, an indirect wholly-owned subsidiary of our Company, which is wholly owned by Wise Living Energy
“Zhengzhou Yuzhong Energy”	Zhengzhou Yuzhong Energy Sources Co., Ltd.* (鄭州裕中能源有限責任公司), a company with limited liability established in the PRC on 11 December 2003, and an Independent Third Party
“%”	Percent

*In this document, the terms “associate”, “connected person”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.*

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

*In this document, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.*

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## GLOSSARY AND TECHNICAL TERMS

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*This glossary contains explanations of certain technical terms used in this document in connection with our Company and its business. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.*

“actual heat service area”	the actual area within our Concession Area in which we are already providing heat services, which is measured in terms of GFA. For each of our heat service projects, the actual heat service area is confirmed by the relevant local authority of the areas in which we operate
“BOT”	build-operate-transfer, a form of project delivery method which is usually for a large-scale infrastructure project, wherein a private enterprise receives a concession from the public sector. The terms are usually set out in a concession agreement entered into by the private enterprise and the government, whereby the government grants to the enterprise the rights to undertake, among others, the financing, design, construction and operation of certain facilities during the concession period agreed therein. During the concession period, the enterprise can charge service fees based on its services provided to cover its costs of investment, operation and maintenance and obtain reasonable returns. Upon the expiration of the concession period, the relevant facilities will be transferred back to the government
“CAGR”	compound annual growth rate
“CCER projects(s)”	China Certified Emission Reduction projects in which companies, including heat service providers, carry out a series of emissions reduction activities on a voluntary basis that are certified by the PRC Government. CCER projects include renewable power generation and waste-to-energy projects, as well as forestry projects
“cogeneration” or “CHP”	also known as combined heat and power, is the simultaneous production of multiple forms of energy from a single fuel source, usually electricity and heat
“Concession Area”	the planned floor area to which we are entitled to charge for our provision of heat services under concession rights derived from our Concession Agreements, which is measured in terms of GFA

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## GLOSSARY AND TECHNICAL TERMS

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“Concession Boundary Area”	the estimated geographical area within a demarcated boundary in which we are granted the exclusive right to provide heat services under our Concession Agreements
“CSR”	corporate social responsibility, refers to practices and policies undertaken by corporations intended to have a positive influence on the world
“energy management contract” or “EMC”	an energy-conservation service contract under which an energy-saving service provider provides energy-conservation services (such as energy conservation through the collection and utilisation of residual heat from recycling water) to an energy consuming enterprise to achieve certain energy saving goals. In these contracts, the energy saving service provider of the energy-conservation services is sometimes entitled to a share of the profit accrued from energy conservation as a result of the energy-conservation services provided
“GDP”	gross domestic product
“GFA”	gross floor area
“GHG”	greenhouse gases such as carbon dioxide are gases which trap heat in the earth’s atmosphere and one of the main pollutants generated from the combustion of fossil fuels
“GJ”	gigajoule, a unit used to measure the amount of heat energy
“heat rate”	the rate of fees which we charge to our heat service users for our provision of heat services
“heat services”	the provision of heat to heat service customers, primarily under concession rights, for their thermal comfort. Our heat services are typically charged by the size of indoor area in terms of GFA
“heat service period”	the period during which the heat service providers provide heat services, usually between October of each year and April of the following year which can be longer or shorter depending on the location of the Concession Area and the temperature changes resulting from seasonality of each year

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## GLOSSARY AND TECHNICAL TERMS

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“heat transmission services”	the transmission of heat to our customers other than our heat service customers who use our heat for thermal comfort. Our heat transmission services are charged by the amount of heat (in terms of GJ) consumed
“kg”	kilogram
“kW”	kilowatt of power
“kWh”	kilowatt-hour, a unit of energy equal to one kilowatt of power sustained for one hour
“km <sup>3</sup> ”	cubic kilometre
“m <sup>3</sup> ”	cubic metre
“MW”	megawatt. 1MW = 1,000kW. The installed capacity of a electric furnaces and clean coal-fuelled boiler is generally expressed in MW
“non-residential heat service users”	users other than residential heat service users, such as industrial heat service users and commercial heat service users
“NO <sub>x</sub> ”	nitrogen oxide and nitrogen dioxide, together one of the main group of pollutants generated from the combustion of fossil fuels
“particular matter/PM”	the term for a mixture of solid particles and liquid droplets found in the air
“peak-shaving”	a process in the heat service industry where demand for heat during peak time periods, or for emergency response, is supplemented by other heat source
“peak-shaving station”	a station built to provide peak-shaving function
“primary distribution network”	the two-way circulation network through primary distribution pipelines between heat sources (cogeneration plants or boilers) and heat exchange stations
“secondary distribution network”	the two-way circulation network through secondary distribution pipelines between heat exchange stations and the heating equipment in the properties to which we provide heat services

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## GLOSSARY AND TECHNICAL TERMS

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"SO <sub>2</sub> "	sulphur dioxide, one of the main pollutants generated from the combustion of fossil fuels
"SO <sub>x</sub> "	sulphur oxides, one of the main group of pollutants generated from the combustion of fossil fuels
"sq.m."	square metre
"tCO <sub>2</sub> e"	metric tonnes of carbon dioxide equivalent, illustrating the amount of GHG emitted during a given period
"Three North" Region	the geographical regions of north China (consisting of the direct-administered municipalities of Beijing, Tianjin, provinces of Hebei and Shanxi and the autonomous region of Inner Mongolia), northeast China (consisting of the provinces of Liaoning, Jilin and Heilongjiang) and northwest China (consisting of the provinces of Shaanxi, Gansu and Qinghai and the autonomous regions of Xinjiang and Ningxia)
"water loss"	the amount of water that is lost during heat distribution process
"water loss rate"	the percentage of water loss during heat distribution process
"°C"	Celsius degree

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## FORWARD-LOOKING STATEMENTS

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This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans for the development of existing and new businesses, ability to implement such strategies and plans and expected time;
- our newly signed contract value and backlog;
- our financial position;
- our dividend policy;
- our ability to cut costs;
- the regulatory environment of the heat services, construction and engineering services and energy management contract industries in the PRC, overall industry outlook and competitive environment;
- the development of the capital market;
- certain statements in the sections entitled "Risk factors", "Industry overview", "Regulatory overview", "Business", "Financial information", "Relationship with our Controlling Shareholders" and "Future plans and [REDACTED]" with respect to interest rate trends, exchange rates, prices, volumes, operations, margins, risk management and overall market trends;
- developments and competition in the PRC and global heat service and construction, maintenance and design services industries; and
- general economic conditions.

The words "aim", "anticipate", "believe", "intend", "continue", "could", "estimate", "expect", "going forward", "propose", "may", "ought to", "plan", "potential", "speculate", "forecast", "arrange", "seek", "should", "target", "will", "might" and the negatives of these terms and other similar expressions, as they relate to us, identify a number of these forward-looking statements. Such statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including risk factors as set out in this document. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial position may be adversely affected and may vary materially from those described herein as anticipated believed, estimated or expected. Accordingly, such statements are not a guarantee of future

## **FORWARD-LOOKING STATEMENTS**

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performance and you should not place undue reliance on such forward-looking information. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to publicly update or revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

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



## 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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## RISK FACTORS

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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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## RISK FACTORS

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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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## RISK FACTORS

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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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## RISK FACTORS

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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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## RISK FACTORS

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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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## RISK FACTORS

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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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## RISK FACTORS

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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, Shuozhou 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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## RISK FACTORS

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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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## RISK FACTORS

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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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## RISK FACTORS

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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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## RISK FACTORS

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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.

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## RISK FACTORS

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**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.

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## RISK FACTORS

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### **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.

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

In preparation of the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### **MANAGEMENT PRESENCE IN HONG KONG**

Pursuant to Rule 8.12 and Rule 19A.15 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally requires at least two of our executive Directors to ordinarily reside in Hong Kong. Given that our business and operation are primarily located, managed and conducted in the PRC, all of our executive Directors are and will continue to be based in the PRC to attend to their respective duties in the PRC. As each of our executive Directors has a vital role in our Group’s operation, it is crucial for them to remain in close proximity to the location where our Group’s central management is located in the PRC.

For the reasons set out above, our Directors consider that it would be practically difficult, unduly burdensome and not commercially feasible for us to appoint two Hong Kong residents as executive Directors or to relocate any of our executive Directors to Hong Kong merely for the purpose of complying with the relevant provisions of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 and Rule 19A.15 of the Listing Rules, and the Stock Exchange [has granted] the waiver on [●], subject to the following conditions:

- (a) the two authorised representatives of our Company, namely Mr. Geng Ming (耿鳴先生) (“**Mr. Geng**”) and Mr. Luo Wei (羅偉先生) (“**Mr. Luo**”) can both serve as our principal channel of communication with the Stock Exchange. Mr. Geng and Mr. Luo have respectively confirmed that they possess valid travel documents and are able to renew such travel documents when they expire, in order to be available to meet with the Stock Exchange in Hong Kong within a reasonable time if and when required by the Stock Exchange. The authorised representatives are readily contactable by home, office, mobile phone and other phone numbers, email and communication address, facsimile numbers if available, and any other contact details prescribed by the Stock Exchange from time to time. The authorised representatives represent our Company in communicating with the Stock Exchange, and are available to meet with the Stock Exchange in Hong Kong within a reasonable time when required by the Stock Exchange to discuss any issues;
- (b) we will promptly inform the Stock Exchange if there are any changes to our authorised representatives;

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

- (c) the authorised representatives have means to contact all of our Directors (including the independent non-executive Directors) and our senior management team promptly at all times and as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, we have implemented a policy whereby:
  - (i) each of our executive Directors and non-executive Directors shall provide his mobile phone numbers, residential phone numbers, office phone numbers, facsimile numbers (if available) and email addresses (if available) to the authorised representatives;
  - (ii) each of our executive Directors and non-executive Directors will provide valid phone numbers or means of communication to the authorised representatives when he is travelling or out of office;
  - (iii) all the executive Directors, non-executive Directors, independent non-executive Directors and authorised representatives will provide their respective mobile phone numbers, office phone numbers (if available), facsimile numbers (if available) and email addresses (if available) to the Stock Exchange;
- (d) all our Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents or will be able to apply for valid travel documents to visit Hong Kong and will be able to meet the Stock Exchange within a reasonable period; and
- (e) meetings between the Stock Exchange and our Directors can be arranged through the authorised representatives or the compliance adviser of our Company, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly of any change in the authorised representatives or the compliance adviser of our Company.

We have, in accordance with Rule 3A.19 of the Listing Rules, retained Guotai Junan Capital Limited as our compliance adviser, who will, among other things, in addition to the two authorised representatives, act as our additional channel of communication with the Stock Exchange for a period commencing on the [REDACTED] at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the [REDACTED].

We shall ensure that our compliance adviser will have access at all times to our authorised representatives and Directors pursuant to Rule 19A.05(2) of the Listing Rules. We shall also procure that such persons will provide promptly such information and assistance as our compliance adviser may need or may reasonably request in connection with the performance of its duties as set forth in Chapter 3A and Chapter 19A of the Listing Rules. We shall ensure that there are adequate and efficient means of communication between us, our authorised representatives, Directors and our compliance adviser, and will keep our compliance adviser informed of all communications and dealings between us and the Stock Exchange.

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

In the circumstances, our Directors do not envisage that there should be any difficulty for the Stock Exchange to contact (if required) any of the executive Directors. Our Directors are of the view that the above-mentioned arrangements for maintaining regular communications with the Stock Exchange are in line with the conditions set out in the Guidance Letter HKEX-GL9-09. Our Directors will ensure that disclosure of information and communication with the Stock Exchange will be made on a timely basis.

### **JOINT COMPANY SECRETARIES**

According to Rule 8.17 of the Listing Rules, a company secretary who satisfies Rule 3.28 of the Listing Rules must be appointed. Pursuant to Rule 3.28 of the Listing Rules, the secretary of our Company must be a person who, by virtue of his or her academic or professional qualifications or relevant experience, is capable of discharging the functions of company secretary in the opinion of the Stock Exchange. The following academic or professional qualifications are considered as acceptable to the Stock Exchange:

- (a) a member of The Hong Kong Chartered Governance Institute;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance, Chapter 159 of the Laws of Hong Kong;
- (c) a certified public accountant as defined in the Professional Accountants Ordinance, Chapter 50 of the Laws of Hong Kong.

In assessing “relevant experience” of a candidate, the Stock Exchange will consider the individual’s:

- (a) length of employment with the issuer and other issuers and the roles he or she plays;
- (b) familiarity of the Listing Rules and other relevant laws and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Code on Takeovers and Mergers;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

According to the Guidance Letter HKEX-GL108-20, the waiver under Rule 3.28 of the Listing Rules will be granted for a fixed period of time, but in any case, will not exceed three years from the [REDACTED] (the “Waiver Period”) and on the conditions that (i) the company secretary in question must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by the Company.



## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

We have appointed Mr. Ma Ke (馬克先生) and Mr. Tso Ping Cheong, Brian (曹炳昌先生) (“**Mr. Tso**”) as the joint company secretaries of our Company effective from the [REDACTED]. For the background of Mr. Ma Ke and Mr. Tso, please see “Directors, supervisors and senior management – Joint company secretaries” in this document. Our Directors believe that Mr. Ma Ke has experience in board and corporate management matters and his physical presence in the PRC enables him to deal with the day-to-day corporate secretarial matters concerning our Group as our core businesses and operations are based and conducted in the PRC. However, Mr. Ma Ke does not possess any of the qualifications under Rule 3.28 and Rule 8.17 of the Listing Rules, and may not be able to solely fulfil the requirements thereunder. Our Company has therefore applied for, which the Stock Exchange [has granted], a waiver from the strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules on the condition that Mr. Tso who is a certified public accountant is engaged as a joint company secretary and provides assistance to Mr. Ma Ke in discharging his duties as a company secretary and in gaining the relevant experience under Rule 3.28 of the Listing Rules throughout the Waiver Period.

Mr. Tso is a certified public accountant and meets the relevant requirements under Note 1 to Rule 3.28 and Rule 8.17 of the Listing Rules. The waiver [granted] by the Stock Exchange is on the conditions that (i) Mr. Ma Ke is assisted by Mr. Tso who possesses the qualifications or experience as required under Rule 3.28 and is appointed as a joint company secretary throughout the Waiver Period; and (ii) such waiver can be revoked if there are material breaches of the Listing Rules by our Company.

Mr. Tso will work closely with Mr. Ma Ke to jointly discharge their duties and responsibilities as company secretaries and assist Mr. Ma Ke to acquire relevant experience as required under Rule 3.28 and Rule 8.17 of the Listing Rules. We have also adopted internal policies to facilitate Mr. Ma Ke in discharging his duties as a company secretary. In addition, Guotai Junan Capital Limited, the compliance adviser of our Company, will provide assistance to Mr. Ma Ke for the first full financial year from the [REDACTED], in particular, in relation to Hong Kong corporate governance systems and compliance issues. Assistance will also be provided by the Hong Kong legal advisers of our Company on matters with respect to our Company’s ongoing compliance with the Listing Rules and the applicable laws and regulations. Further, Mr. Ma Ke will endeavour to attend relevant trainings and familiarise himself with the Listing Rules and the duties which he is required to fulfil as a company secretary of a PRC issuer listed on the Stock Exchange.

Before the expiration of the Waiver Period, the qualifications of Mr. Ma Ke will be re-evaluated to determine whatever the requirements as stipulated in Rule 3.28 and Rule 8.17 of the Listing Rules can be satisfied, or whether the need for ongoing assistance will continue. We will have the Stock Exchange to assess whether Mr. Ma Ke has acquired the necessary skills and experience to carry out the duties of a company secretary within the meaning of Note 2 to Rule 3.28 of the Listing Rules, so that a further waiver will not be required.

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## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

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### **CONTINUING CONNECTED TRANSACTIONS**

Our Company has entered into, and expects to continue after the [REDACTED], certain transactions which will constitute partially exempt continuing connected transactions under the Listing Rules upon the [REDACTED]. Our Company has applied for, and the Stock Exchange [has granted], a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of these partially exempt continuing connected transactions. For details, see "Connected transactions – Waiver application for partially exempt continuing connected transactions" in this document.

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

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**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

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[REDACTED]

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
<i>Executive Directors</i>		
Mr. Geng Ming (耿鳴先生)	Room 501 No. 143 Yijiang Cheng Wangjiang Garden Jiangyin City Jiangsu Province The PRC	Chinese
Mr. Li Baoshan (李寶山先生)	Room 2401, Building No. 4 Mo Tian Shi Community No. 51 Bin He Xi Road Wan Bo Lin District Taiyuan City Shanxi Province The PRC	Chinese
Mr. Hu Xirong (胡錫榮先生)	Flat 1202, Unit 2 Building No. 7 of Bindong Garden No. 76 South Section of Bin He Dong Road Xiao Dian District Taiyuan City Shanxi Province The PRC	Chinese
Mr. Luo Wei (羅偉先生)	Room 4-2201, Xinmeihua Mansion No. 195 Changjiang Road Jiangyin City Jiangsu Province The PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Miao Wenbin (繆文彬先生)	Room 1301, Unit 1 Huangshan Lake Apartment No. 238 Junwu Road Chengjiang Sub-district Jiangyin City Jiangsu Province The PRC	Chinese
Mr. Ma Fulin (馬福林先生)	Room 2501, Unit 4 Huangshan Lake Apartment No. 238 Junwu Road Chengjiang Sub-district Jiangyin City Jiangsu Province The PRC	Chinese



**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

*Independent non-executive Directors*

Dr. Tse Hiu Tung, Sheldon (謝曉東博士)	Flat F, 25/F, Block 8, The Belcher's 89 Pok Fu Lam Road Pok Fu Lam Hong Kong	Chinese
Mr. Cheung Ho Kong (張浩剛先生)	Flat E, 25/F Golden Maple Court 9-10 Kai Yuen Terrace Hong Kong	Chinese
Dr. Zhu Qing (朱青博士)	Room 210, Building No. 3 Zijin Estate No. 68 Wanquanhe Road Haidian District Beijing The PRC	Chinese

**SUPERVISORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
Mr. Ma Peilin (馬培林先生)	Room 2502, Unit 4 Huangshan Lake Apartment No. 238 Junwu Road Chengjiang Sub-district Jiangyin City Jiangsu Province The PRC	Chinese
Mr. Chen Zhen (陳振先生)	Room 902, Unit 2 Huangshan Lake Apartment No. 238 Junwu Road Chengjiang Sub-district Jiangyin City Jiangsu Province The PRC	Chinese
Mr. Liu Zhigang (劉志剛先生)	Room 1501, Unit 2, Building A10 Phase III of Lv Di Saishang Mansion Qilechuan Street Saihan District Hohhot City Inner Mongolia The PRC	Chinese

For details, see "Directors, supervisors and senior management" in this document.

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**PARTIES INVOLVED IN THE [REDACTED]**

**Sole Sponsor**

**Guotai Junan Capital Limited**

*(a corporation licenced to carry out type 6  
(advising on corporate finance) regulated  
activity under the SFO)*

26th Floor to 28th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

[REDACTED]

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**Legal advisers to our Company**

*As to Hong Kong law*  
**Llinks Law Offices LLP**  
Room 3201, 32/F, Alexandra House  
18 Chater Road  
Central  
Hong Kong

*As to PRC law*  
**Llinks Law Offices**  
19F, One Lujiazui  
68 Yin Cheng Road Middle  
Shanghai  
The PRC

**Legal advisers to the Sole Sponsor and  
the [REDACTED]**

*As to Hong Kong law*  
**Hogan Lovells**  
11th Floor, One Pacific Place  
88 Queensway  
Hong Kong

*As to PRC law*  
**Beijing Kangda (Shenzhen) Law Firm**  
19/F, Kerry Plaza Tower 1  
No. 1 Zhongxin 4th Road  
Futian District  
Shenzhen  
The PRC

**Auditor and reporting accountant**

**PricewaterhouseCoopers**  
*Certified Public Accountants and  
Registered Public Interest Entity Auditor*  
22/F, Prince's Building  
Central  
Hong Kong

**Industry consultant**

**Frost & Sullivan (Beijing) Inc.,  
Shanghai Branch Co.**  
Suite 2504  
Wheelock Square  
1717 Nanjing West Road  
Shanghai  
The PRC

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**Property valuer**

**Vincorn Consulting and  
Appraisal Limited**  
Units 1602-4, 16/F  
FWD Financial Centre  
No. 308 Des Voeux Road Central  
Hong Kong

[REDACTED]

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## CORPORATE INFORMATION

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<b>Registered office and headquarters in the PRC</b>	Room 202, 2/F No. 15 Shuangliang Road Ligang Street Jiangyin City Jiangsu Province The PRC
<b>Principal place of business in Hong Kong</b>	Unit B, 17/F, United Centre 95 Queensway Admiralty Hong Kong
<b>Company's website</b>	<a href="http://www.hjkj.cn">http://www.hjkj.cn</a> (information on the website does not form part of this document)
<b>Joint company secretaries</b>	Mr. Ma Ke (馬克先生) Room 2601, Unit 4 Huangshan Lake Apartment No. 238 Junwu Road Chengjiang Sub-district Jiangyin City Jiangsu Province The PRC  and  Mr. Tso Ping Cheong, Brian (曹炳昌先生) ( <i>Certified Public Accountant</i> ) Unit B, 17/F, United Centre 95 Queensway Admiralty Hong Kong
<b>Authorised representatives (pursuant to the Listing Rules)</b>	Mr. Geng Ming (耿鳴先生) Room 501 No. 143 Yijiang Cheng Wangjiang Garden Jiangyin City Jiangsu Province The PRC  and

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## CORPORATE INFORMATION

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	Mr. Luo Wei (羅偉先生) Room 4-2201, Xinmeihua Mansion No. 195 Changjiang Road Jiangyin City Jiangsu Province The PRC
<b>Nomination committee</b>	Mr. Geng Ming (耿鳴先生) ( <i>Chairman</i> ) Dr. Zhu Qing (朱青博士) Dr. Tse Hiu Tung, Sheldon (謝曉東博士)
<b>Audit committee</b>	Mr. Cheung Ho Kong (張浩剛先生) ( <i>Chairman</i> ) Dr. Zhu Qing (朱青博士) Mr. Miao Wenbin (繆文彬先生)
<b>Remuneration committee</b>	Dr. Zhu Qing (朱青博士) ( <i>Chairman</i> ) Dr. Tse Hiu Tung, Sheldon (謝曉東博士) Mr. Ma Fulin (馬福林先生)
<b>Compliance adviser</b>	Guotai Junan Capital Limited 26th Floor to 28th Floor Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	[REDACTED]
<b>Principal banks</b>	Jiangsu Jiangyin Rural Commercial Bank Co., Ltd. Ligang Sub-branch No. 180, Lizhong Street, Ligang Town Jiangyin City Jiangsu Province The PRC  China Construction Bank Corporation Jiayin Lingang Xincheng Sub-branch No. 151-161, Li'nan Street, Ligang Town Jiangyin City Jiangsu Province The PRC

## INDUSTRY OVERVIEW

*The information and statistics set out in this section and other sections of this document were extracted from the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the [REDACTED]. The information from such official and publicly available sources 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.*

### SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to analyse and report on the current status of, and forecasts for, China's heat services industry in which we operate. We agreed to pay Frost & Sullivan a fee of RMB2,040,000 for the preparation and use of the Frost & Sullivan Report, which we believe to be consistent with market rates. Unless otherwise indicated, market estimates or forecasts in this section represent Frost & Sullivan's view on the future development of the selected industry in China.

Established in 1961, Frost & Sullivan has conducted industry research and provided market and enterprise strategies, consultancy and training services for several industries, including building and construction, automobile, transportation and logistics, chemical engineering, energy and power systems, environmental protection technologies, electronics, information and telecommunication technologies, and medical and healthcare. In preparing the report, Frost & Sullivan has relied on the statistics and information obtained through primary and secondary research. Primary research includes interviewing industry insiders and recognised third-party industry associations, while secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades.

The forecasts were made by Frost & Sullivan based on certain assumptions which include the following:

- government policies on heat services industry in China will remain unchanged during the forecast period; and
- the heat services industry in China will be continuously growing driven by the continuous growth of urbanisation rate, replacement of traditional coal-fired boilers by clean energy and advances in heating technology.

### OVERVIEW OF THE HEAT SERVICES INDUSTRY IN THE PRC

#### Definition and classification of the heat services

The heat services industry is one of the public utility industries in which heat generated and distributed to heat service customers to meet their requirements for indoor heating in winter. The heat is often obtained from a boiler or cogeneration plant burning traditional fossil fuels such as coal but also increasingly from clean energy sources such as biomass, natural gas, solid waste, geothermal energy and nuclear energy.

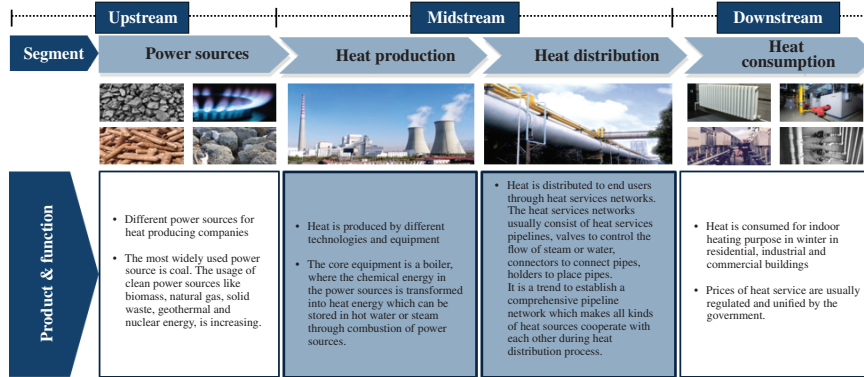
Currently, the PRC heat services industry is mainly located in its northern area, providing indoor heating services for both residential buildings and non-residential buildings, such as commercial buildings and industrial buildings.

#### Value chain of the heat services industry

The value chain of the heat services industry includes supply of power sources, heat production, heat distribution and heat consumption. The heat producers use different power sources to produce heat which can be stored in hot water or steam. Hot water or steam is transported to the heat service customers via heat services networks. Our Group is involved in the heat production and heat distribution processes in the value chain.

## INDUSTRY OVERVIEW

The following chart shows the value chain of the heat services industry in China:



Source: Frost & Sullivan

### Overview of the economic environment in Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province

#### Nominal GDP in Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province

##### Shanxi Province

The nominal GDP of Shanxi Province increased from RMB1.6 trillion in 2018 to RMB2.6 trillion in 2022 due to the successful industrial transformation in the province. The CAGR between 2018 and 2022 is 12.6%. The nominal GDP of Shanxi Province is expected to be further benefited by the continuous industrial transformation in the foreseeable future and increase to RMB3.9 trillion in 2027, representing a CAGR of 8.6% from 2022 to 2027.

##### Gansu Province

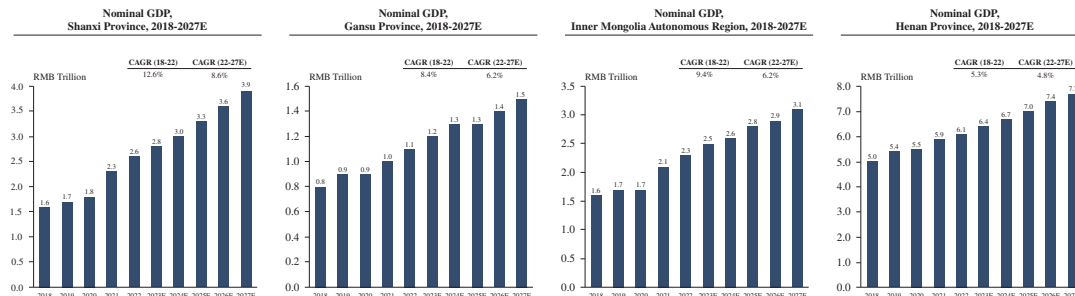
The nominal GDP of Gansu Province increased from RMB0.8 trillion in 2018 to RMB1.1 trillion in 2022 with a CAGR of 8.4%. Influenced by the development of the land-sea corridor (陸海通道) in western China, the economic growth of Gansu Province has speeded up and the nominal GDP of Gansu Province is expected to increase to RMB1.5 trillion in 2027, representing a CAGR of 6.2% from 2022 to 2027.

##### Inner Mongolia Autonomous Region

The nominal GDP of Inner Mongolia Autonomous Region increased from RMB1.6 trillion in 2018 to RMB2.3 trillion in 2022. In 2020, the COVID-19 pandemic had severe impacts on Inner Mongolia Autonomous Region and its nominal GDP increased only by 0.9%, from RMB1.721 trillion in 2019 to RMB1.736 trillion in 2020. In 2021, the nominal GDP of Inner Mongolia Autonomous Region increased to RMB2.1 trillion, which further increased to RMB2.3 trillion in 2022, mainly driven by the economic recovery after pandemic and high coal price since Inner Mongolia Autonomous Region is one of the major coal production provinces in China. The nominal GDP of Inner Mongolia Autonomous Region is expected to further increase to RMB3.1 trillion in 2027, representing a CAGR of 6.2% from 2022 to 2027.

##### Henan Province

The nominal GDP of Henan Province increased from RMB5.0 trillion in 2018 to RMB6.1 trillion in 2022 with a CAGR of 5.3%. Driven by the industrial development, the economic growth of Henan Province has continued and the nominal GDP of Henan Province is expected to increase further to RMB7.7 trillion in 2027, representing a CAGR of 4.8% from 2022 to 2027.



Sources: National Bureau of Statistics and Frost & Sullivan



## INDUSTRY OVERVIEW

### ***Population and urbanisation rate in Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province***

Northern regions of China, especially the "Three North" region covering most of the northern part of China, have high demand for heat services. Our Company's business mainly operates in the "Three North" region, which accounted for approximately 26% of the population of China in 2022.

#### *Shanxi Province*

Although the total population of Shanxi Province decreased from 35.0 million in 2018 to 34.7 million in 2022 and is expected to decrease further to 34.5 million in 2027, the urbanisation rate of Shanxi Province reached 64.9% with total urban population of 22.5 million in 2022. In 2027, the urbanisation rate is anticipated to reach approximately 71.4% with total urban population of 24.6 million.

In order to optimise and upgrade the industrial structure and accelerate the transformation of the resource-based economy in Shanxi, Shanxi Transformation and Comprehensive Reform Demonstration Zone was established in November 2016. It has a total planning area of approximately 589 km<sup>2</sup> in Taiyuan and Jinzhong cities and is divided into three areas comprising (i) Xiaohe Industrial Park in the south; (ii) Integrated Industrial Area in the central region; and (iii) Yanggu Industrial Park in the north:

- (i) Xiaohe Industrial Park covers a total area of 343 km<sup>2</sup> and is the core part of the Shanxi Transformation and Comprehensive Reform Demonstration Zone. The first phase of Xiaohe Industrial Park with a total area of 100.7 km<sup>2</sup> is being developed at present, which can be divided to Taiyuan region and Jinzhong region. Taiyuan region covers an area of 57.3 km<sup>2</sup>, and is expected to have a population of around 300,000 in 2030. Taiyuan region takes back-pressure CHP units as its basic heat source, and develops various types of renewable energy and clean energy heat supply methods including geothermal energy, air source heat pumps, and distributed gas CCHP. Jinzhong region covers an area of 43.4 km<sup>2</sup>, in which the planned population will be 90,000 in 2030. The heat sources of Jinzhong region are mainly thermal power plants, supplemented by renewable energy and clean energy, including geothermal energy, ground source heat pump, air source heat pump and sewage source heat pumps.
- (ii) Integrated Industrial Area covers a total area of 142 km<sup>2</sup> which includes five industrial parks, one comprehensive bonded zone and one science and technology innovation town. The development of Integrated Industrial Area mainly focuses on big data, internet of things, electronic information, cross-border e-commerce, high-end manufacturing, bio-technology and technical research and development.
- (iii) Yanggu Industrial Park covers a total area of 104 km<sup>2</sup>. The development of Yanggu Industrial Park mainly focuses on new material, new energy, high-end manufacturing, bio-technology, energy conservation and environmental protection. The planned population will be 220,000 in 2025. The heat sources of Yanggu Industrial Park are mainly from thermal power plants, supplemented by renewable energy and clean energy.

The nominal GDP of Shanxi Transformation and Comprehensive Reform Demonstration Zone increased from RMB41.7 billion in 2017 to around RMB86.2 billion in 2021, representing a CAGR of 14.4%.

#### *Gansu Province*

Although the total population of Gansu Province decreased from 25.2 million in 2018 to 25.0 million in 2022 and is expected to decrease further to 24.7 million in 2027, the urbanisation rate of Gansu Province reached 54.4% with total urban population of 13.6 million in 2022. According to the 14th five-year plan outline of Gansu Province, the urbanisation rate is expected to increase by around 8% between 2021 and 2025. In 2027, the urbanisation rate will increase to approximately 58.3% with total urban population of 14.4 million. In order to promote the economic development of western regions in China and support the Great Western Development Strategy (西部大開發戰略), Lanzhou New Area (蘭州新區) was established in 2012 in the middle of Lanzhou, Xining and Yinchuan. It was the first national level new area in the northwest part of China. It is an important national industrial base and an important strategic area for the overall development of western China. The nominal GDP of Lanzhou New Area increased from RMB20.5 billion in 2018 to RMB35.6 billion in 2022, representing a CAGR of 14.8%. The nominal GDP of Lanzhou New Area is expected to further increase to RMB69.9 billion in 2027, representing a CAGR of 14.4% from 2022 to 2027. The relatively high CAGR is caused by extensive industrial investment.

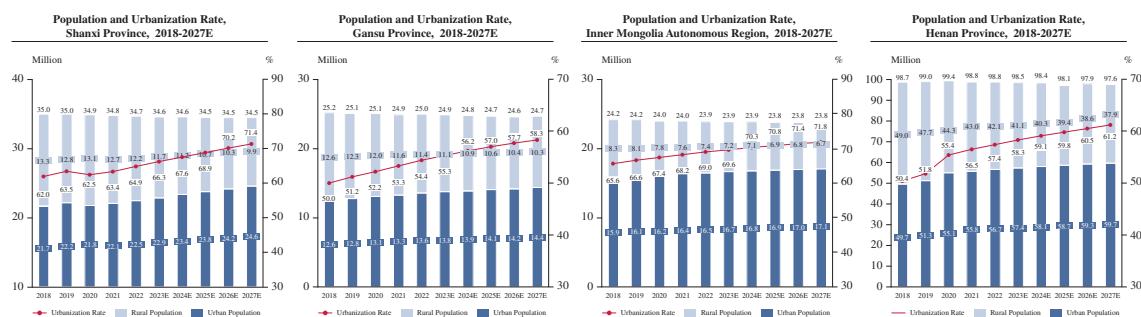
## INDUSTRY OVERVIEW

### Inner Mongolia Autonomous Region

Although the total population of Inner Mongolia Autonomous Region decreased from 24.2 million in 2018 to 23.9 million in 2022 and is expected to decrease further to 23.8 million in 2027, the urbanisation rate of Inner Mongolia Autonomous Region reached 69.0% with total urban population of 16.5 million in 2022 and is expected to continue to grow in the foreseeable future. In 2027, the urbanisation rate is expected to reach approximately 71.8% with total urban population of 17.1 million.

### Henan Province

The total population of Henan Province increased from 98.7 million in 2018 to 98.8 million in 2022 and is expected to further decrease to 97.6 million in 2027. The urbanisation rate of Henan Province reached 57.4% with total urban population of 56.7 million in 2022 and is expected to continue to grow in the foreseeable future. In 2027, the urbanisation rate is expected to reach approximately 61.2% with total urban population of 59.7 million.

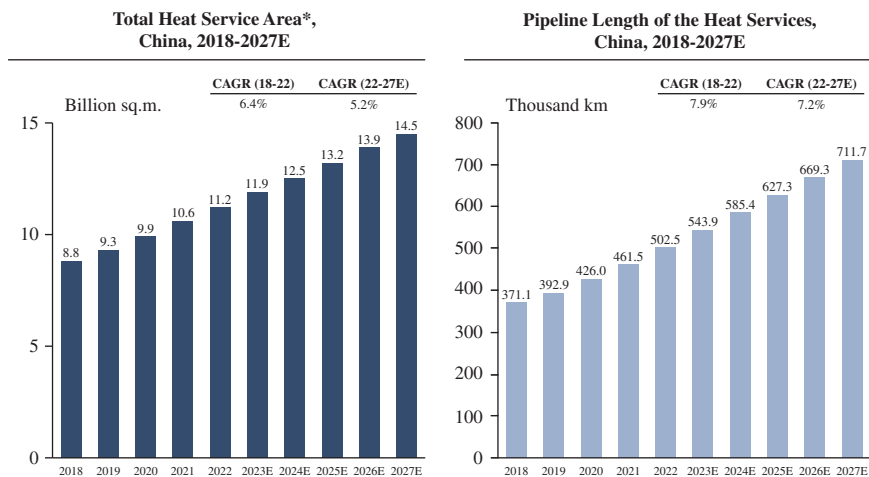


Sources: National Bureau of Statistics and Frost & Sullivan

## ANALYSIS OF THE HEAT SERVICES INDUSTRY IN THE PRC

### Heat services industry in China

To meet the increasing demand for the heat services, which mainly results from the rapid growth in urbanisation rate and the increasing penetration of the heat services in China, total area and pipeline length of the heat services in China rose significantly during the last few years. Total heat services area in China increased from 8.8 billion sq.m. in 2018 to 11.2 billion sq.m. in 2022, with a CAGR of 6.4%. Total heat services area in China is expected to increase to 14.5 billion sq.m. in 2027, with a CAGR of 5.2% from 2022 to 2027. Correspondingly, pipeline length of the heat services in China, which includes both primary and secondary pipelines, increased from 371,100 km in 2018 to 502,500 km in 2022, with a CAGR of 7.9%. It is expected to increase to 711,700 km in 2027, with a CAGR of 7.2% from 2022 to 2027.



Note: Some historical data have been updated according to the latest published official data in this section, other related indicators will be adjusted synchronously, if applicable.

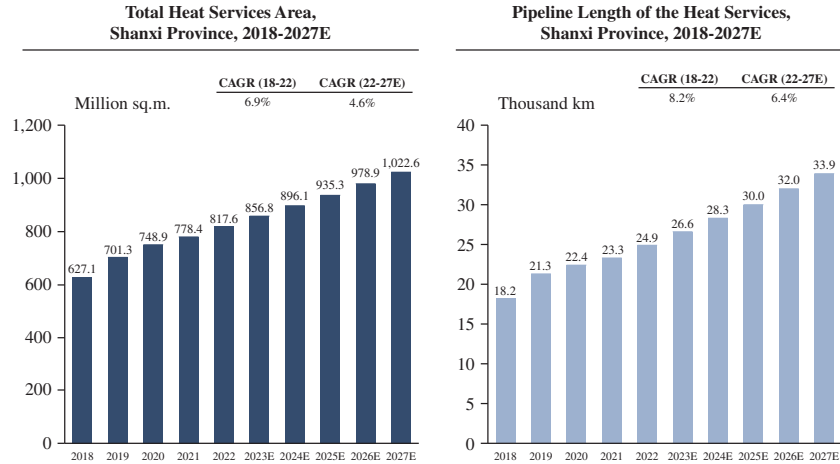
Sources: National Bureau of Statistics and Frost & Sullivan

## INDUSTRY OVERVIEW

### Heat services industry in Shanxi Province

The total heat service area in Shanxi Province increased from 627.1 million sq.m. in 2018 to 817.6 million sq.m. in 2022, with a CAGR of 6.9%. The total heat services area in Shanxi Province accounted for 7.3% of China’s heat services area in 2022. Correspondingly, pipeline length of the heat services in Shanxi Province increased from 18,200 km in 2018 to 24,900 km in 2022, with a CAGR of 8.2%.

The Shanxi government supports the development of clean heating by encouraging the use of the diversified heating sources such as CHP, natural gas, electricity and solar power. The total heat services area in Shanxi Province is expected to increase to 1,022.6 million sq.m. in 2027, with a CAGR of 4.6% from 2022 to 2027. Pipeline length of the heat services in Shanxi Province is expected to increase to 33,900 km in 2027, with a CAGR of 6.4% from 2022 to 2027.

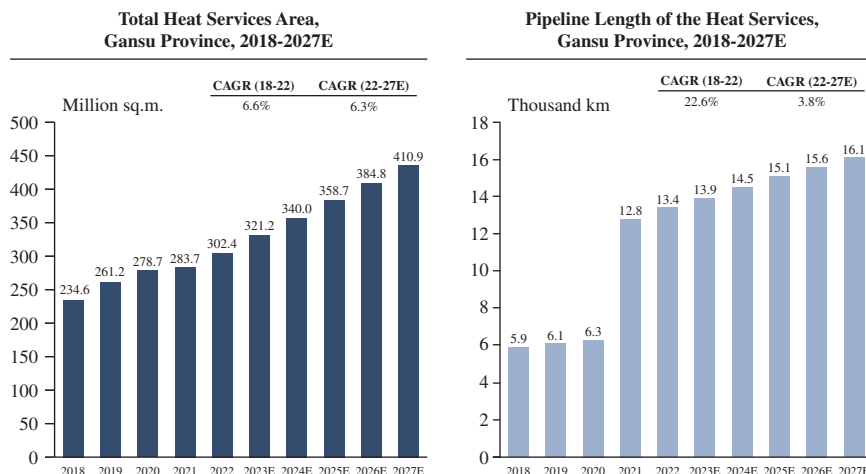


Sources: National Bureau of Statistics and Frost & Sullivan

### Heat services industry in Gansu Province

The total heat services area in Gansu Province increased from 234.6 million sq.m. in 2018 to 302.4 million sq.m. in 2022, with a CAGR of 6.6%. The total heat services area in Gansu Province accounted for 2.7% of China’s heat services area in 2022. Correspondingly, pipeline length of the heat services in Gansu Province increased from 5,900 km in 2018 to 13,400 km in 2022, with a CAGR of 22.6%.

With the support of government policy, Gansu Province has encouraged more private capital to enter into the heat services industry. Driven by resources, technology, private capital and provincial policy, the heat services industry will continue to develop in a sustainable way. The total heat services area in Gansu Province is expected to increase to 410.9 million sq.m. in 2027, with a CAGR of 6.3% from 2022 to 2027. Pipeline length of the heat services in Gansu Province is expected to increase to 16,100 km in 2027, with a CAGR of 3.8% from 2022 to 2027.



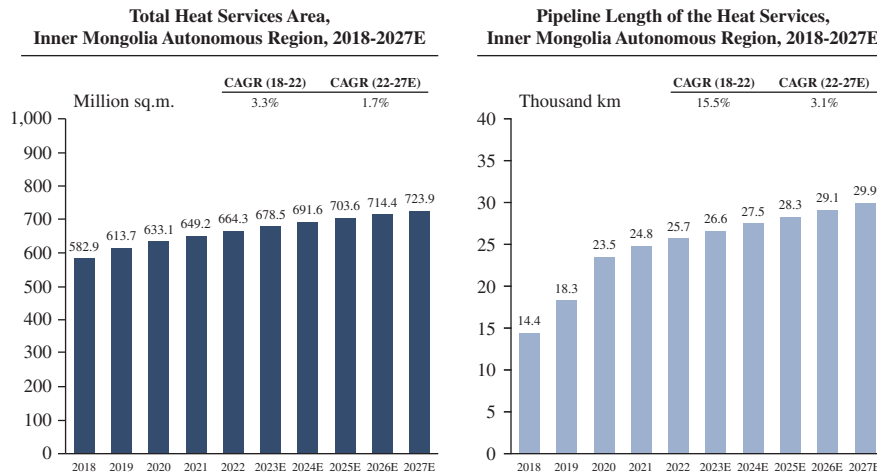
Source: National Bureau of Statistics and Frost & Sullivan

## INDUSTRY OVERVIEW

### Heat services industry in Inner Mongolia Autonomous Region

The total heat services area in Inner Mongolia Autonomous Region accounted for 5.9% of China’s total heat services area in 2022. The total heat services area in Inner Mongolia Autonomous Region increased from 582.9 million sq.m. in 2018 to 664.3 million sq.m. in 2022, with a CAGR of 3.3%. Correspondingly, pipeline length of the heat services in Inner Mongolia Autonomous Region increased from 14,400 km in 2018 to 25,700 km in 2022, with a CAGR of 15.5%.

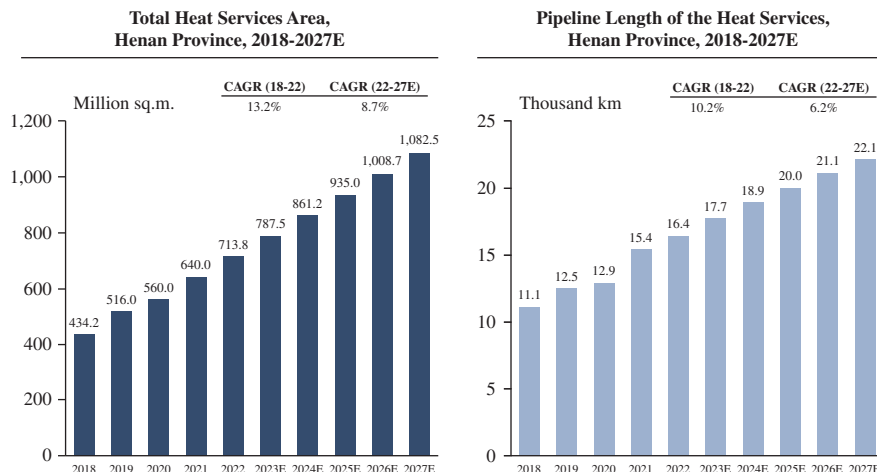
Under the guidance of the policies in Inner Mongolia Autonomous Region, local governments have increased financial investment in the heat services facilities in small and medium-sized cities and counties and encouraged the promotion of new technologies in heat services such as new CHP and energy-saving technologies, which will support the steady growth in the heat services industry in Inner Mongolia Autonomous Region. The total heat services area in Inner Mongolia Autonomous Region is expected to increase to 723.9 million sq.m. in 2027, with a CAGR of 1.7% from 2022 to 2027. Pipeline length of the heat services in Inner Mongolia Autonomous Region is expected to increase to 29,900 km in 2027, with a CAGR of 3.1% from 2022 to 2027.



Sources: National Bureau of Statistics and Frost & Sullivan

### Heat services industry in Henan Province

The total heat services area in Henan Province accounted for 6.4% of China’s heat services area in 2022. The total heat services area in Henan Province increased from 434.2 million sq.m. in 2018 to 713.8 million sq.m. in 2022, with a CAGR of 13.2%. Correspondingly, pipeline length of the heat services in Henan Province increased from 11,100 km in 2018 to 16,400 km in 2022, with a CAGR of 10.2%. The total heat services area in Henan Province has been increased rapidly in the past five years, stimulated by multiple policies, and the growth rate is expected to remain moderate in foreseeable future. The total heat services area in Henan Province is expected to increase to 1,082.5 million sq.m. in 2027, with a CAGR of 8.7% from 2022 to 2027. Pipeline length of the heat services in Hanan Province is expected to increase to 22,100 km in 2027, with a CAGR of 6.2% from 2022 to 2027.



Sources: National Bureau of Statistics and Frost & Sullivan

## INDUSTRY OVERVIEW

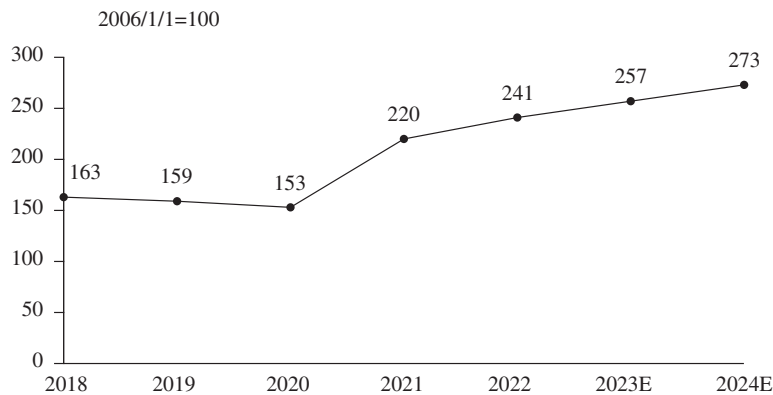
### Coal price and heat services price

#### Coal price in China

Coal price in China was on a decreasing trend from 2018 to 2020. In 2022, coal price index reached 241 which was mainly affected by increased international coal price, insufficient domestic supply and increased in domestic demand. In 2023, coal price index is expected to increase to 257 mainly due to the same reasons. In 2024, coal price is expected to increase to 273.

According to Guiding Opinions on Building a Coal & Heating Price Pass Through Mechanism (《關於建立煤熱價格聯動機制的指導意見》) issued by NDRC and the then Ministry of Construction, when the price of coal changes over certain level, the ex-factory price of heat shall be adjusted accordingly.

Coal Price Index, China, 2018-2024E



Sources: China National Coal Association and Frost & Sullivan

#### Heat services price

The revenue for heat services providers usually includes provision and distribution of heat and the pipeline connection fee.

Generally, heat services price in China is regulated by the local governments and their price bureaux. Heat services prices for residential use and non-residential use may vary from one city to another. The price of residential use is usually lower than that of other uses. Generally, heat services price adjustment shall go through the following procedures: (i) the Local Development and Reform Commission holds the hearing on the heat services price adjustment; (ii) after the hearing, it will submit the final hearing report to the local government; and (iii) according to the general opinion of the hearing, government will make the final plan on the heat services price adjustment and announce the decision publicly.

In order to ensure the stability in the provision of heat services, certain local governments in PRC cities, provinces or regions provide price subsidies to heat services providers in their respective areas in accordance with the Interim Measures. It is not uncommon that such price subsidies are assessed based on pre-determined formulae with reference to heat rates charged and relevant heat service costs. Heat services companies may also receive subsidies from the local governments in various ways, including but not limited to in the form of operation subsidy (including subsidies related to construction and upgrading of heat services facilities), tax subsidy and subsidy for the losses.

Heat services prices were adjusted upwards in the Lanzhou New Area district of Lanzhou, in which the Group was operating, in 2022. The monthly heat services price for residential use in Lanzhou New Area increased from RMB5.00 per sq.m. to RMB5.8 per sq.m.. Similarly, the monthly heat services price for non-residential use in Lanzhou New Area increased from RMB7.0-9.2 per sq.m. to RMB8.0-10.2 per sq.m.. From 2018 to 2022, heat services prices of the majority of the cities in Shanxi Province, Inner Mongolia Autonomous Region and Henan Province, in which the Group was operating, remained unchanged.

## INDUSTRY OVERVIEW

The table below sets out monthly heat rates charged by us on different types of heat service users by project during the Track Record Period:

	Shanxi Province			Gansu Province	Inner Mongolia Autonomous Region
	Taiyuan Project	Shanxi Demonstration Zone Project	Shuozhou Project	Lanzhou New Area Project	Hulunbair Project
RMB per sq.m. per month					
Residential	3.6	3.6	2.52	5.0/5.8	3.5
Non-residential	7.5	7.5	4.8	7.0-9.2/8.0-10.2	4.8

Sources: Bureau of Commodity Prices and Frost & Sullivan

### Heat services industry growth drivers

The key growth drivers for heat services industry in China include the following:

**Continuous growth in urbanisation rate.** The urbanisation rates in Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province kept increasing during the last few years. Heat services industry is a kind of public utility for northern China covering Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province owing to their cold weathers in winter. According to the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-term Objectives Through the Year 2035 (《國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) issued by the Central Committee and the State Council, it is expected that the urbanisation rate to increase about 5% between 2021 and 2025. Therefore, the increasing population in urban areas creates incremental demand for heat services.

**The growth in demand for high-quality life.** Given the growth in demand for high-quality life for Chinese people, demand for stable and reliable high-quality heat services for residents has increased. There are increasing number of heat services companies adopting new technologies to improve their heat services. Depending on the temperature change, the local government may bring forward the commencement of the heat service period or extend the period to meet the heat service demand from residents.

In recent years, extreme low temperature, frosting and other extreme weather conditions have occurred in southern China. Demand for heat services in southern China is growing in line with the pursuit of high-quality life. At present, Hefei, Nanjing, Hangzhou, Shanghai and other cities along the Yangtze River have taken the lead in providing heat services in some residential areas.

**Replacement of traditional coal-fired boilers by clean energy.** Replacement of traditional coal-fired boilers by accelerating the usage of clean energy from supply side of the industry can strengthen industry standardisation by following the national policy orientation and therefore drives the development of the industry. According to the Plan for Winter Clean Heating in Northern Region (2017-2021) (《北方地區冬季清潔取暖規劃(2017-2021)》), the proportion of clean heat services should be accelerated by using clean energy including gas and electricity as much as possible. Plan for Comprehensive Control of Air Pollution in Autumn and Winter in 2021 to 2022 (《2021-2022年秋冬季大氣污染綜合治理攻堅方案》) published by the Ministry of Ecology and Environment and other government departments as well as local governments in October 2021 requires specific northern cities, including Taiyuan and Shuozhou, in both of which our Group operates, to basically complete the replacement of traditional coal-fired boilers by the end of 2021. In addition, Plan for Modern Energy System in the Fourteenth Five-Year Plan (《“十四五”現代能源體系規劃》) published by NDRC and National Energy Administration has set out the target for basic elimination of the coal-fired boilers under 35T/h in key regions of the air pollution control by 2025.

In Shanxi Province, the provincial government aims to abandon all coal-fired boilers in key urban areas with heating capacity no more than 35 T/h by October 2020, articulated in its 2019 to 2022 action plan on improvement for urban living environment. It has proposed such task after eliminating small-scale coal-fired boilers with heating capacity lower than 10 T/h.

In Gansu Province, the removal of more than 13,000 coal-fired boilers with accumulative 57,000 T/h has been proposed between 2018 and 2021 during the “Three-year Action Plan to Win the Blue Sky Defense War” (《打贏藍天保衛戰三年行動計劃》).

**Advances in heating technology.** Benefiting from advancement in heating technology, the level of efficiency and environmental friendliness of China’s heat services industry have improved in recent years. Shanxi Province, Inner Mongolia Autonomous Region and Gansu

## INDUSTRY OVERVIEW

Province have been promoting the diversification of heat sources, such as biomass, solar thermal energy and geothermal heat, and upgrading heat services networks by utilising intelligent control on the heat services.

According to the National Coal-fired Power Plant Upgrading Implementation Plan (《全國煤電機組改造升級實施方案》), heat services companies are encouraged to develop long-distance heating delivery technology for the purpose of heat services area expansion. In addition, it encourages the condensing power plants (which uses coal to generate power) to be upgraded to combined heat and power (CHP) in order to achieve cleaner and more efficient power plants. Current CHPs in operation are also encouraged to improve the level of efficiency through technological transformation. More than 50 million kW of power plant capacity should be upgraded by the end of 2025. The advancement in heating technology creates momentum for development of the heat services industry.

### Heat services industry restraints

**Increasingly stringent environmental requirements on heat services sector.** PRC Government is raising up the environmental standards on the heat services sector. Coal-fired heating generation is still heavily relied upon by heat service providers, and a large amount of small coal-fired boilers are regarded as the main sources of air pollutants and are forced to shut down. According to Management Regulations on Combined Heat and Power (《熱電聯產管理辦法》) published by NDRC, certain coal-fired cogeneration plants are required to be equipped with high efficient dust-remover, deNO<sub>x</sub> and desulphurisation equipment to meet strict emission standards. Such actions will increase capital and operating expenses for the heat services companies.

**Limitation on pricing regime of heat services.** Heat services prices are usually regulated by the local municipal governments and their price bureaux. Under current pricing regime, the change of price is complex and time-consuming. Change in raw material prices may generate pressure on operating costs for companies in heat services industry.

**Difficulty in renovating and serving the old residential communities.** Renovating and serving the old residential communities which lack high-quality heat services have gradually become an important task for the heat services industry. Issues such as difficulty in site selection for heat exchange stations and slow progress in construction may significantly slow down the pace of development of the industry.

### Heat services industry development trends

**Promotion of CHP.** Plan for Winter Clean Heating in Northern Region (2017-2021) (《北方地區冬季清潔取暖規劃(2017-2021)》) imposed by NDRC emphasises and promotes the usage of CHP in northern China for heating purpose. CHP shall be implemented to replace those existing coal-fired boilers for heat services.

**Industry consolidation.** Small-scale heat services companies with low operation efficiency may be squeezed out of the market or be acquired by other companies, including large non-State-owned enterprises with solid industry experience, high operation efficiency, strong technical and financial capabilities. Additionally, to optimise the urban structure, many local governments are promoting the regional concentration of residential and industrial areas by re-zoning residential areas and developing industrial parks. In the circumstances, heat services industry in China has been gradually consolidated.

**Clean heating.** According to National Bureau of Statistics, clean energy industry mainly contains wind power, solar power, hydro power, nuclear power, efficient utilisation of traditional energy, etc. Currently, a large proportion of energy used in heat services industry comes from coal-fired heat generations in China. China has attached great importance to carbon emission control in recent years and several policies for carbon reduction and environmental protection purposes have been released. For example, according to the Guiding Opinions on Promoting the Industrialisation of Bio-Natural Gas (《關於促進生物天然氣產業化發展的指導意見》) issued by NDRC in 2019, bio-natural gas was encouraged to replace coal for direct heat services usage in order to make contribution to air pollution treatment. In 2020, China announced its plan of achieving carbon peaking by 2030 and achieving carbon neutrality by 2060. In line with the implementation of carbon peaking and carbon neutrality objectives, the PRC Government encourages municipal governments to develop different ways of clean heating according to local conditions and accelerates the replacement of small-scale coal-fired boilers which have higher carbon emission for large-scale coal-fired boilers generating heat using cleaner energy. This promotes the transition from high-carbon emission heat coal-fired generations to low-carbon emission heat generations, and to develop renewable energy sources such as geothermal, industrial waste heat and solar thermal energy, etc. For example, the Guiding Opinions on Accelerating the Development of Green and Low-carbon Circular

## INDUSTRY OVERVIEW

Economic Development System (《關於加快建立健全綠色低碳循環發展經濟體系的指導意見》) issued by the State Council in 2021 encourage counties in Northern regions to develop clean heating through adopting CHP. The Synergistic Implementation Plan on Pollution and Carbon Reduction (《減污降碳協同增效實施方案》) issued by multiple departments in 2022 encourages to develop renewable energy sources for heating purpose with reduced carbon emissions in Northern regions. Given the steadfast determination on achieving carbon peaking and carbon neutrality objectives, it is expected that the promotion of clean heating will continue.

**Opening up of the heat services industry.** China’s heat services industry tends to be more opened-up as a number of supportive policies have been issued by local governments. For instance, Implementation Plan for Optimisation of Heating System and Improvement of Building Energy Efficiency of Urban Clean Heating in Winter in Gansu Province (2017-2021) 《甘肅省冬季清潔取暖城鎮供熱系統優化和建築能效提升實施方案(2017-2021年)》 was issued by Department of Housing and Urban-Rural Development of Gansu Province (甘肅省住房和城鄉建設廳) in 2018 to promote the heat services industry through encouraging capital investment in Gansu Province. Therefore, non-State-owned enterprises will have more opportunities for entering the market. Facing numerous market opportunities, different heat services providers enter the heat services industry by leveraging their own characteristics and advantages. Non-State-owned companies often have advantages including flexible mechanism in corporate management, high business operation efficiency, with emphasis on research and development of new heating technologies, and have strong ability and motivation to conduct cross-provincial operation of heat services business. Moreover, non-State-owned heat services enterprises tend to focus on service quality.

### COMPETITIVE ANALYSIS OF THE HEAT SERVICES INDUSTRY IN THE PRC

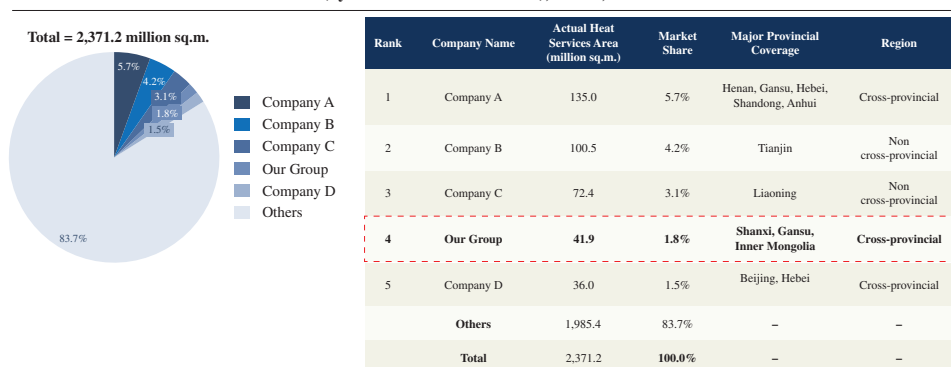
The heat services industry in China is fragmented with a large number of market players. Currently, most market players in the heat services industry in China fall into three categories: specialised heat services providers, subsidiaries of power generation groups and property developers. The specialised heat services providers can be further divided into State-owned and non-State-owned companies, and non-State-owned specialised heat services companies are growing due to the flexible operation, advantage in cost control and favourable government policies.

#### Competitive landscape of the heat services industry segment operated by non-State-owned companies in China

The heat services industry in China is highly fragmented. The major players in the heat services industry in China are specialised heat services providers and most of the players are State-owned companies. Total actual heat services area in China was 11,239.4 million sq.m. in 2022. The majority of the top 10 players were State-owned companies. The aggregate heat services area of the top 10 companies accounted for more than 16.0% of the total actual heat services area in the PRC in 2022, with the tenth largest heat services provider having an actual heat services area of more than 100.0 million sq.m..

In this industry, cross-provincial market players are not commonly seen, as high technology advantages and abundant cross-provincial operation experience are required. Total actual heat services area in China operated by non-State-owned companies was 2,371.2 million sq.m. in 2022, accounting for 21.0% of the total actual heat services area in 2022. Our Company ranked fourth with a market share of 1.8% in this market segment in 2022. Meanwhile, our Company was the second largest non-State-owned cross-provincial heat service provider in China in terms of actual heat services area in 2022.

Market share of top non-State-owned companies in the heat services industry (by actual heat services area), China, 2022





## INDUSTRY OVERVIEW

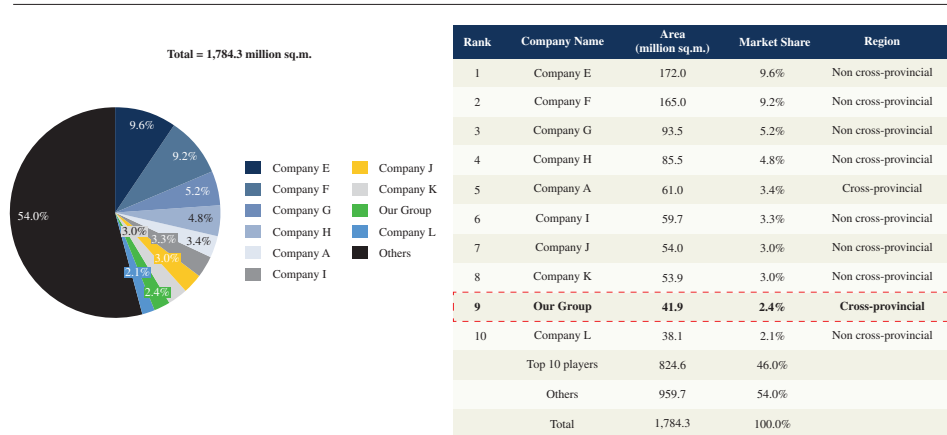
Sources: Company reports and Frost & Sullivan

*Note:* Our Group has a heat service project, namely Xinmi Project, in Henan Province which has reached the final stages of preparation to provide heat services. The provision of heat services in Henan Province is expected to commence from the 2023/2024 heat service period in or around November 2023. As such, the actual heat service area of our Company in 2022 does not take into account our Xinmi Project.

### Competitive landscape of the heat services industry segment in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region

In 2021, the aggregate actual heat services area of Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region accounted for around 21% and 16% of the total actual heat services area in the “Three North” Regions and China, respectively. The heat services industry in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region is demonstrating a moderate competition, with the top 10 heat services providers in terms of the aggregate actual heat services area of these three areas in 2022 taking up around 46.0% of the market. Most of the players are mainly focusing on providing heat services in their own provinces or cities. For example, our Group operates in one of the six jurisdictions in Shuozhou city of Shanxi Province, and there are heat service providers in the other jurisdictions of Shuozhou city. Our Group was ranked No. 9 in terms of the aggregate actual heat services area of the three areas in 2022 and was the second largest cross-provincial heat services provider in these three areas.

Market share of top players in the heat services industry (by actual heat services area), Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region, 2022



Source: Company reports, Frost & Sullivan

*Note:* Company A is a private non-state own company headquartered in Beijing, and provides heating services using clean energy in provinces such as Hebei, Henan, Gansu.  
 Company B is a private non-state own company headquartered in Tianjin, and provides heating services in Tianjin.  
 Company C is a public non-state own company headquartered in Liaoning Province, and provides heating services in Liaoning and power service.  
 Company D is a public non-state own company headquartered in Beijing, and provides heating services in Beijing and Hebei.  
 Company E is a private state-owned company headquartered in Shanxi Province and provides heating services in Taiyuan Shanxi.  
 Company F is a private state-owned company headquartered in Inner Mongolia and provides heating service in Inner Mongolia and power service.  
 Company G is a private state-owned company headquartered in Shanxi province and provides heating service in Dadong Shanxi.  
 Company H is a private state-owned company headquartered in Inner Mongolia and provides heating service in Hohhot Inner Mongolia.  
 Company I is a private state-owned Company headquartered in Shanxi and provides heating service in Changzhi Shanxi.  
 Company J is a private state-owned company headquartered in Inner Mongolia and provides heating service in Hulunbuir Inner Mongolia.  
 Company K is a private state-owned company headquartered in Gansu and provides heating service in Lanzhou Gansu.  
 Company L is a private state-owned company headquartered in Inner Mongolia and provides heating service in Chifeng Inner Mongolia.

## INDUSTRY OVERVIEW

### Entry barriers of the heat services industry in China

**Qualification barrier.** Heat services is an essential public utility to ensure the living quality of the residents in China. Governments issued strict regulations on the qualification of heat services companies. The qualification of heat services companies is authorised by related departments of provincial or municipal governments. Most of the municipal heating regulations adopted in the cities where our Group operates (e.g. Administrative Measures for Urban Heat Services and Use in Lanzhou New Area (《蘭州新區城市供熱用熱管理辦法》), Hulunbuir Urban Heat Services Administration Measures (Trial) (《呼倫貝爾市城鎮供熱管理辦法(試行)》)) have specified that, heat services entities must have stable and reliable heating resources, professional staff with specialties in heating, sufficient fund and heating facilities that correspond to their heat services scale, and sizeable rescue team, in order to obtain heat services business qualifications and/or concession rights issued by local authorities before being engaged in any heat services business.

**Technology barrier.** According to the Code for Urban Heating Supply Planning (《城市供熱規劃規範 GB51074-2015》), and Design Code for City Heating Network (《城鎮供熱管網設計規範 CJJ 34-2010》) and Code for Urban and Rural Heating Supply Project (《城鄉供熱工程項目規範》) issued by MOHURD, there are technical standards specified for heating load distribution, water pressure and temperature, etc., which shall be met by heat services companies when running heat services business. Such technical standards are aimed to ensure safety during design, construction and operation stage. Moreover, heat services companies are also required to apply advanced technologies in automated monitoring and management of the heating networks, so as to increase standards on environmental friendliness and efficiency for heating networks. It takes time and endeavours for new entrants to meet those technological requirements and be able to compete with the established players.

**Experience barrier.** The heat services companies shall have abundant experiences and capabilities in running heat services business safely and reliably. Heat services companies typically need multiple years' of heating operation to accumulate such experiences and build up their own capabilities, which is hard for new entrants with little or no experience to catch up during short period of time.

**Capital barrier.** The development of heat services projects requires substantial amount of funds to invest in the construction of pipeline networks. The typical initial capital investment required for a heat services project with 1 million sq.m. is between RMB100 million to RMB200 million, making sufficient funds to be a barrier for new entrants in the industry.

### OVERVIEW OF THE ENGINEERING CONSTRUCTION SERVICES INDUSTRY SPECIALISING IN HEAT FACILITIES IN CHINA

#### Overview and competitive landscape of the engineering construction services industry specialising in heat facilities in China

The engineering construction services industry specialising in heat facilities in China is highly fragmented. Generally speaking, most market players in the engineering construction services industry specialising in heat facilities in China fall into two categories: heat services providers and construction companies. Heat services providers construct the heat facilities and then provide heat services to their customers. Construction companies, on the other hand, only construct the heat facilities used for heat services and do not participate in the provision of heat services.

Construction companies usually have more readily available professional labour and the necessary equipment for the construction process and they usually undertake the construction process using their own resources. On the other hand, many heat services providers do not always have sufficient professional labour and the necessary equipment for the construction process. It is not uncommon that heat services providers undertake the construction process through outsourcing.

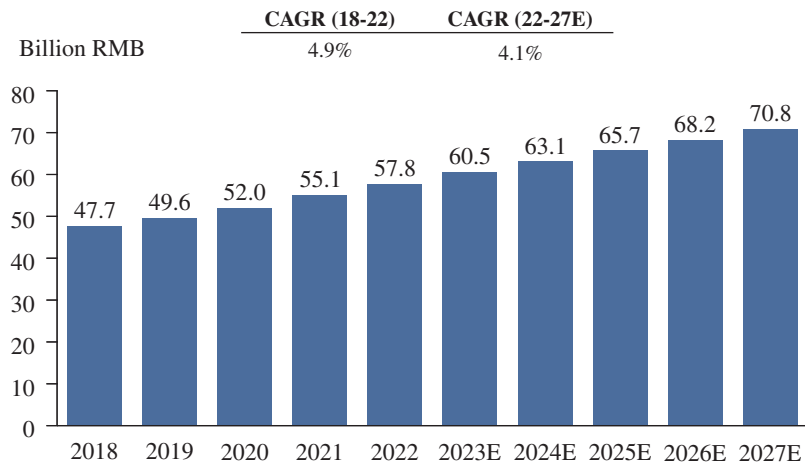
#### Market size of the engineering construction services industry specialising in heat facilities in China

The market size of the engineering construction services industry specialising in heat facilities has experienced rapid growth in 2018 in line with the development of the length of the pipeline for the heat services. The COVID-19 pandemic only affected the industry in China in a limited way and the market size has reached RMB57.8 billion in 2022, representing a CAGR of 4.9% from 2018 to 2022.

In anticipation of the continuous development of heat services market in China, it is expected that the market size of the engineering construction services industry specialising in heat facilities will increase to RMB70.8 billion in 2027, representing a CAGR of 4.1% from 2022 to 2027.

## INDUSTRY OVERVIEW

### Market Size of the Engineering Construction Services Industry Specialising in Heat Facilities, China, 2018-2027E



Source: Frost & Sullivan

### Drivers and development trends of the engineering construction services industry specialising in heat facilities in China

#### *Continuous development of the heat services industry*

China’s engineering construction services industry specialising in heat facilities is closely related to China’s heat services industry. The growth of the heat services industry driven by factors such as urbanisation rate and environmental protection provides the related construction services industry with a large amount of construction demands and therefore has become a driver of that industry. It is expected that the engineering construction services industry specialising in heat facilities will continue to grow in line with the large demands related to existing facility upgrades and new energy-efficient facility construction in order to better achieve the carbon peaking and carbon neutrality goals.

#### *Policy supports*

In pursuit of providing the public with the high-quality living standard, improving the quantity and quality of heating pipelines has become one of the focuses of the government. The Guiding Opinions on Enhancing the Construction of the Urban Underground Municipal Infrastructures (《關於加強城市地下市政基礎設施建設的指導意見》) released by the MOHURD in December 2020 emphasises the renovation and digitalisation of the heating pipeline networks in urban areas in order to eliminate any hidden safety hazards. In addition, the Implementation Plan for Upgrading Aging Urban Gas Pipelines (2022 – 2025) (《城市燃氣管道等老化更新改造實施方案(2022-2025年)》) released by the State Council in June 2022 specified the conditions and requirements of upgrading heating pipelines in urban areas. It is expected that the engineering construction services industry specialising in heat facilities will keep growing in light of the continuous support from the government.

#### *Development of the digital technologies*

Digital technologies (such as Building Information Modeling, or BIM) have been introduced in China’s construction industry for decades with a view to improving efficiency and quality. They have been widely accepted and used in the industry and successfully drove the development of the industry. In line with the continuous development of other digital technologies, such as Geographic Information Systems (or GIS) and UAV Oblique Photography Technologies, the quality and efficiency of engineering construction services has been improved. More and more construction companies, including engineering construction services companies specialising in heat facilities, have accepted and implemented digitalisation transitions in order to enhance their competitive capabilities. The continuous development of the digital technologies has become a significant driver of the industry.

### OVERVIEW OF THE EMC INDUSTRY IN THE PRC

Energy management contract, or EMC, is an energy-conservation service contract under which an energy saving service provider provides energy-conservation service to an energy-consuming enterprise to achieve certain energy saving goals. Under the EMC business model, the energy saving service provider is sometimes entitled to a share of the profit accrued from energy conserved as a result of the energy conservation services provided.

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## INDUSTRY OVERVIEW

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In the PRC, the EMC industry has developed rapidly since the beginning of the "12th Five-Year Plan" (《中華人民共和國國民經濟和社會發展第十二個五年規劃綱要》). In line with the development of the electricity and heat services industries in northern China, an increasing number of energy-related enterprises in this region are opting for EMC services as a way to fulfil their environmental protection objectives. Additionally, with a view to promoting the EMC business, the PRC Government has promulgated a series of regulations and policies which offer preferential tax treatments, interest subsidies and financial rewards for companies meeting energy conservation thresholds. The PRC Government has released the Guidance on Energy Management Contract (《合同能源管理技術通則》) in 2010 for industry regulation purpose. The guidance was revised in 2020 to keep pace with the development of the industry.

EMC projects require initial investments by energy saving service companies regarding energy conservation equipment and machinery installed in the premises of energy-consuming companies. For the purpose of accelerating the development of EMC industry and improving the efficiency of energy utilisation, several policies in financial field have been released and more financial tools are accessible for the industry. In addition, more companies in the industry tend to adopt cutting-edge technologies and provide integrated comprehensive solutions for better energy consumption control and heating costs reduction. Also, in line with the development of electricity and heat services industry, more energy related enterprises in northern regions have chosen to procure EMC services to fulfil their objectives of energy saving and financial results.

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### OVERVIEW

As our operations are located in the PRC, our businesses need to comply with all of the relevant PRC laws, regulations and policies, which cover a wide range of areas including project approval, heat services, price, environmental protection and safety. In addition to industry-specific regulations, there are also other more generic laws, regulations and policies that we are required to comply with, such as those in relation to energy conservation, production safety and labour protection. This section provides a summary of the major PRC laws and regulations relating to the operations of our Group in the PRC.

### HISTORICAL CHANGE IN HEAT SERVICES SYSTEM

Historically, heat services were provided in the PRC under a welfare system which was implemented with the housing welfare system in the PRC at the time. In the late 1990s, municipal housing reform started to take place in the PRC. As a result, more residences in the PRC's urban cities and towns became privately owned, and the heat services welfare system in the PRC became gradually replaced.

In July 2003, eight ministries and commissions (including the NDRC) jointly issued the Guiding Opinions on the Trial Reforms of Urban Heat Services System (《關於城鎮供熱體制改革試點工作的指導意見》), which highlighted the ultimate goal and general direction of a reform of heat services system in the PRC. Such reform terminated the welfare system of heat services and instead led to the commercialisation and monetisation of heat services, resulting in a market-oriented municipal heat services mechanism. In October 2005, the NDRC and the then Ministry of Construction issued the "Guiding Opinions on Building a Coal And Heating Price Pass-through Mechanism (《關於建立煤熱價格聯動機制的指導意見》) to set out the guiding principles on the gradual commercialisation and monetisation of heat services, marking the official launch of market reform for the heat services system in the PRC. On 6 December 2005, eight ministries and commissions (including the NDRC) jointly issued the Opinions on Further Promoting the Reform of Urban Heat Services System (《關於進一步推進城鎮供熱體制改革的意見》), which proposed that in the process of promoting the reform of the heat services system, all regions should make full use of the market mechanism to gradually achieve diversified investment, enterprise-oriented operation and socialisation of heat services, improving the efficiency of heat services investment, operation and product quality, and improving the heating services to satisfy the needs of heat services users. Enterprises of different economic sectors such as non-public capital are allowed to participate in the investment, construction, transformation and operation of heat source plants and heating pipeline networks. Under the Interim Measures, the State allows non-public capital to participate in the investment, construction and operation of heat service facilities so as to gradually promote the commercialisation and monetisation of heat services.

The State generally encourages private capital to enter into the heat services industry. At the end of 2002, the then Ministry of Construction issued the Opinions on Accelerating the Marketisation Process of the Municipal Utilities Industry (《關於加快市政公用行業市場化進程的意見》) which encouraged social capitals to participate in the construction of operational municipal public facilities through sole proprietorship, joint venture and cooperation, among others, and provided that reasonable returns through the legal operation of such municipal public facilities should be guaranteed. In 2012, the MOHURD issued the Implementation Opinions on Further Encouraging and Guiding Private Capitals to Enter the Municipal Utilities Sector (《進一步鼓勵和引導民間資本進入市政公用事業領域的實施意見》), which emphasised the necessity of breaking the market monopoly, introducing a market

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competition mechanism, and opening up the market for investment in, and the construction and operation of municipal public utilities. The opinions also encouraged private capitals to directly invest in the construction and operation of municipal heat services and other municipal infrastructure projects, such as through sole proprietorship, joint ventures, cooperation and asset acquisitions. In November 2014, the State Council issued the Guiding Opinions on Innovating the Investment and Financing Mechanisms in Key Areas and Encouraging Social Investment (《關於創新重點領域投融資機制鼓勵社會投資的指導意見》), which encouraged social capitals to participate in the construction and operation of municipal infrastructure, and also encouraged social capitals to invest in municipal infrastructure projects such as municipal heat services through concession, investment subsidies and government procurement services. In December 2014, the Guiding Opinions on Carrying out Public-Private-Partnership (《關於開展政府和社會資本合作的指導意見》) issued by the NDRC further encouraged cooperation between governments and social capitals in the implementation of public services and infrastructure projects.

The State encourages the development and use of geothermal energy for the provision of heat services. In January 2021, the National Energy Administration issued the Measures of National Energy Administration for Adopting Renewable Energy According to Local Conditions for Heat Services (《國家能源局關於因地制宜做好可再生能源供暖工作的通知》), which stipulated that renewable energy shall be adopted for heat services as an important part of energy planning in the region. The measures aimed to align the development goals for heat services with the development goals for renewable energy and to promote renewable energy heating technology based on local resources and demand for heat energy, achieving a rational distribution of renewable energy projects for heat services. Proactive measures shall be taken to develop shallow geothermal energy with a focus on promoting medium and deep geothermal energy for heat services, with an aim to replace scattered coal in a cost-effective way. The use of oilfield produced water is encouraged in the supply of geothermal heat, as is the use of groundwater resources and the mineral resources contained therein.

### ENTERPRISE QUALIFICATION AND LICENCE

#### Qualifications of heat service providers

##### *Relevant regulations at national level*

According to the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》), which was implemented on 1 May 2004 and amended on 4 May 2015, municipal public utility concession refers to a system by which the government selects investors or operators of municipal utilities through market competition methods in accordance with the relevant laws and regulations. It was clarified that the investors or operators will operate the relevant municipal utility product or provide the relevant service within a certain period and geographical scope. This concession system, which stipulates the bidding conditions and procedures for the municipal public utility concession, concession contract terms and concession corporate responsibility, among others, is applicable to the urban heat services industry in accordance with the applicable laws. Upon the expiration of the concession term, the competent authority should organise bidding and select new concession operators in accordance with the procedures stipulated in the aforementioned measures.

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According to the Measures for the Administration of Concession for Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》) promulgated on 25 April 2015 and implemented on 1 June 2015, all aspects of infrastructure and public utility concessions must adhere to the principles of openness, fairness and justice, and protect the interests of all parties. The relevant industry authorities, being the local people's governments or government-authorised departments at or above the county level, may propose implementation plans for concession projects based on demands for economic and social development and proposals for concession projects by the relevant legal persons and other organisations. Local people's governments at or above the county level should authorise the relevant departments or units to be the executive agency responsible for the implementation of the concession projects, and shall specify the scope of specific authorisation of such department or unit. According to the approved implementation plan of the concession project, the executive agency should select the concession operator through market competition methods such as bidding and competitive negotiation. If the construction standards of the concession project and regulatory requirements are clear, and there is sufficient market competition in the relevant area, the method of bidding should be applied to select the concession operator. The executive agency should sign a concession contract with the selected concession operator in accordance with the relevant laws for a maximum operating period of 30 years. The concession contract should provide for "the transfer method, procedures and requirements of the concession project and assets upon the expiration of the concession term". If the concession term expires or is terminated in advance, the executive agency should re-select the concession operator in accordance with the provisions of these measures. In the re-selection of a concession operator due to the expiration of the concession term, the original concession operator should have priority in obtaining the concession under the same conditions. If the concession term expires or is terminated in advance, the parties to the contract should, in accordance with the provisions of the concession contract and the relevant laws, administrative regulations and other regulations, complete the procedures for performance testing, evaluating, transferring, taking-over and accepting the relevant facilities, data and archives.

### *Relevant regulations in Gansu Province*

According to the requirements of the Measures for the Administration on the Concession of Municipal Public Utilities of Gansu Province (《甘肅省市政公用事業特許經營管理辦法》) promulgated and implemented on 14 September 2004, municipal public utility concession refers to a system by which the government selects investors or operators of municipal public utilities through market competition methods in accordance with the relevant laws and regulations. It was clarified that the investors or operators will operate the relevant municipal utility product or provide the relevant service within a certain period and geographical scope and obtain reasonable returns. The implementation of this system should follow the principles of openness, fairness, justice and public interest. Domestic and foreign enterprises that have engaged in or are capable of engaging in the operation of urban municipal public utilities can compete for concession rights to invest in, construct and operate municipal public utilities in the province. The competent authorities should select investors or operators and grant concession rights in accordance with the prescribed procedures such as bidding.

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According to the Notice of the General Office of the People's Government of Gansu Province on Transferring the Opinions of the Provincial Construction Department and Other Nine Departments on Furthering the Reform of the Urban Heat Services System (《甘肅省人民政府辦公廳批轉省建設廳等9部門關於進一步推進城鎮供熱體制改革意見的通知》), which was promulgated and implemented on 15 July 2006, towns and cities across the province shall implement the urban heat service concession system. In the context of a unified and standardised market, enterprises of different economic sectors such as non-public capital may sign contracts with city governments, through public bidding, to participate in the investment, construction, transformation and operation of heat service facilities.

According to the Interim Measures for the Administration of Urban Heat Services and Use in Lanzhou New Area (《蘭州新區城市供熱用熱管理暫行辦法》) promulgated and implemented on 1 August 2018, which was effective for one year, heat service units shall not engage in the provision of heat services without obtaining a heat service operation licence issued by the competent administrative department for heat services and use in Lanzhou New Area.

According to the Administrative Measures for Urban Heat Services and Use in Lanzhou New Area (《蘭州新區城市供熱用熱管理辦法》) formulated on 7 December 2021 and implemented on 1 January 2022, heat service enterprises can conduct heat service operations with either a heat service operation licence or under a concession right.

### ***Relevant regulations in Henan Province***

According to the requirements of the Implementation Measures for the Administration on the Concession of Municipal Public Utilities of Henan Province (《河南省市政公用行業特許經營管理實施辦法》) promulgated and implemented on 11 November 2004, municipal public utility concession refers to a system by which the government selects investors or operators of municipal public utilities through market competition methods in accordance with the relevant laws and regulations. It was clarified that the investors or operators will operate the relevant municipal utility product or provide the relevant service within a certain period and geographical scope. The provincial construction and administrative authorities are responsible for supervising and guiding the implementation of the municipal public utility concession activities in the province, and formulating assessment standards and methods for the quality of municipal public utility products and services. The municipal, county (city) municipal public utility industry competent authorities shall be responsible for the specific implementation of the municipal public utility concessions within their jurisdiction.

According to the Trial Regulatory Measures for Centralised Heating in Henan Province (《河南省集中供熱管理試行辦法》) promulgated on 13 February 2018 and implemented on 1 April 2018, the municipal and county-level people's governments and their respective competent authorities for heat services shall select heat operation enterprises through market competition methods such as bidding and competitive negotiation in accordance with the relevant provisions.



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### *Relevant regulations in Shanxi Province*

According to the requirements of the Regulations for the Administration on the Concession of Municipal Public Utilities of Shanxi Province (《山西省市政公用事業特許經營管理條例》) promulgated on 20 December 2007 and implemented on 1 March 2008, and abolished on 26 November 2021, the implementation of municipal public utility concession shall follow the principles of public interest and public safety, openness, fairness and justice. The concession operator shall provide general services that are continuous, safe, high-quality, efficient and reasonably priced. Through its legal operations, the concession operator is entitled to reasonable returns but at the same time bears the investment and operating risks. Municipal public utilities projects, including heat services, may be operated under concession in accordance with the law if the relevant conditions are met. The implementation time for the concession shall be decided by the people's government of the city and reported to the next level of the people's government. According to the authorisation of the municipal people's government, the competent authorities of municipal public utilities may select concession operators by way of bidding, transfer with consideration and entrustment, and sign concession contracts with the concession operators. For a new municipal public utility project, the concession operator should be selected through bidding according to the law. If the concession operator cannot be determined through bidding, the competent authorities of municipal public utilities may select the concession operator by direct entrustment.

According to the Notice of the General Office of the People's Government of Shanxi Province Forwarding the Opinions of the Provincial Construction Department on Accelerating the Reform of the Urban Heat Services System (《山西省人民政府辦公廳轉發省建設廳關於加快城鎮供熱體制改革的意見的通知》) issued and implemented on 24 September 2004, urban heat services fall within the scope of municipal public utilities. Therefore, in accordance with the State's opinion on accelerating the reform of urban public utilities, the concession mechanism should be applied to the construction and operation of urban heat services.

According to the Taiyuan Urban Heat Services Administration Regulations (《太原市城市供熱管理條例》) promulgated on 26 March 2009 and implemented on 1 May 2009, the concession mechanism should be applied to the urban heat services system. Heat service units shall not be shut down without the approval of the relevant competent administrative department responsible for heat services.

### *Relevant regulations in Inner Mongolia Autonomous Region*

According to the requirements stipulated in the Measures for the Administration on Infrastructure and Public Utilities Concession of Inner Mongolia Autonomous Region (《內蒙古自治區基礎設施和公用事業特許經營管理辦法》) promulgated on 24 May 2016 and implemented on 1 July 2016, infrastructure and public utility concessions shall adhere to the principles of openness, fairness, justice and good faith, protect the legitimate interests of all parties, and strike a balance between business and public welfare. The government encourages cooperation between government and social capitals in the infrastructure and utilities sector by way of concession. Infrastructures and utilities projects that meet the following conditions shall be implemented by way of concessions: (i) the social capitals have specialised technologies which can significantly reduce the life cycle cost of the project or improve the

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quality and efficiency of public products and services; (ii) the risk sharing mechanism and performance supervision requirements are clear; and (iii) there are reasonable and stable income expectations in respect of the project. The competent authorities of the relevant industry or the authorised department of the government above the county level may propose a concession project implementation plan based on the demand for economic and social development, as well as suggestions for a concession project put forward by relevant citizens, legal persons or other organisations. The government above the county level shall authorise the relevant departments or units to be the government executive agencies responsible for the implementation of concession projects, and specify the scope of their authorisation. Through competitive methods such as bidding and competitive negotiation, the government executive agency should select the best enterprise or other organisation with management experience, professional ability, financing strength and good credit status to cooperate with in the implementation of infrastructure and public utilities concession projects.

According to the Inner Mongolia Autonomous Region Urban Heat Services Regulations (《內蒙古自治區城鎮供熱條例》) promulgated on 26 May 2011 and implemented on 1 July 2011, and amended on 23 September 2020 and 28 September 2022, heat service units engaged in heat service operations shall obtain a heat service operation licence in accordance with the law.

According to the Hulunbuir Urban Heat Services Administration Measures (Trial) (《呼倫貝爾市城鎮供熱管理辦法(試行)》) promulgated and implemented on 28 October 2013, units engaged in heat service operation activities must obtain a heat service operation licence in accordance with the law.

### **EMC business**

According to the Notice of the General Office of the State Council on Forwarding the Opinions of Development and Reform Commission on Accelerating the Implementation of Energy Management Contracting to Promote the Development of Energy Saving Service Industry (《國務院辦公廳轉發發展改革委等部門關於加快推行合同能源管理促進節能服務產業發展意見的通知》) promulgated and implemented on 2 April 2010, all departments in all regions should recognise the importance of implementing EMC and the development of the energy saving service industry, and take practical and effective measures to create an environment with favourable policies as to accelerate the development of the energy saving service industry.

According to the Notice of the Ministry of Finance and the State Taxation Administration on Issues Concerning the Value-added Tax, Business Tax and Enterprise Income Tax Policies for Promoting the Development of the Energy Saving Service Industry (《財政部國家稅務總局關於促進節能服務產業發展增值稅營業稅和企業所得稅政策問題的通知》) promulgated on 30 December 2010 and implemented on 1 January 2011, qualified energy saving enterprises may enjoy preferential tax treatments in terms of business tax, value-added tax and enterprise income tax when implementing EMC projects.

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### QUALIFICATIONS FOR OTHER INDUSTRIES

#### Qualifications for enterprises in the construction industry

According to the Provisions on the Administration of Qualifications of Enterprises in the Construction Industry (《建築業企業資質管理規定》) issued on 22 January 2015 and implemented on 1 March 2015, and then revised on 13 September 2016 and 22 December 2018 by the MOHURD, enterprises in the construction industry shall apply for construction qualifications in accordance with, among others, its assets, key personnel, completed project performance and technical equipment. Construction activities within the scope of the qualification permit are only allowed after the relevant exam has been passed and the qualification certificate for enterprises in the construction industry has been obtained. Among these qualification certificates, the third-level qualification in the construction general contracting qualification sequence is subject to the approval of the competent department of the MOHURD in the place where the industrial and commercial register is located. The qualification certificate is valid for 5 years.

#### Engineering design qualification

According to the Administrative Regulations on Management of the Survey and Design Qualifications of Construction Engineering (《建設工程勘察設計資質管理規定》) promulgated on 30 December 2006 and implemented on 1 September 2007, and subsequently revised on 4 May 2015, 13 September 2016 and 22 December 2018, enterprises engaged in construction engineering survey and engineering design activities in the PRC shall obtain a qualification certificate for construction engineering survey and engineering design, and may engage in construction engineering survey and design activities within the scope permitted by the qualification.

Engineering design qualifications are classified into (i) engineering design integrated qualification; (ii) engineering design industry qualification; (iii) engineering design professional qualification; and (iv) engineering design special qualification. Enterprises that have obtained the engineering design integrated qualification can undertake construction engineering design businesses for all industries and at all levels. Enterprises that have obtained the engineering design industry qualification can undertake engineering design businesses at the corresponding level, and professional and special (except for those that require the qualification of design and construction integration) engineering design businesses at the same level within the scope of its own industry. Enterprises that have obtained engineering design professional qualification can undertake professional engineering design business at the corresponding level in its own profession and corresponding special engineering design business at the same level (except for those which require design and construction integration). Enterprises that have obtained engineering design special qualification can undertake special engineering design business at the corresponding level.

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### Work safety licence

According to the Regulation on Work Safety Licences (《安全生產許可證條例》) promulgated and implemented on 13 January 2004 and subsequently revised on 18 July 2013 and 29 July 2014 by the State Council, a work safety licencing system applies in the PRC to construction enterprises. Before commencing production, a construction enterprise should apply for a work safety licence from the department in charge of the issuance and administration of work safety licences. Construction enterprises shall not engage in production activities without obtaining the required work safety licence.

### Pollutant discharge permit

According to the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), which was promulgated and implemented on 11 May 1984, and revised on 27 June 2017, any enterprises, institutions and other production operators which directly or indirectly discharge industrial wastewater and medical wastewater, and any other wastewater or sewage that can only be discharged into bodies of water with a pollutant discharge permit in accordance with the relevant requirements, should obtain a pollutant discharge permit. The operating unit of the urban sewage centralised treatment facility should also obtain a pollutant discharge permit. It is forbidden for enterprises, institutions and other production operators to discharge wastewater and sewage into bodies of water without a pollutant discharge permit or in violation of the provisions of the pollutant discharge permit.

According to the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), which was promulgated and implemented on 5 September 1987, and revised on 26 October 2018, enterprises, institutions and coal-fired heat source production and operation units of central heating facilities, as well as other units that are subject to the pollutant discharge permit management in accordance with applicable laws and which emit industrial waste gas or toxic and harmful air pollutants as stipulated in Article 78 of the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), should obtain pollutant discharge permit. The specific methods and implementation steps of pollutant discharge permits shall be prescribed by the State Council.

According to the Measures for Pollutant Discharge Permitting Administration (For Trial Implementation) (《排污許可管理辦法(試行)》), which was promulgated and implemented on 10 January 2018, and partially revised on 22 August 2019, the Ministry of Environmental Protection of the PRC formulated and published the classified administration list of pollution permits for fixed pollution sources. This list includes the scope of pollution permit administration and the time limit for application. Enterprises, institutions and other production operators (hereinafter referred to as pollutant discharge units) that are included in the classified administration list for fixed pollution sources should apply for and obtain a pollutant discharge permit within the prescribed time limit, while pollutant discharge units that are not included in the classified administration list for fixed pollution sources do not need to apply for a pollutant discharge permit temporarily. The pollutant discharge unit shall hold the pollutant discharge permit in accordance with the law and discharge pollutants in accordance with the provisions of the pollutant discharge permit. No pollutants shall be discharged if a required pollutant discharge permit has not been obtained.

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### PRICING

The key PRC laws and regulations applicable to the pricing of heat services include the Pricing Law of the PRC (《中華人民共和國價格法》) and the Interim Measures. According to the PRC Pricing Law, the PRC Government may directly guide or determine the prices of public utilities in certain circumstances. According to “The Notice of NDRC and Ministry of Construction on issuing the Interim Measures for the Price Control of Urban Heat Services” (《國家發展改革委、建設部關於印發《城市供熱價格管理暫行辦法》的通知》), the Interim Measures were jointly issued by the NDRC and the then Ministry of Construction (中華人民共和國建設部) to each of Development and Reform Commission, Price Bureau and Construction Department (Construction Commission and Municipal Administration Commission) of all provinces, autonomous regions and municipalities directly under the Central Government which were requested to enforce such measures by taking into account the “actual circumstances of the locality”. According to the Interim Measures, heat rates shall be set by a pricing authority, being the relevant provincial people’s government or authorised municipal or county people’s government, with reference to heat procurement costs, related tax and the profit expected to be made by the service providers. Heat rates of urban heat supply consist of heat procurement costs, taxes and profits.

1. Heat procurement costs include the production costs of heat and period expenses. “Production costs” of heat refer to fuel costs, electric costs, water fees, depreciation of fixed assets, reparation charges, wages and other direct charges that are incurred during the heat supply process and shall be counted into relevant heat service costs; and period expenses refer to the business expenses, overhead expenses and financial expenses incurred from organising and managing the production and operation of heat.
2. Tax refers to the taxes that shall be paid by heating enterprises (entities) for producing and supplying heating power.
3. Profits refer to the reasonable proceeds that shall be gained by heating enterprises (entities). Profits shall be checked and ratified on the basis of return on cost at present, which shall be gradually replaced by return on net assets.

When the pricing authority calculating profits on the basis of return on cost, this ratio shall not be higher than 3%; while when calculating profits on the basis of return on net assets, this ratio shall be 2 to 3 percentage points higher than the interest rate of long-term (five years or more) treasury bonds.

When the pricing authority determines and adjusts the heat rates, the principles of making reasonable compensations for cost, promoting the conservation of heat and upholding the principle of fair burden shall be followed.

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Heating enterprises (entities) that satisfy the below requirements can submit price adjustment application to the pricing authorities in writing, and the application would be sent to competent city heating authorities at the same time: (1) heat rates are insufficient to cover for the cost of heating, resulting in operating losses according to national laws and regulations; (2) fuel price changed by more than 10%.

Consumers can propose suggestions on determining or adjusting heat rates to the pricing authority according to the law.

The competent pricing department shall consult its respective competent department of heating administration to conduct an overall study on the price adjustment proposals and formulate a price adjustment plan. When the fuel price falls and the profits of heat production enterprises are significantly higher than the specified profit level, the competent pricing department can directly propose a price reduction plan and submit it to the local people’s government for approval. The pricing authority shall, after accepting the suggestion on price determination or adjustment proposed by any heating enterprises (entities), conduct cost examination and supervision according to the law. A heating enterprises (entities) shall truthfully provide its production, operation and cost situation to the administrative department of price on a regular basis, and at the same time, provide the relevant accounting books, documents and materials. The specific work of prescribing heat rates falls under the responsibility of the competent pricing authority, which is assisted by the administrative department of heat services in the administration of heat rates.

The provincial or municipal people’s government may temporarily subsidise the heating enterprises (entities) in the areas where heat rates are not sufficient to compensate the normal relevant heat service costs and cannot be adjusted in a timely manner.

On 30 October 2017, the Measures for the Supervision and Examination of the Government’s Pricing Costs (《政府制定價格成本監審辦法》) were promulgated by the NDRC and became effective on 1 January 2018. Such measures were formulated in accordance with the Price Law of the People’s Republic of China and other relevant laws and regulations, in order to strengthen the cost supervision and administration over the government’s pricing of goods and services, regulate the conduct of supervision and examination of the government’s pricing costs, and improve the scientificity of the government’s pricing decisions.

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)》) and “Administrative Measures for the Price and Fee Control of Urban Centralised Heat Services (Draft for Comments)” (《城鎮集中供熱價格和收費管理辦法(徵求意見稿)》) 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.

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The Regulations on Energy Conservation in Civil Buildings (《民用建築節能條例》) issued by the State Council on 1 August 2008 provide that the State is actively promoting a reform of the heat services system, improving the heating price formation mechanism, encouraging the development of centralised heating and gradually implementing a charge-by-usage heating pricing mechanism.

The Opinions on Further Promoting the Reform of Heat Services Measurement (《關於進一步推進供熱計量改革工作的意見》) issued by four departments including the MOHURD on 2 February 2010 stipulate that the reform of municipal heating system shall be further deepened and the reform of heat services metered charging shall be promoted, with an aim to facilitate the energy conservation of buildings.

On 19 September 2017, the NDRC issued the Opinions on Clean Heating Pricing Policy in the Northern Region (《關於北方地區清潔供暖價格政策的意見》), which proposed that the heating price mechanism should be improved according to local conditions. In areas where centralised heating is suitable and supplied by heat sources such as cogeneration, large coal-fired boilers, gas-fired boilers, biomass boilers and geothermal heating, environmental protection must be carried out in accordance with ultra-low emission requirements and heat must only be supplied after meeting the required emission (refill) standards. The local price authority shall formulate reasonable prices for residential heating, taking into account the cost of operational transformation, and the spending power of residents. In the case of back-pressure CHP units for heating, the price of heat shall be determined scientifically and reasonably on the basis of a careful verification of costs. Environmental protection in respect of large-scale coal-fired boilers and coal-to-gas fired boilers which result in a large increase in the cost of thermal production can be achieved through an appropriate adjustment of heating prices, and the shortfall will be compensated by local finance. A market-oriented principle will be applied to determine the price of regional clean heating. For regional centralised clean heating, the government will in principle determine the heating price scientifically and reasonably based on the actual cost of heating and consider a reasonable profit. In areas where conditions allow, a market-oriented principle will be applied to determine the price of regional clean heating, and heating enterprises should allocate the heating price within the range of residents' spending power in accordance with the principle of reasonable cost plus profit.

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)) (hereinafter referred to as "**Guo Ban Han No. 129**") promulgated by the General Office of the State Council to local government which was effective from 1 March 2021, provides that the government shall set a reasonable price for the sales of heat and make dynamic adjustments thereto, so as to promote the steady progress of reforms on metered charging.

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### **Charges for interface fees, centralised network construction fees, grid connection fees and other similar fees**

Guo Ban Han No. 129 further provides cancellation of the charges for interface fees, centralised network construction fees, grid connection fees and other similar fees by urban centralised heat service enterprises in northern heating areas from their users. Within the scope of urban planned construction land, the investment areas of water, electricity, gas and heat supply enterprises shall be extended to the red line of the user buildings. Unless otherwise provided by laws, regulations and relevant policies, the users shall not bear any costs incurred beyond the red line of such buildings. For the network access construction from the red line of user buildings to the public network, the part undertaken by the water, electricity, gas and heat supply enterprises shall be included in the operating cost of enterprises, while the part undertaken by the government as stipulated shall be entrusted to the water, electricity, gas and heat supply enterprises through a timely allocation of funds or shall be conducted through direct investment by the government. The compensation income for special construction costs, charged in the name of network access fees, centralised network construction fees, grid connection fee and other similar fees by the water, electricity, gas and heat supply enterprises under the authorisation of local governments through concession contracts and other means, shall be gradually cancelled by making reasonable adjustments to the prices of water, electricity, gas and heat supply, in order to build the subsidy mechanism, while the timing of building such mechanism shall be determined locally. The main goal is to sort out and standardise the charges for water, electricity, gas and heat supply industry and achieve significant results with a scientific, standardised and transparent price formation mechanism to be basically established by 2025, while, at the same time, the government's investment mechanism has been further improved, demonstrated by fully covered relevant industry pricing measures, cost supervision and examination measures, price behaviour and service specifications, and significantly improved quality and efficiency of water, electricity, gas and heat supply and other products and services. In addition, the Guo Ban Han No. 129 provides that unreasonable charges in various forms shall be cancelled, and the reasonable costs arising from the provision of products and services shall be compensated mainly through adjustment in the prices. The government shall set a reasonable price for the sales of heat and make dynamic adjustments thereto, so as to promote the steady progress of reforms on metered charging.

### ***Relevant regulations in Inner Mongolia Autonomous Region***

On 24 February 2021, the Notice of the Inner Mongolia Development and Reform Commission on the Sorting Out and Cancellation of Unreasonable Charges in the Water, Electricity, Gas and Heat Supply Industry (《內蒙古自治區發展和改革委員會關於清理取消供水供電供氣供暖行業不合理收費的通知》) promulgated by Inner Mongolia Development and Reform Commission, provides cancellation of unreasonable charges in the water, electricity, gas and heat supply industry, determination of the scope of grid connection fees and strict implementation of other charging policies. For the network access construction from the red line of a users' building area to the public network, the part undertaken by the water, electricity, gas and heat supply enterprises shall be included in the operating cost of enterprises, while the part undertaken by the government as stipulated shall be entrusted to the water, electricity, gas and heat supply enterprises through a timely allocation of funds or shall be conducted through direct investment by the government.



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On 4 September 2021, the Notice of the General Office of the People's Government of Inner Mongolia Autonomous Region on the Implementation and Division of the Opinions on Cancellation and Standardising the Charges in Urban Water, Electricity, Gas and Heat Supply Industry to Promote the High-quality Development of the Industry (《內蒙古自治區人民政府辦公廳印發貫徹落實<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的意見>分工方案的通知》) issued by the General Office of the People's Government of Inner Mongolia Autonomous Region, provides that the unreasonable charges for water, electricity, gas and heat supply as specified in Guo Ban Han No. 129 shall be cancelled from 1 March 2021. The compensation income for special construction costs, charged in the name of network access fees, centralised network construction fees and grid connection fees, by the water, electricity, gas and heat supply enterprises under the authorisation of the administrative offices of the union and the municipal people's government through concession agreements and other means, shall be gradually cancelled by making reasonable adjustments to the prices of water, electricity, gas and heat supply, in order to build the subsidy mechanism by the end of 2025, while the time for such cancellation shall be determined by each union and city. The government may implement government prescribed price or guidance price for municipal centralised heat services according to the price catalogue of the autonomous region, and shall set a reasonable price for the sales of heat and make dynamic adjustments thereto, so as to promote the steady progress of reforms on metered charging. Construction expenses on municipal supporting infrastructure directly related to reserved lands may be included in the land development expenses according to the relevant requirements, and shall not be borne by the enterprises engaged in the supply of water, electricity, gas or heat.

### *Relevant regulations in Shanxi Province*

On 30 July 2021, the Implementation Plan of Shanxi Province on cancellation and Standardising the Charges in Urban Water, Electricity, Gas and Heat Supply Industry to Promote the High-quality Development of the Industry (《山西省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實施方案》) jointly issued by Shanxi Province Development and Reform Commission and other departments, provides the cancellation of the charges for the interface fees, centralised network construction fees, grid connection fees and other similar fees charged by urban centralised heat service enterprises and their affiliated or entrusted installation engineering companies from their users, and the cancellation of network connection fees, which refers to network connection construction from the red line of a user's building area to the public network. For the construction projects within the urban planned construction area with State-owned land use rights, the construction areas by the water, electricity, gas and heat supply enterprises shall be extended to the red line of a user's building area. Unless otherwise provided by laws, regulations and relevant policies, the users shall not bear any costs incurred beyond the red line of such buildings.

In terms of the compensation income for special construction costs charged in the name of network access fees, centralised network construction fees and grid connection fees by the water, electricity, gas and heat supply enterprises under the authorisation of municipal and county governments through concession agreements and other means, it is necessary to reasonably designate relevant charging standards, clarify the payment between the government

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and the user, properly handle the relationship between price compensation and government subsidies to ensure the normal operation of the project. Such fees shall be cancelled by the end of 2025 by making reasonable adjustments to the prices of water, electricity, gas and heat supply, and establishing the subsidy mechanism. The timing of such cancellation shall be determined by each county and city. A payment mechanism through which pipeline connection fees could be borne together by government and industry should be established, and any additional amount of such fees incurred later shall be borne by the water, gas and heat supply enterprises, accounted as their operating costs and recovered through the charges of water, gas and heat.

The construction costs of municipal supporting infrastructure directly related to the reserve land shall be included in the land development expenditures in accordance with the regulations, and shall not be borne by the water, electricity, gas and heat supply enterprises. The price of urban centralised heat service shall be fixed by the government. A dynamic adjustment mechanism shall be established to reasonably set and dynamically adjust the sales price of heat in accordance with the principles of reasonable compensation for costs, promotion of heat saving and adherence to a fair share of burden.

### *Relevant regulations in Gansu Province*

On 14 August 2021, the Implementation Plan on Further Cancellation and Standardising the Charges in Urban Water, Electricity, Gas and Heat Supply Industry to Promote the High-quality Development of the Industry (《關於進一步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的實施方案》) forwarded and noticed by the General Office of the People’s Government of Gansu Province, provides the strict implementation of various unreasonable charges for heat service as charges for network connection fee as set out in Guo Ban Han No. 129. Unless otherwise provided by laws, regulations and relevant policies, the users shall not bear any costs incurred beyond the red line of the users’ building area. The compensation income for special construction costs, charged in the name of network connection fees, centralised network construction fees and grid connection fees by the water, electricity, gas and heat supply enterprises under the authorisation of local governments through concession agreements and other means, shall be gradually cancelled by making reasonable adjustments to the prices of water, electricity, gas and heat supply, and establishing the subsidy mechanism, while the time for such cancellation shall be determined by each county and city and take place by the end of 2025 in principle. For the network connection construction from the red line of users’ buildings to the public network, the part undertaken by the water, electricity, gas, and heat supply enterprises shall be included in the operating cost of those enterprises, and the price shall be adjusted reasonably and be diverted after cost examination. We will reasonably set and dynamically adjust the sales price of heat, and steadily promote the reform of metered charging. The construction costs of municipal infrastructure directly related to the reserve land can be included in the land development expenses as required and shall not be undertaken by the water, electricity, gas, and heat supply enterprises.

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### *Relevant regulations in Henan Province*

On 6 November 2021, the Implementation Plan of Henan Province on Cancellation and Standardising the Charges in Urban Water, Electricity, Gas and Heat Supply Industry to Promote the High-quality Development of the Industry (《河南省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實施方案》) forwarded and noticed by the General Office of the People's Government of Henan Province, provides the compensation income for special construction costs, charged in the name of network connection fees, centralised network construction fees and grid connection fees by the water, electricity, gas and heat supply enterprises under the authorisation of municipal and county-level governments through concession agreements and other means, shall be all cancelled by making reasonable adjustments to the prices of water, electricity, gas and heat supply, establishing the subsidy mechanism, and determining the specific time for such fee cancellation, implementation steps and supporting policies and measures by the end of 2025. Before cancellation, the relevant charging standards shall be reasonably designate. Within the scope of urban planned construction land, for the network connection construction from the red line of users' buildings to the public network after 1 March 2021, the charges shall be reasonably borne by the water, electricity, gas, and heat supply enterprises and local government. The network connection construction cost for the water, electricity, gas, and heat supply incurred beyond the red line of the users' building area undertaken by local government and the construction costs of municipal infrastructure such as water, electricity, gas, and heat supply directly related to the reserve land can be included in the land development expenses as required and shall not be undertaken by the water, electricity, gas, and heat supply enterprises. For the commercial housing and affordable housing under construction or newly built after 1 March 2021, the construction and installation costs of water, electricity, gas and heating pipelines and ancillary equipment and facilities (including metering devices) within the red line of the users' building area shall be included in the housing development and construction costs, and shall not be charged separately from the purchaser. The government shall formulate and improve the pricing measures and cost supervision and examination measures for urban water, electricity, gas, and heat supply, the cost undertaken by the government as stipulated and included in the operating cost of enterprises shall be gradually diverted through the price on the basis of strict cost supervision and examination.

### **FOREIGN INVESTMENTS**

The Company Law of the PRC (《中華人民共和國公司法》), which was promulgated and effective on 29 December 1993, and revised on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013, and 26 October 2018, respectively, stipulates that the establishment, operation and management of corporate entities in the PRC are regulated by the Company Law of the PRC, including foreign-funded limited liability companies or foreign-funded joint stock companies.

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The Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), which was promulgated on 15 March 2019 and implemented on 1 January 2020, establishes a basic framework for the access and promotion, protection and management of foreign investments in order to protect investment and fair competition. The Law of the PRC on Sino-foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the PRC on Foreign-invested Enterprises (《中華人民共和國外資企業法》) and the Law of the PRC on Sino-Foreign Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) were simultaneously repealed.

According to the Special Management Measures for Foreign Investment Access (Negative List) (2019 Edition) (《外商投資准入特別管理措施(負面清單)(2019年版)》), which was issued on 30 June 2019 and effective on 30 July 2019, the heat service industry does not fall into the negative list of foreign investment access, and this 2019 negative list removed the restriction from the 2018 negative list that the construction and operation of urban gas and heat in cities with a population of 500,000 or more shall be controlled by the Chinese side. The Special Management Measures for Foreign Investment Access (Negative List) (2021 Edition) (《外商投資准入特別管理措施(負面清單)(2021年版)》), which was promulgated on 27 December 2021 and effective on 1 January 2022, being the latest negative list, maintain the aforementioned provisions in respect of access to the heat service industry.

## ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION

Principal environmental laws and regulations applicable to the construction and operation of the heat service industry include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law on the Prevention and Control of Atmospheric Pollution of the PRC (《中華人民共和國大氣污染防治法》), the Law on Water Pollution Control of the PRC (《中華人民共和國水污染防治法》), the Law on Promotion of Cleaner Production of the PRC (《中華人民共和國清潔生產促進法》), the Regulations on Environmental Protection Management of Construction Projects (《建設項目環境保護管理條例》) and the Law on Environmental Impact Assessment of the PRC (《中華人民共和國環境影響評價法》).

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which was promulgated and effective on 26 December 1989 and amended on 24 April 2014, the competent environmental protection department under the State Council is responsible for the unified supervision and management of the national environmental protection work and the formulation of national environmental quality and pollutant emission standards. Local environmental protection departments are responsible for environmental protection work in their respective administrative areas.

According to the Law on Environmental Impact Assessment of the PRC (《中華人民共和國環境影響評價法》), which came into effect on 1 September 2003 and subsequently amended on 2 July 2016 and 29 December 2018, if the environmental impact assessment document of a construction project has not been submitted for review in accordance with the law or approved upon review by the approval authority, the approving department of the project shall not approve the construction, and the construction entity shall not commence construction of the project. The construction entity shall prepare an environmental impact report, an environmental impact statement or fill in an environmental impact registration form according to the severity of the environmental impact of the relevant construction project.

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According to the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), which came into effect on 29 November 1998 and was revised on 16 July 2017, the supporting environmental protection facilities shall be designed, constructed and put into use in the main project at the same time. Upon completion of the construction projects in the prepared environmental impact report and environmental impact report form, the construction unit shall inspect and accept the supporting environmental protection facilities and prepare an acceptance report in accordance with the standards and procedures stipulated by the competent department of environmental protection administration under the State Council. For the construction projects in the prepared environmental impact report and environmental impact report form, the supporting environmental protection facilities shall pass acceptance before the project can be put into production or use. Those supporting environmental protection facilities that have not undergone acceptance or have failed acceptance shall not be put into production or use.

Furthermore, the Notice Relating to the Release of Two National Pollutant Emission Standards (i.e. the Emission Standards for Industrial Enterprise Noise at Boundary and the Emission Standards for Environment Noise in Social Life) (《關於發佈〈工業企業廠界環境噪聲排放標準〉、〈社會生活環境噪聲排放標準〉兩項國家污染物排放標準的公告》) implemented by the then Ministry of Environmental Protection on 1 October 2008 clearly stipulates the emission standards for industrial enterprises noise at boundary to protect and improve the living environment.

The Decision of the State Council on Enhancement of Energy Conservation Work (《國務院關於加強節能工作的決定》), which was promulgated and implemented on 6 August 2006, proposes to promote the reform of municipal heating system and change the heat subsidy from “implicit subsidy” to “explicit subsidy”, strengthen the metered charging of heat services, promote the charging system by metered charging according to heat quantity, improve the price formation mechanism of heat services, study and formulate the charge policy based on heat quantity in the provision of heat services to buildings, and cultivate a heat service market that is conducive to energy conservation. The Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), promulgated on 1 November 1997, implemented on 1 January 1998 and subsequently revised on 28 October 2007, 2 July 2016, and 26 October 2018, made further stipulation on energy conservation management, that is, the State shall take measures to implement, step by step, the system of household-based heating metering and usage-based heating fees to buildings with central heating. In the construction of new buildings or the energy conservation retrofits of existing buildings, heating metering devices, indoor temperature controls and heat service control devices shall be installed as required.

Since then, the use of charge by heat measurement and energy conservation of buildings have become important contents of energy conservation for the heat service industry. In this regard, the Implementation Opinion on Promoting the Heat Services Measurement and Energy-conservation Renovation of Existing Residential Buildings in Northern Heating Areas (《關於推進北方採暖地區既有居住建築供熱計量及節能改造工作的實施意見》) promulgated in May 2008 and the Technical Guidelines for Heat Services Measurement and Energy Conservation Renovation of Existing Residences in Northern Heating Areas (《北方採暖地區

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既有居住建築供熱計量及節能改造技術導則》(試行)) issued by the MOHURD in July 2008 also proposes the heat service measurement and the energy conservation alteration of existing residential buildings in the northern heat service areas, and provides specific technical guidance for this purpose. In addition, the Regulation on Energy Conservation in Civil Buildings (《民用建築節能條例》) promulgated by the State Council in August 2008 and the Notice on Further Deepening the Work of Heat Services Measurement and Energy-conservation Alteration of Existing Residential Buildings in Northern Heat Service Areas (《關於進一步深入開展北方採暖地區既有居住建築供熱計量及節能改造工作的通知》) issued by the MOF and the MOHURD in January 2011, the 12th Five-Year Plan for Energy Conservation of Buildings (《“十二五”建築節能專項規劃》) by the MOHURD in May 2012, the Air Pollution Prevention and Control Action Plan (《大氣污染防治行動計劃》) by the State Council in September 2013, and the 2014-2015 Action Plan for Energy Conservation and Emission Reduction and Low Carbon Development (《2014-2015年節能減排低碳發展行動方案》) by the Office of the State Council have made provisions for improving the energy utilisation efficiency of civil buildings, promoting the application of new building materials, increasing the supply of clean energy, and accelerating the construction of energy conservation and emission reduction projects.

Meanwhile, energy-conservation alteration shall also be carried out for boilers used by heat service companies. The Ministry of Environmental Protection, the NDRC and the MOF jointly issued the Twelfth Five-Year Plan for Prevention and Control of Air Pollution in Key Areas (《重點區域大氣污染防治“十二五”規劃》) in October 2012, which emphasises on the increase of heat and power cogeneration, the elimination of scattered small coal-fired boilers, and the development of centralised heat service and propulsion of heat service measurement reforms to promote energy conservation and emission reduction. In September 2013, the State Council issued the Action Plan for Prevention and Control of Air Pollution (《大氣污染防治行動計劃》), which proposes comprehensive rectification of small coal-fired boilers and accelerates the construction of centralised heat service projects. The Action Plan for Coal-fired Power Energy Conservation and Emission Reduction of Upgrade and Reconstruction (2014-2020) (《煤電節能減排升級與改造行動計劃(2014-2020年)》) jointly issued by the NDRC, the Ministry of Environmental Protection and the National Energy Administration in September 2014, and the Implementation Plan of Comprehensive Enhancement Project for Energy-conservation and Environmental Protection of Coal-fired Boilers (《燃煤鍋爐節能環保綜合提升工程實施方案》) issued by the NDRC and the Ministry of Environmental Protection in October 2014, proposed the energy-conservation alteration of heat service units, the replacement and elimination of the dispersed small coal-fired boilers, and the promotion of municipal centralised heat services. The Action Plan for Efficient Use of Coal (2015-2020) (《煤炭清潔高效利用行動計劃(2015-2020年)》) issued by the National Energy Administration in April 2015 proposes the implementation of a coal-fired boiler upgrading project to promote the application of high-efficiency, energy-conservation and environment-friendly boilers. In December 2021, the State Council issued the Comprehensive Work Plan for Energy Conservation and Emission Reduction for the “14th Five-Year Plan” Period (《“十四五”節能減排綜合工作方案》), which clearly promotes the transformation of cogeneration of large coal-fired power plants, fully taps the heating potential, promotes the elimination of coal-fired boilers and scattered coal within the coverage of the heating network, increases the

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elimination of outdated coal-fired boilers and small coal-fired thermal power plants, and promotes the replacement of coal heating (steam) with industrial waste heat, power plant waste heat, and clean energy. On 22 March 2016, the Measures for the Administration of Cogeneration was jointly issued by the NDRC, the Ministry of Environmental Protection of the PRC and other authorities, which provides that the development of cogeneration shall abide by the principles of “unified planning, power determination by heat and focus on available capacity, structure optimization, energy efficiency improvement, environmental protection priority”. Targets have been set to achieve 60% heat energy supplied by CHP energy source among middle to large cities in Northern China and a CHP energy supply coverage among all cities with population of above 200,000 in Northern China, forming a healthy development pattern for cogeneration industry with scientific planning, reasonable layout, efficient utilisation and safe heating. It is clearly provided that coal-fired heat and power co-generation units in services should install efficient desulfurisation, denitrification and ash removal facilities, and those which do not satisfy the discharging standards should speed up to upgrade environment facilities so that the facilities with minimum technical output which operate in full load and full time can meet the standard. The transformation into ultra-low emission shall be implemented pursuant to the requirements of energy conservation and emission reduction. The planning of heat and power co-generation units and heating boiler shall be coordinated to achieve joint operation, and heating capacity of peak-shaving boilers shall be designed as 25%-40% of the maximum heat load of heating area.

### SAFETY PRODUCTION

The Work Safety Law of the PRC (《中華人民共和國安全生產法》), which came into effect on 1 November 2002, subsequently revised in August 2009, August 2014 and June 2021, is the principal law for the work safety supervision and management and labour protection of heat service enterprises.

For boilers used by heat service enterprises, they are special equipment with relatively high risks for personal and property safety according to the Special Equipment Safety Law of the PRC (《中華人民共和國特種設備安全法》) which came into effect in 2014 and the Catalogue of Special Equipment (《特種設備目錄》) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in October 2014 before its reorganisation. Entities that use boilers shall abide by the above-mentioned laws and the “Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) promulgated by the State Council in March 2003 and revised in January 2009, and the “Opinions of the Special Equipment Bureau under the General Administration of Quality Supervision, Inspection and Quarantine Relating to Issues About Pressure-bearing Equipment in the Newly Revised Catalogue of Special Equipment (《質檢總局特種設備局關於新修訂的<特種設備目錄>中承壓設備有關問題的意見》) issued in July 2015.

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### EMPLOYMENT AND SOCIAL SECURITY

Major PRC labour laws and regulations applicable to our heat service industry include the Labour Law of the PRC (《中華人民共和國勞動法》), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), the Implementation Regulations on the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Administrative Regulations on Housing Provident Fund (《住房公積金管理條例》).

According to the Labour Law of the PRC (《中華人民共和國勞動法》) promulgated on 5 July 1994 and became effective on 1 January 1995, then amended on 27 August 2009 and 29 December 2018, respectively, employers shall provide employees with the necessary protection equipment that complies with safety and health conditions stipulated under national regulations, as well as provide regular health checks for employees that are engaged in operations with occupational hazards. The parties to the labour contract (i.e. the employer and the employee) and specific terms of the labour contract shall be regulated by the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated on 29 June 2007, became effective on 1 January 2008 and was amended on 28 December 2012, and the Regulation on the Implementation of the Employment Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) (Order No. 535 of the State Council), which was promulgated and became effective on 18 September 2008.

According to the provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated on 28 October 2010, became effective on 1 July 2011, and subsequently amended on 29 December 2018, the Regulation on Work-related Injury Insurance (《工傷保險條例》) promulgated on 27 April 2003, became effective on 1 January 2004, and subsequently amended on 20 December 2010, the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》) promulgated on 14 December 1994 and became effective on 1 January 1995, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) promulgated and became effective on 22 January 1999, and subsequently amended on 24 March 2019, and the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) promulgated and became effective on 3 April 1999, and subsequently amended on 24 March 2002 and 24 March 2019, respectively, enterprises in the PRC shall provide benefit plans for their employees, which include pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance, housing provident funds and other benefit plans.

#### Labour Dispatch

The Ministry of Human Resources and Social Security promulgated the Interim Provisions on Labour Dispatch (《勞務派遣暫行規定》) on 24 January 2014 (the “**Interim Provisions**”) which became effective on 1 March 2014. It states that labour dispatch should only be applicable to temporary, auxiliary or substitute positions. For purposes of these provisions, temporary positions mean positions subsisting for no more than six months,



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auxiliary positions mean positions of non-major business that serve the major businesses, and substitute positions mean positions that can be held by substitute employees for a certain period of time during which the employees who originally hold such positions are unable to work as a result of full-time study, being on leave or other reasons. The Interim Provisions further provide that the number of the dispatched workers of an employer shall not exceeds 10% of its total workers, and the total workforce of an employer shall refer to the sum of the number of the workers who have executed labour contracts with the employer and the number of workers who are dispatched to the employer.

### LAND AND PROPERTY

Pursuant to the provisions of the Construction Law of the PRC (《中華人民共和國建築法》), which was promulgated on 1 November 1997 and became effective on 1 March 1998, and was last amended and became effective on 23 April 2019, the completed construction projects which are delivered for acceptance inspection shall meet the quality standards, and obtain the complete engineering, technical and economic information and the signed project warranty as well as other completion conditions as required by the State. Construction projects which are completed shall not be delivered for use until they are accepted as a qualified construction projects. Without required acceptance or if the acceptance is unqualified, construction projects shall not be delivered for use.

Pursuant to the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》) promulgated and implemented on 30 January 2000 and amended and became effective on 23 April 2019, after receiving the construction project completion report, the property developer shall organise the units of design, construction, project supervision and other relevant units to complete the acceptance. The construction projects shall pass the acceptance before delivered for use. Where a property developer delivers the construction project for use without conducting the construction project completion acceptance inspection, it shall be ordered to take remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the construction contract sum and shall be obliged to pay compensation according to law if any losses have been caused.

Pursuant to the Measures for the Administration of Urban Yellow Line (《城市黃線管理辦法》) promulgated on 20 December 2005, being effective on 1 March 2006, and amended and being effective on 26 January 2011, urban infrastructure include urban heat sources and regional heating stations, heating corridors, and other municipal heat service facilities. The following activities are prohibited within the range of the urban yellow line: modifying, moving, or demolishing urban infrastructure without authorisation.

According to the Taiyuan Urban Heat Services Administration Regulations (《太原市城市供熱管理條例》) promulgated on 26 March 2009 and effective on 1 May 2009, heat service customers shall not damage, modify, demolish or move the heating pipelines, labels, manholes, valves, meters and other heat service facilities without authorisation.

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## REGULATORY OVERVIEW

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According to the Hulunbuir Urban Heat Services Administration Measures (Trial) (《呼倫貝爾市城鎮供熱管理辦法(試行)》) promulgated on 28 October 2013 and implemented after 30 days from the date of its promulgation, without the consent of entities of heat sources or heat services, no entities or individuals may modify, move, cover, demolish or otherwise damage the heating pipelines, manholes, valves, meters, safety warning signs and labels and other facilities.

According to the Administrative Measures for Urban Heat Services and Use in Lanzhou New Area (《蘭州新區城市供熱用熱管理辦法》) formulated on 7 December 2021 and implemented on 1 January 2022, no entities or individuals may engage in the following activities within the safety protection distance of 1.5 metres for the heat service facilities: burying the heating pipelines or manholes, or damaging, moving or demolishing the heating pipelines, valves, heating metering devices and other heat service facilities.

### PERSONAL INFORMATION PROTECTION AND DATA SECURITY

According to the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》) promulgated on 20 August 2021 and came into effect on 1 November 2021, the processing of personal information (including collection, storage, use, processing, transmission, provision, disclosure and deletion of personal information) shall follow the principles of legality, legitimacy, necessity and faith, shall not be processed by misleading, fraudulent and coercive. The processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose, in a method that has the least impact on personal rights and interests. The collection of personal information should be limited to the minimum scope necessary to achieve the processing purpose to avoid the excessive collection of personal information. The processing of personal information should follow the principles of openness and transparency, disclose the rules for handling personal information, and express the purpose, method and scope of processing. Processors of personal information shall bear responsibilities for their personal information handling activities, and adopt necessary measures to safeguard the security of the personal information they handle.

According to the Data Security Law of the PRC (《中華人民共和國數據安全法》) promulgated on 10 June 2021 and came into effect on 1 September 2021, carrying out data processing activities (including data collection, storage, use, processing, transmission, provision and disclosure) shall be in accordance with the requirements of laws and regulations, establish and complete a data security management system for the entire workflow, organise and conduct data security education and training, and adopt corresponding technical measures and other necessary measures to ensure data security. The processors of important data shall define the responsible person and management authority of data security and fulfil the responsibility of data security protection.

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## REGULATORY OVERVIEW

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### REGULATIONS RELATING TO OVERSEAS LISTING

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. The Overseas Issuance and Listing Measures prohibit the overseas issuance and listing of securities for (i) companies that are explicitly prohibited from listing by PRC laws and regulations; (ii) companies whose overseas issuance and listing may endanger national security, as determined by relevant departments of the State Council; (iii) companies that have committed, or companies whose controlling shareholders or actual controllers have committed, crimes of corruption, bribery, encroachment and embezzlement upon property, or disruption of the order of market economy in the past three years; (iv) companies that are under ongoing investigations for suspected crimes or material violations of PRC laws; and (v) companies whose controlling shareholders, or the shareholders whose actions are controlled by the controlling shareholders or actual controllers, are involved in major disputes over their equity ownership of the company. Furthermore, upon the effectiveness of the Overseas Issuance and Listing Measures, PRC companies that directly or indirectly offer or list their securities in overseas markets, which include (i) any limited liability companies registered in the PRC, and (ii) any offshore companies that conduct their business operations primarily in the PRC and contemplate to offer or list their securities in overseas markets based on their onshore equities, assets or similar interests, will be required to making files with the CSRC within three business days after submitting their listing application documents to the relevant regulator in the place of intended listing. Failure to complete the record-filing procedures may subject a PRC company to a warning or a fine of RMB1 million to RMB10 million.

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 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. Based on the above and our expected timetable that our [REDACTED] and the [REDACTED] are expected to be completed within the validity period of the approval of CSRC, our PRC Legal Advisers are of the opinion that we do not need to perform the record-filing procedures for the [REDACTED] and the [REDACTED], and the [REDACTED] and the [REDACTED] are not expected to be materially affected by the Overseas Issuance and Listing Measures.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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### OUR BUSINESS HISTORY AND DEVELOPMENT

We were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report. The history of our business can be traced back to 2010 when the State Council promulgated Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investment (《國務院關於鼓勵和引導民間投資健康發展的若干意見》) to encourage and guide private capital to participate in the construction of municipal utilities, such as urban water supply, gas supply, heat supply, sewage and garbage disposal, public transport, urban landscaping and other urban areas. Eyeing the substantial room for the development of heat services, Shuangliang Eco-Energy found our Company. Established in the PRC on 5 October 1995, Shuangliang Eco-Energy (stock code: 600481.SH) is a joint stock limited company, the shares of which have been listed on Shanghai Stock Exchange since 22 April 2003. The principal business of Shuangliang Eco-Energy is the manufacturing and sales of products of (i) energy-saving and water-saving systems; and (ii) new energy systems (新能源系統).

Motivated by the favourable policies encouraging private capital to participate in the heat service industry, our Company actively sought for potential acquisition target to explore our markets in the “Three North” region. On 10 October 2010, our Company and Shanxi Shuangliang Renewable Energy entered into a capital increase agreement, pursuant to which our Company became a new shareholder of Shanxi Shuangliang Renewable Energy and agreed to inject approximately RMB25.5 million into Shanxi Shuangliang Renewable Energy. Such capital increase was completed and settled on 25 October 2010. Shanxi Shuangliang Renewable Energy therefore became an indirect non wholly-owned subsidiary of Shuangliang Eco-Energy since 25 October 2010 and up to 22 October 2015 when Shuangliang Eco-Energy transferred its entire interest in our Company to Shuangliang Technology. Following the completion of the capital increase, Shanxi Shuangliang Renewable Energy became one of our major subsidiaries, focusing mainly on the business of provision and distribution of heat, particularly utilising heat from local cogeneration plant. Leveraging on the experiences of the staff of our Group in sales and marketing of the heat service industry and the deep industry insight of our management team, we have gradually developed our experience, expertise and know-how to operate the heat services business through our experienced management team. In January 2012, Shanxi Shuangliang Renewable Energy obtained the first concession right for heat services for our Group by entering into the Shuozhou Concession Agreement. Between 2012 and 2014, implementing opinions and guiding opinions were issued by various government authorities in the PRC to encourage private capital to invest in the construction and operation of municipal heat services and other municipal infrastructure projects, such as municipal heat services through concession. Under such favourable environment, we applied for and was granted the concession rights of a number of projects and further expanded our business of heat services in various cities in Shanxi Province, including Taiyuan and Shanxi Transformation and Comprehensive Reform Demonstration Zone. We also expanded our heat service to other cities in the PRC, such as Hulunbuir of Inner Mongolia, Lanzhou of Gansu Province and Xinmi of Henan Province.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

For the purpose of streamlining the operation of Shuangliang Eco-Energy Group, in September 2015, Shuangliang Eco-Energy decided to transfer the entire equity interest in our Company to Shuangliang Technology, one of the shareholders of Shuangliang Eco-Energy. Such transfer was completed and settled on 22 October 2015. The transfer led to a clear separation of operations and management between Shuangliang Eco-Energy Group and our Group. Upon completion of the said transfer, Shuangliang Eco-Energy Group remained as one of our suppliers to supply materials and equipment for the construction of the infrastructure for our heat services business. For details of the transactions between our Group and Shuangliang Eco-Energy Group, see “Connected transactions” in this document.

In light of the growing opportunities and for the purpose of business expansion, upon the registration by our shareholders with Wuxi Administration for Industry and Commerce (無錫市工商行政管理局), our Company was converted into a joint stock limited company on 29 December 2015. In July 2016, we obtained approval from the NEEQ for the listing of our Company on the NEEQ (stock code: 839023) on 17 August 2016. We voluntarily delisted from the NEEQ in April 2018. See “Corporate history of our Company” in this section for further details.

### Development of heat service area

Since the establishment of our Company, we have been principally focusing on the business of heat services. We have been expanding our heat services business to numerous geographical areas. As at the Latest Practicable Date, our total Concession Area and our total actual heat service area were approximately 419.9 million sq.m. and 41.9 million sq.m., respectively.

The following table sets out the key development of our heat service projects under concession rights.

Project name	Commencement of concession period	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
		heat service area as at 31 December 2014	heat service area as at 31 December 2015	heat service area as at 31 December 2016	heat service area as at 31 December 2017	heat service area as at 31 December 2018	heat service area as at 31 December 2019	heat service area as at 31 December 2020	heat service area as at 31 December 2021	heat service area as at 31 December 2022
		(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)	(sq.m.)
Shouzhou Project	18 January 2012	13,000,000	20,000,000	15,500,000	15,208,000	16,309,100	17,452,000	17,852,100	18,115,000	18,117,400
Taiyuan Project	21 November 2012	2,300,000	3,200,000	3,032,400	2,910,000	3,310,000	4,500,000	5,430,000	5,688,000	6,700,000
Lanzhou New Area Project	29 June 2013	106,000	688,000	2,217,000	4,650,000	5,510,000	6,500,000	5,920,000	7,030,000	8,490,000
Hulunbuir Project	20 September 2013	465,000	2,165,000	3,250,600	5,250,000	6,340,000	7,150,000	7,970,000	8,540,000	8,210,000
Shanxi Demonstration Zone Project	18 September 2018	_(Note 1)	_(Note 1)	_(Note 1)	_(Note 1)	_(Note 1)	165,800	205,000	391,500	352,400
Xinmi Project	7 December 2021	_(Note 2)	_(Note 2)	_(Note 2)	_(Note 2)	_(Note 2)	_(Note 2)	_(Note 2)	_(Note 2)	_(Note 2)
<b>Total actual heat service area:</b>		15,871,000	26,053,000	24,000,000	28,018,000	31,469,100	35,767,800	37,377,100	39,764,500	41,869,800

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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*Notes:*

- (1) Shanxi Demonstration Zone Project commenced actual heat service operation in 2019, with an initial actual heat service area of approximately 165,800 sq.m..
- (2) Xinmi Project had yet to commence actual heat service operation as at the Latest Practicable Date.

### DEVELOPMENT MILESTONES

<b>Year</b>	<b>Events</b>
September 2010	The establishment of our Company
October 2010	Investing in Shanxi Shuangliang Renewable Energy Development and Utilisation Company Limited* (山西雙良再生能源開發利用有限公司), i.e. subsequently known as Shanxi Shuangliang Renewable Energy by capital injection of approximately RMB25.5 million, and the commencement of heat service business in Shanxi Province, the PRC
January 2012	Concession right was granted to Shanxi Shuangliang Renewable Energy for heat services within the Concession Area of Shuozhou, Shanxi Province, the PRC for 30 years pursuant to the Shuozhou Concession Agreement
November 2012	Concession right was granted to Taiyuan Renewable Energy for heat services within the Concession Area of Taiyuan, Shanxi Province, the PRC for 25 years pursuant to the Taiyuan Concession Agreement
June 2013	Concession right was granted to Lanzhou Shuangliang for heat services within the Concession Area of Lanzhou New Area, Gansu Province, the PRC for 30 years pursuant to the Lanzhou New Area Concession Agreement
September 2013	Concession right was granted to Hulunbuir Shuangliang for heat services within the Concession Area of Hulunbuir, Inner Mongolia, the PRC for 30 years pursuant to the Hulunbuir Concession Agreement
October 2013	Shentou Second Power Station, to which we provided engineering construction services, involving the installation of condensing heat-recycling technology and recovery of waste heat into electricity system in Shuozhou, Shanxi Province, the PRC, was accredited as 'Power Top Plant' by Power Magazine

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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<u>Year</u>	<u>Events</u>
August 2016	Our Company became listed on NEEQ <sup>(Note)</sup>
September 2018	Concession right was granted to Shanxi Demonstration Zone Heat Supply for heat services within the Concession Area in Shanxi Transformation and Comprehensive Reform Demonstration Zone Xiaohu Industrial Park and Science and Technology Innovation City* (山西轉型綜合改革示範區瀟河產業園區和科技創新城), Shanxi Province, the PRC for 30 years pursuant to the Shanxi Demonstration Zone Concession Agreement
December 2021	Concession right was granted to Tech-Thermal (Zhengzhou) for heat services within the Concession Area of Xinmi, Henan Province, the PRC for 30 years pursuant to the Xinmi Concession Agreement

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*Note:* Delisted from NEEQ in April 2018.

### CORPORATE HISTORY OF OUR COMPANY

On 3 September 2010, our Company was established by Shuangliang Eco-Energy and initially named as Jiangsu Shuangliang Contract Energy Management Company Limited\* (江蘇雙良合同能源管理有限公司), with an initial registered capital of RMB50 million. On 25 August 2014, the then sole shareholder resolved, among other things, that the name of our Company shall be changed to Shuangliang Energy Saving System (Jiangsu) Company Limited\* (雙良節能系統(江蘇)有限公司), which became effective on 1 September 2014.

On 16 September 2015, Shuangliang Eco-Energy and Shuangliang Technology entered into an equity transfer agreement, pursuant to which the entire registered capital of our Company would be transferred to Shuangliang Technology at the consideration of approximately RMB50.96 million. The consideration of such transfer was determined after arm’s length negotiations between the parties with reference to the valuation of the net asset value of our Company as at the date of the transfer. Such transfer was completed and settled on 22 October 2015.

On 17 November 2015, Shuangliang Technology resolved that the registered capital of our Company be increased from RMB50 million to RMB226 million, which was legally completed on 3 December 2015. While Shuangliang Technology contributed an amount of RMB100 million, the remaining RMB76 million was subscribed by Jiangsu Lichuang (which was owned by our Controlling Shareholders) and ten individual shareholders who were, prior to the subscription of the share capital of our Company, the then employees of Shuangliang Eco-Energy Group including our Directors and employees. The aforementioned shareholders of Jiangsu Lichuang had fully paid up the registered in accordance with their respective shareholdings.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

In anticipation to the conversion of our Company into a joint-stock company, our Company changed its name to Wise Living Technology Co., Ltd\* (慧居科技股份有限公司), being the current name of our Company. The change of our Company’s name was legally completed on 18 December 2015.

On 18 December 2015, the shareholders resolved that our Company be converted from a company with limited liability into a joint stock company with limited liability in preparation for the listing on the NEEQ. The registered capital of our Company was RMB226 million with issued shares of 226,000,000 Shares in total. The conversion was legally completed on 29 December 2015, and the shareholders’ respective shareholding in our Company remained unchanged. Following such conversion, our Company applied for the listing on the NEEQ. Approval was granted on 29 July 2016, and subsequently the shares of our Company were open for transfer on the NEEQ on 17 August 2016.

On 22 March 2018, the shareholders resolved to voluntarily delist from the NEEQ. Our Company decided to delist from the NEEQ taking into consideration, amongst others, our Company’s long term development strategy and our Company’s preparation for the [REDACTED] in Hong Kong. The listing of our Company on the NEEQ ceased on 4 April 2018. There was no change in our registered capital, no trading of our Shares, and no transfer of Shares by our Shareholders during the period when our Company was listed on the NEEQ. There was no repurchase of Shares from our Shareholders at the time when we delisted on the NEEQ.

As advised by our PRC Legal Advisers, during the period that our Company was listed on the NEEQ, it had complied in all material respects with all applicable laws, including the Business Rules of the National Equities Exchanges and Quotations System (for Trial Implementation), and it had not been subject to any administrative penalty by any relevant law enforcement or regulator. Our Directors believe that there is no other matter in relation to the prior listing on the NEEQ of our Company that requires to be brought to the attention of the Stock Exchange.

The table below sets forth the shareholding structure of our Company immediately upon completion of the aforementioned delisting:

<u>Shareholders</u>	<u>Shares</u>	<u>Equity interest</u> (%)
(1) Shuangliang Technology	150,000,000	66.38
(2) Jiangsu Lichuang	51,000,000	22.58
(3) Mr. Li Baoshan (李寶山先生)	6,000,000	2.66
(4) Mr. Gu Dongsheng (顧東升先生)	2,500,000	1.11
(5) Mr. Liu Jiansheng (劉建生先生)	2,500,000	1.11
(6) Mr. Liu Jing (劉竟先生)	2,000,000	0.88
(7) Mr. Shan Yulin (單昱林先生)	2,000,000	0.88



## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

	<u>Shareholders</u>	<u>Shares</u>	<u>Equity interest</u> (%)
(8)	Mr. Li Fenglin (李峰林先生)	2,000,000	0.88
(9)	Mr. Liu Guoyin (劉國銀先生)	2,000,000	0.88
(10)	Mr. Wang Xiaosong (王曉松先生)	2,000,000	0.88
(11)	Mr. Geng Ming (耿鳴先生)	2,000,000	0.88
(12)	Mr. Jiang Shaojun (蔣少軍先生)	2,000,000	0.88
	Total	<u>226,000,000</u>	<u>100.00</u>

### OUR MAJOR SUBSIDIARIES

We have nine major subsidiaries, six out of which have been granted with concession rights to provide heat services under our Concession Agreements. For details, see “Business – Heat services – Heat service projects under concession operation” in this document. Details of these subsidiaries are set out below:

#### (1) Wise Living Energy

Wise Living Energy (formerly known as Wise Living Technology Jiangsu Energy System Investment Company Limited\* (慧居科技江蘇能源系統投資有限公司)) was established by our Company under the laws of the PRC as a limited liability company on 29 November 2016. Since the establishment of Wise Living Energy, it has been wholly owned by our Company. Wise Living Energy is principally engaged in investment holding.

#### (2) Shanxi Shuangliang Renewable Energy

Shanxi Shuangliang Renewable Energy (formerly known as Shanxi Shuangliang Renewable Energy Development and Utilisation Company Limited\* (山西雙良再生能源開發利用有限公司), Shanxi Kelai Renewable Energy Development and Utilisation Company Limited\* (山西科萊再生能源開發利用有限公司) and Shanxi Kelai Technology Company Limited\* (山西科萊科技有限公司)) was established under the laws of the PRC as a limited liability company on 15 February 2006, with an initial registered capital of RMB1,000,000.

On 10 October 2010, our Company and Shanxi Shuangliang Renewable Energy entered into a capital increase agreement, pursuant to which our Company agreed to inject approximately RMB25.5 million into Shanxi Shuangliang Renewable Energy, out of which approximately RMB10.41 million was included as registered capital of Shanxi Shuangliang Renewable Energy with the remaining RMB15.09 million being included as capital reserves of Shanxi Shuangliang Renewable Energy. The investment amount was determined at arm’s length negotiations between the parties having considered the net asset value of Shanxi Shuangliang Renewable Energy as at the date of the capital increase. Following the completion of the capital increase, our Company became a shareholder of Shanxi Shuangliang Renewable Energy and held 51% of the equity interest in Shanxi Shuangliang Renewable Energy, the registered capital of which was increased from RMB10.0 million to RMB20.41 million. The capital increase was completed and settled on 25 October 2010.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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On 14 February 2012, the then shareholders of Shanxi Shuangliang Renewable Energy resolved that the registered capital of Shanxi Shuangliang Renewable Energy be increased from RMB20.41 million to RMB30 million by way of conversion of capital reserve. The increased registered capital was contributed by the then shareholders in proportion to their respective shareholdings in Shanxi Shuangliang Renewable Energy. Our Company, Mr. Li Baoshan (李寶山先生), Mr. Chen Xibao (陳喜報先生), Mr. Duan Guochen (段國臣先生), Mr. Hou Futang (侯富堂先生) and Mr. Wang Yuan (王源先生) subscribed for the increased registered capital in the amount of approximately RMB4.89 million, RMB2.42 million, RMB0.80 million, RMB0.77 million, RMB0.48 million and RMB0.23 million respectively.

On 29 November 2016, our Company entered into a share transfer agreement to transfer 51% of the equity interest in Shanxi Shuangliang Renewable Energy to Wise Living Energy, being our direct wholly-owned subsidiary, at the consideration of approximately RMB15.30 million. The consideration was determined after arm's length negotiations between the parties with reference to the amount of registered capital of Shanxi Shuangliang Renewable Energy at the time of transfer. The transfer was completed and settled on 14 December 2016.

Shanxi Shuangliang Renewable Energy is principally engaged in the business of provision of heat services. Pursuant to the Shuozhou Concession Agreement, Shanxi Shuangliang Renewable Energy obtained the concession right for the heat services within the Concession Area of Shuozhou, Shanxi Province, and the actual construction, management and operation of such heat service was designated to Shuozhou Renewable Energy.

With the exception of Shuozhou Concession Agreement, all of the Concession Agreements are operated by our subsidiaries being the party to the respective Concession Agreements.

### (3) Hulunbuir Shuangliang

Hulunbuir Shuangliang was established by our Company and Mr. Gu Dongsheng (顧東升先生) under the laws of the PRC as a limited liability company on 11 March 2013, with an initial registered capital of RMB10 million.

Upon the establishment of Hulunbuir Shuangliang, our Company and Mr. Gu Dongsheng held 85% and 15% of its registered capital respectively. Since the establishment, Mr. Gu Dongsheng has been a director of Hulunbuir Shuangliang responsible for the management and supervision over the operation of Hulunbuir Shuangliang.

On 11 September 2014, Mr. Gu Dongsheng transferred 15% of the equity interest in Hulunbuir Shuangliang to Hulunbuir Dongsheng Energy Investment Company limited\* (呼倫貝爾市東升能源投資有限公司), 70% of the registered capital of which is held by Mr. Gu Dongsheng. The transfer was completed and settled on 10 September 2014.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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On 29 November 2016, our Company entered into a share transfer agreement to transfer 85% of the equity interest in Hulunbuir Shuangliang to Wise Living Energy, being our direct wholly-owned subsidiary, at the consideration of RMB8.5 million. The consideration was determined after arm's length negotiations between the parties with reference to the amount of registered capital of Hulunbuir Shuangliang at the time of transfer. The transfer was completed and settled on 30 November 2016.

Hulunbuir Shuangliang is principally engaged in the business of provision of heat services. Hulunbuir Shuangliang is the holder of the concession right for the heat services within the Concession Area of Hulunbuir, Inner Mongolia, pursuant to the Hulunbuir Concession Agreement.

### (4) Gansu Shuangliang

Gansu Shuangliang was established by our Company and Mr. Yang Koulin (楊扣林先生), a director of Gansu Shuangliang and Lanzhou Shuangliang, under the laws of the PRC as a limited liability company on 27 February 2013. Since the establishment of Gansu Shuangliang and up to 26 December 2016, its registered capital had been held as to 80% and 20% by our Company and Mr. Yang Koulin respectively.

On 27 December 2016, our Company, Mr. Yang Koulin, Wise Living Energy (our direct wholly-owned subsidiary) and Lanzhou Hanhai Trading Company Limited\* (蘭州瀚海商貿有限公司) ("Lanzhou Hanhai") (a company which was held as to 60% by Mr. Yang Koulin and 40% by his family members and relatives) entered into share transfer agreements, pursuant to which 80% and 20% equity interest in Gansu Shuangliang were transferred to Wise Living Energy and Lanzhou Hanhai at the consideration of RMB8 million and RMB2 million, respectively. Upon completion of the transfers, Gansu Shuangliang was held as to 80% and 20% by Wise Living Energy and Lanzhou Hanhai, respectively. The considerations were determined after arm's length negotiations between the parties with reference to the amount of registered capital of Gansu Shuangliang at the time of the transfers. The transfers were completed and settled on 27 December 2016. Gansu Shuangliang is principally engaged in investment holding.

### (5) Lanzhou Shuangliang

Lanzhou Shuangliang was established by Gansu Shuangliang and Lanzhou New District Thermal Power Co., Ltd.\* (蘭州新區熱力有限責任公司) (a company wholly owned by Lanzhou Housing and Urban-Rural Development Bureau\* (蘭州市住房和城市建設局)) under the laws of the PRC as a limited liability company on 31 July 2013, with an initial registered capital of RMB20 million. On 19 February 2014, Lanzhou New District Thermal Power Co., Ltd.\* (蘭州新區熱力有限公司) entered into a share transfer agreement to transfer 30% of the registered capital in Lanzhou Shuangliang to Gansu Shuangliang at the consideration of approximately RMB6 million. The consideration was determined after arm's length negotiations between the parties with reference to the amount of registered capital of Lanzhou Shuangliang at the time of transfer. After the share transfer, Lanzhou Shuangliang became a wholly owned subsidiary of Gansu Shuangliang. Lanzhou Shuangliang is principally engaged in the business of provision of heat services. Lanzhou Shuangliang is the holder of the concession rights for the heat services within the Concession Area of Lanzhou New Area, Gansu Province, the PRC pursuant to the Lanzhou New Area Concession Agreement.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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### **(6) Shuozhou Renewable Energy**

Shuozhou Renewable Energy was established by Shanxi Shuangliang Renewable Energy and Taiyuan Renewable Energy under the laws of the PRC as a limited liability company on 23 May 2011, with an initial registered capital of RMB50 million. Shuozhou Renewable Energy is principally engaged in the business of provision of heat services. Pursuant to the Shuozhou Concession Agreement, Shanxi Shuangliang Renewable Energy obtained the concession right for the heat services within the Concession Area of Shuozhou, Shanxi Province, the PRC, and the actual construction, management and operation of such heat service was designated to Shuozhou Renewable Energy.

### **(7) Taiyuan Renewable Energy**

Taiyuan Renewable Energy was established by Shanxi Shuangliang Renewable Energy (our indirectly non wholly-owned subsidiary), under the laws of the PRC as a limited liability company on 22 May 2009, with an initial registered capital of RMB5 million. Taiyuan Renewable Energy is principally engaged in the business of provision of heat services, and is the holder of the concession rights for the heat services within the Concession Area of Taiyuan, Shanxi Province, the PRC pursuant to the Taiyuan Concession Agreement.

### **(8) Shanxi Demonstration Zone Heat Supply**

Shanxi Demonstration Zone Heat Supply was incorporated on 19 September 2018 by Taiyuan Renewable Energy as a limited liability company under the laws of the PRC with an initial registered capital of RMB100 million. Shanxi Demonstration Zone Heat Supply is principally engaged in the provision of heat services. Pursuant to the Shanxi Demonstration Zone Concession Agreement, Shanxi Demonstration Zone Heat Supply is the holder for the concession rights for heat services within the Concession Area of Taiyuan, Shanxi Province, the PRC.

### **(9) Tech-Thermal (Zhengzhou)**

Tech-Thermal (Zhengzhou) was established by Wise Living Energy and Zhengzhou Qindu Thermal Power Limit\* (鄭州溱都熱力有限責任公司) under the laws of the PRC as a limited liability company on 10 December 2020. Since the establishment of Tech-Thermal (Zhengzhou), its registered capital was held as to 80% by Wise Living Energy and 20% by Zhengzhou Qindu Thermal Power Limit\* (鄭州溱都熱力有限責任公司). Tech-Thermal (Zhengzhou) is principally engaged in the business of provision of heat services. Tech-Thermal (Zhengzhou) is the holder of the concession rights for the heat services within the Concession Area of Xinmi, Henan Province, the PRC, pursuant to the Xinmi Concession Agreement.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

### DEREGISTRATION AND DISPOSAL DURING THE TRACK RECORD PERIOD

To streamline our Group’s organisational structure, during the Track Record Period, seven subsidiaries of our Company had been deregistered. Details of such deregistrations are set out below:

<u>Name of subsidiaries</u>	<u>Interest held directly or indirectly by our Company before deregistration</u>	<u>Principal business</u>	<u>Reason of deregistration</u>	<u>Date of deregistration</u>
Wise Living Environmental Energy* (慧居環能科技(北京)有限公司)	80%	Engagement of various projects in relation to heat service (generated by natural gas) and the development and promotion of energy saving technologies	No commencement of operation since its establishment on 11 April 2019	24 March 2020
Shanxi New Energy Equipment* (山西雙良新能源裝備製造有限公司)	100%	Production of mechanical equipment, electronic devices, air-conditioning equipment, valves and water pumps	Only maintain minimal operation since its establishment on 8 January 2018	26 May 2020
Southern Taiyuan Heat Supply* (太原市南部供熱有限公司)	100%	Construction, operation and management of transformation projects relating to renewable energy resources, clean energy resources and energy saving technologies	No commencement of operation since its establishment on 28 April 2013	9 March 2020
Hohhot Wise Living* (呼和浩特慧居清潔能源有限公司)	100%	Heat services and development of clean resources	No commencement of operation since its establishment on 17 May 2019	1 November 2021

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Name of subsidiaries	Interest held directly or indirectly by our Company before deregistration	Principal business	Reason of deregistration	Date of deregistration
Shuozhou Shiji New Energy Thermal Power Co., Ltd* (朔州市世紀新能源熱力有限公司)	100%	Heat services	No commencement of operation since its establishment on 1 September 2021	31 December 2021
Shuozhou Dongyu New Energy Heating Co., Ltd.* (朔州市東宇新能源熱力有限公司)	100%	Heat services	No commencement of operation since its establishment on 3 September 2021	31 December 2021
Shuozhou Jincheng New Energy Thermal Power Co., Ltd.* (朔州市金誠新能源熱力有限公司)	100%	Heat services	No commencement of operation since its establishment on 2 September 2021	31 December 2021

Our Directors confirm that (i) none of the aforementioned deregistered companies was involved in any material claims, litigations or non-compliance incidents during the Track Record Period and up to its respective date of deregistration; and that (ii) the deregistration of the aforementioned companies had no material adverse impact on our Group’s financial performance, financial position and cash flows during the Track Record Period because all these companies carried out minimal operation or no operation since their respective establishments.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Further, we also disposed of Shuozhou Electricity Sales during the Track Record Period, details are set out below:

Name of subsidiary	Interest held directly or indirectly by our Company before disposal	Principal business	Transferee	Reason of disposal	Date of disposal
Shuozhou Electricity Sales	100%	Sale of electricity	Shanxi Ouke Material Technology Co. Limited* (山西歐可材料科技有限公司), an Independent Third Party	Shuozhou Electricity Sales only had minimal operation since its establishment on 20 July 2017, and its business differs from our business	23 June 2020

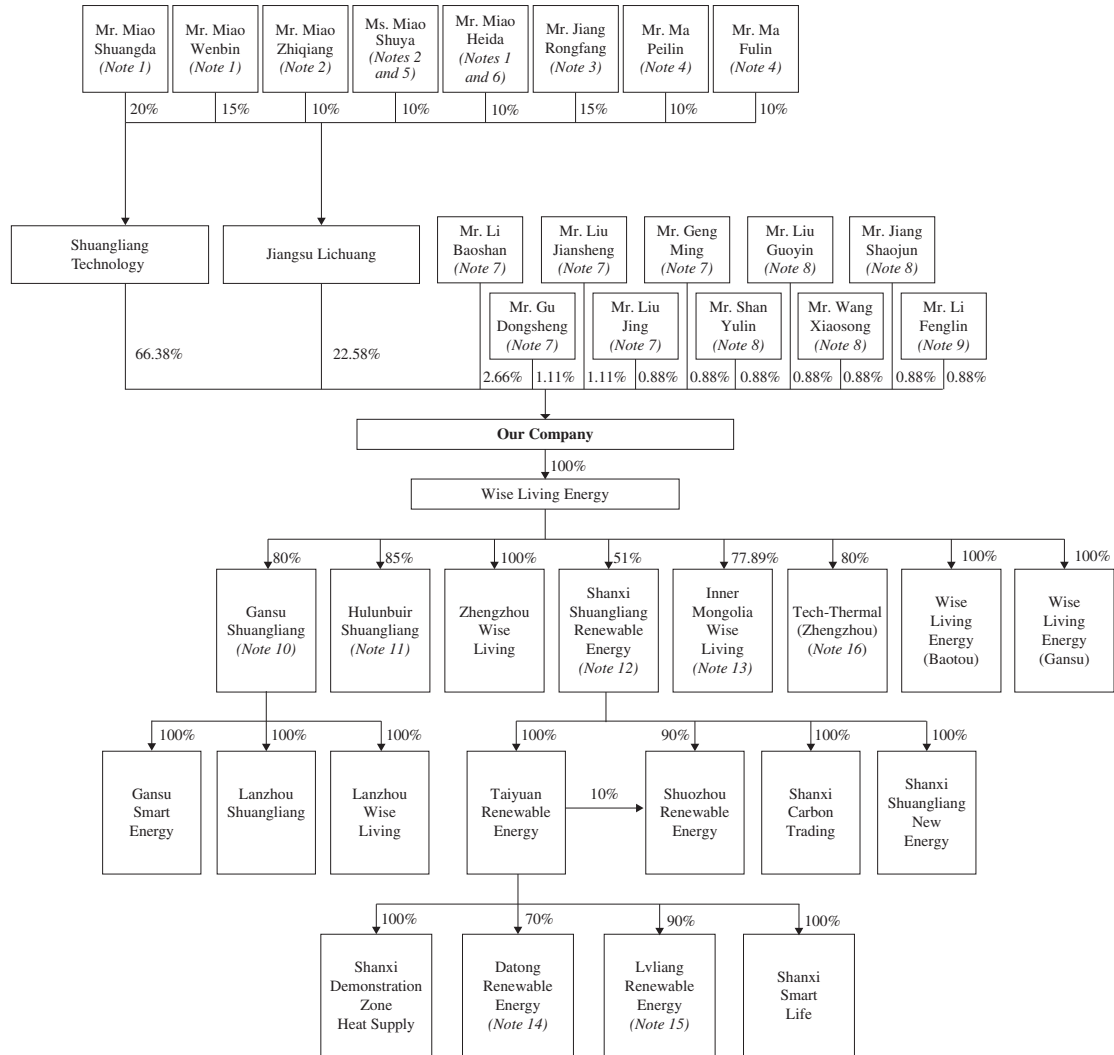
Our Directors confirm that (i) Shuozhou Electricity Sales was not involved in any material claims, litigations or non-compliance incidents during the Track Record Period and up to its date of disposal, (ii) the disposal of Shuozhou Electricity Sales had no material adverse impact on our Group’s financial performance, financial position and cash flows because Shuozhou Electricity Sales carried out minimal operation since its establishment on 20 July 2017; and (iii) Shuozhou Electricity Sales was disposed of by our Group at nil consideration because we had not made payment for its registered capital since its establishment. The disposal of Shuozhou Electricity Sales was completed on 23 June 2020.

Our PRC Legal advisers confirmed that the above-mentioned deregistrations or disposal of our subsidiaries were lawful, valid and in compliance with the relevant PRC legal requirements.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

### 2 Our corporate structure before the [REDACTED]

The following chart sets out the shareholding and simplified corporate structure of our Group as at the Latest Practicable Date:



**Notes:**

1. Mr. Miao Shuangda (繆雙大先生) and Mr. Miao Heida (繆黑大先生) are siblings. Mr. Miao Shuangda (繆雙大先生) is the father of Mr. Miao Wenbin (繆文彬先生).
2. Mr. Miao Zhiqiang (繆志強先生) and Ms. Miao Shuya (繆舒涯女士) are cousins of Mr. Miao Wenbin (繆文彬先生).
3. Mr. Jiang Rongfang (江榮方先生) has extensive experience in lithium bromide cooling technology and is an expert entitled to government special allowance by the State Council. Mr. Jiang Rongfang is one of the founders of Shuangliang Group Co. and a shareholder of Shuangliang Eco-Energy. He acted as a director of Shuangliang Eco-Energy between 27 March 2004 and 22 September 2021. Save for his shareholdings in Shuangliang Technology and Jiangsu Lichuang, Mr. Jiang Rongfang (江榮方先生) has no other relationship with our Company and the other Controlling Shareholders.
4. Mr. Ma Peilin (馬培林先生) and Mr. Ma Fulin (馬福林先生) are siblings. Mr. Ma Fulin (馬福林先生) is the spouse of the sister of Mr. Miao Zhiqiang (繆志強先生), a cousin of Mr. Miao Wenbin (繆文彬先生).



## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

5. As part of a family succession plan on 11 December 2019, Ms. Miao Shuya (繆舒涯女士) received the respective 10% of registered capital in Shuangliang Technology and Jiangsu Lichuang from her father Mr. Miao Minda (繆敏達先生), who is a sibling of Mr. Miao Shuangda and Mr. Miao Heida, at nil consideration.
6. As Mr. Miao Heida (繆黑大先生) was at the age of 76 in 2021 and concerned about his health, on 9 August 2021, Mr. Miao Heida (繆黑大先生) transferred his investment in Shuangliang Technology and Jiangsu Lichuang, which held 66.38% and 22.58% equity interests in our Company respectively as at the Latest Practicable Date to his sons, Mr. Miao Shuyan (繆舒炎先生) and Mr. Miao Shuyang (繆舒揚先生) equally at nil consideration. Mr. Miao Shuyan (繆舒炎先生), Mr. Miao Shuyang (繆舒揚先生) and Mr. Miao Heida (繆黑大先生) entered into a nominee arrangement, whereby Mr. Miao Shuyan (繆舒炎先生) and Mr. Miao Shuyang (繆舒揚先生) agreed to act as nominees for and on behalf of Mr. Miao Heida (繆黑大先生) in accordance with the instructions of Mr. Miao Heida (繆黑大先生) in managing, handling and dealing with the matters (including but not limited to the exercise of relevant voting rights in general meetings) in relation to his investment in Shuangliang Technology and Jiangsu Lichuang. On 1 March 2022, the nominee arrangement was terminated as Mr. Miao Heida’s (繆黑大先生) health had been improved, and the registered capital in each of Shuangliang Technology and Jiangsu Lichuang was transferred back to Mr. Miao Heida (繆黑大先生) at nil consideration on the same day.
7. Mr. Li Baoshan (李寶山先生) is one of our executive Directors. Mr. Geng Ming (耿鳴先生) is one of our executive Directors. Mr. Gu Dongsheng (顧東升先生) (“**Mr. Gu**”) is the chairman of the board of directors of Hulunbuir Shuangliang, one of our subsidiaries. Mr. Liu Jiansheng (劉建生先生) is the director of Wise Living Energy (Gansu), Gansu Smart Energy and Lanzhou Wise Living, which are our subsidiaries. Mr. Liu Jing (劉竟先生) is the vice chairman of the board of directors in Tech-Thermal (Zhengzhou), one of our subsidiaries.
8. Mr. Shan Yulin (單昱林先生) is one of the vice presidents of Shuangliang Group Co.. Mr. Liu Guoyin (劉國銀先生) is a member of the management team of a subsidiary of Shuangliang Group Co.. Mr. Jiang Shaojun (蔣少軍先生) is one of the vice presidents of Shuangliang Group Co., and Mr. Wang Xiaosong (王曉松先生) is the investment director of Shuangliang Group Co..
9. Mr. Li Fenglin (李峰林先生) is a director of a subsidiary of Shuangliang Technology.
10. The remaining 20% of the registered capital of Gansu Shuangliang is held by Lanzhou Hanhai, the registered capital of which is held as to 60% by Mr. Yang Koulin (楊扣林先生) (“**Mr. Yang**”), a director of Gansu Shuangliang and Lanzhou Shuangliang, 30% by Ms. Ding Yue’e (丁月娥女士), the spouse of Mr. Yang and 10% by Ms. Zhu Huijuan (朱慧娟女士), the daughter in law of Mr. Yang. Lanzhou Hanhai is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Gansu Shuangliang which is an indirect subsidiary of our Company). The principal business of Lanzhou Hanhai is (among others) wholesale and retail of water heating materials and maintenance of related equipment. Gansu Shuangliang benefited from the business resources provided by Lanzhou Hanhai when exploring its heat services market in Gansu Province. Mr. Yang, being a controlling shareholder of Lanzhou Hanhai, is appointed as a director of Gansu Shuangliang and participates in the management and operation of Gansu Shuangliang. He is also appointed as a director of Lanzhou Shuangliang (a direct wholly-owned subsidiary of Gansu Shuangliang) and participates in the management and operation of Lanzhou Shuangliang.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 80% equity interest in Gansu Shuangliang and enjoying 80% voting rights in the shareholders’ meetings of Gansu Shuangliang, has the power over Gansu Shuangliang as it has the ability to direct the activities that significantly affect Gansu Shuangliang’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Gansu Shuangliang. Therefore, our Group was able to consolidate the results of Gansu Shuangliang under IFRS 10.

Save for his equity interest in Lanzhou Hanhai, Mr. Yang holds 80% equity interest in Jiayuguan Sanjin Commerce and Trade Development Company Limited\* (嘉峪關市三金商貿發展有限公司) (“**Jiayuguan Sanjin CTDC**”) which is a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being an associate of Mr. Yang, who is a substantial shareholder of Gansu Shuangliang (an indirect subsidiary of our Company)). Mr. Yang has also served as a director of Jiayuguan Sanjin CTDC, the principal business of which is wholesale and retail of metal materials, chemical materials, hardware and electrical equipment, agricultural and side products, articles of daily use and tea, retail of gold, silver and copper products.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

11. The remaining 15% of the registered capital of Hulunbuir Shuangliang is held by Hulunbuir Dongsheng Energy Investment Company Limited\* (呼倫貝爾市東升能源投資有限公司) (“**Hulunbuir Dongsheng Energy**”), the registered capital of which is held as to 70% by Mr. Gu, the chairman of the board of directors of Hulunbuir Shuangliang, and 30% by Ms. Jin Shuhua (金淑華女士), the spouse of Mr. Gu. Hulunbuir Dongsheng Energy is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Hulunbuir Shuangliang which is an indirect subsidiary of the Company). The principal business of Hulunbuir Dongsheng Energy is investment in energy industry and provision of consulting services. Hulunbuir Shuangliang benefited from the business resources provided by Hulunbuir Dongsheng Energy when exploring its heat services market in Hulunbuir City. Mr. Gu, being a controlling shareholder of Hulunbuir Dongsheng Energy, is appointed as the chairman of the board of directors of Hulunbuir Shuangliang and is primarily responsible for the management and supervision over the operation of Hulunbuir Shuangliang. Mr. Gu has approximately 10 years of experience in the heat services and new energy industries. In respect of public office, Mr. Gu was appointed as a representative of the fifth National People’s Congress of Hulunbuir City\* (呼倫貝爾市第五屆人民代表大會代表) in 2022. Save for his equity interests in Hulunbuir Dongsheng Energy and our Company, Mr. Gu does not hold any equity interest in any entities in the PRC.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 85% equity interest in Hulunbuir Shuangliang and enjoying 85% voting rights in the shareholders’ meetings of Hulunbuir Shuangliang, has the power over Hulunbuir Shuangliang as it has the ability to direct the activities that significantly affect Hulunbuir Shuangliang’s returns. As such, our Group has the rights to variable returns and is able to affect shareholder’s returns from its involvement with Hulunbuir Shuangliang. Therefore, our Group was able to consolidate the results of Hulunbuir Shuangliang under IFRS 10.

12. The remaining 49% of the registered capital of Shanxi Shuangliang Renewable Energy is held as to (i) 25.22% by Shanxi Zhenye New Energy Company Limited\* (山西真頁新能源有限公司) (“**Shanxi Zhenye**”) which is wholly owned by Mr. Du Fu (杜福先生) who is the brother-in-law of Mr. Yan Dong (閆東先生) (a former director of Shuozhou Electricity Sales between 20 July 2017 and 28 May 2021); (ii) 8.33% by Shanxi Jinzhengda Energy Saving and Environmental Protection Technology Development Company Limited\* (山西金鄭大節能環保技術開發有限公司) (“**Shanxi Jinzhengda**”) which is held as to 60% by Ms. Wang Aiwen (王愛文女士) who is the spouse of Mr. Chen Xibao (陳喜報先生) (a director of Zhengzhou Wise Living and a supervisor of Tech-Thermal (Zhengzhou)); (iii) 8% by Taiyuan Creative Source Technology Trading Company Limited\* (太原創意源科貿有限公司) (“**Taiyuan Creative**”), which is wholly owned by Ms. Li Cuilan (李翠蘭女士), an Independent Third Party; (iv) 5% by Shanxi Chenghe Business Information Service Limited\* (山西誠和商務信息諮詢服務有限公司) (“**Shanxi Chenghe**”) which is wholly owned by Ms. Hou Jiaying (侯佳瑛女士) (“**Ms. Hou**”) (a director of Shanxi Shuangliang Renewable Energy); and (v) 2.45% by Mr. Wang Yuan (王源先生) (“**Mr. Wang**”) (a supervisor of Taiyuan Renewable Energy). Other than Taiyuan Creative, the other minority shareholders are connected persons of our Company at the subsidiary level. Shanxi Zhenye is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Shanxi Shuangliang Renewable Energy which is an indirect subsidiary of the Company). The principal business of Shanxi Zhenye is (among others) technology development, consultation and transfer in energy-saving technology, new energy technology promotion and consultation. Shanxi Zhenye is committed to develop new energy projects in Shanxi Province, which helped Shanxi Shuangliang Renewable Energy with its heat services planning in Shanxi Province. Shanxi Jinzhengda is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being an associate of a director of Zhengzhou Wise Living and a supervisor of Tech-Thermal (Zhengzhou), both of which are indirect subsidiaries of our Company). The principal business of Shanxi Jinzhengda is (among others) the development, application and sales of new technologies, new products and new processes for the energy-saving and environmental protection industry, sales, installation and system integration of energy-saving and environmental protection equipment, technology consulting services for energy-saving and environmental protection. Shanxi Shuangliang Renewable Energy benefited from the new technologies developed by Shanxi Jinzhengda when upgrading its heating technologies. Shanxi Chenghe is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being an associate of a director of Shanxi Shuangliang Renewable Energy which is an indirect subsidiary of our Company). The principal business of Shanxi Chenghe is (among others) enterprise management services, conference and exhibition services and taxation services. Shanxi Shuangliang Renewable Energy benefited from the business resources provided by Shanxi Chenghe when exploring its heat services market in Shanxi Province. Mr. Wang is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of him being a supervisor of Taiyuan Renewable Energy which is an indirect subsidiary of our Company). Mr. Wang is familiar with the heat services market in Shanxi Province and has confidence in the business performance and operations of Shanxi Shuangliang Renewable Energy. Shanxi Shuangliang Renewable Energy benefited from his business resources when exploring the heat services market in Shanxi Province.

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Save for Ms. Hou, the sole shareholder of Shanxi Chenghe who is appointed as a director of Shanxi Shuangliang Renewable Energy and participates in the management and operation of Shanxi Shuangliang Renewable Energy, all other minority shareholders of Shanxi Shuangliang Renewable Energy are passive investors who do not participate in the management and operation of Shanxi Shuangliang Renewable Energy.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 51% equity interest in Shanxi Shuangliang Renewable Energy and enjoying 51% voting rights in the shareholders’ meetings of Shanxi Shuangliang Renewable Energy, has the power over Shanxi Shuangliang Renewable Energy as it has the ability to direct the activities that significantly affect Shanxi Shuangliang Renewable Energy’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Shanxi Shuangliang Renewable Energy. Therefore, our Group was able to consolidate the results of Shanxi Shuangliang Renewable Energy under IFRS 10.

13. The remaining 22.11% of the registered capital of Inner Mongolia Wise Living is held by Inner Mongolia Environmental Governance Construction Company Limited\* (內蒙古環境治理工程有限公司) (“**Inner Mongolia Environmental Construction**”), the registered capital of which is wholly owned by Inner Mongolia Environmental Protection Investment Group Co., Ltd\* (內蒙古環保投資集團有限公司), a State-owned enterprise. Inner Mongolia Environmental Construction is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Inner Mongolia Wise Living which is an indirect subsidiary of our Company). The principal business of Inner Mongolia Environmental Construction is the provision of comprehensive environmental management services (including construction, operation, maintenance, management and consultation) in water, atmosphere, soil, industrial solid waste, domestic waste, hazardous waste and new energy industry, research and development, production and sales of new environmental protection products and equipment, import and export of environmental protection products. Inner Mongolia Wise Living benefited from the business resources, experience and social network of Inner Mongolia Environmental Construction when exploring its heat services market in Inner Mongolia Autonomous Region. Mr. Zhang Liping (張利平) who is the chairman of the board of directors of Inner Mongolia Environmental Construction and Mr. Li Yaoting (李耀庭) who was nominated by Inner Mongolia Environmental Construction, are appointed as the directors of Inner Mongolia Wise Living and participate in the management and operation of Inner Mongolia Wise Living.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 77.89% equity interest in Inner Mongolia Wise Living and enjoying 77.89% voting rights in the shareholders’ meetings of Inner Mongolia Wise Living, has the power over Inner Mongolia Wise Living as it has the ability to direct the activities that significantly affect Mongolia Wise Living’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Inner Mongolia Wise Living. Therefore, our Group was able to consolidate the results of Inner Mongolia Wise Living under IFRS 10.

14. The remaining 30% of the registered capital of Datong Renewable Energy is held as to (i) 15% by Mr. Zhang Quan (張權先生) (“**Mr. Zhang**”) (a director of Datong Renewable Energy and a brother-in-law of Mr. Li Baoshan); (ii) 10% by Mr. Li Wen (李文先生) (“**Mr. Li**”) (a supervisor of Datong Renewable Energy and a nephew of Mr. Li Baoshan); and (iii) 5% by Ms. Zhao Lihong (趙麗紅女士) (“**Ms. Zhao**”) (a director of Datong Renewable Energy). Mr. Zhang, Mr. Li and Ms. Zhao are considered connected persons of our Company at the subsidiary level upon [REDACTED] (by virtue of them being a director, supervisor and director of Datong Renewable Energy, respectively, which is an indirect subsidiary of our Company) and they all participate in the management and operation of Datong Renewable Energy. Mr. Zhang, Mr. Li and Ms. Zhao are familiar with the heat services industry and the heat services market of Datong City, and have confidence in the business performance and operations of Datong Renewable Energy. Datong Renewable Energy benefited from their business resources, knowledge and social network when exploring its heat services market in Datong City.

Taiyuan Renewable Energy (an indirect non wholly-owned subsidiary of our Company), by virtue of holding 70% equity interest in Datong Renewable Energy and enjoying 70% voting rights in the shareholders’ meetings of Datong Renewable Energy, has the power over Datong Renewable Energy as it has the ability to direct the activities that significantly affect Datong Renewable Energy’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Datong Renewable Energy. Therefore, our Group was able to consolidate the results of Datong Renewable Energy under IFRS 10.

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15. The remaining 10% of the registered capital of Lvliang Renewable Energy is held by Mr. Xue Ming (薛銘先生) (“**Mr. Xue**”) who is a former director of Lvliang Renewable Energy between 30 November 2009 and 3 February 2021. Mr. Xue is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of him being a substantial shareholder of Lvliang Renewable Energy which is an indirect subsidiary of our Company). Mr. Xue is familiar with the heat services market in Lvliang City and has confidence in the business performance and operations of Lvliang Renewable Energy. Lvliang Renewable Energy benefited from his business resources when exploring its heat services market in Lvliang City. Mr. Xue is a passive investor who no longer participates in the management and operation of Lvliang Renewable Energy since 29 January 2021.

Taiyuan Renewable Energy (an indirect non wholly-owned subsidiary of our Company), by virtue of holding 90% equity interest in Lvliang Renewable Energy and enjoying 90% voting rights in the shareholders’ meetings of Lvliang Renewable Energy, has the power over Lvliang Renewable Energy as it has the ability to direct the activities that significantly affect Lvliang Renewable Energy’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Lvliang Renewable Energy. Therefore, our Group was able to consolidate the results of Lvliang Renewable Energy under IFRS 10.

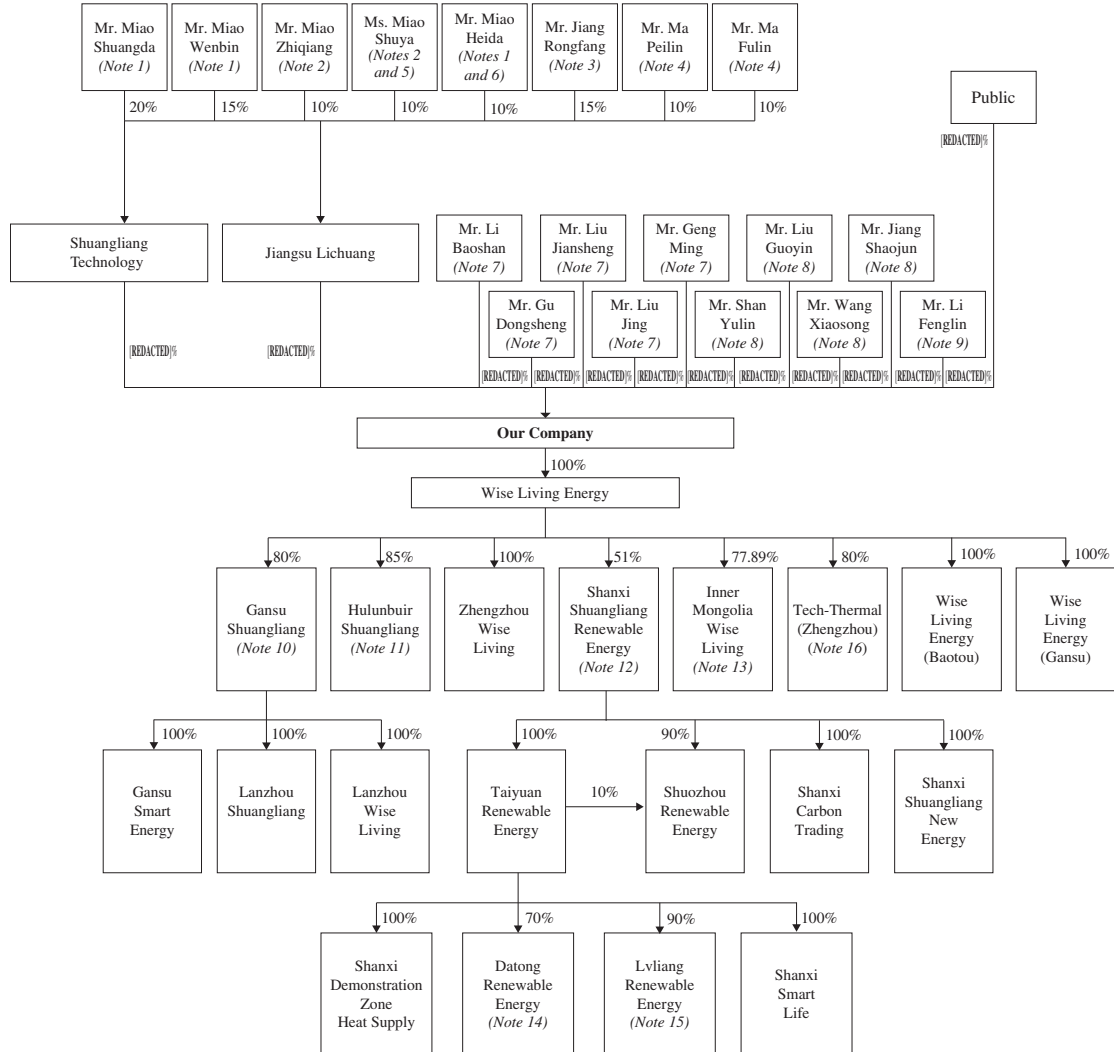
16. The remaining 20% of the registered capital of Tech-Thermal (Zhengzhou) was held by Zhengzhou Qindu Thermal Power Limited\* (鄭州溱都熱力有限責任公司) (“**Zhengzhou Qindu**”), the registered capital of which is held as to 25% by Mr. Cai Donghong (蔡東宏先生) (“**Mr. Cai**”), a supervisor of Tech-Thermal (Zhengzhou) and 75% by seven other Independent Third Parties. Zhengzhou Qindu is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Tech-Thermal (Zhengzhou) which is an indirect subsidiary of our Company). The principal business of Zhengzhou Qindu is development, operation, and maintenance of gas, water and heat supply projects and construction and maintenance of pipeline works. Tech-Thermal (Zhengzhou) benefited from the business resources and experience of Zhengzhou Qindu when exploring its heat services market in Xinmi City. Tech-Thermal (Zhengzhou) is mainly responsible for the coordination work of the Xinmi Project. Mr. Cai, being a substantial shareholder of Zhengzhou Qindu, is appointed as a supervisor of Tech-Thermal (Zhengzhou) and participates in the operation of Tech-Thermal (Zhengzhou).

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 80% equity interest in Tech-Thermal (Zhengzhou) and enjoying 80% voting rights in the shareholders’ meetings of Tech-Thermal (Zhengzhou), has the power over Tech-Thermal (Zhengzhou) as it has the ability to direct the activities that significantly affect Tech-Thermal (Zhengzhou)’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Tech-Thermal (Zhengzhou). Therefore, our Group was able to consolidate the results of Tech-Thermal (Zhengzhou) under IFRS 10.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

### 3. Our corporate structure following the [REDACTED]

The following chart sets out the shareholding and simplified corporate structure of our Group immediately following the completion of the [REDACTED], assuming that the [REDACTED] is not exercised:



**Notes:**

1. Mr. Miao Shuangda (繆雙大先生) and Mr. Miao Heida (繆黑大先生) are siblings. Mr. Miao Shuangda (繆雙大先生) is the father of Mr. Miao Wenbin (繆文彬先生).
2. Mr. Miao Zhiqiang (繆志強先生) and Ms. Miao Shuya (繆舒涯女士) are cousins of Mr. Miao Wenbin (繆文彬先生).
3. Mr. Jiang Rongfang (江榮方先生) has extensive experience in lithium bromide cooling technology and is an expert entitled to government special allowance by the State Council. Mr. Jiang Rongfang is one of the founders of Shuangliang Group Co. and a shareholder of Shuangliang Eco-Energy. He acted as a director of Shuangliang Eco-Energy between 27 March 2004 and 22 September 2021. Save for his shareholdings in Shuangliang Technology and Jiangsu Lichuang, Mr. Jiang Rongfang (江榮方先生) has no other relationship with our Company and the other Controlling Shareholders.
4. Mr. Ma Peilin (馬培林先生) and Mr. Ma Fulin (馬福林先生) are siblings. Mr. Ma Fulin (馬福林先生) is the spouse of the sister of Mr. Miao Zhiqiang (繆志強先生), a cousin of Mr. Miao Wenbin (繆文彬先生).
5. As part of a family succession plan on 11 December 2019, Ms. Miao Shuya (繆舒涯女士) received the respective 10% of registered capital in Shuangliang Technology and Jiangsu Lichuang from her father Mr. Miao Minda (繆敏達先生), who is a sibling of Mr. Miao Shuangda and Mr. Miao Heida, at nil consideration.

## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

6. As Mr. Miao Heida (繆黑大先生) was at the age of 76 in 2021 and concerned about his health, on 9 August 2021, Mr. Miao Heida (繆黑大先生) transferred his investment in Shuangliang Technology and Jiangsu Lichuang, which held 66.38% and 22.58% equity interests in our Company respectively as at the Latest Practicable Date to his sons, Mr. Miao Shuyan (繆舒炎先生) and Mr. Miao Shuyang (繆舒揚先生) equally at nil consideration. Mr. Miao Shuyan (繆舒炎先生), Mr. Miao Shuyang (繆舒揚先生) and Mr. Miao Heida (繆黑大先生) entered into a nominee arrangement, whereby Mr. Miao Shuyan (繆舒炎先生) and Mr. Miao Shuyang (繆舒揚先生) agreed to act as nominees for and on behalf of Mr. Miao Heida (繆黑大先生) in accordance with the instructions of Mr. Miao Heida (繆黑大先生) in managing, handling and dealing with the matters (including but not limited to the exercise of relevant voting rights in general meetings) in relation to his investment in Shuangliang Technology and Jiangsu Lichuang. On 1 March 2022, the nominee arrangement was terminated as Mr. Miao Heida’s (繆黑大先生) health had been improved, and the registered capital in each of Shuangliang Technology and Jiangsu Lichuang was transferred back to Mr. Miao Heida (繆黑大先生) at nil consideration on the same day.
7. Mr. Li Baoshan (李寶山先生) is one of our executive Directors. Mr. Geng Ming (耿鳴先生) is one of our executive Directors. Mr. Gu Dongsheng (顧東升先生) (“**Mr. Gu**”) is the chairman of the board of directors of Hulunbuir Shuangliang, one of our subsidiaries. Mr. Liu Jiansheng (劉建生先生) is the director of Wise Living Energy (Gansu), Gansu Smart Energy and Lanzhou Wise Living, which are our subsidiaries. Mr. Liu Jing (劉竟先生) is the vice chairman of the board of directors in Tech-Thermal (Zhengzhou), one of our subsidiaries.
8. Mr. Shan Yulin (單昱林先生) is one of the vice presidents of Shuangliang Group Co.. Mr. Liu Guoyin (劉國銀先生) is a member of the management team of a subsidiary of Shuangliang Group Co.. Mr. Jiang Shaojun (蔣少軍先生) is one of the vice presidents of Shuangliang Group Co., and Mr. Wang Xiaosong (王曉松先生) is the investment director of Shuangliang Group Co..
9. Mr. Li Fenglin (李峰林先生) is a director of a subsidiary of Shuangliang Technology.
10. The remaining 20% of the registered capital of Gansu Shuangliang is held by Lanzhou Hanhai, the registered capital of which is held as to 60% by Mr. Yang Koulin (楊扣林先生) (“**Mr. Yang**”), a director of Gansu Shuangliang and Lanzhou Shuangliang, 30% by Ms. Ding Yue’e (丁月娥女士), the spouse of Mr. Yang and 10% by Ms. Zhu Huijuan (朱慧娟女士), the daughter in law of Mr. Yang. Lanzhou Hanhai is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Gansu Shuangliang which is an indirect subsidiary of our Company). The principal business of Lanzhou Hanhai is (among others) wholesale and retail of water heating materials and maintenance of related equipment. Gansu Shuangliang benefited from the business resources provided by Lanzhou Hanhai when exploring its heat services market in Gansu Province. Mr. Yang, being a controlling shareholder of Lanzhou Hanhai, is appointed as a director of Gansu Shuangliang and participates in the management and operation of Gansu Shuangliang. He is also appointed as a director of Lanzhou Shuangliang (a direct wholly-owned subsidiary of Gansu Shuangliang) and participates in the management and operation of Lanzhou Shuangliang.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 80% equity interest in Gansu Shuangliang and enjoying 80% voting rights in the shareholders’ meetings of Gansu Shuangliang, has the power over Gansu Shuangliang as it has the ability to direct the activities that significantly affect Gansu Shuangliang’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Gansu Shuangliang. Therefore, our Group was able to consolidate the results of Gansu Shuangliang under IFRS 10.

Save for his equity interest in Lanzhou Hanhai, Mr. Yang holds 80% equity interest in Jiayuguan Sanjin Commerce and Trade Development Company Limited\* (嘉峪關市三金商貿發展有限公司) (“**Jiayuguan Sanjin CTDC**”) which is a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being an associate of Mr. Yang, who is a substantial shareholder of Gansu Shuangliang (an indirect subsidiary of our Company)). Mr. Yang has also served as a director of Jiayuguan Sanjin CTDC, the principal business of which is wholesale and retail of metal materials, chemical materials, hardware and electrical equipment, agricultural and side products, articles of daily use and tea, retail of gold, silver and copper products.

11. The remaining 15% of the registered capital of Hulunbuir Shuangliang is held by Hulunbuir Dongsheng Energy Investment Company Limited\* (呼倫貝爾市東升能源投資有限公司) (“**Hulunbuir Dongsheng Energy**”), the registered capital of which is held as to 70% by Mr. Gu, the chairman of the board of directors of Hulunbuir Shuangliang, and 30% by Ms. Jin Shuhua (金淑華女士), the spouse of Mr. Gu. Hulunbuir Dongsheng Energy is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of

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it being a substantial shareholder of Hulunbuir Shuangliang which is an indirect subsidiary of the Company). The principal business of Hulunbuir Dongsheng Energy is investment in energy industry and provision of consulting services. Hulunbuir Shuangliang benefited from the business resources provided by Hulunbuir Dongsheng Energy when exploring its heat services market in Hulunbuir City. Mr. Gu, being a controlling shareholder of Hulunbuir Dongsheng Energy, is appointed as the chairman of the board of directors of Hulunbuir Shuangliang and is primarily responsible for the management and supervision over the operation of Hulunbuir Shuangliang. Mr. Gu has approximately 10 years of experience in the heat services and new energy industries. In respect of public office, Mr. Gu was appointed as a representative of the fifth National People's Congress of Hulunbuir City\* (呼倫貝爾市第五屆人民代表大會代表) in 2022. Save for his equity interests in Hulunbuir Dongsheng Energy and our Company, Mr. Gu does not hold any equity interest in any entities in the PRC.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 85% equity interest in Hulunbuir Shuangliang and enjoying 85% voting rights in the shareholders' meetings of Hulunbuir Shuangliang, has the power over Hulunbuir Shuangliang as it has the ability to direct the activities that significantly affect Hulunbuir Shuangliang's returns. As such, our Group has the rights to variable returns and is able to affect shareholder's returns from its involvement with Hulunbuir Shuangliang. Therefore, our Group was able to consolidate the results of Hulunbuir Shuangliang under IFRS 10.

12. The remaining 49% of the registered capital of Shanxi Shuangliang Renewable Energy is held as to (i) 25.22% by Shanxi Zhenye New Energy Company Limited\* (山西真頁新能源有限公司) (“**Shanxi Zhenye**”) which is wholly owned by Mr. Du Fu (杜福先生) who is the brother-in-law of Mr. Yan Dong (閔東先生) (a former director of Shuozhou Electricity Sales between 20 July 2017 and 28 May 2021); (ii) 8.33% by Shanxi Jinzhengda Energy Saving and Environmental Protection Technology Development Company Limited\* (山西金鄭大節能環保技術開發有限公司) (“**Shanxi Jinzhengda**”) which is held as to 60% by Ms. Wang Aiwen (王愛文女士) who is the spouse of Mr. Chen Xibao (陳喜報先生) (a director of Zhengzhou Wise Living and a supervisor of Tech-Thermal (Zhengzhou)); (iii) 8% by Taiyuan Creative Source Technology Trading Company Limited\* (太原創意源科貿有限公司) (“**Taiyuan Creative**”), which is wholly owned by Ms. Li Cuilan (李翠蘭女士), an Independent Third Party; (iv) 5% by Shanxi Chenghe Business Information Service Limited\* (山西誠和商務信息諮詢服務有限公司) (“**Shanxi Chenghe**”) which is wholly owned by Ms. Hou Jiaying (侯佳瑛女士) (“**Ms. Hou**”) (a director of Shanxi Shuangliang Renewable Energy); and (v) 2.45% by Mr. Wang Yuan (王源先生) (“**Mr. Wang**”) (a supervisor of Taiyuan Renewable Energy). Other than Taiyuan Creative, the other minority shareholders are connected persons of our Company at the subsidiary level. Shanxi Zhenye is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Shanxi Shuangliang Renewable Energy which is an indirect subsidiary of the Company). The principal business of Shanxi Zhenye is (among others) technology development, consultation and transfer in energy-saving technology, new energy technology promotion and consultation. Shanxi Zhenye is committed to develop new energy projects in Shanxi Province, which helped Shanxi Shuangliang Renewable Energy with its heat services planning in Shanxi Province. Shanxi Jinzhengda is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being an associate of a director of Zhengzhou Wise Living and a supervisor of Tech-Thermal (Zhengzhou), both of which are indirect subsidiaries of our Company). The principal business of Shanxi Jinzhengda is (among others) the development, application and sales of new technologies, new products and new processes for the energy-saving and environmental protection industry, sales, installation and system integration of energy-saving and environmental protection equipment, technology consulting services for energy-saving and environmental protection. Shanxi Shuangliang Renewable Energy benefited from the new technologies developed by Shanxi Jinzhengda when upgrading its heating technologies. Shanxi Chenghe is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being an associate of a director of Shanxi Shuangliang Renewable Energy which is an indirect subsidiary of our Company). The principal business of Shanxi Chenghe is (among others) enterprise management services, conference and exhibition services and taxation services. Shanxi Shuangliang Renewable Energy benefited from the business resources provided by Shanxi Chenghe when exploring its heat services market in Shanxi Province. Mr. Wang is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of him being a supervisor of Taiyuan Renewable Energy which is an indirect subsidiary of our Company). Mr. Wang is familiar with the heat services market in Shanxi Province and has confidence in the business performance and operations of Shanxi Shuangliang Renewable Energy. Shanxi Shuanliang Renewable Energy benefited from his business resources when exploring the heat services market in Shanxi Province.

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Save for Ms. Hou, the sole shareholder of Shanxi Chenghe who is appointed as a director of Shanxi Shuangliang Renewable Energy and participates in the management and operation of Shanxi Shuangliang Renewable Energy, all other minority shareholders of Shanxi Shuangliang Renewable Energy are passive investors who do not participate in the management and operation of Shanxi Shuangliang Renewable Energy.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 51% equity interest in Shanxi Shuangliang Renewable Energy and enjoying 51% voting rights in the shareholders' meetings of Shanxi Shuangliang Renewable Energy, has the power over Shanxi Shuangliang Renewable Energy as it has the ability to direct the activities that significantly affect Shanxi Shuangliang Renewable Energy's returns. As such, our Group has the rights to variable returns and is able to affect shareholders' returns from its involvement with Shanxi Shuangliang Renewable Energy. Therefore, our Group was able to consolidate the results of Shanxi Shuangliang Renewable Energy under IFRS 10.

13. The remaining 22.11% of the registered capital of Inner Mongolia Wise Living is held by Inner Mongolia Environmental Governance Construction Company Limited\* (內蒙古環境治理工程有限公司) (“**Inner Mongolia Environmental Construction**”), the registered capital of which is wholly owned by Inner Mongolia Environmental Protection Investment Group Co., Ltd\* (內蒙古環保投資集團有限公司), a State-owned enterprise. Inner Mongolia Environmental Construction is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Inner Mongolia Wise Living which is an indirect subsidiary of our Company). The principal business of Inner Mongolia Environmental Construction is the provision of comprehensive environmental management services (including construction, operation, maintenance, management, and consultation) in water, atmosphere, soil, industrial solid waste, domestic waste, hazardous waste and new energy industry, research and development, production and sales of new environmental protection products and equipment, import and export of environmental protection products. Inner Mongolia Wise Living benefited from the business resources, experience and social network of Inner Mongolia Environmental Construction when exploring its heat services market in Inner Mongolia Autonomous Region. Mr. Zhang Liping (張利平) who is the chairman of the board of directors of Inner Mongolia Environmental Construction and Mr. Li Yaoting (李耀庭) who was nominated by Inner Mongolia Environmental Construction, are appointed as the directors of Inner Mongolia Wise Living and participate in the management and operation of Inner Mongolia Wise Living.

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 77.89% equity interest in Inner Mongolia Wise Living and enjoying 77.89% voting rights in the shareholders' meetings of Inner Mongolia Wise Living, has the power over Inner Mongolia Wise Living as it has the ability to direct the activities that significantly affect Mongolia Wise Living's returns. As such, our Group has the rights to variable returns and is able to affect shareholders' returns from its involvement with Inner Mongolia Wise Living. Therefore, our Group was able to consolidate the results of Inner Mongolia Wise Living under IFRS 10.

14. The remaining 30% of the registered capital of Datong Renewable Energy is held as to (i) 15% by Mr. Zhang Quan (張權先生) (“**Mr. Zhang**”) (a director of Datong Renewable Energy and a brother-in-law of Mr. Li Baoshan); (ii) 10% by Mr. Li Wen (李文先生) (“**Mr. Li**”) (a supervisor of Datong Renewable Energy and a nephew of Mr. Li Baoshan); and (iii) 5% by Ms. Zhao Lihong (趙麗紅女士) (“**Ms. Zhao**”) (a director of Datong Renewable Energy). Mr. Zhang, Mr. Li and Ms. Zhao are considered connected persons of our Company at the subsidiary level upon [REDACTED] (by virtue of them being a director, supervisor and director of Datong Renewable Energy, respectively, which is an indirect subsidiary of our Company) and they all participate in the management and operation of Datong Renewable Energy. Mr. Zhang, Mr. Li and Ms. Zhao are familiar with the heat services industry and the heat services market of Datong City, and have confidence in the business performance and operations of Datong Renewable Energy. Datong Renewable Energy benefited from their business resources, knowledge and social network when exploring its heat services market in Datong City.

Taiyuan Renewable Energy (an indirect non wholly-owned subsidiary of our Company), by virtue of holding 70% equity interest in Datong Renewable Energy and enjoying 70% voting rights in the shareholders' meetings of Datong Renewable Energy, has the power over Datong Renewable Energy as it has the ability to direct the activities that significantly affect Datong Renewable Energy's returns. As such, our Group has the rights to variable returns and is able to affect shareholders' returns from its involvement with Datong Renewable Energy. Therefore, our Group was able to consolidate the results of Datong Renewable Energy under IFRS 10.



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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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15. The remaining 10% of the registered capital of Lvliang Renewable Energy is held by Mr. Xue Ming (薛銘先生) (“**Mr. Xue**”) who is a former director of Lvliang Renewable Energy between 30 November 2009 and 3 February 2021. Mr. Xue is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of him being a substantial shareholder of Lvliang Renewable Energy which is an indirect subsidiary of our Company). Mr. Xue is familiar with the heat services market in Lvliang City and has confidence in the business performance and operations of Lvliang Renewable Energy. Lvliang Renewable Energy benefited from his business resources when exploring its heat services market in Lvliang City. Mr. Xue is a passive investor who no longer participates in the management and operation of Lvliang Renewable Energy since 29 January 2021.

Taiyuan Renewable Energy (an indirect non wholly-owned subsidiary of our Company), by virtue of holding 90% equity interest in Lvliang Renewable Energy and enjoying 90% voting rights in the shareholders’ meetings of Lvliang Renewable Energy, has the power over Lvliang Renewable Energy as it has the ability to direct the activities that significantly affect Lvliang Renewable Energy’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Lvliang Renewable Energy. Therefore, our Group was able to consolidate the results of Lvliang Renewable Energy under IFRS 10.

16. The remaining 20% of the registered capital of Tech-Thermal (Zhengzhou) was held by Zhengzhou Qindu Thermal Power Limited\* (鄭州漆都熱力有限責任公司) (“**Zhengzhou Qindu**”), the registered capital of which is held as to 25% by Mr. Cai Donghong (蔡東宏先生) (“**Mr. Cai**”), a supervisor of Tech-Thermal (Zhengzhou) and 75% by seven other Independent Third Parties. Zhengzhou Qindu is considered a connected person of our Company at the subsidiary level upon [REDACTED] (by virtue of it being a substantial shareholder of Tech-Thermal (Zhengzhou) which is an indirect subsidiary of our Company). The principal business of Zhengzhou Qindu is development, operation, and maintenance of gas, water and heat supply projects and construction and maintenance of pipeline works. Tech-Thermal (Zhengzhou) benefited from the business resources and experience of Zhengzhou Qindu when exploring its heat services market in Xinmi City. Tech-Thermal (Zhengzhou) is mainly responsible for the coordination work of the Xinmi Project. Mr. Cai, being a substantial shareholder of Zhengzhou Qindu, is appointed as a supervisor of Tech-Thermal (Zhengzhou) and participates in the operation of Tech-Thermal (Zhengzhou).

Wise Living Energy (a direct wholly-owned subsidiary of our Company), by virtue of holding 80% equity interest in Tech-Thermal (Zhengzhou) and enjoying 80% voting rights in the shareholders’ meetings of Tech-Thermal (Zhengzhou), has the power over Tech-Thermal (Zhengzhou) as it has the ability to direct the activities that significantly affect Tech-Thermal (Zhengzhou)’s returns. As such, our Group has the rights to variable returns and is able to affect shareholders’ returns from its involvement with Tech-Thermal (Zhengzhou). Therefore, our Group was able to consolidate the results of Tech-Thermal (Zhengzhou) under IFRS 10.

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## HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

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### Public float

The 226,000,000 Shares held by Shuangliang Technology, Jiangsu Lichuang, Mr. Li Baoshan (李寶山先生), Mr. Gu Dongsheng (顧東升先生), Mr. Liu Jiansheng (劉建生先生), Mr. Liu Jing (劉竟先生), Mr. Shan Yulin (單昱林先生), Mr. Li Fenglin (李峰林先生), Mr. Liu Guoyin (劉國銀先生), Mr. Wang Xiaosong (王曉松先生), Mr. Geng Ming (耿鳴先生) and Mr. Jiang Shaojun (蔣少軍先生) represent all of our issued Shares as at the Latest Practicable Date, or approximately [REDACTED]% of our total issued Shares upon [REDACTED] (assuming the [REDACTED] Option is not exercised), or approximately [REDACTED]% of our total issued Shares upon exercise of the [REDACTED] in full, which will not be considered as part of the public float as the Shares they hold are Domestic Shares which will not be converted into H Shares and listed upon the completion of the [REDACTED]. Pursuant to the applicable PRC laws, within the 12 months following the [REDACTED], all current Shareholders could not dispose of any of the Shares held by them.

Based on the above, it is expected that immediately following completion of the [REDACTED] and assuming the [REDACTED] is not exercised, the total number of listed H Shares held by the public represents approximately [REDACTED]% of the total number of issued Shares of our Company.

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### OVERVIEW

We are a cross-provincial heat service provider mainly operating in the “Three North” region. We were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report. We are principally engaged in the provision of heat services to residential and non-residential heat service customers under concession rights. On top of our provision of heat services, which is considered as a public utility business, we also provide heat-related (i) engineering construction services; and (ii) EMC services. We have over a decade of operational experience since we started our operation in 2010.

As at the Latest Practicable Date, we held six concessions, of which five were in operation and one was under construction. During the Track Record Period, the majority of our revenue was derived from our provision of heat services relating to the five concessions in operation. In accordance with IFRIC 12 Service Concession Arrangements, during the Track Record Period, we recognised revenue for our provision of (i) heat services; and (ii) engineering construction services for our heat service projects under our concessions. For the years ended 31 December 2020, 2021 and 2022, revenue derived from our provision of heat services amounted to approximately RMB973.3 million, RMB1,035.2 million and RMB1,098.9 million, representing approximately 70.7%, 80.2% and 76.1% of our total revenue, respectively.

The “Three North” region generally experiences very cold weather during the winter especially the areas north of the Qinling Mountain-Huaihe River (秦嶺-淮河以北地區). According to the Frost & Sullivan Report, the total heat service area (measured in terms of GFA) in the PRC increased from 8.8 billion sq.m. in 2018 to 11.2 billion sq.m. in 2022. Such area is expected to increase to 14.5 billion sq.m. in 2027, representing a CAGR of 5.2% between 2022 and 2027. Such growth is mainly driven by an increase in demand for heat services resulting from urbanisation and an increase in the PRC’s population, as well as an increase in demand for heat services in the areas south of Qinling Mountain-Huaihe River (秦嶺-淮河以南地區).

Since our inception in 2010, we have established a leading position in the heat service industry in the “Three North” region. As at the Latest Practicable Date, we had operational presence in (i) Shanxi Province; (ii) Gansu Province; and (iii) Inner Mongolia Autonomous Region. As at 31 December 2020, 2021 and 2022, our total Concession Area (measured in terms of GFA) was approximately 362.3 million sq.m., 419.9 million sq.m. and 419.9 million sq.m.. As at the same dates, our total actual heat service area (measured in terms of GFA) was approximately 37.4 million sq.m., 39.8 million sq.m. and 41.9 million sq.m., respectively. As at the Latest Practicable Date, our total actual heat service area (measured in terms of GFA) was approximately 41.9 million sq.m., representing approximately 10.0% of our total Concession Area of approximately 419.9 million sq.m..

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In recent years, the PRC Government has encouraged the use of more diversified and clean heat sources in the heat service business and a series of government policies relating thereto has come into effect. For instance, the Plan for Winter Clean Heating in the Northern Region (2017-2021) (《北方地區冬季清潔取暖規劃(2017-2021)》) provides that coal-fired boilers with SO<sub>2</sub> emission exceeding the prescribed environment-friendly benchmark should be gradually replaced, and more environmentally friendly and energy efficient coal-fired boilers should be rolled out as replacement. The Measures of National Energy Administration for Adopting Renewable Energy According to Local Conditions for Heat Services (《國家能源局關於因地制宜做好可再生能源供暖相關工作的通知》) encourage heat service providers to utilise clean, low-carbon and renewable energy to produce heat for the provision of heat services. The 14<sup>th</sup> Five-Year Plan for Energy Conservation and Emission Reduction Comprehensive Work Plan (《關於印發“十四五”節能減排綜合工作方案的通知》) issued by the State Council in 2022 prescribes an “extremely low emission standard” (超低排放標準) and specifies the mission of the PRC Government to strengthen the environmental protection measures in the PRC. We are committed to proactively upgrade our heat source portfolio to support the aforementioned government initiatives. For details of our heat source portfolio, see “Heat sources” in this section. During the Track Record Period and up to the Latest Practicable Date, we relied on four types of heat sources for all of our heat service projects under concession rights. Our coal-fired boilers which we use in our Lanzhou New Area Project are more environmentally friendly and energy efficient, reaching an “extremely low emission standard” (超低排放標準) accredited by the Lanzhou New Area Ecology and Environment Bureau\* (蘭州新區生態環境局).

We only provide heat services to our heat service customers during the heat service period prescribed by the relevant provincial and local laws and regulations. Such heat service period varies depending on different climate in different locations of the Concession Areas. For information relating to heat service periods, see “Heat services – Seasonality” in this section. Our heat service customers include residential and non-residential heat service customers. Our residential customers are residents of household units while our non-residential customers include property management companies, commercial operators, government institutions, educational institutions, airports, train stations and hospitals. During the Track Record Period, we maintained a broad customer base in relation to our heat services under our concessions. As at 31 December 2020, 2021 and 2022, we had approximately 265,800, 282,400 and 303,900 heat service customers, respectively.

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

	For the year ended 31 December					
	2020		2021		2022	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Heat services						
– Fees from customers for provision and distribution of heat	739,940	53.8	778,442	60.3	853,542	59.1
– Price subsidies from local government	167,908	12.1	182,500	14.2	161,676	11.2
– Pipeline connection fee	65,429	4.8	74,211	5.7	83,725	5.8
<b>Sub-total</b>	<b>973,277</b>	<b>70.7</b>	<b>1,035,153</b>	<b>80.2</b>	<b>1,098,943</b>	<b>76.1</b>
Engineering construction services	362,050	26.3	229,147	17.8	301,567	20.9
EMC services	4,157	0.3	3,972	0.3	3,002	0.2
Others <sup>(Note)</sup>	36,837	2.7	22,363	1.7	40,220	2.8
<b>Total</b>	<b>1,376,321</b>	<b>100.0</b>	<b>1,290,635</b>	<b>100.0</b>	<b>1,443,732</b>	<b>100.0</b>

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

Our revenue decreased from approximately RMB1,376.3 million for the year ended 31 December 2020 to approximately RMB1,290.6 million for the year ended 31 December 2021, and increased to approximately RMB1,443.7 million for the year ended 31 December 2022. Our net profit increased from approximately RMB98.3 million for the year ended 31 December 2020 to approximately RMB171.1 million for the year ended 31 December 2021. Our net profit decreased from approximately RMB171.1 million for the year ended 31 December 2021 to approximately RMB140.4 million for the year ended 31 December 2022.

### OUR COMPETITIVE STRENGTHS

We believe that our competitive strengths as set out below set us apart from other heat service providers across the provinces where we operate.

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### **We operate under multiple concession rights and were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022**

We specialise in providing heat services under concession rights. According to the Frost & Sullivan Report, heat service businesses in the PRC are regulated by the relevant local governments and housing and urban-rural development bureaux. Generally, heat service providers are required to obtain concession rights to operate their heat service projects. The ability to obtain concession rights and to manage large-scale heat service projects gives heat service providers an edge over other market players. Heat service providers with concession rights are generally entitled to operate their heat service projects in the heat service areas granted to them on an exclusive basis. According to the Frost & Sullivan Report, a successful candidate for a concession right, generally speaking, needs to have sufficient heat service experience and capital to fund the requisite upfront capital expenditures. Given our track record, we can demonstrate to our concession grantors that we were capable of offering heat services to heat service customers and had sufficient capital for the operation of heat service projects. We also can demonstrate that we (i) have stable and reliable heating resources; (ii) possess experience in the provision of heat services; (iii) have professional staff with heat service qualifications; and (iv) possess adequate technological capabilities.

Our concession rights give us the exclusive right to provide heat services in our Concession Area under concession rights in Taiyuan and Shuozhou of Shanxi Province, Lanzhou of Gansu Province, Hulunbuir of Inner Mongolia Autonomous Region and Xinmi of Henan Province. We believe that this enables us to benefit from the efforts of these provincial governments to increase urbanisation rates, improve quality of life, replace less environment-friendly boilers and upgrade heating technologies. As at 31 December 2022, we held concession rights to provide heat services in a total Concession Area of approximately 419.9 million sq.m., of which 291.0 million sq.m. was in Shanxi Province, 68.3 million sq.m. was in Gansu Province, 32.6 million sq.m. was in Henan Province and 28.0 million sq.m. was in Inner Mongolia Autonomous Region.

Pursuant to the relevant PRC laws and regulations, the Concession Agreements under which we have an exclusive right to operate our heat services business are generally subject to an effective term of 30 years. One of them, however, has an effective term of only 25 years according to the relevant local by-laws. We believe that our exclusive concession rights enable us to reach a large base of potential customers within our Concession Area on an exclusive basis in the short to medium term. As at 31 December 2022, our total actual heat service area covered only approximately 10.0% of our total Concession Area under our concession rights. According to the 14<sup>th</sup> Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035 (《國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) jointly issued by the Central Committee of the Communist Party of China\* (中國共產黨中央委員會) and the State Council, China's urbanisation rate is expected to increase by approximately 5.0% between 2021 and 2025. An increase in urban population is expected to result in an increased demand for heat services. We expect that our unutilised Concession Area presents great potential for our business expansion in the foreseeable future.

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Our Concession Area is mostly located within key development zones and newly developed urban zones, both of which are expected to see future economic growth. In line with the relevant provincial government’s focus on vitalising the economy in these zones, our business operation is likely to benefit from all development in such areas. For example, Shanxi Transformation and Comprehensive Reform Demonstration Zone\* (山西轉型綜合改革示範區) occupies an area of approximately 600.0 million sq.m. and covers eight industry-university-research zones located in Taiyuan. Shanxi Transformation and Comprehensive Reform Demonstration Zone\* (山西轉型綜合改革示範區) is the first transformation and comprehensive reform demonstration area in the PRC. We expect that our actual heat service area in Shanxi Transformation and Comprehensive Reform Demonstration Zone\* (山西轉型綜合改革示範區) will increase to approximately 49.0 million sq.m. by 2030, based on the current proposed development of Xiaohu Industrial Park, which is a core part of the development zone.

### **We are a cross-provincial heat service provider capable of managing multiple heat service projects in different provinces of the PRC**

We commenced our provision of heat services operation in 2010 when we established our presence in Shanxi Province. We subsequently expanded our business to Inner Mongolia Autonomous Region and Gansu Province in 2013 and 2014, respectively. We successfully obtained a concession right to provide heat services in Xinmi of Henan Province in December 2021. As at the Latest Practicable Date, we had reached the final stages of our preparation to provide heat services in Xinmi. We expect that our provision of heat services in Xinmi of Henan Province will commence from the 2023/2024 heat service period in or around November 2023. For the details of our heat service projects, see “Heat services – Heat service projects under concession operation” in this section. Further, as at the Latest Practicable Date, we had won (through open bidding) the concession to provide our heat services in Bautou in Inner Mongolia Autonomous Region, and were in the process of entering into a concession agreement with the relevant concession grantor.

With over a decade of operational experience, we believe that we have developed strong capabilities in terms of systematic regional expansion, management and operation to support our overall operation. According to the Frost & Sullivan Report, the heat services market in the PRC is fragmented with a large number of market players comprising both regional and cross-provincial heat service providers. We were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022 (out of which we were the second largest cross-provincial heat services provider), according to the Frost & Sullivan Report. Our heat services management platform, which includes a heat production monitoring system and heat transmission monitoring system, enables us to control, streamline and manage our operations in multiple locations effectively. We believe that our cross-provincial operation benefits from multiple government initiatives such as price subsidies will enable us to achieve cost efficiency in all key stages throughout our operation. We also believe that our cross-provincial market presence enables us to reduce the risk or impact to us in the unlikely event of any of our concession rights being adversely affected.

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Our existing concession rights predominantly cover the “Three North” region. We are however well-positioned to enter, and have demonstrated that we are indeed capable of successfully entering the heat service market in other parts of northern China by virtue of our existing cross-provincial operation. We believe that our current business success can be replicated in and expanded to other regions in China.

### **We are able to utilise diversified heat sources, providing clean and quality heat services**

Due to geographical and climatic factors, heat is a basic necessity for people living in northern China. We believe that clean and high-quality heat services should be accessible to the entire population in northern China. Our mission is to improve people’s living conditions and change their lifestyles. Such mission echoes the PRC Government’s continuous implementation of projects aimed at improving the living standard of the nationwide population (民生工程).

We derive heat used in our heat services business from multiple sources. During the Track Record Period and up to the Latest Practicable Date, our heat sources included (i) heat procured from cogeneration plants; (ii) heat produced by coal-fired boilers; (iii) residual heat collected at plants; and (iv) geothermal heat. Driven by the demand for sustainable development, the PRC Government is committed to using clean and renewable energy to reduce environmental pollution. In October 2013, Shentou Second Power Station was accredited as a Power Top Plant by Power Magazine, a reputable authority in the power generation industry, for its achievement on improved energy conservation and reduced emissions. We have applied the same absorption heat pump technology used at Shentou Second Power Station to our other projects to the extent that we can. Our PRC Legal Advisers advised that as at the Latest Practicable Date, we were in compliance with all the relevant national environmental protection requirements in all material aspects. For more details of our heat sources, see “Heat sources” in this section.

Supported by our advanced heat service technologies and diversified heat sources, we believe that we are capable of applying clean and suitable heat solutions for our heat service projects. When selecting heat sources, we take a holistic approach and would consider, amongst other things, local circumstances in different regions, the actual needs of our heat service customers, availability of different heat sources, and economic and commercial considerations.

### **We possess in-house research and development capabilities, which allow us to improve the efficiency of our heat service operation with a view to maintaining and improving our market position**

We possess technologies relating to our provision of heat services. With our technological capabilities, we believe that we are well positioned to gain entry into new markets. Our intellectual property rights in relation to these technologies are crucial to our business operation and success. As at the Latest Practicable Date, we had five patents registered with the China National Intellectual Property Administration which relate to heat service systems during the cogeneration process. We believe that such systems are considered to be leading



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technologies in the industry. For the details of our intellectual property rights, see “Statutory and general information – Further information about our business – Intellectual property rights” as set out in Appendix VII to this document.

We have continuously invested in research and development. Our corporate slogan is “learning leads to advancement, innovation leads to eternity” (學習才能進取,創造方為永恆). For the years ended 31 December 2020, 2021 and 2022, our research and development expenses were approximately RMB4.7 million, RMB7.7 million and RMB8.2 million, representing approximately 0.4%, 0.8% and 0.7% of our total costs of sales during the same years, respectively. As at 31 December 2022, our research and development team comprised 20 employees, all of whom are degree holders with relevant experience in heat service-related design and technology. We have established a research and development centre in Taiyuan of Shanxi Province. Since 2018, this centre has been dedicated to enhancing our research and development capabilities, strengthening our research and application of new energy heat service technologies, and promoting innovation.

### **We have an integrated digitalised heat services management platform which controls our cross-provincial operation and enhances our operational efficiency**

Our heat services management platform is an integrated digitalised platform which allows us to continuously access real-time information relating to our heat services operation, and feeding the same in digital form for processing, thereby allowing us to efficiently and optimally manage our heat services business and to provide our services to our heat service customers. Such platform mainly consists of (i) a heat production monitoring system which monitors the heat production process and the operation of our heat service facilities; (ii) a heat transmission monitoring system which monitors the heat transmission process; and (iii) a customer service system which allows us to respond to our customers’ requests and concerns in a timely manner. Over the years, we have significantly invested in the research and development of various heating technologies, as well as the optimisation of our heat services management platform. We believe that our heat services management platform enables us to achieve our energy-saving targets and business efficiency, and enables our heat service customers to directly control their needs. As at the Latest Practicable Date, we were operating our heat services business through this integrated system in most of our actual heat service area. For more information, see “Heat services management platform” in this section.

### **We have an experienced and committed management team**

Our management team has in-depth knowledge of the heat service industry and is committed to ensuring that our business operation is running efficiently and effectively while controlling quality. Mr. Geng Ming (耿鳴先生), the Chairman of our Board and an executive Director, has been responsible for overseeing our daily heat service operation since our establishment. Mr. Geng has extensive experience in corporate management in the energy sector. Mr. Li Baoshan (李寶山先生), an executive Director and the general manager of our Company, has been serving our Group for more than a decade and has over 19 years of experiences in the energy resource sector. Mr. Miao Wenbin (繆文彬先生), our non-executive Director, has extensive experience in investment, sales and public relationship in various companies. For more information relating to our management team, see “Directors, supervisors and senior management” in this document.

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### OUR STRATEGIES

Our core business objective is to consolidate and improve our position in the PRC’s heat service industry. In line with this objective, we intend to leverage our competitive strengths and implement the following strategies.

#### **Bolster our business presence in the “Three North” region and enlarge our customer base**

We intend to ride on our established presence, network and experience in the heat service industry in the “Three North” region, as well as our technological capabilities, to bolster our business presence in the region.

As at 31 December 2020, 2021 and 2022, our total Concession Area under our Concession Agreements was approximately 362.3 million sq.m., 419.9 million sq.m. and 419.9 million sq.m.. As at the same dates, our total actual heat service area (measured in terms of GFA) was approximately 37.4 million sq.m., 39.8 million sq.m. and 41.9 million sq.m., respectively. Our total actual heat service area as at 31 December 2022 accounted for only approximately 10.0% of our total Concession Area under our Concession Agreements as at the same date. There is therefore a lot of scope for us to further expand our actual heat service area and reach a wider base of customers. Within our Concession Area, we plan to keep pace with local urban developments to grow the business which is in line with the needs of the customers in our actual heat service area. According to the Frost & Sullivan Report, the heat service industry in the PRC is expected to experience steady growth and continuous development, the total heat service area (measured in terms of GFA) in PRC is expected to increase from 11.2 billion sq.m. in 2022 to 14.5 billion sq.m. in 2027, representing an expected CAGR of 5.2% between 2022 and 2027. In line with local urbanisation and economic development in the areas which we operate and the anticipated expansion of our actual heat service area within the next few years, we plan to enhance our heat service capacity so that we can continue to provide stable heat services to our new and existing heat service customers.

In particular, according to “14<sup>th</sup> Five-Year” Lanzhou Economic Circle Development Plan (《“十四五”蘭州經濟圈發展規劃》”) published by the People’s Government of Gansu Province (甘肅省人民政府) in October 2021, construction activities of public utility infrastructure in Lanzhou New Area (蘭州新區) is expected to see a significant increase along with the urbanisation and economic reform in the following five years. During the Track Record Period, heat sources for Lanzhou New Area Project included (i) heat produced by coal-fired boilers, and (ii) residual heat collected at plants. With the steady expansion of our actual heat service area in Lanzhou of Gansu Province, we estimate that our existing heat sources for Lanzhou will not be able to meet the increasing demand for our heat services. We applied and were approved by Lanzhou New Area Economy Development Bureau\* (蘭州新區經濟發展局) in March 2020 to construct a new peak-shaving boiler with a capacity of 116 MW and corresponding buildings in our heat source peak-shaving station for our Lanzhou New Area Project to meet the increasing demands for our heat services in Lanzhou of Gansu Province. According to the construction plan of the peak-shaving station, there will be six peak-shaving boilers and corresponding buildings in total. During the Track Record Period and as at the Latest Practicable Date, three peaking-shaving boilers and the corresponding buildings were in operation in our peak-shaving station. The new peak-shaving boiler will be a coal-fired one and will be operated to produce heat for our Lanzhou New Area Project. For more information related to our coal-fired boilers, see “Heat sources – Heat produced by our coal-fired boilers” in this section. Construction of the peak-shaving station (which included the new peak-shaving

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boiler and the building where it is located) has commenced in June 2022. It is expected that the construction and construction acceptance check of the constructed building where the new peak-shaving boiler is located will be completed prior to the commencement of 2023/2024 heat service period. The new peak-shaving boiler will be put into use upon the completion of construction acceptance check to meet the demand for heat services. It is expected that the new peak-shaving station will be able to reach an “extremely low emission standard” (超低排放標準) accredited by the Lanzhou New Area Ecology and Environment Bureau\* (蘭州新區生態環境局). The total expenditures are expected to be approximately RMB151.6 million. We plan to fund such construction with [REDACTED] from the [REDACTED] of approximately RMB[REDACTED] million and the remaining of approximately RMB[REDACTED] will be funded by our internal resources. For details, see “Future plans and [REDACTED]” in this document. According to the Frost & Sullivan Report, the “Three North” region covered most of northern China and accounted for approximately 26% of the China’s population in 2022. We expect that China’s steady population growth, together with its corresponding urban development, will drive the need for heat services in the “Three North” region in the future.

### **Expand our national footprint and increase our market share**

We plan to expand our national footprint. The heat service market in the PRC has been undergoing ongoing changes in various years and we are continuously seeing the entry of new participants. Provincial and local heat service providers are expected to compete with market players from other provinces and cities. The heat service business is not accessible to all and has various entry barriers, including but not limited to the significant amount of initial investment required for the construction of pipeline systems, technologies and qualifications, according to the Frost & Sullivan Report. This presents significant opportunities to cross-provincial heat service providers like us with an established track record of successful cross-provincial operations and performance and expansion. We intend to proactively capture market opportunities and expand our current geographical coverage.

During the Track Record Period, we succeeded in securing a Concession Agreement for the provision of heat services in Xinmi of Henan Province, which is outside the “Three North” region. We expect that our provision of heat services in Xinmi will commence from the 2023/2024 heat service period in or around November 2023. We are required to invest in, build, arrange for the development of the infrastructure assets (i.e. heat service facilities) required for the provision of heat services in Xinmi of Henan Province. The Xinmi Project will have a concession period of 30 years as stipulated in the Xinmi Concession Agreement. According to the Overall Xinmi City Urban-rural Development (2018-2035) (新密市城鄉總體規劃 (2018-2035)), the government has designated a target that 90% of the administrative area in Xinmi shall have access to heat services by 2035. We expect we can fully utilise our total Concession Area in Xinmi of Henan Province and expand our heat service accordingly. The preparation work of the Xinmi Project in two areas according to the local urban developments mainly includes (i) procurement of pipelines, devices and equipment, and (ii) construction of heat service facilities for heat transmission. The total expenditures for the preparation work up to 31 December 2027 are expected to be approximately RMB[456.9] million. We plan to fund such construction with [REDACTED] from the [REDACTED] of approximately RMB[REDACTED] million and the remaining of approximately RMB[REDACTED] will be funded by our internal resources. For details, see “Future plans and [REDACTED]” in this document.

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We will leverage our experience in acquiring such project to tap into other heat service markets when opportunities arise. We have established a business development team which closely monitors market dynamics, collects and analyses information relating to heat service demand in different regions, designs and executes our market entry strategy and conducts negotiation with prospective concession grantors. We believe that there will be high demand for heat services in the future and we expect that demand for our heat services will increase when we enter into new markets. We believe that we will be able to expand our national footprint and substantially increase our market share in the heat services industry in the future.

### **Continue to retain and recruit talented professionals for our business and management teams**

We believe that having high quality personnel is the key to our success and future development. We believe that we already have a dedicated and experienced management team and responsible and diligent employees to assist us in our business expansion. We plan to continue to retain and recruit more talented professionals. We will also seek to provide more opportunities to our supporting staff for their career development. We plan to achieve gender diversity at workforce level by recruiting more female employees. Internally, we will nurture our own female employees to management level. Safety and innovation are our priorities. We will continue to provide our employees with professional training and professional development programmes covering these areas and further align employees' interests with ours.

### **OUR BUSINESS MODEL**

We were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report. We are principally engaged in the provision of heat services to residential and non-residential heat service customers. Our non-residential heat service customers include commercial operators, government institutions, educational institutions, airports, train stations and hospitals. As at the Latest Practicable Date, our total Concession Area and our total actual heat service area was approximately 419.9 million sq.m. and 41.9 million sq.m., respectively.

On top of our provision of heat services, we also provide heat-related (i) engineering construction services; and (ii) EMC services.

### **BOT model**

During the Track Record Period, the majority of the revenue from our provision of heat services and engineering construction services was derived from Concession Agreements, all of which are structured in the form of a BOT model. Pursuant to the BOT model, our concession grantors contracted with and granted to us the exclusive rights to invest in, build, and arrange for the development and operation of the infrastructure assets (i.e. heat service facilities) required for our provision of heat services. During the concession period, we are

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entitled to operate and generate revenue from such infrastructure assets through the operation of our heat services business. Upon expiry of the concession period, all heat service-related assets in use by us will be transferred to the relevant concession grantor or parties designated by the concession grantor. The compensation payable (if any) by the concession grantor to us for such transfer of assets will be determined on the relevant terms thereunder.

### EMC Services

We provided energy-conservation service to an energy consuming enterprise to achieve certain energy saving goals. Under the EMC, we are responsible for installing certain equipment and machinery for the purpose of energy saving. We are also responsible for operating and managing the residual heat collection facilities. In return, we are entitled to a share of profit accrued from energy conserved as a result of our energy-conservation services provided.

### HEAT SERVICES

The “Three North” region experiences very cold weather during the winter, especially the areas north of the Qinling Mountain-Huaihe River (秦嶺-淮河以北地區). Our heat service operation in such region has enabled us to generate steady revenue and cash flow over the years. During the Track Record Period and up to the Latest Practicable Date, we had six heat service projects under concession rights within our Concession Area. Our heat service projects in operation were located in Taiyuan and Shuozhou of Shanxi Province, Lanzhou of Gansu Province and Hulunbuir of Inner Mongolia Autonomous Region. We also had a heat service project under construction in Xinmi of Henan Province. For the years ended 31 December 2020, 2021 and 2022, revenue generated from our heat services was approximately RMB973.3 million, RMB1,035.2 million and RMB1,098.9 million, representing approximately 70.7%, 80.2% and 76.1% of our total revenue, respectively.

According to the Frost & Sullivan Report, the “Three North” region in which we operate covers most of northern China and the “Three North” region accounted for approximately 26.2% of the population of China in 2021. In light of our business presence and the high demand for heat services in the “Three North” region, we plan to continue to strengthen our market position and expand our market share in this area in the foreseeable future. See “Our strategies – Bolster our business presence in the “Three North” region and enlarge our customer base” in this section for details. In December 2021, we obtained a concession to operate a heat service project in Xinmi of Henan Province which is outside of the “Three North” region. We expect that our heat service operation in Xinmi will commence from the 2023/2024 heat service period in or around November 2023. To facilitate our nationwide expansion plans, our business development team actively pursues new opportunities in the heat service industry in the areas south of Qinling Mountain River (秦嶺-淮河以南地區), particularly in southwest, central and eastern China.

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### Heat service projects under concession operation

During the Track Record Period and up to the Latest Practicable Date, we were a party to six Concession Agreements and had six heat service projects at different stages under concession rights within our Concession Area. As at the Latest Practicable Date, three of our heat service projects were in Shanxi Province, one was in Gansu Province, one was in Inner Mongolia Autonomous Region and one was a project under construction in Henan Province.

As at 31 December 2022, we had an aggregate Concession Area of approximately 419.9 million sq.m., of which 291.0 million sq.m. was in Shanxi Province, 68.3 million sq.m. was in Gansu Province, 28.0 million sq.m. was in Inner Mongolia Autonomous Region and 32.6 million sq.m. was in Henan Province. As at the same date, our total actual heat service area was approximately 41.9 million sq.m., which comprised 25.2 million sq.m. in Shanxi Province, 8.5 million sq.m. in Gansu Province and 8.2 million sq.m. in Inner Mongolia Autonomous Region. As at the Latest Practicable Date, we had reached the final stages of our preparation to provide heat services in Xinmi. We expect that our provision of heat services in Xinmi of Henan Province will commence from the 2023/2024 heat service period in or around November 2023.

Under our concession rights, we can operate our heat services business in accordance with the terms of the Concession Agreement in our Concession Area. Being a concession grantee, we can make long-term investments for the purpose of our heat service operation knowing that we have the exclusive right to operate and benefit from such investments for a fixed term.

The heat service industry in the PRC is expected to experience steady growth and continuous development. According to the Frost & Sullivan Report, total heat services area in China is expected to increase to 14.5 billion sq.m. in 2027, with a CAGR of 5.2% from 2022 to 2027, as a result of the increasing demand for the heat services mainly brought by the rapid growth in urbanisation rate and the increasing penetration of the heat services in China. The total heat services area in Shanxi Province is expected to increase to 1,022.6 million sq.m. in 2027, with a CAGR of 4.6% from 2022 to 2027; the total heat services area in Gansu Province is expected to increase to 410.9 million sq.m. in 2027, with a CAGR of 6.3% from 2022 to 2027; and the total heat services area in Inner Mongolia Autonomous Region increased to 723.9 million sq.m. in 2027, with a CAGR of 1.7% from 2022 to 2027. For further detailed analysis, see "Industry overview – Overview of the heat services industry in the PRC" in this document. Our Concession Agreements give us the exclusive right to provide heat services in our Concession Area within the concession period. In light of a positive outlook of the heat service industry in the locations in the PRC where we have Concession Agreement, the anticipated expansion of our actual heat service area within our existing Concession Area is expected to be in line with the respective development of heat services industry in the locations we operate. Given our track record that we have demonstrated our ability to provide stable and reliable heat services, our Directors are of the view that we can expand our actual heat service area in accordance with the anticipated local development in the locations where we operate in the future.

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The following table summarises some of the details pertaining to our heat service projects under concession rights as at the Latest Practicable Date.

Location	Project name	Concession period	Concession Area (sq.m.)	Actual heat service area			Heat source	Peak-shaving heat source	Operating facilities	Status
				As at 31 December		2022 (sq.m.)				
				2020 (sq.m.)	2021 (sq.m.)					
<b>Shanxi Province</b>										
Taiyuan	Taiyuan Project	21 November 2012 – 20 November 2037	50,000,000 (adjusted)	5,430,000	5,688,000	6,700,000	Heat procured from cogeneration plants	Gas-fuelled boiler generated heat	Self-constructed	In operation
Taiyuan	Shanxi Demonstration Zone Project	18 September 2018 - 18 September 2048	200,000,000	205,000	391,500	352,400	Geothermal heat	Gas-fuelled boiler generated heat	Self-constructed	In operation
Shuozhou	Shuozhou Project	18 January 2012 – 18 January 2042	41,000,000	17,852,100	18,115,000	18,117,400	Heat procured from cogeneration plants and residual heat collected at cogeneration plants	Gas-fuelled boiler generated heat	Self-constructed and leased from other heat service providers in Shuozhou of Shanxi Province	In operation
<b>Gansu Province</b>										
Lanzhou	Lanzhou New Area Project	29 June 2013 – 30 June 2043	68,330,000	5,920,000	7,030,000	8,490,000	Heat produced by coal-fired boilers, and residual heat collected at plants	Gas-fuelled boiler generated heat	Self-constructed	In operation
<b>Inner Mongolia Autonomous Region</b>										
Hulunbuir	Hulunbuir Project	20 September 2013 - 19 September 2043	27,951,500	7,970,000	8,540,000	8,210,000	Heat procured from cogeneration plants	Oil-fuelled boiler generated heat	Self-constructed	In operation
<b>Henan Province</b>										
Xinmi	Xinmi Project <sup>(Note)</sup>	7 December 2021 - 6 December 2051	32,610,000	-	-	-	Heat procured from cogeneration plants	-	Self-constructed and acquired	Under construction

*Note:*

As at the Latest Practicable Date, we had reached the final stages of our preparation to provide heat services in Xinmi. We expect that our provision of heat services in Xinmi will commence from the 2023/2024 heat service period in or around November 2023.

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### *Reduction of the size of the Concession Boundary Area for our Taiyuan Project and the possible transfer of the heat facilities in relation to the Subject Area which is currently under negotiation*

In 2017, Taiyuan City Bureau of Municipal Affairs Administration\* (太原市城鄉管理局) (formerly known as 太原市城鄉管理委員會) (the “**Taiyuan Administration**”) issued 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》) (the “**Local Authorities’ Plans**”). According to the Local Authorities’ Plans, we, as the concession grantee for the Taiyuan Project, were required to construct, amongst others, certain additional urban underground pipelines and back-up systems in certain part of the Concession Boundary Area for our Taiyuan Project.

In view of the previously unplanned capital expenditures which would be required for the aforementioned construction works, and after negotiations with the Taiyuan Administration, we proposed to the Taiyuan Administration in June 2017 to reduce the original Concession Boundary Area for our Taiyuan Project (the “**Reduction**”) by way of a written application which was approved by the People’s Government of Taiyuan City in August 2017, and the size of the Concession Boundary Area for our Taiyuan Project was then reduced by 86.0 million sq.m. (the “**Subject Area**”). According to our unaudited management accounts, revenue from the provision of our heat services in the Subject Area for the years ended 31 December 2016 and 2017 was only approximately RMB10.3 million and approximately RMB15.2 million, representing only 2.2% and 2.4% of the total revenue of our Group, and representing only 10.6% and 11.1% of our total revenue from the Taiyuan Project during the same period, respectively. Subsequent to the end of the 2016-2017 heat service period, we ceased to provide any heat services in the Subject Area and have not recorded any revenue in respect of the Subject Area, and all our heat service facilities in the Subject Area have been operated by a new operator since then. At the end of August 2017, the carrying value of the concession relating to the Subject Area amounted to approximately RMB71.4 million (with original cost and accumulated amortisation of RMB81.9 million and RMB10.5 million, respectively). Since our Group can no longer generate any future economic benefits from the concession relating to the Subject Area, in August 2017, our Group decided to accelerate the amortisation for the concession relating to the Subject Area and the carrying value of which became zero after such accelerated amortisation took place.

We are currently still under negotiation with the Taiyuan Administration in its capacity as the grantor for the transfer of all our heat service facilities in the Subject Area and its consideration thereto and 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) as at the Latest Practicable Date. There is no certainty as to whether and when the parties will reach such an agreement. Further, there is no certainty as to the amount of the consideration to be determined in any such agreement (if any) which may become payable to us. Currently, the legal rights and obligations associated with the heat service facilities in the Subject Area still remain with us since there is no legally binding agreement in place which governs the transfer of the related heat service facilities. In the event that no agreement can be reached between the relevant parties, the possible transfer will not take place and we will not receive any consideration.



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Regardless of whether a legally binding agreement in relation to the possible transfer can be reached, we will not record any revenue from the Subject Area as the heat service facilities in the Subject Area have been operated by the then new operator since the end of the 2016-2017 heat service period. As advised by our PRC Legal Advisers, in the event that the possible transfer does not materialise, the legal rights and obligations associated with the heat service facilities in the Subject Area will still remain with us; the enforceability and the validity of the remaining scope of the Taiyuan Concession Agreement will not be affected; and the Taiyuan Concession Agreement will not be terminated before its expiration due to such possible transfer.

During an interview with the Taiyuan Administration, it was confirmed that (i) the Reduction did not occur as a result of any breach of the relevant provisions as stipulated in, nor did it constitute any breach of, the Taiyuan Concession Agreement; (ii) the Reduction was a one-off event and there will be no further reduction of our Concession Area of the Taiyuan Project in the foreseeable future; (iii) our heat service operation has remained stable in our current Concession Area of the Taiyuan Project; (iv) we are a competent heat service provider in Taiyuan City, and the Reduction was not due to our incompetency to carry out heat service operation; and (v) since we own the heat service facilities in the Subject Area, we have been negotiating with the Taiyuan Administration in respect of the transfer of these facilities, nonetheless, no agreement had yet been entered into as at the Latest Practicable Date. Our PRC Legal Advisers have advised that the Reduction did not affect the enforceability and the validity of the remaining scope of the Taiyuan Concession Agreement, and that the Taiyuan Concession Agreement will not be terminated before its expiration due to such Reduction. As further advised by our PRC Legal Advisers, the Taiyuan Administration is the relevant competent authority which supervises all heat service operation in Taiyuan City and the officer being interviewed had the appropriate authority to provide the above confirmations.

### *Operation of Lanzhou New Area Project*

During the one-year effective period of the Interim Measures for the Administration of Urban Heat Services and Use in Lanzhou New Area (《蘭州新區城市供熱用熱管理暫行辦法》) (“**Lanzhou Interim Measures**”) implemented on 1 August 2018, we operated the Lanzhou New Area Project without a heat service operation licence as the Lanzhou Bureau did not have any established system granting heat service operation licenses for the provision of heat services. Nevertheless, since the implementation of the Administrative Measures for Urban Heat Services and Use in Lanzhou New Area (《蘭州新區城市供熱用熱管理辦法》) (the “**Lanzhou Administrative Measures**”) on 1 January 2022, heat service enterprises can conduct heat service operations with either a heat service operation licence or under a concession right. As advised by our PRC Legal Advisers, since we entered into a concession agreement in relation to our operation of Lanzhou New Area Project, we were therefore no longer required to obtain a heat service operation licence, and were in compliance with the Lanzhou Administrative Measures in all material aspects as at the Latest Practicable Date. Our PRC Legal Advisers further advised that the Lanzhou New Area Concession Agreement remains to be legally binding and will not be terminated before its expiration despite our historical lack of heat service operation license during the effective period of the Lanzhou Interim Measures.

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### *The grant of the concession rights for our Lanzhou New Area Project and the Hulunbuir Project without market competition mechanisms*

All of our concession operations are subject to the *Measures for the Administration on the Concession of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》), which was first promulgated on 19 March 2004 and implemented on 1 May 2004 (the “**2004 Concession Measures**”). The 2004 Concession Measures provide that the government concession grantors would select investors or operators of local public utility projects through market competitive mechanisms. For our Lanzhou New Area Project and Hulunbuir Project, the relevant government concession grantors initially granted us concession rights even though these grantors did not implement any market competitive mechanisms. The government concession grantors in relation to our Lanzhou New Area Project and Hulunbuir Project subsequently hosted the requisite public tendering with all necessary procedures as stipulated in the 2004 Concession Measures to ensure that the requirement under the 2004 Concession Measures is satisfied. Our PRC Legal Advisers advised that (i) the grant of the concession rights for our Lanzhou New Area Project and the Hulunbuir Project without market competitive mechanisms did not affect the enforceability and the validity of the relevant Concession Agreements as the public tenderings were subsequently held and the enforceability and the validity of the relevant Concession Agreements had been confirmed by the respective competent authority which regulates the local heat services industry; (ii) the Lanzhou New Area Concession Agreement and Hulunbuir Concession Agreement are legally binding and will not be terminated before its expiration despite the absence of market competitive mechanisms; and (iii) the 2004 Concession Measures provided no penalty clause on the grantees for obtaining concessions from the relevant government concession grantors without going through market competitive mechanisms.

### *Our heat service operation in the VE Park Area (as defined below)*

In August 2017, to ensure the continuous provision of heat services to Lanzhou New Area Vocational Education Park\* (蘭州新區職業教育園區) (the “**VE Park Area**”), Lanzhou Bureau (being the competent authority to regulate the heat services industry in general, and our heat service operation in Lanzhou New Area District of Gansu Province) requested us to provide our heat services to VE Park Area which did not fall within the scope of our concession rights in respect of the Lanzhou New Area Project. The actual heat service area under this arrangement was approximately 580,000 sq.m. as at 22 June 2018. In April 2020, the Lanzhou Bureau requested us to cease our provision of heat services in the VE Park Area. For each of the years ended 31 December 2018, 2019 and 2020, revenue generated from our heat services business in the VE Park Area was approximately RMB49.6 million, RMB61.5 million and RMB39.8 million, respectively. Since the cessation of our heat services business in the VE Park Area, we have not recorded any relevant revenue therefrom.

In an interview with Lanzhou Bureau, it was confirmed that (i) our heat service operation in the VE Park Area was conducted upon their request in order to ensure the continuous provision of heat services to the VE Park Area at that time; (ii) no concession right was ever officially granted to any party in respect of the heat service operation in the VE Park Area, and

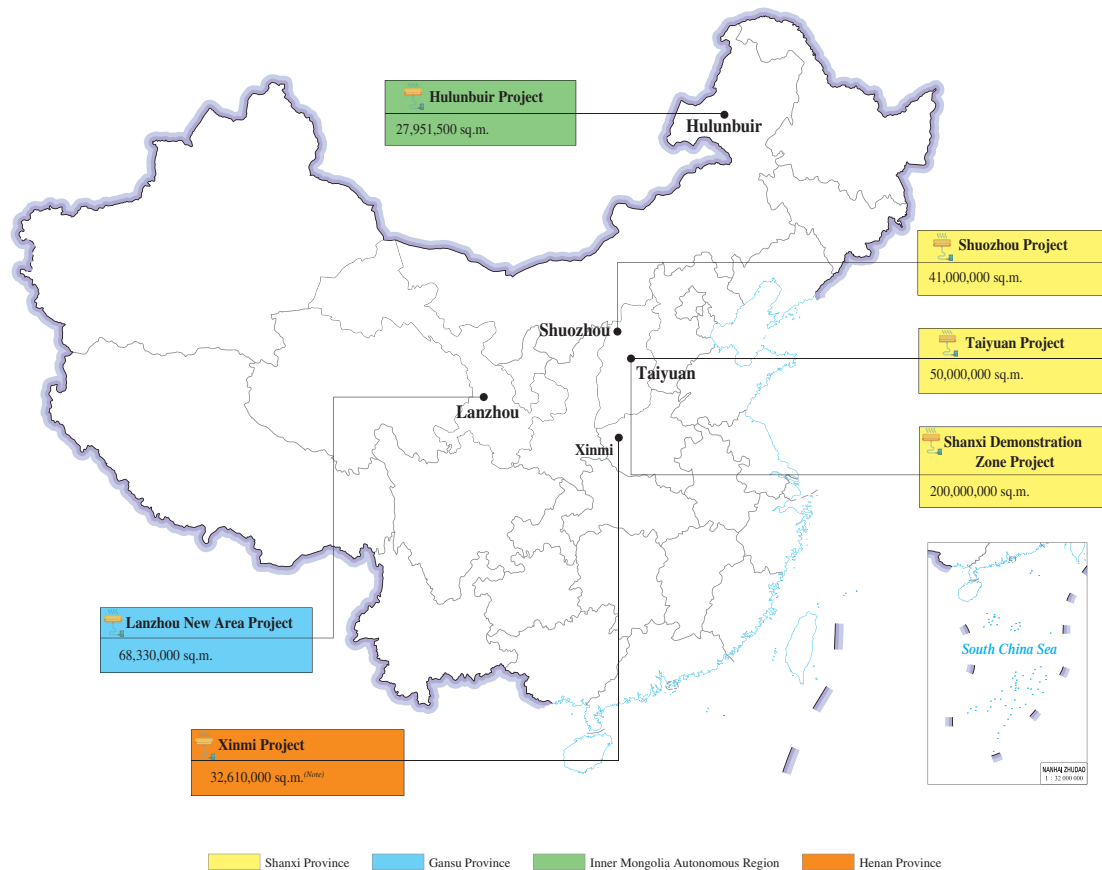
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our heat service operation in the VE Park Area did not infringe any other concession arrangements enforced during the relevant times; (iii) there was no objection to our heat service operation in the VE Park Area; (iv) the cessation of our heat service operation in the VE Park Area in April 2020 did not occur as a result of any breach of or non-compliance with the relevant laws and regulations by us; and (v) such operation did not require any concession right. As advised by our PRC Legal Advisers, Lanzhou Bureau is the relevant competent authority which supervises the heat service operation in Lanzhou New Area and the officer being interviewed was the competent person and had the appropriate authority to provide the above confirmations.

### Our geographical presence

We possess the concession rights to provide our heat service in five cities in three provinces and one autonomous region in the PRC as at 31 December 2022 and up to the Latest Practicable Date. As at the Latest Practicable Date, our total Concession Area according to our Concession Agreements was approximately 419.9 million sq.m..

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



*Note:* We expect our provision of heat services in Xinmi of Henan Province to commence from the 2023/2024 heat service period in or around November 2023.

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Our existing concession rights predominantly cover the “Three North” region. As evinced by our track record of successfully tapping into the heat service market in other parts of northern China with our existing cross-provincial operation, we believe that we are well-positioned and sufficiently equipped to secure new concession agreements.

To enhance opportunities in securing new concession agreements, we are committed to keeping abreast of the latest developments of the heat service industry. We will also solidify our business presence by continually participating in negotiation and tender processes initiated by local governments should we consider such potential business opportunities feasible. Meanwhile, we are devoted to enhancing our heat service capacity by virtue of analysis, research and optimise our operational efficiency and customers’ recognition. As such, we are able to collect and analyse industry information in order to enter into different regions to secure potential new concession agreements and/or projects. Leveraging the extensive experience in strategic advisory and planning of our Directors and senior management team, including their long-term service in public offices in the PRC, we believe we possess the insight, vision and in-depth knowledge required to stay ahead with the latest local and national policies which can help effectively execute our growth strategy. In particular, Mr. Miao Wenbin (繆文彬先生), one of our non-executive Directors, who is primarily responsible for participating in strategic planning and advising on decision making of our Group, has served and is currently serving in several public offices including as council member of the APEC China Business Council (亞太經合組織(APEC)中國工商理事會), representative of Fifth Meeting of the 13th National People’s Congress of Jiangsu Province\* (江蘇省第十三屆人民代表大會第五次會議) as held in January 2022 and co-chairman of Jiangsu Sushang Development Promotion Association\* (江蘇省蘇商發展促進會). For further details of our Directors’ qualifications and experience, see “Directors, supervisors and senior management” in this document.

### Seasonality

Our provision of heat services is affected by seasonality. The following table sets out the duration of heat service periods prescribed in the respective notices issued by the relevant local authorities for our heat service projects under concession rights for the 2021/2022 heat service period.

<u>City<sup>(2)</sup></u>	<u>Relevant heat service project</u>	<u>Commencement date of the heat service period<sup>(1)</sup></u>	<u>End date (in the following year) of the heat service period<sup>(1)</sup></u>
<b>Shanxi Province</b>			
Taiyuan	Taiyuan Project and Shanxi Demonstration Zone Project	1 November 2021	31 March 2022
Shuozhou	Shuozhou Project	6 October 2021	20 April 2022

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<b>City<sup>(2)</sup></b>	<b>Relevant heat service project</b>	<b>Commencement date of the heat service period<sup>(1)</sup></b>	<b>End date (in the following year) of the heat service period<sup>(1)</sup></b>
<b>Gansu Province</b>			
Lanzhou	Lanzhou New Area Project	10 October 2021	10 April 2022
<b>Inner Mongolia Autonomous Region</b>			
Hulunbuir	Hulunbuir Project	20 September 2021	10 May 2022

*Notes:*

- (1) The heat service period for each project is subject to adjustments with respect to the measures issued by the relevant local authorities responsible for the administration of heat services, taking into account various factors such as average temperature and overall weather conditions. For details, see “Risk factors – Risks relating to our business and industry – Our heat service operation is affected by seasonality” in this document.
- (2) We entered into the Xinmi Concession Agreement with the People’s Government of Xinmi City (新密市人民政府) in December 2021 and we expect that our provision of heat services in Xinmi will commence from the 2023/2024 heat service period in or around November 2023.

**Key stages of our heat service operation under concession**

The chart below sets out the key stages of our heat service operation under concession. These key stages include (i) preparation; (ii) feasibility study; (iii) grant of concession right; (iv) design, procurement and construction; (v) operation and maintenance; and (vi) transfer. The details of each key stage of our heat service operation under concession are elaborated below.



***Preparation***

We regularly conduct market surveys and regularly monitor and analyse relevant government announcements to identify locations where we can set up a heat service business. As securing heat sources is a prerequisite for any provision of heat services, we need to analyse the availability of heat sources in a particular location during this preparation stage, which, generally speaking, takes more than one month based on the experience of our Directors. We conduct extensive research and market surveys to identify suitable heat sources so that we can try to secure them as early as practicable.

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### *Feasibility study*

Heat service projects under concessions are capital intensive and require significant upfront funding. Prior to committing to any potential heat service projects, we would conduct feasibility studies which, generally speaking, takes more than three months. These feasibility studies cover practical and commercial factors including, amongst others, (i) local heat service planning, policy, regulation and practice; (ii) the size of projected heat service areas and associated potential growth rate; (iii) types and extent of potential heat service customers; (iv) availability of heat sources and their production capacity; (v) expected timeframe and costs of construction; and (vi) expected investment payback period.

### *Grant of the concession right*

We generally need to go through the procedures prescribed by the relevant local authorities and existing laws, regulations and local policies before we are granted the concession right. Each of the concession rights that we obtained in the past was through either competitive negotiation or competitive tender processes. We would sign the Concession Agreement with the concession grantor, which is the relevant local authority, in cases where we successfully obtained the concession rights. Generally speaking, it takes approximately one to two months for the concession grantor and us to go through these procedures subject to negotiation and communication between us and the grantor based on the experience of our Directors.

### *Design, procurement and construction*

We usually engage experienced and qualified external design consultants and/or institutes for the design of our larger scale heat service projects to ensure that they are customised and satisfy our requirements and specifications. We also have in-house design capabilities for small and medium-sized heat service projects. Our design proposals usually include, amongst others, the following components: (i) project blueprints; (ii) conceptual designs for the prescribed technology and equipment; (iii) construction installation plans; and (iv) materials required for construction.

Upon obtaining the construction planning permit from relevant authorities, we would begin procuring equipment, instruments and all necessary parts needed for construction and commence operation of the heat service facilities.

Construction usually takes between three to six months, subject to, amongst other things, the actual scale of each construction. Unless otherwise agreed, we are usually responsible for the overall management of such construction. We would engage qualified external contractors for carrying out the construction. The qualified external contractors engaged by us would be responsible for constructing the facilities as well as installing and testing the relevant equipment, instruments and systems. We would only play a supervisory role, which we believe that it would allow us to better manage our construction costs. Upon completion of construction, we run pre-operation tests to ensure that the newly-constructed facilities meet certain quality standards and specifications which satisfy all relevant PRC laws and regulations.

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### *Operation and maintenance*

Upon satisfactory checking and acceptance of our heat service facilities by the relevant authorities, we commence operation of our heat service projects in accordance with the terms of the relevant Concession Agreements. The concession period is between 25 and 30 years commencing on the effective date of each of our relevant Concession Agreements. We are also responsible for the maintenance of the relevant heat service facilities. For more information, see “Machinery, maintenance and repair” in this section.

### *Transfer*

Generally speaking, all assets (including but not limited to primary distribution pipelines, equipment, heat service facilities and machinery) in relation to the heat service projects constructed by us are owned by us during the term of the concession. All heat service related assets in use (and, in some cases, under construction) will be transferred to the concession grantors (or in some cases, parties designated by the concession grantors) upon the expiry of the relevant concession term. The compensation payable (if any) by the concession grantors or parties designated by the concession grantors to us for such transfer of assets will be determined pursuant to the relevant terms thereunder. The entire transfer process may take approximately 12 months to be completed under the Concession Agreement.

### **Our Concession Agreements**

As at the Latest Practicable Date, we had entered into six Concession Agreements in total. The details of the relevant heat service projects, the contracting parties, concession period, estimated Concession Boundary Area and Concession Area in respect of each of these agreements are as follows:

Concession No.	Concession Agreement	Heat service project	Concession grantor	Concession grantee	Concession period	Concession Boundary Area (sq.m.)	Concession Area (sq.m.)
1	Taiyuan Concession Agreement	Taiyuan Project	Taiyuan City Bureau of Municipal Affairs Administration* (太原市城鄉管理局) (formerly known as Taiyuan City Urban-Rural Management Committee* (太原市城鄉管理委員會)	Taiyuan Renewable Energy	21 November 2012 – 20 November 2037	27,000,000	50,000,000

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Concession No.	Concession Agreement	Heat service project	Concession grantor	Concession grantee	Concession period	Concession Boundary Area (sq.m.)	Concession Area (sq.m.)
2	Shanxi Demonstration Zone Concession Agreement	Shanxi Demonstration Zone Project	Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone* (山西轉型綜合改革示範區管理委員會)	Shanxi Demonstration Zone Heat Supply	18 September 2018 – 18 September 2048	213,040,000	200,000,000
3	Shuozhou Concession Agreement	Shuozhou Project	Shuozhou City Housing Urban-Rural Construction Administration Bureau* (朔州市住房保障和城鄉建設管理局)	Shanxi Shuangliang Renewable Energy	18 January 2012 – 18 January 2042	148,000,000	41,000,000
4	Lanzhou New Area Concession Agreement	Lanzhou New Area Project	Management Committee of Lanzhou New District of Gansu Province* (甘肅省蘭州新區管理委員會)	Lanzhou Shuangliang	29 June 2013 – 30 June 2043	1,313,000,000	68,330,000
5	Hulunbuir Concession Agreement	Hulunbuir Project	Hulunbuir City of Inner Mongolia Autonomous Region Housing Urban-Rural Construction Bureau* (內蒙古自治區呼倫貝爾市住房和城鄉建設局)	Hulunbuir Shuangliang	20 September 2013 – 19 September 2043	36,480,000	27,951,500
6	Xinmi Concession Agreement	Xinmi Project	The People's Governance of Xinmi City* (新密市人民政府).	Tech-Thermal (Zhengzhou)	7 December 2021 – 6 December 2051	472,414,000	32,610,000



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The key terms that are generally found in our Concession Agreements are summarised below.

Concession rights <sup>(Note)</sup>	We are entitled to exclusively invest, construct, operate, manage and maintain heat service facilities, provide heat services to customers and charge heat fees in the Concession Area within the agreed concession period and in the relevant Concession Area. Each of our concession grantors has undertaken that its granted concession right will not be unreasonably withdrawn or restricted, nor will it grant a new concession right to any third party to operate any heat services business within the Concession Area within our concession period.
Concession period	The concession period is between 25 and 30 years commencing on the effective date of each of our relevant Concession Agreements.
Management, repair and maintenance	During the concession period, we are responsible for managing, repairing and maintaining the heat service facilities owned by us. Under some of our Concession Agreements, we are entitled to charge reasonable fees for the repair of heat service facilities in the properties to which we provide heat services, provided that such repair is due to the reasons of the user of the heat.
Heat service safety	We are required to strictly comply with the relevant PRC laws and regulations on heat service safety and ensure that our heat service operation, services and facilities meet all national, provincial, municipal, and industrial safety standards. Our concession grantors may supervise or inspect our operations to ensure heat service safety. Furthermore, we may be required to develop and maintain safety management policies and establish a comprehensive emergency response mechanism in case of accidents and emergencies. We may also need to submit the assessment report in respect of the situation of facilities' operation to the government authority for record.

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Ownership	All assets constructed by us within the Concession Area are owned by us during the concession period. For more information, see "Heat distribution – Our heat service facilities" in this section.
Transfer of assets	All heat service-related assets in use (and, in some cases, under construction by us) shall be transferred to the concession grantors (or, in some cases, parties designated by the concession grantors) upon expiry of the term of the Concession Agreements. The compensation payable to us for such transfer of assets (if any) usually depends on the terms of the specific Concession Agreements. Under some of our Concession Agreements, we shall restore these assets to specified conditions before all heat service facilities are handed over to the transferees at the end of the concession periods.
Pricing	The heat rates which we charge to our heat service users shall follow the benchmark heat rate determined and approved by the local pricing authorities. Under some of our Concession Agreements, further adjustments to our heat rates shall be subject to the review of the local pricing authority.
Termination	The Concession Agreements shall terminate upon the expiration of the concession period or by the mutual agreement of the parties thereto prior to the expiry of the concession period.
Renewal	Upon the expiry of the Concession Agreement, the concession grantor has the right to select a new concession grantee in accordance with the applicable laws and regulations. If we perform well during the concession period, we shall have priority in re-obtaining the concession under the same conditions.

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*Note:* Under the terms of the Shanxi Demonstration Zone Concession Agreement, we are allowed to utilise various clean energy and renewable energy sources, including but not limited to geothermal heat. In addition to the fees for supplying heat, we are also entitled to receive fees for off-site heat source construction, grants and subsidies for contracted energy management projects and income from CCER projects.

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Given our track record, we can demonstrate to our concession grantors that we were capable of offering stable and reliable heat services to heat service customers. We also can demonstrate that we (i) have stable and reliable heating resources; (ii) possess experience in the provision of heat services; (iii) have professional staff with heat service qualifications; and (iv) possess adequate technological capabilities. We believe we would not need to renew the Concession Agreements in the near future, as the concession periods of our Concession Agreements provide certainty of the sustainability of our business operation. Among the six Concession Agreements we had entered into as at the Latest Practicable Date, the earliest one to expire is our Taiyuan Concession Agreement, which will expire in November 2037, and the Concession Agreement with the latest expiration date of concession period is the Xinmi Concession Agreement, which will expire in December 2051. Further, we generally have the right of first refusal to be granted under our Concession Agreements, which enhance our opportunities in renewing our existing concession rights. We believe that these capabilities allow us to successfully extend and/or renew our existing concession agreements prior to the expiry of the relevant concession terms.

### **HEAT SOURCES**

We have access to different heat sources and can provide stable and reliable heat services to our heat service customers. During the Track Record Period and up to the Latest Practicable Date, our heat sources included (i) heat procured from cogeneration plants, (ii) heat produced by our coal-fired boilers, (iii) residual heat collected at plants; and (iv) geothermal heat.

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The table below sets out the total amount of heat procured, produced, collected and extracted by our Group and the amount of the revenue and gross profit margin from provision and distribution of heat, price subsidies from local government and heat transmission services from each of the four heat sources during the Track Record Period.

	For the year ended 31 December											
	2020				2021				2022			
	Amount of heat	Revenue	% of Revenue	Gross profit/(loss) margin	Amount of heat	Revenue	% of Revenue	Gross profit/(loss) margin	Amount of heat	Revenue	% of Revenue	Gross profit/(loss) margin
	<i>GJ'000</i>	<i>RMB'000</i>			<i>GJ'000</i>	<i>RMB'000</i>			<i>GJ'000</i>	<i>RMB'000</i>		
<b>Heat source procured from third party suppliers</b>												
Heat procured from third-party cogeneration plants	18,641	650,825	70.3%	8.5%	18,239	719,520	73.8%	17.8%	19,155	730,864	71.6%	11.8%
<b>Heat sources self-produced by our Group</b>												
Heat produced by coal-fired boilers	2,288	167,081	18.1%	20.8%	2,058	151,606	15.5%	(0.8)%	2,097	185,303	18.2%	(0.04)%
Residual heat collected at cogeneration plants	3,377	95,204	10.3%	91.7%	2,794	89,754	9.2%	91.0%	2,746	82,226	8.1%	92.2%
Geothermal heat extracted from underground water	134	11,699	1.3%	(37.4)%	194	14,595	1.5%	(43.2)%	178	22,347	2.1%	(13.0)%
<b>Total</b>	<b>24,440</b>	<b>924,809</b>	<b>100.0%</b>	<b>18.7%</b>	<b>23,285</b>	<b>975,475</b>	<b>100.0%</b>	<b>20.8%</b>	<b>24,176</b>	<b>1,020,740</b>	<b>100.0%</b>	<b>15.6%</b>

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We use different heat sources for each of our heat service projects depending on a number of different factors, including local conditions, the sustainability of the project itself and financial considerations such as profitability of our Group. The selection and adoption of the most appropriate heat source to each of our heat service project primarily depends on local conditions of heat services in different locations. According to The Measures of National Energy Administration for Adopting Renewable Energy According to Local Conditions for Heat Services (《國家能源局關於因地制宜做好可再生能源供暖相關工作的通知》), heat service operators should take into consideration the local conditions when selecting heat sources and providing heat services. These local conditions include, amongst others, government initiatives and policies, division of natural and power resources in each province and city, and the proximity of heat service operators to heat sources. Our considerations include our relationship with local cogeneration plants, our access to coal suppliers, the feasibility of extracting geothermal heat and recycling residual heat with respect to selecting the most suitable heat source for each of our heat service projects. Although we take a holistic approach in the process of selecting and adopting the most appropriate heat source to each of our heat service project, sustainability is our primary concern as we are required to ensure stability of heat service according to our Concession Agreements. Therefore, we only adopt a heat source for a heat service project when we are certain that we have stable access to it and such heat source is the safest and most affordable one in the location in which we operate our heat service project. Before entering into our Concession Agreements, our feasibility studies generally allow us to ascertain that our operation of a heat service project adopting a particular heat source is profitable.

Despite the PRC Government’s efforts to reduce pollutants from energy consumption nationwide, haze pollution in northern China is still an ongoing environmental issue. The PRC Government generally promotes the use of diversified and clean heat sources in the heat services business. In 2020, China announced its plan of achieving carbon peaking by 2030 and achieving carbon neutrality by 2060. In line with the implementation of carbon peaking and carbon neutrality objectives, the PRC Government encourages municipal governments to develop different ways of clean heating according to local conditions and accelerates the replacement of small-scale coal-fired boilers which have higher carbon emission for large-scale coal-fired boilers generating heat using cleaner energy. This promotes the transition from high carbon emission coal-fired heat generation to low-carbon emission heat generation, and to develop renewable energy sources such as geothermal, industrial waste heat and solar thermal energy. During the Track Record Period and up to the Latest Practicable Date, we relied on four types of heat sources for all of our heat service projects under concession rights. The coal-fired boilers which we use for our Lanzhou New Area Project reach an “extremely low emission standard” (超低排放標準) accredited by the Lanzhou New Area Ecology and Environment Bureau\* (蘭州新區生態環境局), which follows the national emission requirements in accordance with the Technical Specifications for Flue Gas Extremely-low Emission Engineering of Coal-fired Power Plant (Standard: HJ 2053-2018) (燃煤電廠超低排放煙氣治理工程技術規範(標準號:HJ 2053-2018)) (the “**Technical Specifications**”). In accordance with the Technical Specifications, under the same condition that the standard reference oxygen volume (基準氧含量) is set as 6.0%, emission can be classified as “extremely low emission” (超低排放) if the emission mass concentration of each of particular matter, SO<sub>2</sub>

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and NO<sub>x</sub> is lower than 10 mg/m<sup>3</sup>, 35 mg/m<sup>3</sup> and 50 mg/m<sup>3</sup>, respectively (the “**Emission Limit**”). The Lanzhou New Area Ecology and Environment Bureau\* (蘭州新區生態環境局) has measured and announced that the emission of all of our coal-fired boilers are within the Emission Limit. In terms of the measurement, the Lanzhou New Area Ecology and Environmental Bureau\* (蘭州新區生態環境局) conducted a series of on-site environmental supervision inspection (環保監督性檢測) on the operation of our coal-fired boilers and instructed Independent Third Party technicians to measure the emissions in accordance with the Technical Specifications. A preliminary opinion had been issued certifying that the actual emission mass concentration of each of particular matter, SO<sub>2</sub> and NO<sub>x</sub> of our coal-fired boilers was within the Emission Limit. Based on such opinion, we also obtained a qualified inspection opinion from the environmental specialists of the Lanzhou New Area Ecology and Environmental Bureau\* (蘭州新區生態環境局), which certified that the coal-fired boilers which we use for our Lanzhou New Area Project are environmentally friendly and energy efficient. According to the Frost & Sullivan Report, our Group’s performance in achieving the Emission Limit set out under the Technical Specifications reaches the standard achieved by other major leading players of the heat services industry.

### Heat procured from cogeneration plants

During the Track Record Period and up to the Latest Practicable Date, there were cogeneration plants connected to our primary distribution pipelines at Taiyuan Project, Shuozhou Project and Hulunbuir Project. The table below sets out the identities and their respective owners, principal business activities and scale of operations of each of our cogeneration plants from which we procured heat during the Track Record Period.

No.	Name of cogeneration plant	Owner	Identity of owner	Relationship with us	Principal business activities	Scale of operation
1	Shuozhou Project Cogeneration Plant #1 (朔州項目熱電廠#1)	Shuozhou Thermal Power Branch of Huadian International Power Co., Ltd.* (華電國際電力股份有限公司朔州熱電分公司)	Owned as to 46.81% by China Huadian Group Company Limited* (中國華電集團有限公司) through Huadian International Electric Joint Stock Company* (華電國際電力股份有限公司)	Independent Third Party	Electricity generation	Headquartered in Shanxi Province with provincial operation and approximately 400 staff

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No.	Name of cogeneration plant	Owner	Identity of owner	Relationship with us	Principal business activities	Scale of operation
2	Shuozhou Project Cogeneration Plant #2 (朔州項目熱電廠#2)	State Energy Group Shanxi Shentou No. 2 Power Plant Co., Ltd.* ("Shanxi Shentou") (國家能源集團山西神頭第二發電廠有限公司)	Wholly owned by State Energy Group Shanxi Electric Power Company Limited* (國家能源集團山西電力有限公司)	Independent Third Party	Electricity generation	Headquartered in Shanxi Province with provincial operation and more than 1,000 staff
3	Shuozhou Project Cogeneration Plant #3 (朔州項目熱電廠#3)	Jinneng Holding Power Group Shuozhou Thermal Power Group Co., Ltd.* (晉能控股電力集團朔州熱電有限公司)	Owned as to approximately 64.05% by Jinneng Holding Group Company Limited* (晉能控股集團有限公司), a SOE primarily engaged in sales of coal and mineral extraction business	Independent Third Party	Sales of coal and electricity generation	Headquartered in Shanxi Province with provincial operation and more than 400 staff
4	Shuozhou Project Cogeneration Plant #4 (朔州項目熱電廠#4)	Shanxi Datang International Shentou Power Generation Co., Ltd.* ("Shanxi Datang") (山西大唐國際神頭發電有限責任公司)	Owned as to 60% by Datang International Power Generation Co., Ltd., a company listed in the Hong Kong Stock Exchange (stock code: 991)	Independent Third Party	Electric power production	Headquartered in Shanxi Province with provincial operation and more than 200 staff
5	Taiyuan Project Cogeneration Plant* (太原項目熱電廠)	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>

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No.	Name of cogeneration plant	Owner	Identity of owner	Relationship with us	Principal business activities	Scale of operation
6	Hulunbair Project Cogeneration Plant/Guohua Plant* (呼倫貝爾項目熱電廠/國華電廠)	Hulunbair City Construction Investment (Group) Co., Ltd.* (呼倫貝爾城市建設投資(集團)有限責任公司)	Owned as to 51% by National Power Investment Group Company Limited* (國家能源投資集團有限責任公司)	Independent Third Party	Wind and Electric Power production	Based in Hulunbair of Inner Mongolia Autonomous Region and operating under the supervision of government administration bureau

*Note:* During the Track Record Period, we procured heat from Taiyuan Project Cogeneration Plant via a heat supply company in Taiyuan City, which is an Independent Third Party.

According to the Frost & Sullivan Report, power and heat cogeneration is the most commonly used method of heat production in the heat service industry in the PRC.

We maintain a good relationship with the cogeneration plants which supply to us to ensure that we get a stable and continuous supply of heat from them. We typically enter into heat procurement agreements with them for each heat supply period. The key terms that are generally found in our heat procurement agreements are set out below:

Purpose of heat usage	The procured heat can be used for industrial, residential and commercial heating purposes.
Heat supply period	The heat supply period begins in September of each year and ends in May of the following year. The heat supply period for each project is subject to adjustment with respect to the measures issued by the relevant local authority for the administration of heat supply and use.
Distribution coverage	The heat procurement agreement specifies the districts in which we provide heat services to our heat service customers.



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Ownership, right of use, maintenance and management of heating facilities	The operator of the cogeneration plant is usually responsible for the repair and management of the heating facilities. The heat procurement agreement usually specifies the boundary demarcating the extent of the cogeneration plants. We own the primary distribution pipelines extending from the boundary point. We are responsible for their maintenance and management.
Heat supply specifications	To ensure the quality and safety of our heat services, the heat procurement agreement stipulates certain specifications such as hot water flowing volume, gateway pressure, hot water discharge and return temperature and water loss rate.
Heat measurement	The cogeneration plant operators are responsible for the installation of measurement equipment for the purpose of monitoring the heat services' specifications. The measurement records mutually agreed upon form bases for clearing and settlements of heat supply. Both the cogeneration plants operators and us are required to keep heat measurement records. Any disputes with respect to the measurement records should be resolved by way of mutual negotiation.
Pricing, billing and payment	The heat procurement prices are subject to regulatory control. These prices usually consist of basic heat rates in term of GJ and fees charged for water loss. We are usually required to make prepayments either 10 days before the commencement of heat supply or 10 working days after the signing of the heat procurement agreements. The fees accrued in the previous month need to be fully settled in the following month. Both parties are required to confirm the actual monthly heat supply amount.

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Obligation and rights of cogeneration plant operators	The cogeneration plant operators are required to notify us: (i) if they are unable to meet our heat demands; (ii) if there is any maintenance and repair by the local authorities which would impact supply; and (iii) if there is any occurrence of events which might result in heat supply suspension. Upon the receipt of these notifications, we would try to come up with a contingency plan as soon as practicable including initiating our back-up heat sources to avoid heat shortage.
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Penalty	The local cogeneration plant operators may limit or suspend heat supply if we are unable to settle overdue payments. There are interest penalties on overdue payments.
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Taiyuan Renewable Energy has provided engineering construction services, involving the installation of condensing heat-recycling technology and recovery of waste heat into electricity system for two cogeneration plants in Shentou Second Power Station being Shanxi Datang and Shanxi Shentou. The salient terms of the arrangements between Taiyuan Renewable Energy and each of Shanxi Datang and Shanxi Shentou are as follows:

Pricing, being the government regulated procurement cost	RMB27.5/GJ (including tax) (from February 2012 to September 2016), RMB24.5/GJ (including tax) since September 2016
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Settlement price	RMB24.25/GJ (including tax) (from February 2012 to September 2016), RMB21.6/GJ (including tax) since September 2016
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Duration	A heat procurement agreement is entered into for each heat service period annually. The duration of heat procurement agreements generally aligns with the heat service period of the Shuozhou Project, which shall follow the heat service period prescribed by the measures adopted by the local authority for the administration of heat services and use.
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**Settlement**                      Taiyuan Renewable Energy is required to make a RMB5 million prepayment of heat procurement fee 10 days prior to the commencement of the heat service period for the third party suppliers to prepare for coal stock and production of heat before heat service period commences.

Taiyuan Renewable Energy is required to settle the procurement amount of the previous month within 10 days since the start of the current month. It also needs to make prepayment for the current month based on 60% of the procurement amount of the previous month.

**Renewal**                         There is no renewal clause in the heat procurement agreement entered into between Taiyuan Renewable Energy and the third party suppliers.

**Termination**                   In the event that Taiyuan Renewable Energy does not settle the procurement cost within 10 days since the start of the month, the third party heat supplier is entitled to serve a cessation notice to Taiyuan Renewable Energy. After five days of the cessation notice, the third party heat supplier can cease the heat supply and terminate the agreement.

Taiyuan Renewable Energy shall not transfer any or part of its contractual obligations to other third party. Shall such occurs, the third party heat supplier remains the rights to terminate the agreement and to seek damages for breach of contract.

According to the approval letters issued by Shanxi Provincial Reform and Development Commission (山西省發展和改革委員會) to Shanxi Datang and Shanxi Shentou in April 2016 effective from the date of issuance, the price of heat of Shanxi Datang and Shanxi Shentou shall be within RMB27.5/GJ, being the then government regulated procurement price, which shall be mutually agreed between both parties after commercial negotiation. During the Track Record Period, the settlement price of heat was mutually agreed at RMB21.6/GJ, and such pricing arrangement complied with the aforementioned approval letters. Based on confirmations from Shanxi Datang and Shanxi Shentou, it was confirmed that they have respectively reported to and obtained approval from competent pricing authorities with respect to the pricing arrangement and both Shanxi Datang and Shanxi Shentou consistently complied with the policy on government regulated procurement pricing, and have not been required or ordered to rectify or penalised by relevant government authorities in respect of such pricing arrangement. Based on the above, as advised by our PRC Legal Advisers, the pricing arrangement between Taiyuan Renewable Energy and the third party heat suppliers was in full compliance with the applicable PRC laws and regulations.

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None of our current heat procurement agreements prescribe any procurement quota or minimum heat procurement amount. We consider that all heat procured by us is fully utilised and consumed once it has been distributed to the users' units, properties and premises to which we provide heat services through our distribution pipelines. For the total amount of heat procured by our Group and the relevant financial information of our heat sources during the Track Record Period, see "Heat sources" above.

Heat procurement price is subject to regulatory control. The price determined and prescribed by the local government and pricing bureau is binding on us. For the years ended 31 December 2020, 2021 and 2022, the average heat procurement price (without VAT) was approximately RMB22.9/GJ, RMB23.7/GJ and RMB23.4/GJ. For the same periods, 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.

Each of the cogeneration plants from which we procure heat is equipped with multiple power generators. Each of these generators can provide back up in case of any heat service disruption or in the event of technical irregularities and/or emergencies of any other generators. These cogeneration plants form an integrated heat service system which is crucial to our continuous heat service. During the Track Record Period and up to the Latest Practicable Date, we did not experience any major heat service suspension due to the disruption caused by cogeneration plants.

### **Heat produced by our coal-fired boilers**

We currently possess three coal-fired boilers which we use to produce heat for our Lanzhou New Area Project. The Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部) has prescribed certain mandatory standards, including dust, SO<sub>2</sub> and NO<sub>x</sub> emission density, for the purpose of differentiating and accrediting coal-fired boilers from sub-standard coal-fired boilers. Lanzhou New Area Ecology and Environment Bureau\* (蘭州新區生態環境局) has certified that all of our coal-fired boilers meet the extra-low emission standard (超低排放標準) and we comply with all relevant pollutant emission limits. Following the promulgation of the Plan for Winter Clean Heating in the Northern Region (2017-2021) (《北方地區冬季清潔取暖規劃(2017-2021)》), we do not use coal-fired boilers which do not meet the requisite standards to produce heat for our Lanzhou New Area Project.

Coal is the primary raw material used for heat production through our coal-fired boilers. For the years ended 31 December 2020, 2021 and 2022, the total amount of coal purchased by us was approximately 0.1 million tons, 0.1 million tons and 0.1 million tons. For the same years, total cost of procurement of coal consumed was approximately RMB60.8 million, RMB74.4 million and RMB109.4 million, representing approximately 5.6%, 7.6% and 9.5% of our total cost of sales, respectively. For the year ended 31 December 2021, our total cost of procurement of coal consumed increased by approximately RMB13.6 million as compared to the year ended 31 December 2020, representing an increase of approximately 22.4%. Such increase in total cost of procurement of coal consumed for our heat services was mainly

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attributable to the increase in the unit procurement price of coal during 2021, which was in line with the overall increase in 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. During the Track Record Period, we procured coal from Independent Third Party coal suppliers based in the PRC. For the years ended 31 December 2020, 2021 and 2022, we contracted with two, seven and five coal suppliers, respectively. By maintaining a list of coal suppliers, we believe that we are able to procure coal from alternative coal suppliers when necessary and without any restriction. We did not enter into any long-term agreements or framework agreements with our coal suppliers during the Track Record Period.

Our procurement price is affected by fluctuations in the price of coal. We are required to follow the benchmark heat rate determined and approved by the local pricing authorities. In the case that our coal procurement costs increase (which is beyond our control) and the heat rate at which we charge our heat service users cannot be adequately adjusted (due to restrictive laws), we will not be able to transfer the increased coal procurement costs to our heat service customers in the Lanzhou New Area Project. For more information, see "Risk factors – Risks relating to our business and industry – Fluctuation in coal procurement cost may materially and adversely affect our profitability" in this document.

### **Residual heat collected at plants**

During the Track Record Period and up to the Latest Practicable Date, we also used residual heat collected from a cogeneration plant and a coal-fired power plant as a heat source for our Shuozhou Project and our Lanzhou New Area Project, respectively. We apply absorption heat pump technologies in the collection of residual heat for both projects. Our residual heat collection and utilisation system, which mainly comprises lithium bromide absorption heat pumps (溴化鋰吸收式熱泵), is used to collect any residual heat which is released by steam turbines during the power generation process at the cogeneration plant or the coal-fired power plant. The collected heat is then transferred to circulating water through a steam-water heat exchanger for secondary heating in order to meet the prerequisite temperature requirement for the purpose of our heat services.

In addition, we have built an origin station with a set of collection devices and equipment (氣水換熱站/首站) for our Shuozhou Project. This station combines our absorption heat pump technologies with the readily available steam and condensation water supply found in the cogeneration plant for our Shuozhou Project. This approach demonstrated our ability to achieve energy efficiency and reduce regional emissions, qualifying the Shentou Second Power Station as a Power Top Plant in October 2013.

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The following table sets out the details of the residual heat collection process.

	For the year ended 31 December		
	2020	2021	2022
Total number of lithium bromide absorption heat pumps	6	6	6
– Type A	2	2	2
– Type B	2	2	2
– Type C	2	2	2
Respective capacity of lithium bromide absorption heat pumps			
– Type A (MW)	158	158	158
– Type B (MW)	75	75	75
– Type C (MW)	7.5	7.5	7.5
Maximum heat production amount (million GJ) <sup>(Note)</sup>			
– Type A	4.7	4.7	4.7
– Type B	2.2	2.2	2.2
– Type C	0.2	0.2	0.2
Actual heat service area covered (million sq.m.)	23.8	25.1	26.6

*Note:* The maximum heat production amount is calculated based on the number of heat pumps for each year multiplied by the respective capacity of each type of heat pumps multiplied by 24 x 60 x 60 working seconds per day multiplied by 173 working days for the years ended 31 December 2020, 2021 and 2022, respectively. The number of working days refers to the heat service period for each year for our Shuozhou Project, which is the longest heat service period among our Shuozhou Project and Lanzhou New Area Project where we used residual heat collected from a cogeneration plant and a coal-fired power plant as a heat source during the Track Record Period.

### Geothermal heat

The use of geothermal heat has been prevalent in the heat service industry in the PRC in recent years. Geothermal heat is classified as a low-carbon (green) energy (綠色低碳能源) by the National Energy Administration\* (國家能源局). In accordance with the Measures of National Energy Administration for Adopting Renewable Energy According to Local Conditions for Heat Services (《國家能源局關於因地制宜做好可再生能源供暖相關工作的通知》), the use of geothermal heat is encouraged as a heat source for the provision of heat services in response to the PRC Government’s mission to reduce carbon emission, and with a view to combating climate change.

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During the Track Record Period and up to the Latest Practicable Date, we utilised geothermal heat as a heat source at our Shanxi Demonstration Zone Project. The production of geothermal heat requires the use of two medium-deep geothermal wells, namely a production well (生產井) and a backfill well (回灌井). We used our own drilling technology to drill these wells. During the heat extraction process, submersible pumps (潛水泵) linked to the production well (生產井) transfer geothermal water to the ground energy station. Inside the ground energy station, the step utilisation system maximises the extraction of heat from the transferred geothermal water. The geothermal water is then returned to the refilling well (回灌井). The entire process is carried out within a closed-loop cycle system (閉環系統).

Our heat production department and research and development team will jointly explore other ways to broaden our heat sources by applying other renewable energy to our heat services projects.

For the years ended 31 December 2020, 2021 and 2022, fees from customers for our provision and distribution of heat in respect of Shanxi Demonstration Zone Project amounted to approximately RMB7.4 million, RMB9.9 million and RMB17.3 million, representing only 0.5%, 0.8% and 1.2% of our total revenue for the same years, respectively.

During the Track Record Period and up to the Latest Practicable Date, we failed to obtain the mining permit for extracting geothermal heat as required under the relevant laws and regulations. For further details, please see “Regulatory compliance – Non-compliance incidents – (3) Failure to obtain mining permit for extracting geothermal heat” in this section.

### **Peak-shaving boilers**

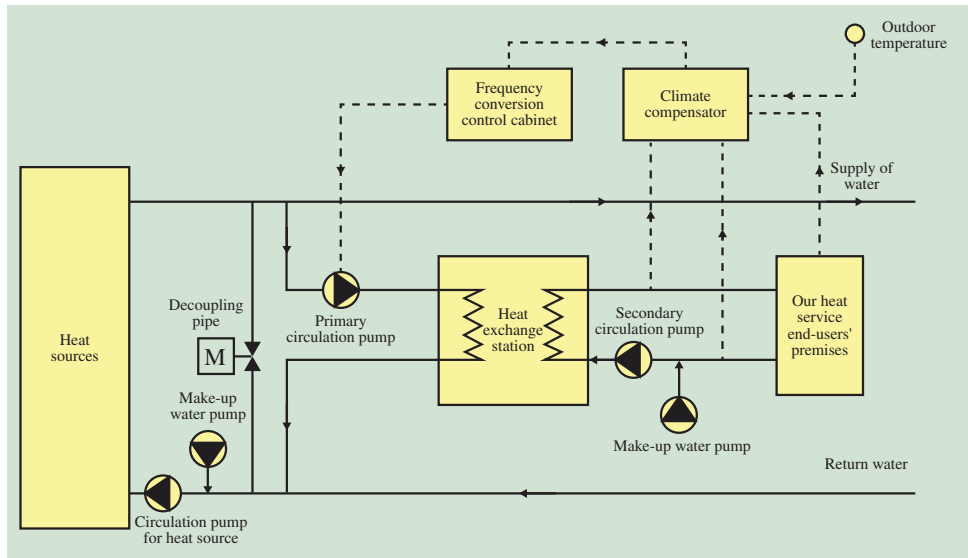
In order to ensure the reliability and continuation of our heat services during the heat service period, we maintain peak-shaving boilers of a sufficient quality as back-up heat sources in the event of heat supply shortage, unexpected incidents, sudden demand, suspension or disruption. The production capacity of each peak-shaving boiler meets the minimum requirement stipulated in the Measures for the Administration of Cogeneration (《熱電聯產管理辦法》). During the Track Record Period and up to the Latest Practicable Date, we did not experience any operational incidents which required the deployment of the peak-shaving boilers.

### **HEAT DISTRIBUTION**

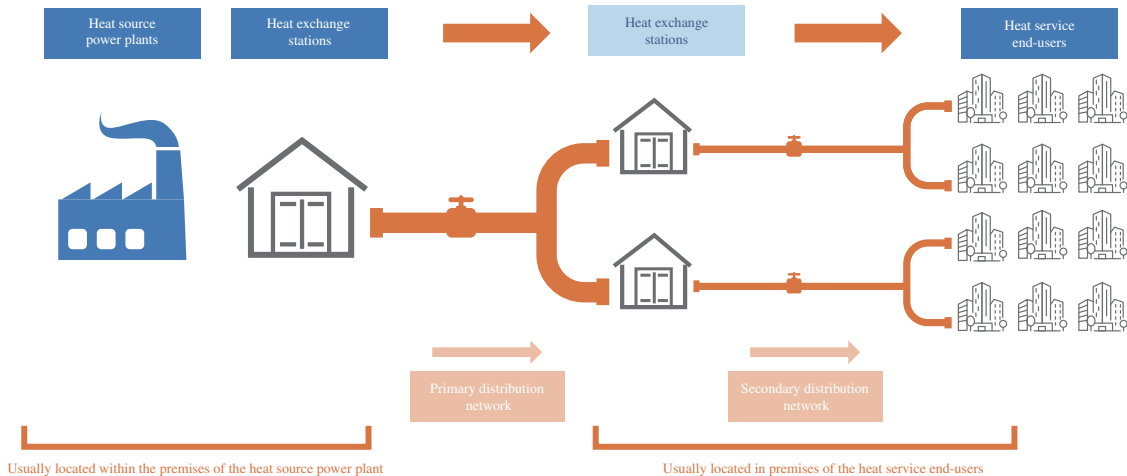
Our heat distribution network comprises two component networks, being the primary distribution network and the secondary distribution network. The primary distribution network facilitates heat transmission from our heat sources to the heat exchange stations (換熱站). We own the proprietary rights to primary distribution network constructed by us. The secondary distribution network is responsible for heat transmission from the heat exchange stations to the premises to which we provide heat services. We do not own the proprietary rights to the secondary distribution network, unless it is constructed by us. Nonetheless, we are required to maintain and manage the secondary distribution pipelines owned by our heat service customers

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according to the Concession Agreements and/or in response to the customers’ requests to ensure the stability and quality of our heat services. Heat exchange stations connect our primary distribution networks to the secondary distribution networks which are installed on the premises of our heat service customers. Heated water of a high temperature flows through primary distribution pipelines from our heat sources to the heat exchange stations. Powered by heat exchangers (換熱器) installed in the heat exchange stations, the high-temperature water in the primary distribution pipelines cools off when heat is transmitted into the secondary distribution network and eventually reaches the premises to which we provide heat services. The water flowing in between the primary distribution network and secondary distribution network is recycled for cooling purposes. The diagram below sets out a flow chart of our heat distribution network:



### Heat procured at cogeneration plants and geothermal heat plant

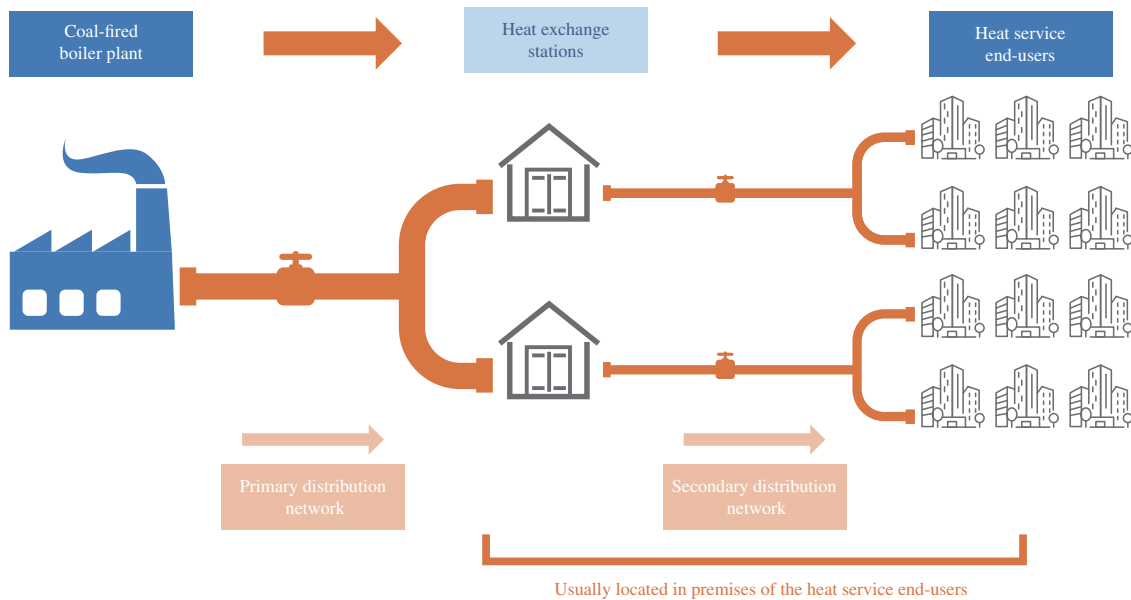


*Note:* During the Track Record Period and up to the Latest Practicable Date, we used heat procured from our geothermal heat plant at our Shanxi Demonstration Zone Project and cogeneration plants at Taiyuan Project, Shuozhou Project and Hulunbuir Project. See “- heat sources” above for details regarding the use of heat sources for our heat service projects.



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### Heat from coal-fired boilers



*Note:* During the Track Record Period and up to the Latest Practicable Date, we used coal-fired boilers to produce heat for the Lanzhou New Area Project. See “– heat sources” above for details regarding the use of heat sources for our heat service projects.

### Our heat service facilities

We provide our heat services through our heat service facilities. We own our heat service facilities and are responsible for their maintenance. For our heat service operation, in the event that any of our Concession Agreements are terminated prior to or not renewed upon the expiry of their respective concession period, we are required to transfer our heat service facilities to the concession grantor or parties designated by the concession grantor.

#### *Primary distribution pipelines*



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As at the Latest Practicable Date, we owned and operated our primary distribution pipelines with an aggregate length of approximately 546.9 km. As safety is our priority, we regularly conduct safety inspections of our primary distribution pipelines to ensure that heat is safely transmitted to the heat exchange stations. Our primary distribution pipelines have an average useful life of approximately 30 years.

### *Heat exchange stations*



Heat exchange stations are constructed for heat transmission from primary distribution networks to secondary distribution networks. These stations are equipped with heat exchangers, circulation pumps, make-up water pumps, valves, instruments, meters, strainers, water tanks, electric power distribution cabinets, control cabinets and water treatment equipment.

We have purchased insurance covering the heat exchange equipment and machinery at the heat exchange stations to mitigate the risks and consequences of damages, destruction and loss relating thereto. Under the Measures of City Yellow Line Management (《城市黃線管理辦法》) and the Standard for Urban Residential Area Planning and Design (《城市居住區規劃設計標準》), heat exchange equipment including heat exchange stations cannot be demolished or moved without proper authorisation. We believe that our equipment installed in the heat exchange stations are secured.

As at the Latest Practicable Date, we were using 465 heat exchange stations in Taiyuan and Shuozhou of Shanxi Province, Lanzhou of Gansu Province and Hulunbuir of Inner Mongolia Autonomous Region. It may be possible that there may be title defects relating to these heat exchange stations. For details, see “Properties – Heat exchange stations for our heat service operation” in this section.

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### Heat service customers

During the Track Record Period and up to the Latest Practicable Date, our heat service customers included both residential and non-residential heat service customers. Our residential heat service customers were the residents of household units. Non-residential customers included property management companies, commercial operators, government institutions, educational institutions, airports, train stations and hospitals. The aforementioned property management companies paid heat service fees for our provision of heat services to the areas managed by them, usually occupied by residents.

During the Track Record Period, our provision of heat services to residential heat service customers accounted for the majority of our revenue from the provision and distribution of heat. For the years ended 31 December 2020, 2021 and 2022, revenue from our provision and distribution of heat was approximately RMB739.9 million, RMB778.4 million and RMB853.5 million, representing approximately 53.8%, 60.3% and 59.1% of our total revenue, respectively. As at 31 December 2020, 2021 and 2022, we had approximately 265,800, 282,400 and 303,900 heat service customers, respectively.

The following table sets out the number of our heat service customers and actual heat service area by residential and non-residential heat service customers as at the dates indicated.

	As at 31 December					
	2020		2021		2022	
	Number of heat service customers	Actual heat service area (million sq.m.) <sup>(1)</sup>	Number of heat service customers	Actual heat service area (million sq.m.) <sup>(1)</sup>	Number of heat service customers	Actual heat service area (million sq.m.) <sup>(1)</sup>
<b>Shanxi Province</b>						
Residential	149,500	17.0	153,800	17.5	155,400	18.1
Non-residential	9,000	6.5	8,800	6.7	7,900	7.1
<b>Sub-total</b>	158,500	23.5	162,600	24.2	163,300	25.2
<b>Gansu Province</b>						
Residential	40,500	4.1	50,300	5.2	61,400	6.5
Non-residential	1,900	1.8	2,000	1.9	5,900	2.0
<b>Sub-total</b>	42,400	5.9	52,300	7.1	67,300	8.5

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	As at 31 December					
	2020		2021		2022	
	Number of heat service customers	Actual heat service area (million sq.m.) <sup>(1)</sup>	Number of heat service customers	Actual heat service area (million sq.m.) <sup>(1)</sup>	Number of heat service customers	Actual heat service area (million sq.m.) <sup>(1)</sup>
<b>Inner Mongolia Autonomous Region</b>						
Residential	60,700	4.9	63,100	5.2	68,400	5.6
Non-residential	4,200	3.1	4,400	3.3	4,900	2.6
<b>Sub-total</b>	<u>64,900</u>	<u>8.0</u>	<u>67,500</u>	<u>8.5</u>	<u>73,300</u>	<u>8.2</u>
<b>Total</b>	<u><u>265,800</u></u>	<u><u>37.4</u></u>	<u><u>282,400</u></u>	<u><u>39.8</u></u>	<u><u>303,900</u></u>	<u><u>41.9</u></u>

Note:

- (1) Actual heat service area is calculated according to the aggregate GFA stipulated in the property ownership certificates.

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

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

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The table below sets out our revenue generated from our fees from customers for our provision and distribution of heat by location and price subsidies from local government in Shuozhou for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Shanxi Province</b>						
Taiyuan	113,549	12.5	132,462	13.8	153,031	15.1
Shuozhou	435,513	48.0	466,224	48.5	453,996	44.7
<b>Gansu Province</b>						
Lanzhou	166,929	18.4	151,411	15.8	185,108	18.2
<b>Inner Mongolia Autonomous Region</b>						
Hulunbuir	187,376	20.6	203,100	21.1	217,803	21.5
<b>Others</b>	4,481	0.5	7,745	0.8	5,280	0.5
<b>Total</b>	907,848	100.0	960,942	100.0	1,015,218	100.0

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The following table sets out our actual heat service area, monthly heat rates and revenue generated from our provision and distribution of heat by heat service project under concession and in operation for the heat service periods indicated:

	Heat service period											
	2019/2020				2020/2021				2021/2022			
	Effective actual heat service area <sup>(2)</sup>	Number of heat service months	Monthly heat rate (inclusive of VAT) <sup>(1)(3)</sup>	Revenue for the year ended 31 December 2019 (exclusive of VAT) <sup>(1)(3)</sup>	Effective actual heat service area <sup>(2)</sup>	Number of heat service months	Monthly heat rate (inclusive of VAT) <sup>(1)(3)</sup>	Revenue for the year ended 31 December 2020 (exclusive of VAT) <sup>(1)(3)</sup>	Effective actual heat service area <sup>(2)</sup>	Number of heat service months	Monthly heat rate (inclusive of VAT) <sup>(1)(3)</sup>	Revenue for the year ended 31 December 2021 (exclusive of VAT) <sup>(1)(3)</sup>
(sq.m. '000)		(RMB per sq.m.)	(RMB '000)	(sq.m. '000)		(RMB per sq.m.)	(RMB '000)	(sq.m. '000)		(RMB per sq.m.)	(RMB '000)	
<b>Taiyuan Project</b>												
Residential	3,733	5.0	22,780	44,781	4,733	5.0	35,097	56,559	5,017	5.0	42,243	59,533
Non-residential	655	5.0	11,345	16,925	675	5.0	9,375	13,832	713	5.0	9,911	14,623
<b>Shanxi</b>												
<b>Demonstration Zone Project</b>												
Residential	55	5.0	393	587	57	5.0	413	609	67	5.0	460	747
Non-residential	110	5.0	2,269	3,386	217	5.0	2,986	4,405	417	5.0	4,442	9,989
<b>Shouzhou Project</b>												
Residential	11,233	5.5	68,439	74,391	12,772	5.5	79,096	83,308	12,046	5.5	74,659	78,507
Non-residential	5,415	5.5	62,849	68,314	4,561	5.5	45,805	64,672	5,600	5.5	61,085	74,546
<b>Lanzhou New Area Project</b>												
Residential	3,356	5.7	28,950	41,075	4,162	5.7	37,519	53,557	5,420	5.7	44,123	62,788
Non-residential	3,224	5.7	45,196	65,039	1,727	5.7	23,296	32,395	1,702	5.7	21,336	32,051
<b>Hulunbuir Project</b>												
Residential	4,568	7.3	49,104	66,341	4,771	7.3	54,328	69,054	5,102	7.3	58,353	73,573
Non-residential	1,980	7.3	27,482	35,296	2,271	7.3	31,412	40,035	2,541	7.3	35,658	45,274

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*Notes:*

- (1) Revenue for each heat service period is calculated using the below formula:

$$\text{Revenue} = \text{effective actual heat service area} \times \text{monthly heat rate} \times \text{number of months in the heat service period} \\ - \text{VAT}$$

- (2) Effective actual heat service area for each project is the weighted average of the actual heat service area for that project over the heat service period. Actual heat service area may fluctuate over the heat service period, for example, (i) some properties may be delivered during the heat service period; and (ii) during the heat service period, we may terminate heat supply for properties that have been vacant for a certain period of time.
- (3) Since each heat service period crosses across two financial year, revenue generated from each heat service period is allocated on a straight-line basis to those two financial years based on the number of heat service days in each financial year.

For new properties connecting to our heat distribution network, the heat rate charged by us is based on the gross floor area stipulated on their blueprints, land use rights certificates or our independent survey in the absence of other documentation evidences.

We do not enter into heat service agreements with each and every one of our heat service customers. For the heat service customers with whom we do enter into heat service agreements, the key terms that are generally found in our heat service agreements with them are set out below:

Address and heat service area	The heat service agreements specify the heat service customer's address and heat service area, which is determined by the gross floor area stipulated in the relevant property ownership certificate.
Heat service period	Our heat service period shall follow the heat service period prescribed by the measures adopted by the relevant local authority for the administration of heat services and use.
Quality	Our provision of heat services shall be on a continuous and stable basis and is subject to the applicable laws, regulations and heating measures promulgated and amended by the relevant authorities from time to time.

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Heat rate and settlement	The heat rate charged to our heat service customers shall generally follow the benchmark heat rate determined and approved by the local pricing authorities. We usually require our heat service customers to make full prepayment of heat service fees prior to the commencement of the heat service period. Under some of our heat service agreements, late payment penalty fees may apply if our heat service customers fail to make such full prepayment. Heat fees are usually calculated based on heat service area instead of actual consumption of heat.
Our rights and obligations	We have the right to inspect and monitor heat service conditions and operation of the units, properties and premises to which we provide heat services, and the equipment, devices and other relevant parts therein, to ensure our supply service quality. We are also entitled to request the cessation of any unauthorised usage of heat and rectify violation of the relevant procedures which causes imbalance in our heat services. We are required to patrol and inspect heat service facilities regularly to ensure heat service safety. We are also required to provide notification in advance if the heat services the interrupted due to certain unexpected situations (i.e., force majeure events), and ensure that the heat services can be resumed as soon as possible.
Rights and obligations	Customers are responsible for the maintenance and repair of their own heat service equipment and relevant parts.
Amendment of agreement	Under some of our heat service agreements, heat service customers may apply for amendments to the heat service agreements with us, such as change of usage, suspension or termination of heat services and address.
Breach of agreement	Heat service customers are responsible for any overdue payment owed to us and we may restrict or suspend our heat service if they fail to make the payment timely according to the heat service agreements. On the other hand, under some of our heat service agreements, we undertake the liability of breach of heat service agreements by refunding the heat fees.



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### *Heat service customer satisfaction*

We are dedicated to providing comprehensive and quality customer services to accommodate our heat service customers’ needs. Our heat services management platform improves heat service end-user’s services and ensures their satisfaction. For more information, see “Heat services management platform” in this section. We have taken adequate and immediate measures in response to these complaints to ensure that problems identified can be properly resolved.

### **Pricing**

#### *Heat rate for heat service users*

According to the PRC Pricing Law, the PRC Government may direct, guide or determine the prices of public utilities. It is stipulated in the Interim Measures that heat rates shall be set by a pricing authority, being the relevant provincial people’s government or authorised municipal or county people’s government, with reference to heat procurement costs, related tax and the profit expected to be made by the service providers. Heating enterprises (entities) that satisfy either one of the below requirements can submit price adjustment application to the pricing authorities in writing: (1) heat rates are insufficient to cover the cost of heating, resulting in operating losses; or (2) fuel price changed by more than 10%.

The table below sets out the monthly heat rates charged by us on different types of heat service users by project during the Track Record Period:

<b>Location</b>	<b>Monthly heat rate for residential heat service users</b>	<b>Monthly heat rate for non-residential heat service users</b>
	<i>(RMB per sq.m.)<sup>(1)</sup></i>	<i>(RMB per sq.m.)<sup>(1)</sup></i>
<b>Shanxi Province</b>		
Taiyuan Project	3.6	7.5
Shanxi Demonstration Zone Project	3.6	7.5
Shuozhou Project	2.52	4.8
<b>Gansu Province</b>		
Lanzhou New Area Project	5.0/5.8 <sup>(2)</sup>	7.0 to 9.2/ 8.0 to 10.2 <sup>(3)(4)</sup>
<b>Inner Mongolia Autonomous Region</b>		
Hulunbuir Project	3.5	4.8

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*Notes:*

- (1) The prices include VAT.
- (2) The monthly heat rate for residential heat service users for our Lanzhou New Area Project was RMB5.0 per sq.m for the 2019/2020, 2020/2021 and 2021/2022 heat service periods, and was raised to RMB5.8 per sq.m. effective from the beginning of the 2022/2023 heat service period pursuant to the notice issued by the Lanzhou New Area Economic Development Bureau (Statistics Bureau)\* (蘭州新區經濟發展局(統計局)) in November 2022. Such monthly heat rate adjustment was made following a cost review and price hearing by the same bureau in response to increases in the cost of heat procurement in recent years.
- (3) During the Track Record Period, the monthly heat rates charged by us in our Lanzhou New Area Project varied depending on the type of non-residential heat service users in Lanzhou. Non-residential heat service users included commercial heat service users, industrial heat service users, and public utilities, catering and accommodation service providers.
- (4) The monthly heat rates for non-residential heat service users for our Lanzhou New Area Project ranged from RMB7.0 per sq.m to RMB9.2 per sq.m for the 2019/2020, 2020/2021 and 2021/2022 heat service periods, and were raised to the range from RMB8.0 per sq.m. to RMB10.2 per sq.m. effective from the beginning of the 2022/2023 heat service period pursuant to the notice issued by the Lanzhou New Area Economic Development Bureau (Statistics Bureau)\* (蘭州新區經濟發展局(統計局)) in November 2022. Such monthly heat rate adjustment was made following a cost review and price hearing by the same bureau in response to increases in the cost of heat procurement in recent years.

Where there is 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 pricing authority for an adjustment of our heat rates. The local pricing authority may as a result allow us to adjust the heat rates which we charge to our heat service users. However, if the local pricing authority does not approve our application for an adjustment of our heat rates, we may not be able to pass on the increase in our costs to our heat service users. Additionally, there is generally a time lag between the increase in our costs and the upward adjustment of our heat rates. As a result of the above, we may not be able to maintain our profitability, and our operating results may be adversely affected. In 2018, we applied to adjust upwards the heat rates for our Hulunbuir Project and our application was approved by Hailar District People’s Government\* (海拉爾區人民政府) in August 2018 after a public consultation had been conducted. During the Track Record Period, we did not apply to the relevant pricing authority for an adjustment of our heat rates. For details of our risk exposure due to pricing, see “Risk factors – Risks relating to our business and industry – 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” in this document. For a sensitivity analysis relating to the fluctuation in costs, see “Financial Information – Description of major components of our results of operation – cost of sales – sensitivity analysis” in this document.

### *Pipeline connection fee*

We are entitled to charge a pipeline connection fee under our Concession Agreements and heat service agreements. The pipeline connection fee is one-off and mainly charged to real developers and property owners or occupants when their properties are first connected to our primary distribution pipelines. During the Track Record Period, we received pipeline connection fee in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region.

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The table below sets out the number of property developers and property owners or occupants from which we received pipeline connection fees for each of the year during the Track Record Period:

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Property developers	74	68	23
Property owners or occupants	35	33	30
<b>Total</b>	<b>109</b>	<b>101</b>	<b>53</b>

For the years ended 31 December 2020, 2021 and 2022, revenue from pipeline connection fee was approximately RMB65.4 million, RMB74.2 million and RMB83.7 million, representing approximately 4.8% and 5.7% and 5.8% of our total revenue for the same periods respectively. The increase in the revenue from pipeline connection fee during the Track Record Period was mainly due to the increase in our actual heat services area resulting from the increased number of property developers and property owners or occupants connecting their properties to our primary distribution pipelines.

The table below sets out the range and average of the pipeline connection fee that we received from property developers and property owners or occupants during the Track Record Period.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(RMB per sq.m.)</i>	<i>(RMB per sq.m.)</i>	<i>(RMB per sq.m.)</i>
Range	51.0-85.6	51.0-85.6	59.8-77.0
Average	60.3	63.1	64.7

According to Frost & Sullivan, it is an established industry practice for heat service providers to charge pipeline connection fee in the heat service industry, and the pipeline connection fee charged by our Group during the Track Record Period was in line with the market rate.

As confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, all pipeline connection fees which we received were permitted to be charged by us under relevant Concession Agreements and heat services agreements, and we have complied with all applicable laws and regulations in relation to pricing of our heat services in all material aspects.

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### *Guo Ban Han No. 129 and its potential impact on our Group*

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 there is no legal and effective policy basis to charge these fees; (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 relevant 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. Each of these local guidance plans reiterated the principle 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. For details, see “Regulatory overview – Charges for interface fees, centralised network construction fees, grid connection fees and other similar fees” in this document.

Our PRC Legal Advisers have advised that the intention of Guo Ban Han No. 129 and the corresponding guidance plans published by the relevant pricing authorities of Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province is to better regulate, amongst other things, charges relating to heat service prices to ensure that users are charged reasonably, and that heat service providers are appropriately compensated for their reasonable costs incurred in the course of the provision of heat services. According to interviews conducted with each of the Shanxi Province Development and Reform Commission (山西省發展和改革委員會), Lanzhou New Area Economic Development Bureau (蘭州新區經濟發展局), Hulunbuir Municipal Development and Reform Commission (呼倫貝爾市發展和改革委員會) and Xinmi Municipal Development and Reform Commission (新密市發展和改革委員會), being the relevant pricing authorities of Shanxi Province, Lanzhou New Area, Hulunbuir and Xinmi, respectively, it was confirmed that the actual cancellation of the right to charge the pipeline connection fees by the end of 2025 would be accompanied by the formulation and establishment of the corresponding mechanisms of price adjustments and subsidies, and that such cancellation would not take place without the establishment of such corresponding

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mechanisms. Our PRC Legal Advisers have confirmed that the Shanxi Province Development and Reform Commission, Lanzhou New Area Economic Development Bureau, Hulunbuir Municipal Development and Reform Commission and Xinmi Municipal Development and Reform Commission are the relevant competent authorities to be interviewed. Our PRC Legal Advisers have also advised that (a) according to Guo Ban Han No. 129, it was expressly stipulated that the actual cancellation of the right to charge the above-mentioned fees should be accompanied by the formulation and establishment of corresponding mechanisms of price adjustments and subsidies; and (b) based on the aforementioned interviews, it is anticipated that the new laws and regulations regarding the cancellation of the right to charge pipeline connection fees would be implemented such that any cessation of pipeline connection fees being charged would be accompanied by certain compensation whether in the form of price adjustment and/or subsidy. Based on the aforementioned government interviews and our PRC Legal Advisers' advice, our Directors are, therefore, of the view that the cancellation of pipeline connection fees will be offset by the reasonable adjustments to be made to heat service prices that heat service providers may charge, as well as the compensation in the form of government subsidies or grants.

Our PRC Legal Advisers have also advised that Guo Ban Han No. 129 and its related local laws and regulations currently in force do not provide for any circumstances that pipeline connection fees we have historically charged and received in relation to heat services we provided in Shanxi Province, Lanzhou New Area, Hulunbuir or Xinmi be refunded. Each of the Shanxi Province Development and Reform Commission (山西省發展和改革委員會), Lanzhou New Area Economic Development Bureau (蘭州新區經濟發展局), and Hulunbuir Municipal Development and Reform Commission (呼倫貝爾市發展和改革委員會) and Xinmi Municipal Development and Reform Commission (新密市發展和改革委員會), being the relevant pricing authorities of Shanxi Province, Lanzhou New Area, Hulunbuir and Xinmi, respectively, has also confirmed that pipeline connection fees we have historically charged and received in relation to heat services we provided in Shanxi Province, Lanzhou New Area, Hulunbuir or Xinmi would not be required to be refunded. Our PRC Legal Advisers have confirmed that the Shanxi Province Development and Reform Commission, Lanzhou New Area Economic Development Bureau, Hulunbuir Municipal Development and Reform Commission and Xinmi Municipal Development and Reform Commission (新密市發展和改革委員會) are the relevant competent authorities to be interviewed. Accordingly, we do not expect that we will need to refund any of the pipeline connection fees already received to date. Such pipeline connection fees received in advance have already been recognised as contract liabilities during the relevant reporting period, which would be recognised as revenue on a straight-line basis over the relevant remaining concession period. Therefore, we do not expect any material adverse impact to our revenue in the short run after the implementation of Guo Ban Hao No. 129 and the corresponding policies to be published by the relevant local authorities.

When Guo Ban Hao No. 129 and the corresponding policies in relation to the pipeline connection fees to be published by the relevant local authorities are fully implemented by the end of 2025, we may no longer be able to receive any new pipeline connection fees. However, the loss on revenue resulting from the cancellation of our right to charge pipeline connection fees will somehow be compensated by the adjustments of heat rates and the subsidies or grants

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under the governmental subsidy mechanisms to be formulated, or otherwise. We therefore do not expect the cancellation of such right pursuant to Guo Ban Han No. 129 will (taking a holistic view) have any material adverse impact on our overall financial position.

Please also see "Risk factors – Risks relating to our business and industry – 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" in this document.

### **Payment and credit policy**

All of our residential, commercial and industrial heat service customers are registered with us for the purpose of paying heat service related fees. The registration process includes opening of a user account. Our heat service customers are required to make payments of our heat services fees into their user accounts prior to the commencement of each heat service period. Payments for our heat services are then deducted from these user accounts. Revenue is recognised at the point in time when our heat service is provided, generally on the transmission of heat. It is the responsibility of our heat service customers to ensure that they have made proper payments of our heat service fees into their user accounts. We are entitled to impose late payment penalty fees and temporarily suspend our heat services if payment to us is not processed due to insufficient funds in their user accounts. We believe that our exposure to the risks relating to credit control is remote as we usually require our heat service customers to make full prepayments prior to the commencement of our heat services to them.

### **HEAT SERVICES MANAGEMENT PLATFORM**

We are committed to improving people's living standards with the application of technology. We launched a heat services management platform in July 2019, which is now widely applied to our projects across all our actual heat service area. It is regularly maintained and upgraded.

Our heat services management platform is an integrated digitalised intra-group platform which mainly consists of (i) a heat production monitoring system which monitors the heat production process and the operation of our heat service facilities; (ii) a heat transmission monitoring system which monitors the heat transmission process; and (iii) a customer service system which allows us to respond to our customers' requests and concerns in a timely manner.

The customer service system collects certain information of our heat service customers, including their names and addresses. Such information is only used when we are required to contact our heat service customers in the case of an emergency. According to our internal procedures, access of our heat service customers' information require the approval of our senior management. Our Directors believe that we have adopted sufficient internal control procedures to prevent leakage of information of our heat service customers.

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Under the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》) (the “**Cybersecurity Law**”), network operators are required to protect their networks against disruption, damage or unauthorised access, and to prevent data leakage, theft or tampering. In addition, they will also be subject to specific rules depending on their classification under the multi-level network security protection scheme. With respect to personal information protection, the Cybersecurity Law requires network operators not to disclose, tamper with or damage personal information collected or generated in the business operation, and they are obligated to delete unlawfully collected information and to amend incorrect information.

In December 2021, the Cybersecurity Review Measures (2021)\* (《網絡安全審查辦法》) were introduced. Under the Cybersecurity Review Measures (2021), online platform operators (amongst others) carrying out data processing activities that affect or may affect national security, are required to conduct a cybersecurity review. According to the Cybersecurity Review Measures (2021), an online platform operator who holds and controls more than one million users’ personal information needs to report to the Cybersecurity Review Office for a cybersecurity review if it intends to be listed abroad\* (國外上市).

Separately, the Draft Regulations On Network Data Security Management were promulgated on 14 November 2021. Pursuant to the Draft Regulations On Network Data Security Management, the State will focus on the protection of personal information and important data and strictly protect core data. Data processors shall be responsible for the data security and shall fulfill their obligation of data security protection in data processing. Data processors shall take necessary measures such as backup, encryption and access control to protect data from disclosure, theft, tampering, destruction, loss and illegal use, respond to network security incidents, prevent illegal and criminal activities targeting and using data, and maintain the integrity, confidentiality and usability of data. It stipulates that data processors shall, in accordance with relevant national regulations, apply for cybersecurity review if they are, among others, seeking to be listed abroad and controlling personal information of more than one million users, or seeking to be listed in Hong Kong and affecting or may be affecting national security. As at the Latest Practicable Date, the Draft Regulations On Network Data Security Management had not been formally adopted.

We have been advised by our PRC Legal Advisers that as (i) we control, user information of less than one million; and (ii) we are currently not a critical information infrastructure operator and online platform operator, based on the Cybersecurity Review Measures (2021) and the preliminary framework of the Draft Regulations On Network Data Security Management, our [REDACTED] is not subject to the reporting requirement of the cybersecurity review office in relation to cybersecurity review.

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 a critical information infrastructure operator and/or online platform operator, hence, we are not subject to the Security 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.

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As at the Latest Practicable Date, based on the public search results found on the relevant websites, such as China Judgements Online, China’s Enforcement Information Disclosure website, website of each of Cyberspace Administration of China (中華人民共和國互聯網信息辦公室) and Ministry of Industry and Information Technology, we have not been subject to any review, inquiries or investigations by any regulatory authorities in the PRC with respect to cybersecurity and data protection and we have not been involved in any litigation or arbitration regarding cybersecurity or data protection. In addition, as at the Latest Practicable Date, we have not been involved in any investigations on cybersecurity review made by the Cyberspace Administration of China on such basis, and we have not received any inquiry, notice, warning, or sanctions in such respect.

As advised by our PRC Legal Advisers, the exact details of the Cybersecurity Review Measures (2021) and the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion in the interpretation and enforcement of these laws. Our Directors and our PRC Legal Advisers therefore 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. We have adhered to relevant laws and regulations with respect to cybersecurity and data protection from time to time. Our in-house lawyers will pay attention to the latest legal updates, including but not limited to, issuance of consultation papers which may affect the introduction of new laws and regulations in the future, that are related to our business operations. In the event that there are any legal updates that may affect our business operations, we shall update our internal control measures accordingly for ongoing legal compliance.

## ENGINEERING CONSTRUCTION SERVICES

We provide engineering construction services for the construction of the heat service facilities to the concession grantors. For details of the concession grantors, see “Heat services – Our Concession Agreements” in this section. After entering into the relevant Concession Agreements, we have the right and obligation to invest in, build or arrange for the development of the heat service-related assets, including primary distribution pipelines, heat exchange stations and other heat service facilities required for our provision of heat services within our Concession Areas. Upon the expiration of our Concession Agreements, all heat service-related assets in use (and, in some cases, under construction) by us shall be transferred to the relevant concession grantor (or parties designated by the concession grantor). For details of the ownership and future transfer of our operational assets, see “Heat services – Our Concession Agreements” in this section.

For the years ended 31 December 2020, 2021 and 2022, revenue generated from our engineering construction services was approximately RMB362.1 million, RMB229.1 million and RMB301.6 million, representing approximately 26.3%, 17.8% and 20.9%, of our total revenue for the same years, respectively.



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The following table sets out our revenue generated from our engineering construction services by service type for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b><i>Engineering construction services</i></b>						
– construction services for our concession operations	349,356	96.5	208,133	90.8	271,010	89.9
– construction services provided to customers	12,694	3.5	21,014	9.2	30,557	10.1
<b>Total</b>	362,050	100.0	229,147	100.0	301,567	100.0

### Construction

We typically engage competent third-party contractors to construct the heat service facilities for our provision of engineering construction services, while we are responsible for managing and supervising the performance of such construction works. For details relating to our selection of third-party contractors, see “Business – Our suppliers – Contractors for the construction of primary distribution pipelines and heat service facilities – Selection and management of our contractors” in this document.

During the construction phase, we would have oversight of the progress, safety and quality of the construction works. Our quality control team is responsible for overseeing the quality of construction and any safety issues that may arise during the construction phase. Upon completion of construction, we will test, inspect and optimise the heat service facilities to ensure that the quality of these facilities meets the standards stipulated in the relevant agreements entered into with the local governments. During the Track Record Period, we did not detect any major quality or safety problems in relation to either the construction or the subsequent operation of the heat service facilities constructed by third party contractors.

During the Track Record Period, we procured and supplied the pipelines, as well as the devices and equipment for the heat exchange stations to the third party contractors for the construction of the heat service facilities. The third party contractors would provide all other raw materials and carry out the engineering construction works according to our pre-approved blueprints. It generally takes approximately six months to complete the construction work.

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### Application of IFRIC 12

IFRIC 12 is applicable to our Concession Agreements and services provided thereunder. Under IFRIC 12, we recognise revenue for the construction of heat service facilities for our heat service projects. The construction services revenue for the initial establishment of the heat service facilities under our Concession Agreements is calculated according to the total construction costs plus a reasonable profit margin determined by an independent valuer, based on the prevailing market rate applicable to similar construction services. For details, see “Financial information – Critical accounting policies and estimates – Initial investment” in this document.

The initial consideration for the acquisition of our concession rights and the establishment of heat service facilities is accounted for as an intangible asset. An intangible asset (operating concession) is recognised to the extent that the right to charge our customers is dependent upon the usage or amount of our heat services rendered, which is not an unconditional right to receive cash.

During the initial construction of heat service facilities for our provision of heat services, we incurred significant cash outflow for the cost of the construction. At the same time, we recognised non-cash revenue in respect of our engineering construction services. However, we would not receive any payment in cash from the relevant government authorities for such engineering construction services.

After the completion of the initial construction of the heat service facilities, we would commence the provision of heat services and the actual cash inflow would be received when we charged our heat service customers for our heat services over the remaining concession period.

### PROVISION OF EMC SERVICES

An EMC is an energy-conservation service contract under which an energy saving service provider provides energy-conservation services (such as, and in our case, energy conservation through the collection and utilisation of residual heat from recycling water) to an energy consuming enterprise to achieve certain energy saving goals. In these contracts, the energy saving service provider of the energy-conservation services is entitled to a share of the profit accrued from energy conserved as a result of the energy conservation services provided.

According to the Frost & Sullivan Report, the EMC market in the PRC has developed rapidly since the promulgation of the “12th Five-Year Plan” (《中華人民共和國國民經濟和社會發展第十二個五年規劃綱要》) in 2012. In line with the development of the electricity and heat service industries in northern China, an increasing number of energy-related enterprises in this region are opting for EMC services as a way to fulfil their environmental protection objectives. Additionally, with a view to promoting the EMC business, the PRC Government has promulgated a series of regulations and policies which offer preferential tax treatments for companies providing energy conservation services.

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In March 2017, we entered into an EMC with a power plant (the "**Power Plant**") pursuant to which we agreed to provide EMC services in an energy conservation project in relation to the collection of residual heat from recycling water (the "**Original EMC**"). We subsequently entered into a supplemental agreement with them (the "**Supplemental EMC**") on 15 December 2021 as the demand for residual heat by the Power Plant did not meet the demand originally anticipated, and revenue generated from the Original EMC was lowered than anticipated.

For the years ended 31 December 2020, 2021 and 2022, revenue generated from this EMC project was approximately RMB4.2 million, RMB4.0 million and RMB3.0 million, representing approximately 0.3%, 0.3% and 0.2% of our total revenue for the same years, respectively.

### **Key terms of the Original EMC (as supplemented by the Supplemental EMC)**

The key terms of the Original EMC (as supplemented by the Supplemental EMC) are set out below:

Subject matter	Under the Original EMC, we are responsible for installing for the Power Plant certain equipment and machinery for the purpose of collecting residual heat. The equipment and machinery would be inspected by a qualified party selected by both parties before putting into use. We are also responsible for operating and managing the residual heat collection facilities
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Term	The agreed term as stated in the Original EMC was for 10 heat service periods starting from October 2017. The Supplemental EMC, extended the term to the end of the heat service period of 2033/2034 or when the aggregate amount of residual heat collected reaches 18 million GJ
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Sharing of revenue	We are entitled to a share of revenue based on a revenue-linked formula below:
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*Amount of residual heat collected x unit price x sharing percentage*

<i>Amount of residual heat collected</i>	Actual volume of residual heat collected, subject to the minimum residual heat collected in each heat service period
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	<i>Unit price</i>	RMB30.44/GJ (excluding tax)
	<i>Sharing revenue</i>	We shall be entitled to 50% (as supplemented by the Supplemental EMC)
Minimum residual heat collected in each heat service period		As stipulated in the Supplemental EMC, the minimum residual heat to be collected in each heat service period shall be 1.242 million GJ. If the actual residual heat collected in any heat service period is less than 1.242 million GJ due to any issue for which the Power Plant should be responsible, 1.242 million GJ will be adopted for the calculation of the sharing of revenue and the total residual heat collected over the term of the contract
Operating expenses of the facilities		We are required to bear all operating expenses
Payment		The Power Plant is required to settle the sharing of revenue (plus the relevant tax) to us within 25 working days upon receipt of invoice on a monthly basis
Ownership and transfer		We own the assets (including but not limited to equipment and machinery) invested, purchased and installed by us during the term of the contract. All these assets will be transferred to the Power Plant upon the expiration of the EMC provided that all sums due to us have been fully settled
Early termination		The Power Plant is entitled to early terminate the EMC services by paying us a sum equal to the value at the relevant time of the EMC on its remaining term

Our Directors believe that we can fully utilise the potential of our EMC business. However, given our limited history and experience in operating under the EMC business model, we may encounter risks and difficulties in relation to our EMC business. For relevant information, see "Risk factors – Risks relating to our business and industry – Our EMC services were launched with limited history" in this document.

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### OTHER BUSINESSES

During the Track Record Period, we also engaged in (i) the provision of heat transmission services to a number of customers; (ii) the sale of heat service facilities (including heat service equipment, devices and relevant parts) to operators who required such facilities for their business operation; and (iii) provision of designing services, which mainly consisted of indoor heat operation designing and consulting services, to some government authorities and commercial operators.

### OUR SUPPLIERS

During the Track Record Period, in conducting our businesses, we procured (i) heat; (ii) equipment, machinery and relevant parts and components including pipes, heat exchangers and heat pumps, valves, bearings and frequency converters, and other materials such as steel, cables, tools and labour protection supplies; and (iii) services for the construction of primary distribution pipelines and heat service facilities. During the Track Record Period, we also leased certain heat service facilities from a local government for conducting our heat services. For the details of the leasing arrangements, see “Entity which is our customer and also a lessor of heat service facilities” in this section.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material lack of capacity, supply shortage, fluctuation in procurement price, delay or disruption in our operations relating to our suppliers or any material product claims attributable to our suppliers.

During the Track Record Period, our Group procured goods and services from certain suppliers who will become connected persons of our Group upon the [REDACTED]. Such goods and services included (i) heat service-related equipment, devices and materials; and (ii) accommodation, catering, reception and conference organisation services. For details, see “Connected transactions” in this document.

### Suppliers of heat

During the Track Record Period and up to the Latest Practicable Date, we procured heat for our Taiyuan Project, Shuozhou Project and Hulunbuir Project from cogeneration plant operators in the PRC. We take into account several factors when selecting our preferred cogeneration plant operators, including but not limited to heat quality, price competitiveness and proximity to our primary distribution network for our operational efficiency. For details, see “Heat sources – Heat procured from cogeneration plants” in this section.

### Suppliers of coal for our production of heat

During the Track Record Period and up to the Latest Practicable Date, we procured coal for our production of heat through coal-fired boilers for our Lanzhou New Area Project from suppliers in the PRC. We take into account several factors when selecting our preferred coal suppliers, including price competitiveness and proximity to our coal-fired boilers for heat production efficiency.

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### **Suppliers of equipment and machinery**

During the Track Record Period and up to the Latest Practicable Date, we procured pipes, heat exchangers and heat pumps, valves, bearings and frequency converters, and other materials such as steel, cables and tools, from suppliers in the PRC. Our suppliers of equipment and machinery are mainly sourced through tenders and are required to go through selection processes according to our internal policies on the selection and management of suppliers. In particular, we take into account several factors in selecting our preferred suppliers, including but not limited to product quality, price competitiveness, relevant quality certifications and after-sales services offering. We will only accept the products of our equipment and machinery suppliers upon satisfactory quality inspection and receipt of the required quality proof. Generally, our suppliers are required to provide after-sales services and product warranty unless otherwise agreed.

### **Contractors for the construction of primary distribution pipelines and heat service facilities**

For the years ended 31 December 2020, 2021 and 2022, we engaged 37, 26 and 18 contractors in the PRC who were engaged in engineering and construction business for the construction of heat service facilities such as primary distribution pipelines and heat exchange stations, respectively. Most of the contractors we engaged for our engineering construction services were Independent Third Parties. For information relating to our heat service facilities, see "Heat distribution – Our heat service facilities" in this section. Such construction works performed by the aforementioned contractors were generally for our provision of engineering construction services. For details of such services, see "Engineering construction services" in this section. For the years ended 31 December 2020, 2021 and 2022, our construction costs were approximately RMB315.5 million, RMB198.9 million and RMB261.8 million, representing approximately 29.1%, 20.4% and 22.8% of our total cost of sales, respectively.

### ***Selection and management of our contractors***

#### *Key terms of the contracting agreements*

In order to be selected by our Group, the contractors need to go through certain selection processes as required by our internal policies governing the selection and management of suppliers. We take into account several factors in selecting our contractors, including but not limited to construction capability, past experience, industry reputation, quality, price, skill and requisite qualifications and licences. Prospective contractors must first pass an initial qualification assessment which includes accreditation and certification. After the initial assessment, we will dispatch a personnel in our business services department and/or engineering department to conduct an on-site inspection on their qualifications. We only engage the contractors upon our satisfactory inspection and receipt of their qualification proof. We also require our contractors to provide service warranty and security deposits, unless otherwise agreed. It is our Group's policy to select our contractors for the construction of pipelines and heat service facilities through competitive tender process or competitive negotiation.

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*Our contracting agreements typically include the following key terms:*

Term	The term of our contracting agreements varies depending on the duration of the relevant construction period, which is typically less than one year.
Performance	The constructed pipelines and heat service facilities delivered by our contractors are required to meet certain national standards stipulated in the relevant construction laws and heating measures.
Our rights and obligations	We should verify the qualifications and certifications of our contractors for them to carry out the construction works. In addition, we have both the right and obligation to supervise and evaluate the construction works of our contractors. Where necessary, we should provide support to our contractors in the performance of their obligations such as furnishing them with certain machinery and equipment, and granting them access to our premises. We are obligated to make timely payment of contracting fees in accordance with the payment schedules stipulated in the contracting agreements.
Contractor's obligations	Our contractors shall take all necessary safety measures to comply with all safety standards in the performance of their services. They are also responsible any damage to, or loss of, any person or property arising out of their own default in the course of providing their construction services.
Pricing	The contracting fees payable by us are determined on an arm's length basis and on normal commercial terms with reference to the duration of the construction period and the scale and complexity of the work carried out.

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### Our top five suppliers

Purchases from our largest supplier in each of the years ended 31 December 2020, 2021 and 2022 amounted to approximately RMB100.6 million, RMB88.8 million and RMB89.3 million, respectively, representing approximately 10.1%, 10.2% and 8.8% of our total purchases for the respective years. Purchases from our top five suppliers in each of the years ended 31 December 2020, 2021 and 2022 in aggregate amounted to approximately RMB402.1 million, RMB337.2 million and RMB385.6 million, respectively, representing approximately 40.5%, 38.7% and 38.0% of our total purchases for the respective years. Our Directors confirm that, save for Shuangliang Eco-Energy, none of our Directors, their respective associates or any shareholder (who to the knowledge of our Directors owned 5% or more of our Shares) held any interest in any of our top five suppliers during the Track Record Period.

The following tables set out certain information with respect to our top five suppliers in each year during the Track Record Period.

#### *Year ended 31 December 2020*

Rank	Supplier	Relationship		Products purchased	Transaction amount	As a percentage of our total purchase		Payment method	Credit term	Approximate length of relationship with our Group
		with us	Business scope			total purchase	Payment method			
					(RMB'000)	(%)				
1	Shuozhou Thermal Power Branch of Huadian International Power Co., Ltd.* (華電國際電力股份有限公司朔州熱電分公司) (“Huadian International”)	Independent Third Party	Electricity generation	Heat	100,592	10.1	Bank transfer	10 days	Since 2013	
2	Hulunbair City Construction Investment (Group) Co., Ltd.* (呼倫貝爾城市建設投資(集團)有限責任公司) (“Hulunbair City Construction”)	Independent Third Party	City construction and public utility business	Heat	94,180	9.5	Bank transfer	15 days	Since 2013	



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Rank	Supplier	Relationship with us	Business scope	Products purchased	Transaction amount	As a	Payment method	Credit term	Approximate length of relationship with our Group
						percentage of our total purchase			
					(RMB'000)	(%)			
3	Taiyuan Tianxiang Thermal Insulation Co., Ltd* (太原天翔保温管有限公司)	Independent Third Party	Production, sales and maintenance of polyurethane direct buried insulation pipelines	Lagged pipes	76,231	7.7	Bank Transfer	Nil	Since 2014
4	Shanxi Shentou	Independent Third Party	Electricity generation	Heat	75,859	7.6	Bank transfer	10 days	Since 2011
5	Shanxi Datang	Independent Third Party	Construction and operation of coal-fired generating units, and provision of heat source and electricity generation	Heat	55,284	5.6	Bank transfer	10 days	Since 2012
<b>Total</b>					402,146	40.5			

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*Year ended 31 December 2021*

Rank	Supplier	Relationship with us	Business scope	Products purchased	Transaction amount	As a percentage of our total purchase	Payment method	Credit term	Approximate length of relationship with our Group
					(RMB'000)	(%)			
1	Hulunbair City Construction	Independent Third Party	City construction and public utility business	Heat	88,778	10.2	Bank transfer	15 days	Since 2013
2	Huadian International	Independent Third Party	Electricity generation	Heat	71,106	8.2	Bank transfer	10 days	Since 2013
3	Jinneng Holding Power Group Shuozhou Thermal Power Group Co., Ltd.* (晉能控股電力集團朔州熱電有限公司) (“Jinneng Holding”)	Independent Third Party	Sales of coal	Heat	65,716	7.5	Bank transfer	10 days	Since 2020
4	Shanxi Shentou	Independent Third Party	Electricity generation	Heat	62,253	7.1	Bank transfer	10 days	Since 2011
5	Shanxi Datang	Independent Third Party	Construction and operation of coal-fired generating units, and provision of heat source and electricity generation	Heat	49,390	5.7	Bank transfer	10 days	Since 2012
<b>Total</b>					<u>337,243</u>	<u>38.7</u>			

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*Year ended 31 December 2022*

Rank	Supplier	Relationship with us	Business scope	Products purchased	Transaction amount	As a percentage of our total purchase	Payment method	Credit term	Approximate length of relationship with our Group
					(RMB'000)	(%)			
1	Hulunbair City Construction	Independent Third Party	City construction and public utility business	Heat	89,330	8.8	Bank transfer	15 days	Since 2013
2	Jinneng Holding	Independent Third Party	Sales of coal	Heat	88,146	8.7	Bank transfer	10 days	Since 2020
3	Baiyin Youse Railway Transportation Logistics Co., Ltd.* (白銀有色鐵路運輸 物流有限責任 公司)	Independent Third Party	Logistic Service Provider	Coal	82,197	8.1	Bank transfer	7 days	Since 2021
4	Huadian International	Independent Third Party	Electricity generation	Heat	70,219	6.9	Bank transfer	10 days	Since 2013
5	Shanxi Shentou	Independent Third Party	Electricity generation	Heat	55,734	5.5	Bank transfer	10 days	Since 2011
		<b>Total</b>			<u>385,626</u>	<u>38.0</u>			

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### **Inventory control**

Our inventories include raw materials such as coal and other supplies which mainly consist of pipeline components, valves and other relevant parts and components for our heat services. During the Track Record Period, we purchased coal for heat production by our coal-fired boilers in respect of our Lanzhou New Area Project. We typically purchase coal one to two months in advance of the actual production of heat. We usually maintain a minimum level of coal inventory which meets our heat generation needs for a period of up to two weeks. We determine the quantity of other relevant parts and components to purchase based on our level of existing inventory and estimated production requirements. We estimate such quantity based on our work schedule and sometimes make purchases on an as-needed basis.

Our Directors understand the importance of inventory management in maintaining our operational costs and risks at a low level. We monitor our inventory levels by taking into account production planning, projected demand, current inventory levels, prevailing market conditions, the availability of raw materials and supplies required by our operational needs operation needs and our exposure to changes in raw material prices as well as our internal resources. We also review and adjust our inventory control policy from time to time.

### **OUR CUSTOMERS**

During the Track Record Period, our customers were principally derived from our Concession Agreements, and included the customers of our engineering construction services and provision of heat services (which are mainly occupants of the actual heat service areas under our Concession Agreements), as well as a civil engineering services provider as customer for our engineering construction services.

### **Our top five customers**

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

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The following tables set out certain information with respect to our top five customers in each year during the Track Record Period.

### *Year ended 31 December 2020*

Rank	Customer	Relationship with us	Business scope	Products/ services sold/ provided by our Group	Revenue	As a percentage of our total revenue	Payment method	Credit term	Approximate length of relationship with our Group
					<i>(RMB'000)</i>	<i>(%)</i>			
1	Customer A <sup>(2)</sup>	Independent Third Party	Government authority	Engineering construction services and price subsidies received therefrom	399,864 <sup>(1)</sup>	29.1	Bank transfer	Nil	Since 2012
2	Customer D <sup>(5)</sup>	Independent Third Party	Government authority	Engineering construction services	56,230	4.1	N/A	N/A	Since 2013
3	Customer C <sup>(4)</sup>	Independent Third Party	Government authority	Engineering construction services	25,195	1.8	N/A	N/A	Since 2013
4	Customer F <sup>(7)</sup>	Independent Third Party	Educational institution	Provision and distribution of heat	19,561	1.4	Bank transfer	15 days	Since 2017
5	Customer B <sup>(3)</sup>	Independent Third Party	Government authority	Engineering construction services	19,502	1.4	N/A	N/A	Since 2018
	<b>Total</b>				<u>520,352</u>	<u>37.8</u>			

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### *Year ended 31 December 2021*

Rank	Customer	Relationship with us	Business scope	Products/ services sold/ provided by our Group	Revenue	As a percentage of our total revenue	Payment method	Credit term	Approximate length of relationship with our Group
					<i>(RMB'000)</i>	<i>(%)</i>			
1	Customer A <sup>(2)</sup>	Independent Third Party	Government authority	Engineering construction services and heat services	201,099 <sup>(1)</sup>	15.6	Bank transfer	Nil	Since 2017
2	Customer D <sup>(5)</sup>	Independent Third Party	Government authority	Engineering construction services	94,649	7.3	N/A	N/A	Since 2013
3	Customer B <sup>(3)</sup>	Independent Third Party	Government authority	Engineering construction services	67,695	5.2	N/A	N/A	Since 2018
4	Customer G <sup>(6)</sup>	Independent Third Party	Government authority	Engineering construction services	22,976	1.8	N/A	N/A	Since 2012
5	Customer E <sup>(6)</sup>	Independent Third Party	Government authority	Engineering construction services	19,665	1.5	N/A	N/A	Since 2019
	<b>Total</b>				<u>406,084</u>	<u>31.4</u>			

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### Year ended 31 December 2022

Rank	Customer	Relationship with us	Business scope	Products/ services sold/ provided by our Group	Revenue	As a percentage of our total revenue	Payment method	Credit term	Approximate length of relationship with our Group
					(RMB'000)	(%)			
1	Customer A <sup>(Note 2)</sup>	Independent Third Party	Government authority	Engineering construction services and price subsidies received therefrom	206,491 <sup>(1)</sup>	14.3	Bank transfer	Nil	Since 2012
2	Customer D <sup>(Note 5)</sup>	Independent Third Party	Government authority	Engineering construction services	139,085	9.6	N/A	N/A	Since 2013
3	Customer B <sup>(Note 3)</sup>	Independent Third Party	Government authority	Engineering construction services	39,338	2.7	N/A	N/A	Since 2018
4	Customer C <sup>(Note 8)</sup>	Independent Third Party	Government authority	Engineering construction services	28,727	2.0	N/A	N/A	Since 2012
5	Xinbang Construction Group Co., Ltd* (信邦建設集團有限公司)	Independent Third Party	Civil engineering service provider	Engineering construction services	14,344	1.0	Bank transfer	Nil	Since 2022 <sup>(10)</sup>
		<b>Total</b>			<u>427,985</u>	<u>29.6</u>			

**Notes:**

- (1) During the Track Record Period, we received price subsidies for our provision of heat services under our Shuozhou Project. See “Financial information – Description of major components of our results of operations – Revenue – Heat services” in this document for details.
- (2) Customer A is a government association in charge of residential buildings and public infrastructure management in Shuozhou area.
- (3) Customer B is a public committee managing a specific area located in Shanxi Province. The area was founded in 2016 under the authorisation of the central government, seeking to strengthen local economic development.
- (4) Customer C is a public association in charge of residential buildings and public infrastructure management in Hulunbuir area.

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- (5) Customer D is a public association in charge of residential buildings and public infrastructure management in Lanzhou area.
- (6) Customer E is a public association in charge of residential buildings and public infrastructure management in Shuozhou area.
- (7) Customer F is a technical secondary school founded in 2016 in Lanzhou New Area, nurturing professionals in education field by providing relevant training.
- (8) Customer G is a public association in charge of residential buildings and public infrastructure management in Taiyuan area.
- (9) Customer H is a government association in Shanxi Province endeavoring to promote local economy in Yunzhou District of Datong City through developing economic strategies and enacting policies.
- (10) During the Track Record Period, Xinbang Construction Group Co., Ltd\* (信邦建設集團有限公司) was both a customer and a supplier of the Group. See “– Engineering construction company which is our customer and also our supplier” below in this document for details.

### **Urban development company which is our customer and also our supplier**

During the Track Record Period, an urban development company which is an Independent Third Party was both a customer and a supplier of our Group. Such company is a SOE primarily engaged in city development in Lanzhou of Gansu Province.

During the Track Record Period, the aforementioned urban development company was a commercial heat service customer of our Group. For the years ended 31 December 2020, 2021 and 2022, revenue from such company for the provision of our heat services was approximately RMB7.0 million, RMB8.9 million and RMB11.4 million, respectively, representing approximately 0.5%, 0.7% and 0.8% of our total revenue for the same years. Our gross profit generated from such company for the years ended 31 December 2020, 2021 and 2022 amounted to approximately RMB4.5 million, RMB3.9 million and RMB5.5 million, respectively, representing approximately 1.5%, 1.2% and 1.8% of our gross profit for the same years, respectively.

During the Track Record Period, the aforementioned urban development company sold gas-fired boilers to us for our provision of heat services, being our primary business operation, in 2021. Our purchase amount in relation to gas-fired boilers from such company for the years ended 31 December 2020, 2021 and 2022 amounted to nil, RMB23.7 million and nil, representing approximately nil, 2.7% and nil of our total purchase for the same years, respectively.

Our Directors have confirmed that our trade payables to and our trade receivables from the aforementioned urban development company were settled separately, and the relevant sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors have also confirmed that all of the transactions involving such company were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis. The terms of our transactions with such company were individually and separately negotiated with us and comparable to transaction terms with our other customers and suppliers. The prices of the transactions with such company were no less favourable than from our other customers and suppliers.



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### **Engineering construction company which is our customer and also our supplier**

During the Track Record Period, an engineering construction company which is an Independent Third Party was both a customer and a supplier of the Group. Such a company is a private company primarily engaged in the provision of engineering construction services in the PRC.

During the Track Record Period, the aforementioned engineering construction company was an engineering construction services customer of our Group in 2022. For the years ended 31 December 2020, 2021 and 2022, revenue from such company for the provision of our heat services was approximately nil, nil and RMB14.3 million, respectively, representing approximately nil, nil and 1.0% of our total revenue for the same years. Our gross profit generated from such company for the years ended 31 December 2020, 2021 and 2022 amounted to approximately nil, nil and RMB2.2 million, respectively, representing approximately nil, nil and 0.7% of our gross profit for the same years, respectively.

During the Track Record Period, the aforementioned engineering construction company provided engineering construction services to us for our engineering construction services segment. Our purchase amount in relation to engineering construction services from such company for the years ended 31 December 2020, 2021 and 2022 amounted to RMB1.1 million, RMB11.1 million and RMB7.3 million, representing approximately 0.1%, 1.3% and 0.7% of our total purchase for the same years, respectively.

Our Directors have confirmed that our trade payables to and our trade receivables from the aforementioned engineering construction company were settled separately, and the relevant sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors have also confirmed that all of the transactions involving such company were conducted in the ordinary course of business under normal commercial terms and on arm's length basis. The terms of our transactions with such company were individually and separately negotiated with us and comparable to transaction terms with our other customers and suppliers. The prices of the transactions with such company were no less favourable than from our other customers and suppliers.

### **Government administration bureau which is our customer and also a lessor of heat service facilities**

During the Track Record Period, a government administration bureau which is an Independent Third Party was both a customer and a lessor of heat service facilities of our Group. Such government administrative bureau is a government entity in Shuozhou of Shanxi Province.

During the Track Record Period, the aforementioned government administration bureau was an engineering construction customer of our Group. According to our engineering construction services agreement, we are entitled to receive consideration from such bureau. For the years ended 31 December 2020, 2021 and 2022, engineering construction services provided

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to such bureau amounted to approximately RMB12.7 million, RMB19.7 million and nil, respectively. There was no gross profit generated in these transactions since the transactional amounts represented actual expenses which had been/will be subsequently reimbursed by such bureau.

During the Track Record Period, the aforementioned government administrative bureau leased certain heat service facilities, including primary distribution pipelines and heat exchange stations, to us to operate our Shuozhou Project. According to the heat service facilities leasing arrangements, we shall pay RMB9.5 million to such bureau each year.

Our Directors have confirmed that our payables to the aforementioned government administrative bureau and rights to receive consideration from such bureau, assuming our engineering construction services were fully performed, were neither inter-connected nor inter-conditional with each other. Our Directors have also confirmed that the engineering construction services and leasing arrangements were conducted in the ordinary course of our concession operation under normal commercial terms and on arm's length basis. The terms of our engineering construction services and leasing arrangements were individually and separately negotiated between the government administrative bureau and us.

### QUALITY CONTROL AND SAFETY MAINTENANCE

We highly emphasise heat service quality. We strictly comply with all government regulations prescribing heat service standards and safety and emergency response requirements. Pursuant to the relevant laws and regulations, for residential heat service users, day and night average in-room temperature (including that in living rooms and bedrooms) should not be lower than 18°C with heat services. We monitor each key stage involved in our provision of heat services, including heat production and heat distribution, to ensure conformity with all specific requirements according to the applicable regulations. As at the Latest Practicable Date, our quality control team consisted of 44 employees and they were primarily responsible for monitoring and adjusting equipment operation.

### REPORTING AND EMERGENCY RESPONSE MECHANISM

To maintain a robust and stable system for our heat services business, we have adopted an effective emergency response mechanism to cope with any suspension of our heat services, damage to heat service facilities or other accidents arising from our heat services operation. With such mechanism, we are capable of minimising the risks associated with emergencies.

We have also adopted a comprehensive internal notification system, specifying different reporting procedures for different levels and scales of accidents. Any malfunction that affects the normal operation of our heat services must be notified to the dispatch centre within 20 minutes of such malfunction. The repair personnel must make a progress report to the supervisor every two hours during troubleshooting. We will notify the occupants of the relevant premises prior to the resumption of our heat services. In the case of serious malfunctions, the heat service department should be informed in a timely manner.

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We have different emergency responses for different kinds of failure in respect of our heat services. For a partial or full suspension of our heat services due to a breakdown of heating facilities, our engineering department will immediately organise a repair of the facilities, striving to resume heating as soon as possible. For our heat services in Hulunbuir of Inner Mongolia Autonomous Region, where the weather is extremely cold during the winter, Hulunbuir Shuangliang is equipped with emergency mobile heating vehicles which can provide heat services in emergency situations such as a temporary suspension of our heat services. For leakage in the distribution pipelines, emergency repair personnel will formulate repair plans and temporary operation plans for the relevant distribution pipelines or heat exchange stations, and implement the plans immediately upon approval. Accidental power shortage should be reported to the local power supply bureau or the electricity control department for inspections and repairs, and the standby generator should be put into operation immediately. For any failure of the water supply systems used by us for the distribution of heat from our heat sources to the heat exchange stations, and from the heat exchange stations to the premises to which we provide heat services, the repair work should be conducted by the water supply company or our repair personnel depending on the circumstance of such failure.

In addition, we have reserved personnel, resources and funds for our handling of heat service emergencies. Our customer service system enables emergency incidents to be conveniently reported to our customer service team, who will then report the relevant information to the relevant departments for their further handling. Each of our heat service operating subsidiaries and local branches are required to set up an emergency rescue team and maintain emergency rescue devices, such that our central despatch and command centre can coordinate and direct the emergency response actions of each subsidiary. Upon resolving an emergency incident, the emergency command office shall immediately organise on-site cleaning and production recovery work, followed by a comprehensive evaluation. The emergency command office shall carefully analyse the cause of the emergency incident, formulate and supervise the implementation of improvement measures and revise the existing emergency plan. The emergency command office is also responsible for dealing with the public relations aspect of emergency incidents. Each of our heat service related units shall conduct periodic emergency drills under specific requirements.

During the Track Record Period, we had fully discharged our obligations to report the occurrence of emergency events to the relevant authority and/or inform our heat service customers of the same according to all relevant laws and regulations, as the case may be, and we were not required to compensate any of our heat service customers due to heat service disruption or suspension. Our Directors have confirmed that we have not experienced any interruption or suspension of our heat services which had a material adverse impact on our business operation during the Track Record Period and up to the Latest Practicable Date.

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### MACHINERY, MAINTENANCE AND REPAIR

Our major heat production equipment includes lithium bromide absorption heat pumps, electrically driven compression heat pumps, steam-to-water heat exchangers, water-to-water heat exchangers, coal-fired boilers and gas-fuelled boilers. Our heat distribution mainly relies on our primary distribution pipelines and the heat exchange systems. Each heat exchange system typically involves plate heat exchangers, circulation pumps, make-up water pumps, strainers, water tanks, electric power distribution cabinet and control cabinet. We obtain our heat production and distribution machinery and equipment through procurement, operational leases and finance leases.

We have a dedicated team to ensure normal heat production and distribution as well as emergency response. Our in-house maintenance personnel are typically responsible for routine and ordinary maintenance and repair works. However, maintenance and repair works which are complex in their nature and require specific expertise are undertaken by equipment manufacturers and construction contractors, if necessary.

Our major maintenance works are typically carried out outside of our heat service period every year. We maintain schedules and procedures for routine maintenance, inspection and repairs and our primary distribution pipelines are subject to maintenance and repair throughout the year. The maintenance and repair plan is formulated based on the conditions of the heat service facilities and equipment recorded in the previous heat service period.

Our total maintenance expenses for our heat service facilities for the years ended 31 December 2020, 2021 and 2022 were approximately RMB16.5 million, RMB13.2 million and RMB19.2 million, accounting for approximately 1.5%, 1.4% and 1.7% of our total cost of sales for the same years, respectively.

### AWARDS, RECOGNITION AND ACCREDITATION

We obtained awards, recognition and accreditation from various government authorities or other organisations in relation to our business. The following accolades are important to our business operations.

<u>Time of grant</u>	<u>Award/accreditation</u>	<u>Awarding authority</u>	<u>Awarded entity</u>
December 2022	High and new technology Enterprise Certificate (高新技術企業證書)	Shanxi Provincial Department of Science and Technology, Shanxi Provincial Department of Finance, Shanxi Provincial Taxation Bureau of the State Taxation Administration (山西省科學技術廳、山西省財政廳、國家稅務總局山西省稅務局)	Shanxi Shuangliang New Energy

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Time of grant	Award/accreditation	Awarding authority	Awarded entity
October 2022	High and new technology Enterprise Certificate (高新技術企業證書)	Gansu Provincial Department of Science and Technology, Gansu Provincial Department of Finance, Gansu Provincial Taxation Bureau of the State Taxation Administration (甘肅省科學技術廳、甘肅省財政廳、國家稅務總局甘肅省稅務局)	Lanzhou Shuangliang
December 2021	High and new technology Enterprise Certificate (高新技術企業證書)	Shanxi Provincial Department of Science and Technology, Shanxi Provincial Department of Finance, Shanxi Provincial Taxation Bureau of the State Taxation Administration (山西省科學技術廳、山西省財政廳、國家稅務總局山西省稅務局)	Taiyuan Renewable Energy
December 2020	High and new technology Enterprise Certificate (高新技術企業證書)	Shanxi Provincial Department of Science and Technology, Shanxi Provincial Department of Finance, Shanxi Provincial Taxation Bureau of the State Taxation Administration (山西省科學技術廳、山西省財政廳、國家稅務總局山西省稅務局)	Shanxi Demonstration Zone Heat Supply
October 2019	Shanxi Province Professional and Innovative Small and Medium-sized Enterprises (山西省專精特新中小企業)	Shanxi Provincial Small Business Development and Promotion Bureau (山西省小企業發展促進局)	Taiyuan Renewable Energy
March 2017	2016 Safe Production Award – Advanced Collective (2016年度安全生產先進集體)	Work Safety Committee of Shanxi Shuozhou Economic Development Zone (山西朔州經濟開發區安全生產委員會)	Shuozhou Renewable Energy
December 2014	Honesty Enterprise (誠信企業)	Taiyuan Working Committee for the Identification of Small and Medium-sized Integrity Enterprises (太原市中小微誠信企業認定工作委員會)	Taiyuan Renewable Energy
March 2012	Excellent Foreign Investment Enterprise (外來投資優秀企業)	Shuozhou Investment Promotion Bureau (朔州招商引資局)	Shuozhou Renewable Energy

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### COMPETITION

According to the Frost & Sullivan Report, the heat service market in the PRC is fragmented with a large number of market players. Currently, most market players in the heat services industry in China fall into three categories: specialised heat services providers, subsidiaries of power generation groups and property developers. The major players in the heat services industry in China are specialised heat services providers and most of the players are State-owned companies. In 2022, the total actual heat services area in China was 11,239.4 million sq.m. The majority of the top 10 players were State-owned companies. The aggregate heat services area of the top 10 companies accounted for more than 16.0% of the total actual heat services area in the PRC in 2022, with the tenth largest heat services provider having an actual heat services area of more than 100.0 million sq.m.. We were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report. We believe that we have distinguished ourselves from our competitors through (i) potential of business growth with the areas covered by concession rights we obtained; (ii) cross-provincial business coverage; (iii) extensive experience in the use of clean heat sources; and (iv) our integrated and digitalised heat services management platform, which enable us to remain competitive in the future. See “Industry overview – Competitive analysis of the heat services industry in the PRC” in this document for further details on the markets in which we operate and for a discussion of our competition.

### RESEARCH AND DEVELOPMENT

We emphasise on the patents, copyrights, technological know-how and other intellectual property required for our heat service operation in order to strengthen our leading position in the heat service industry and enhance our competitiveness further. Our research efforts are focused on improving our heat sources portfolio with a view to utilising more clean energy heat sources, as well as improving our heat services management platform to reduce costs and enhance our operational efficiency. We have a dedicated research and development team consisting of 20 employees with extensive industry experience in heat service related design and technology. We have established a research and development centre in Taiyuan of Shanxi to enhance our research and development capabilities, strengthen our research and application of new energy heat service technologies and promote innovation. We have also collaborated with leading research centres and educational institutions to develop innovative technologies. For details, see “Our competitive strengths” in this section.

Our research and development expenses were approximately RMB4.7 million, RMB7.7 million and RMB8.2 million for the years ended 31 December 2020, 2021 and 2022, representing 0.4%, 0.8% and 0.7% of our total cost of sales for the same periods, respectively. None of our research and development expenses were capitalised during the Track Record Period.

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The following table sets out a list of key personnel in our research and development team, which is located at our research and development headquarter in Taiyuan:

<b>Name</b>	<b>Education</b>	<b>Relevant working experience</b>
Mr. Chen Xibao (陳喜報先生)	Mr. Chen graduated from Zhengzhou College of Technology* (鄭州工學院) in June 1995. He majored in fine chemical engineering.	Mr. Chen has been serving our Group since December 2009. He is primarily responsible for research and analysis of market development. Mr. Chen is the person-in-charge of the Xinmi Project, and is responsible for the preparation works for the commencement of our provision of heat services in Xinmi from the 2023/2024 heat service period in or around November 2023. Mr. Chen is a member of our senior management. For details, see “Directors, supervisors and senior management – Senior management” in this document.
Mr. Ma Ningfu (馬寧甫先生)	Mr. Ma graduated from Southwest Jiaotong University (西南交通大學) in June 2006. He majored in telecommunication and software engineering science.	Mr. Ma has been working in Shanxi Shuangliang New Energy since January 2011. His responsibilities cover the research and development of our heat services management platform and digitalisation of our auto-control system in our heat service value chain.

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<u>Name</u>	<u>Education</u>	<u>Relevant working experience</u>
Mr. Zhang Liangliang (張亮亮先生)	Mr. Zhang graduated from Taiyuan University of Technology (太原理工大學) in July 2010. He majored in building environment and equipment engineering.	Mr. Zhang has been working in Shanxi Renewable Energy since July 2010. His responsibilities cover design and technology related works. He was involved in the development of the single well circulation geothermal heating system, of which Shanxi Renewable Energy obtained copyright registration on 11 April 2019 and obtained a utility patent registration on 14 January 2020.
Ms. Jia Jia (賈佳女士)	Ms. Jia graduated from Taiyuan University of Science and Technology (太原科技大學) in July 2007. She majored in computer science and technology.	Ms. Jia has been working in Shanxi Renewable Energy since August 2008. Her responsibilities cover design and technology related work. She was involved in the development of the combined heating system of geothermal heating and central heating, of which Shanxi Renewable Energy obtained a utility patent registration on 4 March 2019.
Mr. Wu Ruipeng (武瑞朋先生)	Mr. Wu graduated from Taiyuan University of Technology (太原理工大學) in July 2010. He majored in building environment and equipment engineering.	Mr. Wu has been working in Shanxi Renewable Energy since July 2010. His responsibilities cover design and technology related work. He was involved in the development of the integrated heating pipe network system based on multiple heating methods, of which Shanxi Renewable Energy obtained a utility patent registration on 19 May 2020.



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### INTELLECTUAL PROPERTY

We place significant emphasis on developing our brand image alongside our cross-provincial operation and we therefore think intellectual property rights are crucial to our business. We currently possess a set of leading clean energy heat service technologies and a variety of other heating technologies. 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, five of which were for inventions relating to heat service systems during cogeneration process that are leading technologies in the industry. The others were for utility models relating to heat exchange operation and monitoring. In addition, we had two inventions and three utility models pending registration for patents. For details of our material intellectual properties, see "Statutory and general information – Further information about our business – Intellectual property rights" as set out in Appendix VII to this document.

We will continue to take a proactive approach and seek to maintain proper registration of our intellectual property rights. We also rely on trade secrets protection and contractual restrictions to safeguard our intellectual property rights. We closely monitor and collect information on any instances of infringement on our intellectual property rights, and we take legal action and cooperate with local authorities to protect our intellectual property rights where necessary.

During the Track Record Period and up to the Latest Practicable Date, we were not involved in any infringement of others' intellectual property rights or infringement of our intellectual property rights by others that would have a material adverse impact on our business and we were not involved in any proceedings involving infringement of intellectual property rights.

### INSURANCE

As at 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, properties, equipment and machinery, pipelines, vehicles, computers and other properties owned by us. The insurance coverage varies at entity level to accord with local and industry practise. Based on our past experience and understanding of the prevailing industry practise in the locations where we operate, we believe the coverage of such property insurance is adequate to cover any material property damages and is in line with the industry norm. As we are expanding our business and we may face potential risk exposure due to the change of regulatory schemes, we may be subject to certain losses and/or claims. For details, see "Risk factors – Risks relating to our business and industry – Our insurance coverage may not extensively cover the risks related to our business" in this document.

We are required to maintain mandatory social security insurance policies for our employees in the PRC pursuant to applicable PRC laws. See "Employees" in this section for further details. In addition, we expect that we will maintain directors' and officers' liability insurances for the executive Directors and executive officers of our Company after the [REDACTED].

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With the expansion of our business and potential new risk exposure, we may procure further insurance policies as our Directors deem appropriate. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material business interruptions or material insurance claims.

### EMPLOYEES

As at the Latest Practicable Date, we had a total of 887 employees, amongst which over 57.2% had working experience of more than five years in heat service operation and approximately 29.1% held professional title certificates in the areas such as engineering, accounting and administration. Our employees are located across Jiangsu Province, Shanxi Province, Gansu Province, Inner Mongolia Autonomous Region and Henan Province in the PRC. For the years ended 31 December 2020, 2021 and 2022, our employee benefit expenses were approximately RMB77.4 million, RMB90.0 million and RMB91.6 million, respectively.

During the Track Record Period and up to the Latest Practicable Date, our employees did not negotiate their terms of employment through any labour union or by way of collective bargaining agreements nor did we have any material disputes with our employees, or experience any strike, labour disputes or industrial actions that may have a material adverse effect on our business, financial position and results of operations. We believe that our senior management has maintained a good relationship with our staff members.

The tables below set out breakdowns of employees by function, location and gender, and the corresponding percentage of our total employees, as at the Latest Practicable Date:

<b>Function</b>	<b>Number of employees</b>	<b>Percentage of our total employees</b>
		(%)
Management	8	0.9
Heat service operation and customer services	711	80.2
Technical support	21	2.4
Procurement	9	1.0
Operating and machinery control	16	1.8
Business advisory	8	0.9
Finance	35	3.9
Administration	79	8.9
<b>Total</b>	<b>887</b>	<b>100.0</b>

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<b>Location</b>	<b>Number of employees</b>	<b>Percentage of our total employees</b>
		(%)
Shanxi Province	581	65.5
Gansu Province	186	21.0
Inner Mongolia Autonomous Region	89	10.0
Henan Province	20	2.3
Jiangsu Province	11	1.2
Total	<u>887</u>	<u>100.0</u>

<b>Gender</b>	<b>Number of employees</b>	<b>Percentage of our total employees</b>
		(%)
Male	664	74.9
Female	223	25.1
Total	<u>887</u>	<u>100.0</u>

### **Training**

We highly value our employees and place emphasis on the development of our employees. In order to advance the skills and knowledge of our employees as well as to explore new potentials from our workforce, we invest in continuing education and training programmes for our management and ordinary staff members to update their skills and knowledge periodically. Generally, our training focuses on matters relating to our operation, technical knowledge and work safety standards and environmental protection.

### **Recruitment and remuneration**

We believe that our quality personnel are our key to success and future development. In the future, we will recruit talent from various sources, such as universities, online platforms, third-party recruitment agencies, and other companies, and provide training and promotion opportunities to our staff members of our own accord.

The remuneration package of our employees includes basic salary, performance salary and allowances. We determine employee remuneration based on factors such as qualifications, expertise and years of relevant experience. We must comply with PRC laws and regulations relating to social welfare. In accordance with applicable PRC regulations, we currently

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participate in social insurance contribution plan organised by the relevant local governments. We currently provide employees with a pension insurance programme, medical insurance programme, unemployment insurance programme, individual work injury programme, maternity insurance contributions and employee public housing reserve contributions and other welfare benefit.

### **Social insurance and housing provident fund contributions**

During the Track Record Period, some of our PRC subsidiaries did not make full contributions to the social insurance and housing provident funds for some of our employees as required under PRC laws and regulations. For further details, please see "Regulatory compliance – Non-compliance incidents – (1) Social insurance and housing provident fund contributions" in this section.

### **Equal employment in the workforce**

We promote equal employment opportunities and avoid all forms of illegal employment such as child labour and forced labour as stipulated in our internal regulations on labour management of employees. We respect the diverse backgrounds of our employees and strictly eliminate ethnic discrimination.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material labour dispute with our employees including any strikes and labour disturbances nor receive any relevant complaints, notice or orders from relevant government authorities or third parties that have materially interfered with our operations, and we believe that our senior management has maintained a good working relationship with our staff.

### **Gender diversity in the workforce**

We recognise gender diversity in the workplace as a key factor in our continuous development and success. Since our incorporation, we have been actively promoting gender equality within our Group. We incorporate gender equality into all aspects of our business operation. We take into account gender diversity when we hire and promote talents. We provide additional trainings to female employees which helps them to excel in our industry where the male-female talent ratio is disproportional. We also invite female employees for advice so that our decision-making process can be transparent. By such measures, our female employees are closely allied and actively monitor any major decision that may have a significant impact on female employees' interests and benefits within our Group. In addition, we are committed to grow our female leaders organically. We pay special attention to our female employees' performance through our annual appraisal and promote suitable female employees to management level in accordance with our gender diversity policy. As at the Latest Practicable Date, we had a measurable number of female employees acting as the principals and leaders of various units in our Group.

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### Dispatched staff

As at 31 December 2020, 2021 and 2022, the total number of dispatched staff at four of our subsidiaries was 211, 193 and 10, which accounted for approximately 24.8%, 18.1%, 5.1% of the total number of our workers at those subsidiaries, respectively. For the years ended 31 December 2020, 2021 and 2022, the total cost involved in the labour dispatch arrangements was approximately RMB1.8 million, RMB8.0 million and RMB0.4 million, respectively.

These labour dispatch arrangements were temporary in nature and according to the labour dispatch agreements, dispatched staff were mainly involved in supporting functions of our business operation in respect of warehouse and logistics management, cargo handling and transportation. According to the labour dispatch agreements, (i) each subsidiary was responsible for paying wages to the dispatched staff and ensure their occupational health and safety; (ii) the employment agent was responsible for arranging for their insurance and other welfare conditions as required by the applicable PRC laws and regulations; and (iii) we paid service fees at a rate of RMB20.0 per staff to the employment agent, and the employment agent provided suitable dispatched staff to work for our Group based on our job requirements. As the dispatched staff were employed by an employment agent, they were not our formal employees.

During the Track Record Period, the percentage of dispatched staff that worked at four of our subsidiaries exceeded the legally required threshold. For further details, please see "Regulatory compliance – Non-compliance incidents – (2) Dispatched staff" in this section.

### OCCUPATIONAL HEALTH AND SAFETY

We are subject to various PRC laws and regulations regarding labour, safety and work related incidents. For more information, see "Regulatory overview" in this document. We are committed to maintaining a safe working environment and promoting the awareness of occupational health and safety within our Group. We place significant emphasis on quality control on our raw materials and services, proper maintenance of our facilities as well as maintenance of operation and heat usage safety. Our production safety unit is responsible for safety and maintenance matters arising from different operation processes. As at the Latest Practicable Date, our production safety unit comprised 50 employees (including technicians and engineers), a majority of whom had more than three years of experience in the heat services industry. Their responsibilities mainly include (i) keeping track of the relevant regulatory and industry standards regarding safety, maintenance and quality control; (ii) formulating and reviewing our internal safety inspection, facilities maintenance and quality control procedures and standards; (iii) monitoring the implementation of the above procedures and standards in our day to day operation and reporting high-level issues to senior management for instructions; (iv) maintaining detailed records for related matters; and (v) delivering safety training for our employees.

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We have established strict quality control standards on various aspects of our raw materials supply, construction of primary distribution pipelines, facilities repairs and maintenance to ensure the safety and stability of our heat service. We have internal procedure manuals and policies to cover the maintenance of our operation facilities. We strictly follow government regulations when adopting our own safety rules and emergency recovery plans, which are imposed on all of our employees. Failure to comply with those regulations may result in penalties, fines and sanctions. For details, see "Risk factors – Risks relating to our business and industry – 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" in this document.

We conduct periodic inspections and maintenance projects for our heat service facilities to ensure safe and stable operation. Any abnormality noted during the periodic safety checks will be reflected in our safety records and follow-up remedial actions will be taken by the responsible departments and officers accordingly.

We have established a production safety committee, where the general manager serves as the director of the committee. We have also dedicated occupational safety personnel at each of our operating subsidiaries in the PRC. These occupational safety personnel are in charge of (i) conducting regular training sessions for employees on accident prevention and management; and (ii) submitting occupational safety reports to the board of directors and performance evaluation department. We believe our health and safety control measures are adequate and comply with applicable laws and regulations in all material respects. During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major accident during the course of their employment and the relevant PRC authorities had not imposed any sanctions or penalty on us for incidents of non-compliance of any health and safety laws or regulations in the PRC.

In view of the outbreak of COVID-19 in the PRC and to ensure continuous business operations of our Group, we have adopted enhanced hygiene and precautionary measures since January 2020 whereby our employees shall take all practicable steps to maintain a hygienic and safe working environment. These include the following measures:

- requiring our employees to report their travel history and the health conditions of themselves and their close contacts;
- requiring our employees to record their visits through the "Ding Ding Safe" App (釘釘健康打卡);
- requiring our employees to wear masks and strictly follow the rule of "one-metre" distancing (一米線);
- screening visitors to our business premises through temperature check and inquiry on their exposure history; and
- frequently cleaning and disinfecting our business premises and our operational facilities.

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Our Directors confirm that the additional costs associated with the above enhanced measures did not have a significant impact on our Group during the Track Record Period. For more information relating our response towards COVID-19, see “Effects of the COVID-19 outbreak – Our response towards the COVID-19 outbreak” in this section.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE

To cope with the increasing risk from climate change, environmental protection is viewed as an integral corporate responsibility within our Group. We are dedicated to lowering the negative environmental impact of our business operations. Environmental stewardship is essential for us to fulfil CSR. We uphold the concept of sustainable development, focus on diversity management, defend public interests and expect to generate value for our Shareholders. As such, our Group has followed a policy on environmental, social and governance (“ESG”) responsibilities in accordance with the Listing Rules, which sets out our CSR objectives and provides guidance on how we implement corporate social responsibility in our daily operations.

#### Our ESG policy

We have developed an ESG policy (the “**ESG Policy**”). Under our ESG Policy, we strive to operate in a manner that protects the environment, safety and health of our employees and communities. Our target is to sustainably connect with our employees, customers, and business partners through a combination of initiatives which create long-lasting benefits. We provide development and training activities for our employees, and solutions for our customers, and encourage our business partners to actively fulfil corporate social responsibilities. We are also committed to providing equal employment and development opportunities for all employees. In the recruitment process, we prohibit discrimination based on differences in gender, ethnicity and religious belief.

Specifically, our ESG Policy includes the following key areas: (i) environmental protection and resource conservation; (ii) measures to deal with extreme weather; (iii) heat services quality and compliance; (iv) investor rights protection and partnership handling; (v) promotion of employment and protection of employee rights; (vi) CSR management; (vii) data security and personal information protection; and (viii) staff training management.

#### Our ESG working group

Our Board has ultimate responsibility for ESG strategy, management, performance, and reporting, and is responsible for reviewing and approving our Group’s major ESG-related policies and frameworks in accordance with Appendix 27 to the Listing Rules. In addition, our Board is responsible for reviewing the impact of climate change on our Group. In accordance with our ESG Policy, we have established a management structure of the ESG working group composed of our Board of Directors, senior management and relevant departments of our Group (the “**ESG Working Group**”).

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Our ESG Working Group established under the Board of Directors has well-defined duties and responsibilities to oversee our Group’s ESG matters. Our ESG Working Group is headed by Mr. Li Baoshan (李寶山先生), an executive Director and general manager of our Group, and other members include the management of various departments. Directed and supervised by our Board, the ESG Working Group is responsible for handling all ESG related matters, monitoring and assessing any ESG related risks that we may be exposed to, identifying and assessing risks and opportunities for climate change, organising regular meetings to discuss and determine ESG-related issues that need to be further addressed by our senior management, reporting to our Board regularly on ESG-related risks, opportunities and performance, advising our Board in respect of ESG reporting, strategies, initiatives and objectives, and participating in international and national conferences in respect of ESG-related matters.

### **Environmental, social and climate-related risks and opportunities**

We adopt a responsible and sustainable approach to operate our business, actively maintain business transparency, and make a responsible commitment to our stakeholders. Our Group strives to not only protect the rights and interests of our Shareholders, but also safeguard the rights and interests of our employees, customers, suppliers, various communities, and different stakeholders. In order to manage ESG matters more effectively, we have formulated and revised relevant policies, and conducted regular reviews to coordinate relevant efforts across our Group.

In addition, we pay close attention to the latest ESG-related laws and regulations and update our ESG Policy accordingly to ensure that we comply with the latest regulatory laws and regulations. We will use the following methods to identify, manage and assess material ESG-related issues:

- *Identification:* We identify the economic, environmental and social impacts of our business through media analysis, peer benchmarking and communication with key stakeholders (including our major customers, major suppliers, and employees). We discuss ESG-related issues with all stakeholders (including our investors, customers, business partners and our employees) to collect their views on our ESG measures and practices, which can help us better identify and consider the ESG issues and risks inherent in our business operations and formulate effective ESG measures to mitigate those risks.
- *Management and assessment:* We develop responses to ESG-related issues that may affect our business and monitor the implementation of our plans. In addition, we regularly assess ESG-related issues arising from our business operations, including climate-related issues, ESG measures, major action plans, risk management policies, and annual budget for implementing these ESG measures, as well as our business plans.



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### *Climate-related risks and opportunities*

With increasing climate change effects and frequency of extreme weather events, we fully realise that climate change is one of the crucial factors in achieving the sustainability of our business. To ensure the stable and long-term returns for our stakeholders, we have identified and assessed climate-related risks and opportunities that may affect our business and financial performance. We continuously monitor and assess those identified risks to our business and develop action plans to mitigate their impacts. We refer to the recommendations of the Task Force on Climate-related Financial Disclosures (the “TCFD”) to identify climate-related risks and opportunities which are relevant to our business. We will disclose more details of our counter measures and future plans after the [REDACTED].

All of our projects have obtained environmental impact assessments prior to construction. We take corresponding measures in accordance with the requirements of environmental laws and regulations to minimise the impact on the environment during project construction and operation periods. As at the Latest Practicable Date, our heat service projects in operation were located in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region. These provinces are subject to the temperate continental climate which is characterised by cold winters, windy springs, rainy summers and autumns, rare high temperature and hot weather, dry air and less precipitation throughout the year. We have identified the following short-term (1-3 years), medium-term (4-10 years), and long-term (over 10 years) climate-related risks and their potential impacts on our business and financial performance.

Classification		Timeframe	Climate-related risks assessed	Potential impacts
Physical risks	Acute	Medium and long term	<ul style="list-style-type: none"> <li>Frequency of extreme weather events such as sandstorms, blizzards, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Reduced production capacity due to the electricity shortage</li> <li>Increased operating costs due to inadequate water supply for our water circulation network</li> </ul>
	Chronic	Long term Long term	<ul style="list-style-type: none"> <li>Extreme variability in weather patterns</li> <li>Rising mean temperatures</li> </ul>	<ul style="list-style-type: none"> <li>Increased costs due to the damage to heat service facilities</li> <li>Reduced revenues from lower sales, for examples the shortened heating period</li> </ul>

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Classification		Timeframe	Climate-related risks assessed	Potential impacts
Transition risks	Policy and law	Short term	<ul style="list-style-type: none"> <li>Increased pricing of greenhouse gas emissions</li> </ul>	<ul style="list-style-type: none"> <li>Increased costs of compliance with laws and regulations</li> </ul>
		Short term	<ul style="list-style-type: none"> <li>More stringent obligations to disclose the information of emissions</li> </ul>	
		Short and medium term	<ul style="list-style-type: none"> <li>Regulation on existing products and services</li> </ul>	
	Technology	Medium and long term	<ul style="list-style-type: none"> <li>Costs of transition to technology with lower emissions</li> </ul>	<ul style="list-style-type: none"> <li>Early retirement of the coal-fuelled boilers</li> <li>Research and development expenditures in new and alternative technologies such as solar power and air heat pumps</li> <li>Costs to use/deploy carbon capture and storage technologies</li> </ul>
		Long term	<ul style="list-style-type: none"> <li>Substitution of existing heating sources with clean energy featuring lower GHG emissions</li> </ul>	
	Market		Short term	<ul style="list-style-type: none"> <li>Increased cost of raw materials</li> </ul>
Medium and long term			<ul style="list-style-type: none"> <li>Increased stakeholders’ attention or negative feedback</li> </ul>	

In order to reduce the risk of future climate change, we plan to apply cleaner heat sources, such as solar energy and air energy to achieve a combination of low-carbon heat source. Therefore, we can gradually reduce our GHG emissions from our own operations. Based on our business development strategy and planning, we have identified the following climate-related opportunities in five main aspects including resource efficiency, energy source, products and services, markets, and business development resilience, with reference to the TCFD recommendations.

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### *Climate-related opportunities*

Type	Climate-related Opportunities	Potential Impacts
Resource efficiency Energy sources	<ul style="list-style-type: none"> <li>• Water recycling</li> <li>• Use low emission energy, such as geothermal energy</li> <li>• The financial support of government for heating services powered by clean energy</li> <li>• Use of new heating technologies and promote the diversification of heat sources</li> <li>• Participation in carbon market</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced operating costs</li> <li>• Reduced exposure to increases in future fossil fuel price</li> <li>• Reduced GHG emissions and therefore less risks posed by increases in carbon costs</li> <li>• Increased capital availability (e.g., investors’ increasing interest in producers with lower emissions)</li> </ul>
Products and services	<ul style="list-style-type: none"> <li>• Expansion of geothermal heating services</li> <li>• Development of new services, such as solar power generation and storage, through R&amp;D and innovation</li> <li>• Users’ tendency for cleaner energy</li> </ul>	<ul style="list-style-type: none"> <li>• Increased revenue through the promotion and use of clean energy sources (e.g., geothermal energy, solar energy, air-source energy)</li> </ul>
Markets	<ul style="list-style-type: none"> <li>• Use of public-sector incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Increased revenues by entering new or emerging markets in partnerships with local governments</li> </ul>
Business development resilience	<ul style="list-style-type: none"> <li>• Participation in renewable energy programs and adoption of energy efficiency measures</li> <li>• Increase the diversification of heating energy</li> </ul>	<ul style="list-style-type: none"> <li>• Increased revenue by using advanced heating technologies to ensure our business resiliency</li> </ul>

### **Our strategies to respond to climate-related risks and opportunities**

In response to physical risks (driven by extreme weather events such as blizzards, sandstorms, cold waves, and droughts), we have formulated detailed emergency plans and educated our employees probably at risk on preparedness measures. In case of emergencies (including natural disasters, accidents, public health events, and social security incidents), we issue early graded warnings according to the urgency, the status and the possible consequences of the emergency to ensure the safety of life and property of our employees and residents of surrounding communities.

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In addition, to reduce or eliminate the adverse effects of climate change or extreme weather events on our daily operations, we have taken the following measures:

- we monitor the indoor and outdoor temperatures in a daily routine. By installing indoor temperature measurement equipment in the heat exchange station used by us, we are able to monitor the heating temperature in real time and adjust the flow in the heating pipe network system to reduce the electricity consumption while meeting the user needs;
- we have established an emergency preparedness team to formulate and implement appropriate emergency plans and mechanisms and organise emergency drills and training on a regular basis every year to improve our employees’ ability to cope with emergencies; and
- we have purchased insurance for our heat exchange equipment and machinery to mitigate risks of destruction and loss.

In addition to ESG policies and measures as aforementioned, our Group also adopted various metrics and numeric targets on environmental-related matters of our business operation based on historical data to implement our ESG Policy and achieve carbon neutrality by 2060. For further details, see “Environmental, social and governance – Metrics and targets on environmental-related matters” and “Heat sources” in this section. In particular, each unit and department of our Company is required to report the emission volume to the ESG Working Group for assessment. We also promote “low carbon office environment” in our offices, according to which our employees are encouraged to (i) consider twice before printing, (ii) switch off the lightening services when they leave the offices; and (iii) reduce unnecessary traveling if remote discussion can be achieved. Our Directors confirmed the above-mentioned measures adopted by our Group for improving energy efficiency and reducing coal consumption and carbon emission have been effective during the Track Record Period.

Under the low-carbon transformation of the global economy, we expect that clean heat sources such as geothermal energy, solar energy, natural gas and air energy will show strong competitiveness in the future heating market. Therefore, we are investing in developing advanced technologies of waste heat recovery, solar energy, air energy and geothermal energy. For our heating projects that have been completed and put into operation, we have taken the following measures to improve our energy efficiency and reduce coal consumption:

- we have installed high-efficient, energy-saving and environment friendly boilers to mitigate the pollution to the environment;
- we have installed our residual heat recycling and utilisation system inside cogeneration plants to recover the exhaust heat for secondary heating; and
- we also use geothermal energy as a clean heat source for our heating business.

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### Environmental protection

We operate our business with a responsible attitude towards the environment, actively fulfil our corporate responsibilities, and promote green and sustainable development. In order to achieve green operation, we have adopted a variety of energy conservation and emission reduction measures to reduce energy consumption and pollutant emissions. Besides, we are actively engaging in developing and utilising the use of clean energy in our business, and thus to reduce GHG emissions during our operation.

We value the ecological value of natural environment, and we are committed to reducing or eliminating the impact that our business may have on the environment. Our production process is clean and efficient, and all projects meet the pollution discharge requirements stipulated by the local governments. During the Track Record Period, we were not subject to any administrative sanctions or penalties for violating environmental laws or regulations. We will continue to strictly implement our environmental protection measures to ensure compliance with the applicable PRC laws and regulations.

For the years ended 31 December 2020, 2021 and 2022, we incurred ESG-related costs of approximately RMB1.4 million, RMB2.1 million and RMB2.1 million, respectively. The costs were mainly related to our Group’s measures to ensure compliance with the applicable environmental and health and safety laws and regulations. Going forward, we expect to incur ESG-related costs of RMB2.3 million, RMB2.3 million and RMB2.5 million for the years ending 31 December 2023, 2024 and 2025, respectively.

### Reducing coal’s environmental impact and consumption

Our coal-fired boilers mainly come from Lanzhou Shuangliang. For the coal-fired boilers, we have set up exhaust gas collection, treatment and monitoring facilities. We have taken a variety of energy-saving and consumption-reducing measures, such as using clean heat sources and developing an integrated heating management platform to improve resources efficiency, reduce the intensity of resource consumption and GHG emissions, and reduce environmental impacts from operations.

1. In terms of the selection and application of heat sources:
  - according to the “Plan for Winter Clean Heating in the Northern Region (2017-2021) “(《北方地區冬季清潔取暖規劃(2017-2021)》), the coal-fired boilers were retrofitted with extra-low emissions. We have installed flue gas denitrification, desulfurization and dust removal treatment devices. The emission concentrations of NO<sub>x</sub>, SO<sub>x</sub> and particulate matter are in line with the “Comprehensive Implementation of the Work Plan for Ultra-low Emissions and Energy-Saving Transformation of Coal-fired Power Plants” (《全面實施燃煤電廠超低排放和節能改造工作方案》) extra-low emission standards limits, that is, the emission concentration limits are 50 mg/m<sup>3</sup>, 35 mg/m<sup>3</sup> and 10mg/m<sup>3</sup> respectively. These retrofitted coal-fired boilers are more

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environmentally friendly and energy efficient. The retrofitted ultra-low emission devices were certified by the Lanzhou New Area Ecology and Environment Bureau (蘭州新區生態環境局) in 2019, which can reduce the pollution caused by exhaust emissions to the environment;

- develop and adopt clean energy such as geothermal energy as an alternative of fossil fuels and contribute to the GHG emission reduction.
- use of two 15.7MW absorption lithium bromide heat pump to recover the heat from our Lanzhou Shuangliang's boiler desulfurization tower. The annual recovered heat was 160,000 GJ-200,000 GJ, which accounting for about 8% of the total heat supply.
- work with co-generation power plants in the region to recover the circulating water and flue gas waste heat, the project has been put into operation, with a scale of 6\*43.5MW and a heating capacity of 2.4 million square meters.

2. In terms of heating system management:

- the heating management platform is established to monitor the heat production system and heating temperature in real time and combine the monitoring parameters to realise automatic regulation of heating equipment, reduce heat loss, and improve energy efficiency and heating safety;
- improve the raw coal sampling methods and use good quality coal for furnace burning;
- conduct thermal insulation treatment on the heating system to improve heat exchange efficiency, and also conduct regular inspection, cleaning and maintenance of heating facilities to reduce heat loss and potential security risks; and
- optimise the heating design scheme and equipment operation mode, reduce the use of high-energy-consuming equipment, and run the circulating water pump in an energy-saving mode to achieve the purpose of reducing energy consumption.

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### Metrics and targets on environmental-related matters

Our ESG Working Group has identified the following key performance indicators (“KPIs”) in relation to our business operation, the consumption are as follows:

KPI	Unit	2020	2021	2022
Resource usage				
a. Total energy consumption	kWh in '000s	734,643	600,180	688,601
1. Non-renewable energy consumption	kWh in '000s	697,754	563,940	648,824
Coal	kWh in '000s	695,349	561,632	639,406
Gasoline	kWh in '000s	91	205	84
Diesel fuel	kWh in '000s	236	160	201
Natural gas	kWh in '000s	2,078	1,943	2,299
2. Renewable energy consumption	kWh in '000s	19,389	20,762	30,093
Geothermal energy	kWh in '000s	19,389	20,762	30,093
3. Purchased energy consumption	kWh in '000s	17,500	15,478	16,517
Electricity	kWh in '000s	17,500	15,478	16,517
b. Total water consumption	m <sup>3</sup>	135,570	129,161	181,380
GHG emission				
KPI	Unit	2020	2021	2022
GHG emissions (Scope 1)	tCO <sub>2</sub> e	240,620	194,341	221,103
GHG emissions (Scope 2)	tCO <sub>2</sub> e	15,613	13,810	14,737
GHG total emissions	tCO <sub>2</sub> e	256,233	208,151	235,840

#### Data description:

- Time frame: From 1 January 2020 to 31 December 2022.
- Scope of entities: the production of the five heating projects under the subsidiaries of the Company.
- Calculation of energy consumption: Different types of energy consumption such as coal, gasoline, diesel, natural gas and purchased electricity are converted in a unified unit. The conversion coefficient of each energy unit refers to the “Energy statistics manual (Annex 3 Units and Conversion Equivalents)” issued by International Energy Agency.

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- The GHG emission calculation is based on two emission sources, classified as direct GHG emissions (coal, natural gas, gasoline and diesel for company vehicles) and indirect GHG emissions (purchased electricity). The direct GHG emission coefficients and calculation methods refer to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories (《2006年IPCC國家溫室氣體清單指南》)
- The emission coefficients of purchased electricity refer to the 2019 Annual Emission Reduction Project China Regional Grid Baseline Emission Factors (《2019年度減排項目中國區域電網基準線排放因子》) issued by the Ministry of Ecology and Environment of China (國家生態環境部).

<u>Key performance indicator</u>	<u>Unit</u>	<u>2022 Emissions</u>	<u>2021 Emissions</u>	<u>2022 Emissions</u>
NOx	kg	38,736	43,191	30,297
SOx	kg	2,276	3,903	8,335
Particulate matter	kg	1,836	2,680	3,009

### Data description:

- Time frame: From 1 January 2020 to 31 December 2022.
- Scope of entities: Lanzhou Shuangliang Heating Facility.
- The emission calculation is based on the amount of emissions from coal-fired boilers.

Our ESG Working Group has set targets and goals concerning the reduction for the waste production and resource consumption, which we expect to achieve by 31 December 2025. The following table sets out our targets by item.

<u>Item</u>	<u>Target</u>
<b>Resources</b>	
Energy	Reduce 5% of energy use intensity by 2025
Water	Reduce 5% of water use intensity by 2025
<b>Wastes</b>	
Exhaust gases	Reduce 5% of the exhaust gas emission intensity by 2025
GHG emissions	Reduce 5% emission intensity of Scope 1 & Scope 2 GHG emissions by 2025
Hazardous wastes	Reduce 5% of the hazardous wastes emission intensity by 2025
Wastewater	Reduce 5% of the wastewater emission intensity by 2025



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### Social matters

Our Group has policies on compensation, dismissal, equal opportunities, diversity and anti-discrimination. Our Group respects the gender, age and ethnicity of each person. Accordingly, our Group gives each job applicant an equal opportunity and we have an internal policy in place to ensure that there is no discrimination as to gender, age and ethnicity. We also attach importance to develop an internal management system within our Group, characterised by anti-bribery, anti-corruption and anti-fraud. By establishing such system, internal rules and regulations are developed to strengthen the anti-corruption management, and to conduct related trainings for our Board and all employees. We are committed to build a corporate culture of fairness, openness, integrity, and honesty, aiming to maintain the good reputation of our Group.

Employees are an important asset to our Group and their growth can contribute to the development of our Group. We have developed a training management system\* (《培訓管理制度》) and a mentor and apprentice management system\* (《師帶徒管理制度》), which set clear regulations on issues such as departmental responsibilities, types of training, training plans, training implementation and impact evaluation. We strive to enhance the quality of our staff through channels, such as standardising training procedures and expanding training modes, aiming to achieve the simultaneous growth of our staff and our Company. Occupational health and safety is also one of our priorities. For details relating to occupational health and safety, see “Occupational health and safety” in this section.

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision and target of our Group, identifying the KPIs and the relevant measurements and evaluating, determining and addressing our ESG-related risks in accordance with Appendix 27 to the Listing Rules, together with other applicable recommendations from the Stock Exchange. Our Board will assess, evaluate the ESG-related risks and review our existing strategy, target and internal controls. If necessary, improvement will be implemented to mitigate the risks that are material to our business operation and Shareholders from time to time. After the [REDACTED], we will publish an ESG report annually in accordance with Appendix 27 to the Listing Rules to qualitatively and quantitatively analyse and disclose important ESG matters, risk management and the accomplishment of key performance objectively.

### PROPERTIES

#### Owned properties

As at the Latest Practicable Date, we had obtained the immovable property rights of two parcels of land and nine buildings (including the relevant parcels of land) in the PRC with an aggregate site area of approximately 117,830.53 sq.m. (excluding commonly owned commercial use land (商業用地共用宗地) and commonly owned urban residential land (城鎮住宅共有宗地)) and an aggregate GFA of approximately 50,472.8 sq.m., which are mainly used for our industrial use, commercial land use and commercial building use.

## BUSINESS

A summary of our owned land and buildings as at the Latest Practicable Date is set out below:

No.	Location	Properties held	Owner	Usage	Approximate site area/ commonly owned land (共有宗地) (sq.m.)	Approximate GFA (sq.m.)
1	Building No. 1&2, 168 South Wucheng Road Taiyuan, Shanxi Province	Production House, Nos. 1-6 Building No. 1, 168 South Wucheng Road, Taiyuan, Shanxi Province	Taiyuan Renewable Energy	Industrial use	20,877.73	25,071.78
2	Building No. 1&2, 168 South Wucheng Road Taiyuan, Shanxi Province	1st Floor Parking Lot, Building No. 1, 168 South Wucheng Road, Taiyuan, Shanxi Province	Taiyuan Renewable Energy	Industrial use/ parking lot	20,877.73	2,565.58
3	Building No. 1&2, 168 South Wucheng Road Taiyuan, Shanxi Province	No. 1 Kitchen, Building No. 2, 168 South Wucheng Road, Taiyuan, Shanxi Province	Taiyuan Renewable Energy	Industrial use/ public utilities (50 years)	20,877.73	672.40
4	Building No. 1&2, 168 South Wucheng Road Taiyuan, Shanxi Province	Floor Nos. 1- 12, Research Block, Building No. 2, 168 South Wucheng Road, Taiyuan, Shanxi Province	Taiyuan Renewable Energy	Industrial use/ research centre	20,877.73	19,178.56
5	Building No. 1&2, 168 South Wucheng Road Taiyuan, Shanxi Province	No. 1 Warehouse, Building No. 2, 168 South Wucheng Road, Taiyuan, Shanxi Province	Taiyuan Renewable Energy	Industrial use/ warehouse	20,877.73	204.78
6	North to Bei'er Street and west to Wangcheng Road Hulunbuir, Inner Mongolia Autonomous Region	North to Bei'er Street and west to Wangcheng Road, Hulunbuir, Inner Mongolia Autonomous Region	Hulunbuir Shuangliang	Public facilities	30,000	-

**BUSINESS**

No.	Location	Properties held	Owner	Usage	Approximate site area/ commonly owned land (共有宗地) (sq.m.)	Approximate GFA (sq.m.)
7	Heping Garden 2-6 No. 101 & 1-7 No. 105, Fendouban South Manzhouli Road Hulunbair, Inner Mongolia Autonomous Region	No. 105, Heping Garden Nos. 2-7, Fendouban, South Manzhouli Road, Hulunbair, Inner Mongolia Autonomous Region	Hulunbair Shuangliang	Other commercial land use/ commercial building use	136,588	264.70
8	Heping Garden 2-6 No. 101 & 1-7 No. 105, Fendouban South Manzhouli Road Hulunbair, Inner Mongolia Autonomous Region	No. 101, Heping Garden Nos. 2-6, Fendouban, South Manzhouli Road, Hulunbair, Inner Mongolia Autonomous Region	Hulunbair Shuangliang	Other commercial land use/ commercial building use	136,588	150.37
9	Fuqiang Garden Nos. 12-0-109 & 11-0- 101 Fendouban, South Manzhouli Road Hulunbair, Inner Mongolia Autonomous Region	No. 12-0-109, Fuqiang Garden, Fendouban, South Manzhouli Road, Hulunbair, Inner Mongolia Autonomous Region	Hulunbair Shuangliang	Other commercial land use/ commercial building use	62,776	209.04
10	Fuqiang Garden Nos. 12-0-109 & 11-0- 101 Fendouban, South Manzhouli Road Hulunbair, Inner Mongolia Autonomous Region	No. 11-0-101, Fuqiang Garden, Fendouban, South Manzhouli Road, Hulunbair, Inner Mongolia Autonomous Region	Hulunbair Shuangliang	Other commercial land use/ commercial building use	62,776	209.30
11	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbair	21-2-2-1001, Fendouban, South Hulunbair Street, Shanshuiyiyuan, Hulunbair	Hulunbair Shuangliang	Office	82,041.10	66.72

**BUSINESS**

No.	Location	Properties held	Owner	Usage	Approximate site area/ commonly owned land (共有宗地) (sq.m.)	Approximate GFA (sq.m.)
12	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1002, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	66.17
13	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1003, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	66.17
14	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1004, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	66.20
15	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1005, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	81.15
16	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1006, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	59.92
17	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1007, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.37
18	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1008, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.37

**BUSINESS**

No.	Location	Properties held	Owner	Usage	Approximate site area/ commonly owned land (共有宗地) (sq.m.)	Approximate GFA (sq.m.)
19	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1009, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	65.65
20	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1010, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	92.22
21	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1011, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.72
22	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1012, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.72
23	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1013, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	63.46
24	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1014, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	99.30
25	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1101, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	66.72

**BUSINESS**

No.	Location	Properties held	Owner	Usage	Approximate site area/ commonly owned land (共有宗地) (sq.m.)	Approximate GFA (sq.m.)
26	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1102, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	66.17
27	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1103, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	66.17
28	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1104, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	66.20
29	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1105, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	81.15
30	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1106, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	59.92
31	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1107, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.37
32	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1108, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.37

**BUSINESS**

No.	Location	Properties held	Owner	Usage	Approximate site area/ commonly owned land (共有宗地) (sq.m.)	Approximate GFA (sq.m.)
33	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1109, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	65.65
34	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1110, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	92.22
35	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1111, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.72
36	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1112, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	61.72
37	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1113, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	63.46
38	10/F, 11/F, Integrated Building, No. 21 Shanshuiyiyuan Phase 2, Hulunbuir	21-2-2-1114, Fendouban, South Hulunbuir Street, Shanshuiyiyuan, Hulunbuir	Hulunbuir Shuangliang	Office	82,041.10	99.30
39	ES #20 north to Guihua Road and ES #15 west to Guihua Lu Lanzhou, Gansu Province	ES #20 north to Guihua Road and ES #15 west to Guihua Lu, Lanzhou, Gansu Province	Lanzhou Shuangliang	Public facilities	66,952.80	-

## BUSINESS

### Property activities

We occupy certain properties in the PRC in connection with our business operation. As at 31 December 2022, certain of our property interests that are for property activities had a carrying amount of 1% or above of our total assets. For details of such properties valued by our property valuer (the “**Valued Properties**”), see the property valuation report as set out in Appendix IV to this document pursuant to Rule 5.01A of the Listing Rules. Save and except for the Valued Properties, our Directors confirmed that as at 31 December 2022, no single property interest of ours that are for property activities had a carrying amount of 1% or above of our total assets and the total carrying amount of property interests not valued did not exceed 10% of our total assets.

Our Directors confirm that as at 31 December 2022, no single property interest that did not form part of our property activities had a carrying amount of 15% or more of our total assets.

### Owned heat service facilities

As at the Latest Practicable Date, we owned and operated primary distribution pipelines with an aggregate length of approximately 546.9 km. As at the same date, we owned one heat exchange station for our heat service operation, which was constructed by us on our land.

### Leased properties

As at the Latest Practicable Date, we leased certain properties in the PRC primarily for office use.

A summary of our leased properties as at the Latest Practicable Date is set out below:

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA  ( <i>sq.m.</i> )
1	Room 202, 2/F, No. 15 Shuangliang Road, Ligang Street, Jiangyin, Jiangsu Province	Shuangliang Spandex	Our Company	From 1 January 2022 to 31 December 2024	Office	212.5
2	7/F, Jiangyin International Hotel, No. 299 Chengjiang West Road, Jiangyin, Jiangsu Province	Jiangyin Hotel	Our Company	From 1 January 2023 to 31 December 2025	Office	50



**BUSINESS**

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA (sq.m.)
3	7/F, Jiangyin International Hotel, No. 299 Chengjiang West Road, Jiangyin, Jiangsu Province	Our Company	Wise Living Energy	From 1 January 2023 to 31 December 2025	Non-residential usage	30
4	15/F, Incubator No. 1, Xinmin City Environmental, Innovation and Entrepreneurship Complex, Intersection of Miqi Road and Renhe Road, Quliang Town, Xinmi City, Zhengzhou, Henan Province <sup>(1)</sup>	Shuangliang Group (Henan) Environmental Technology Co., Ltd.* (雙良集團(河南)環境科技有限公司)	Zhengzhou Wise Living	From 18 September 2020 to 17 September 2023	Office	Not specified
5	Room 903-915 and Room 9001, Fuhua Building, No. 1 Zhongchuan Street, New Area, Lanzhou, Gansu Province	Lanzhou New Area Technology and Innovation Management Co., Ltd.* (蘭州新區科技創新發展管理有限公司)	Lanzhou Shuangliang	From 2 October 2022 to 1 April 2023	Office	830

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No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA <i>(sq.m.)</i>
6	Room 1012, North Tower, Gansu Chamber of Commerce Building, Beimiantan, Chengguan District, Lanzhou, Gansu Province	Mr. Ma Hongxing	Lanzhou Shuangliang	From 18 July 2018 to 15 August 2023	Office	337.38
7	Room 1012, North Tower, Gansu Chamber of Commerce Building, Beimiantan, Chengguan District, Lanzhou, Gansu Province	Lanzhou Shuangliang	Gansu Smart Energy	Five years from 26 April 2019	Commercial usage	377.38
8	33-102, Zone A, Rainbow City, New Area, Lanzhou, Gansu Province	Lanzhou Track Industrial Investment Co., Ltd* (蘭州軌道實業投資有限公司), formerly known as Lanzhou Subway Business Hotel Management Co., Ltd.* (蘭州市地鐵商務酒店管理有限公司)	Lanzhou Shuangliang	From 1 January 2023 to 31 December 2023	Office and business hall	220

**BUSINESS**

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA <i>(sq.m.)</i>
9	33-102# Southwestern Corner, Zone A, Rainbow City, New Area, Lanzhou, Gansu Province <sup>(2)</sup>	Lanzhou Shuangliang	Lanzhou Wise Living	1 January 2023 to 31 December 2023	Commercial usage	Not specified
10	33-102# Southwestern Corner, Zone A, Rainbow City, New Area, Lanzhou, Gansu Province <sup>(2)</sup>	Lanzhou Shuangliang	Gansu Shuangliang	1 January 2023 to 31 December 2023	Commercial use	Not specified
11	7/F, 8/F, No. 168, Wuchengnan Road, Tanghuaiyuan Area, Taiyuan, Comprehensive Reform Demonstration Zone, Shanxi Province	Taiyuan Renewable Energy	Shanxi Shuangliang Renewable Energy	1 January 2017 to 31 December 2036	Industrial usage	3,000
12	4/F, No. 168, Wuchengnan Road, Tanghuaiyuan Area, Taiyuan, Comprehensive Reform Demonstration Zone, Shanxi Province	Taiyuan Renewable Energy	Shanxi Demonstration Zone Heat Supply	1 September 2018 to 31 August 2038	Industrial usage	700

**BUSINESS**

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA <i>(sq.m.)</i>
13	3/F, No. 168, Wuchengnan Road, Tanghuaiyuan Area, Taiyuan, Comprehensive Reform Demonstration Zone, Shanxi Province	Taiyuan Renewable Energy	Shanxi Smart Life	1 January 2017 to 31 December 2036	Industrial usage	100
14	9/F, No. 168, Wuchengnan Road, Tanghuaiyuan Area, Taiyuan, Comprehensive Reform Demonstration Zone, Shanxi Province	Taiyuan Renewable Energy	Shanxi Carbon Trading	1 January 2017 to 31 December 2036	Industrial usage	60
15	9/F, No. 168, Wuchengnan Road, Tanghuaiyuan Area, Taiyuan, Comprehensive Reform Demonstration Zone, Shanxi Province	Taiyuan Renewable Energy	Shanxi Shuangliang New Energy	1 January 2017 to 31 December 2036	Industrial usage	200
16	Room 1101, 11/F, Unit 2, Building A20, Liugangyuan, Nanhuan Road, Pingcheng Area, Datong, Shanxi Province	Mr. Fu Shengliang	Datong Renewable Energy	From 1 January 2019 to 1 January 2034	Office	145.24

**BUSINESS**

No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA <i>(sq.m.)</i>
17	Room No. 804, Science and Technology Business Incubation Centre, Economic and Technological Development Zone, Lanzhou, Gansu Province	Lanzhou Economic and Technological Development Zone Incubator Management Service Co., Ltd.* (蘭州經濟技術開發區設備管理服務有限公司)	Wise Living Energy (Gansu)	From 1 September 2021 to 31 August 2024	Office	24.27
18	15/F, Incubator No. 1, Xinmin City Environmental, Innovation and Entrepreneurship Complex, Intersection of Miqi Road and Renhe Road, Quliang Town, Xinmi City, Zhengzhou, Henan Province <sup>(1)</sup>	Shuangliang Group (Henan) Environmental Technology Co., Ltd.* (雙良集團(河南)環境科技有限公司)	Tech-Thermal (Zhengzhou)	From 10 December 2020 to 9 December 2023	Office	Not specified
19	Room 403, Tumote Youqi New Industrial Park Management Committee Administrative Office, Baotou, Inner Mongolia Autonomous Region <sup>(1)</sup>	Baotou New Industrial Co., Ltd.* (包頭市新型實業有限責任公司)	Wise Living Energy (Baotou)	From 15 November 2022 to 14 November 2023	Office	60

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No.	Location	Landlord	Tenant	Lease period	Usage	Approximate GFA  (sq.m.)
20	Room 1601, Section 3, Ziguangyuan Commercial Building, Juhua Century City, Hailar East Street, Xincheng District, Hohhot City, Inner Mongolia Autonomous Region	China Life Insurance Company Ltd. Inner Mongolia Autonomous Region Branch	Inner Mongolia Wise Living	From 1 August 2022 to 31 July 2027	Office	141

*Note:*

- (1) As at the Latest Practicable Date, no real estate certificates had been obtained for these properties.
- (2) The leases for these properties were terminated on 10 March 2023.

As at the Latest Practicable Date, no real estate certificates had been obtained by the landlords for three out of the 20 leased properties set forth below (namely, properties no. 4, 18 and 19). Save for these three leased properties, real estate certificates of all other 17 leased properties had been obtained by the landlords as at the Latest Practicable Date.

Details of these three leased properties with no real estate certificates are as follows:

- In respect of properties no. 4 and 18, as at the Latest Practicable Date, no real estate certificate had been obtained by the landlord for these properties. The overall development of the industrial park in which these properties are located has not yet completed. The corresponding real estate certificates could be applied for by the landlord of the industrial park upon completion. Since the industrial park is a public-private partnership development project in collaboration with the government, considering the extent of governmental involvement, our Directors consider that the risk of us being evicted from or requested to cease to use these properties due to the lack of real estate certificates is extremely low.
- In respect of property no. 19, as at the Latest Practicable Date, no real estate certificate had been obtained by the landlord for this property, as the relevant procedures for registration of the land had not been processed. The application for real estate certificate for the property built on the land therefore has not yet commenced. Since the landlord is a State-owned company, our Directors consider that the risk of us being evicted from or requested to cease to use this property due to the lack of real estate certificates is extremely low.

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## BUSINESS

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Our PRC Legal Advisers have advised that (i) it is the property owner's responsibility to obtain the relevant real estate certificates, and we as a tenant do not have the authority nor responsibility to apply for any title certificate for such properties; and (ii) the absence of real estate certificates for these four leased properties did not come about as a result of non-compliance of any relevant PRC laws or regulations on the part of our Group. Since such leased properties are primarily for office use, and alternative properties are readily available, we do not expect it to be difficult for us to relocate to alternative premises even if we are evicted from these leased properties. Our Directors are therefore of the view that the potential relocation, if any, from these leased properties will not have a material adverse impact on our business operations.

Further, for heat exchange stations, we have obtained written permissions from or entered into agreements with grantors who granted us the right to use the heat exchange stations and/or the lands, where we were effectively leasing the heat exchange stations. For details, see "– Heat exchange stations for our heat service operation" below.

### **Failure to register lease agreements**

#### *Event of non-compliance and reasons*

During the Track Record Period and up to the Latest Practicable Date, none of the 20 of the lease agreements of the aforementioned properties leased by us had been registered by us.

In respect of three of the lease agreements, we were unable to register the corresponding lease agreements with the relevant government authorities as we did not have the relevant real estate certificates as required. In respect of the remaining 17 lease agreements, we were unable to register them with the relevant government authorities primarily because the landlords did not cooperate with us as needed for completing the registration. According to applicable PRC administrative regulations, landlords need to provide us with certain documents (such as their business licenses or identification information) in order to complete the registration.

#### *Legal consequences*

According to the Urban Real Estate Administration Law of the PRC (《中華人民共和國城市房地產管理法》), the Commercial Building Leasing Administrative Measures (《商品房屋租賃管理辦法》) and other relevant laws and regulations, the relevant local governments may require the rectification of the non-registration of lease agreements within a certain period of time. If rectification is not made within the specified time, we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease agreement. As advised by our PRC Legal Advisers, the maximum potential penalty we may face in relation to these 20 unregistered lease agreements is RMB200,000 in aggregate.

As at the Latest Practicable Date, we had not received any such request to rectify and register such lease agreements from the relevant government authorities.

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## BUSINESS

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### *Remedial measures and enhanced internal control measures*

As the registration of 20 lease agreements will require the cooperation from the landlords or will require the landlords to obtain the relevant real estate certificates, which is not within our control, we will submit the application documents for lease registration once those documents are in order. We will, as soon as practicable, complete the filing and registration procedures for the relevant lease agreements that the landlords are willing to cooperate, and will also actively communicate with the landlords to ask for their cooperation to register and file the lease agreements and/or documents for all the outstanding unregistered lease agreements.

We have adopted internal control policies requiring our Group to (i) assign a designated person to complete the registration and filing of the lease agreements with the relevant government authorities upon signing; (ii) record such registration and filing of the lease agreements; (iii) regularly follow up on the status of registering and filing outstanding lease agreements and/or documents; and (iv) assign another designated person to conduct regular checks on whether all newly entered lease agreements have been duly registered with the relevant government authorities or the required documents have been in the process of being obtained for completing the registration. Our internal control consultant has reviewed the corresponding enhanced internal control policies which our Group has adopted, and did not have any further recommendation after such review.

Based on the above, our Directors are of the view, and the Sole Sponsor concurs, that the enhanced internal control measures adopted by our Group are adequate, effective and sufficient in preventing recurrence of similar future non-compliance.

### *Impact on our Group*

As advised by our PRC Legal Advisers, under the Civil Code of the PRC (《中華人民共和國民法典》), the non-registration of the lease agreements does not affect the validity and enforceability of the lease agreements. Also, our PRC Legal Advisers have confirmed that no administrative penalty has been imposed by the relevant government authorities on our Group for our non-registration of the lease agreements for the Track Record Period. Our Group has undertaken that if our Group is requested by the relevant government authorities to rectify the non-registration, we will follow the requisite procedures accordingly. Based on the above, our PRC Legal Advisers have advised that the risk of our Group being penalised for such non-compliance under the relevant PRC laws is low.

Our Directors have confirmed that based on the advice of our PRC Legal Advisers aforementioned, the maximum amount of potential penalties of RMB200,000, should it be levied, would merely account for a minimal portion of our total revenue.

Furthermore, pursuant to the Deed of Indemnity, our Controlling Shareholders will indemnify our Group against any claims, fines and other liabilities from such non-registration of the lease agreements. Our Directors are of the view that, based on the advice from our PRC Legal Advisers, such non-compliance does not and will not have any material impact on the operations or financial conditions of our Group.



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### Other properties occupied by us

A summary of other properties occupied by us as at the Latest Practicable Date is set out below:

No.	Location	Occupant	Usage	Approximate area <i>(sq.m.)</i>	Approximate GFA <i>(sq.m.)</i>
1	Floor 4-7 of Ao’lin Central Square Block A located at south to Beizhang Village, north to Jinyang Street, west to Tiyu Road and East to Hangxiao area, Taiyuan City, Shanxi Province (the “ <b>Shantou Complex</b> ”)	Taiyuan Renewable Energy	Other commercial land use/ commercial building use	4,405.86 (construction area)	–
2	Building 1 and Building 2, District 2, south advanced business park, Jinsha Botanical Garden, Shuocheng District, Shuozhou City, Shanxi Province (the “ <b>Jinsha Buildings</b> ”)	Shuozhou Renewable Energy	Other commercial land use/ commercial building use	6,055.65 (construction area)	–
3	Plot 4-06-2 Zone 1, Science and Technology Innovation City, Shanxi Transformation and Comprehensive Reform Demonstration Zone Taiyuan City, Shanxi Province (the “ <b>Science and Technology Innovation City Land Plot</b> ”)	Shanxi Demonstration Zone Heat Supply	Public utility land use	9,697.82 (site area)	–

#### (a) *Shantou Complex*

*Failure to obtain relevant complete real estate certificate or complete relevant construction acceptance checks*

During the Track Record Period, relevant construction acceptance checks in relation to the Shantou Complex were not completed. As advised by our PRC Legal Advisers, we were neither the land owner nor the owner of construction project, and were not the party responsible for the construction of the Shantou Complex, and were therefore not permitted under relevant PRC laws and regulations to complete the relevant construction acceptance checks. On 28 July 2021, we obtained a written confirmation from the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive

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Reform Zone\* (山西轉型綜合改革示範區管理委員會建設與公用事業管理部) confirming that (i) our use of the Shantou Complex did not constitute a non-compliance under the relevant PRC laws and regulations; and (ii) no penalty had been or will be imposed on us for our use of the Shantou Complex. Our PRC Legal Advisers have confirmed that the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Zone is the relevant competent authority to provide the aforementioned confirmation. As such, our PRC Legal Advisers advised that our use of the Shantou Complex without completing the relevant construction acceptance checks did not constitute a non-compliance on our part under the relevant PRC laws and regulations. As advised by our PRC Legal Advisers, as we are not the party responsible for the construction of the Shantou Complex, the risk of our Group being penalised for our occupation or use of the relevant premises and being required to vacate from the relevant premises is remote. During the Track Record Period, our Group had not been penalised in respect of the failure to complete such checks. Our Directors expect that relevant construction acceptance checks in relation to the Shantou Complex will be completed by the end of 2023. We have adopted internal control measures to ensure that the relevant construction acceptance checks are completed in preventing recurrence of similar incidents by seeking the relevant party responsible for construction to provide confirmation to us that the relevant checks have been completed. If such checks are not completed, we will seek to urge prompt rectification works to be done by the relevant constructing party. Our construction department conducts regular review and supervises the process of construction in relation to properties occupied and used by us. When required, we will engage an external legal counsel to verify and provide legal opinions as to the legal status of the properties and/or construction works.

The Shantou Complex was initially developed under a real estate development project by a real estate developer (the “**First Shantou Developer**”) which is an Independent Third Party. In 2010, such real estate development project was transferred to another real estate developer (the “**Second Shantou Developer**”) which is also an Independent Third Party. The Second Shantou Developer then granted an investment company (the “**Investment Company**”), which is an Independent Third Party, the right to engage in the sale of commercial housing on its behalf. In March 2014, we entered into a property sale and purchase agreement with the Investment Company to purchase the Shantou Complex. As at the Latest Practicable Date, we have paid approximately 94.5% of the consideration for the Shantou Complex. According to confirmations issued by the Investment Company and the Second Shantou Developer, it was agreed that we would only be required to pay the remaining portion of the consideration after the real estate certificate for Shantou Complex has been obtained, and that they would not take actions against us for breach of contract for the failure to fully pay the consideration before occupying and using Shantou Complex.

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As advised by our PRC Legal Advisers, according to the Rules for the Implementation of the Provisional Regulations on the Registration of Real Property (《不動產登記暫行條例實施細則》), we would not be able to obtain a complete real estate certificate (不動產權證書) until the Second Shantou Developer had completed the first registration to obtain the real estate certificates for both the land use right and building ownership (土地使用權、房屋所有權對應的不動產權證書) for the whole real estate development project. The Second Shantou Developer went through the necessary procedures and obtained a real estate certificate in respect of the land use right (土地使用權對應的不動產權證書) of the Shantou Complex. However, the Second Shantou Developer had not yet completed the first registration to obtain the real estate certificate in respect of building ownership (房屋所有權對應的不動產權證書) for the whole real estate development project. We were therefore not able to complete the relevant procedures to obtain a complete real estate certificate for the Shantou Complex. As confirmed by our Directors, the Second Shantou Developer is in the process of obtaining the complete real estate certificate for Shantou Complex, and such real estate certificate is expected to be obtained by the end of 2023. We will seek to obtain the complete real estate certificate for the Shantou Complex as soon as practicable when the Second Shantou Developer has completed the first registration to obtain the real estate certificates for both the land use right and building ownership for the whole real estate development project. Our PRC Legal Advisers have advised that when the Second Shantou Developer has obtained the complete real estate certificate, there is no material legal impediment that would prevent us from obtaining the complete real estate certificate for Shantou Complex.

We have obtained written confirmations from the Investment Company and the Second Shantou Developer that we are entitled to occupy the Shantou Complex despite the absence of a complete real estate certificate. Our PRC Legal Advisers have confirmed that the aforementioned written confirmations from them are legally binding.

Our PRC Legal Advisers have advised that (i) it is unlikely that we will be ordered to vacate the Shantou Complex, and that our entitlement to occupy, use and further lease some premises of the Shantou Complex is unlikely to be affected; and (ii) our use of the Shantou Complex in the absence of the complete real estate certificate (不動產權證書) caused by the above-mentioned reasons did not constitute a non-compliance on our part under the relevant PRC laws and regulations.

### *Failure to register six tenancy agreements of the Shantou Complex*

#### Event of non-compliance and reasons

During the Track Record Period and up to the Latest Practicable Date, we leased out certain premises of the Shantou Complex and were unable to register the six tenancy agreements of the corresponding units of the Shantou Complex that we leased out as we did not have the relevant real estate certificate for Shantou Complex as required.

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### Legal consequences

Pursuant to the Commercial Building Leasing Administrative Measures\* (《商品房屋租賃管理辦法》), parties to tenancy agreements (i.e. landlords and tenants) shall jointly file the tenancy agreements with the relevant government authorities for registration within 30 days after the execution of the tenancy agreements, and provide the relevant real estate certificates (《不動產權證書》) and identity proof/business licenses of the landlords and tenants. If the administrative measures are violated, according to the Urban Real Estate Administration Law of the PRC (《中華人民共和國城市房地產管理法》), the Commercial Building Leasing Administrative Measures (《商品房屋租賃管理辦法》) and other relevant laws and regulations, the relevant local governments may require the rectification of the non-registration within a certain period of time. If rectification is not made within the specified time, individual owners or tenants may be subject to a fine up to RMB1,000 and corporate owners or tenants may be subject to a fine up to RMB10,000 for each unregistered lease or tenancy agreement. As advised by our PRC Legal Advisers, the maximum potential penalty we may face in relation to these six unregistered tenancy agreements is RMB60,000 in aggregate.

As at the Latest Practicable Date, we had not received any such request to rectify the non-registration of such tenancy agreements from the relevant government authorities.

### Remedial measures and enhanced internal control measures

We have adopted internal control policies requiring our Group to (i) assign a designated person to complete the registration and filing of the lease agreements with the relevant government authorities upon signing; (ii) record such registration and filing of the lease agreements; (iii) follow up on the status of registering and filing outstanding lease agreements and/or documents; and (iv) assign another designated person to conduct regular checks on whether all newly entered lease agreements have been duly registered with the relevant authorities or the required real estate certificates have been in process of being obtained for completing the registration. Our internal control consultant has reviewed the corresponding enhanced internal control policies which our Group has adopted, and did not have any further recommendation after such review.

Based on the above, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures adopted by our Group are adequate, effective and sufficient in preventing recurrence of similar future non-compliance.

### Impact on our Group

As advised by our PRC Legal Advisers, under the Civil Code of the PRC (《中華人民共和國民法典》), the non-registration of the tenancy agreements does not affect the validity and enforceability of the tenancy agreements. Also, our PRC Legal Advisers have confirmed that no administrative penalty has been imposed by the relevant government authorities on our Group for our non-registration of the tenancy agreements for the Track Record Period. Our Group has undertaken that if our Group is requested by the relevant government authorities to

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rectify the non-registration, we will register the tenancies concerned accordingly. Based on the above, our PRC Legal Advisers have advised that the risk of our Group being penalised for such non-compliance under the relevant PRC laws is remote.

Our Directors have confirmed that based on the advice of our PRC Legal Advisers aforementioned, the maximum amount of potential penalties of RMB60,000, should it be levied, would merely account for a minimal portion of our total revenue.

Furthermore, pursuant to the Deed of Indemnity, our Controlling Shareholders will indemnify our Group against any claims, fines and other liabilities from such non-registration of the tenancy agreements. Our Directors are of the view that, based on the advice from our PRC Legal Advisers, such non-compliance does not and will not have any material impact on the operations or financial conditions of our Group.

### *(b) Jinsha Buildings*

In July 2014, we entered into a series of property sale and purchase agreement and supplemental agreements with a real estate developer ("**Jinsha Buildings Seller**"), an Independent Third Party, for the purchase of the Jinsha Buildings. As at the Latest Practicable Date, we have fully paid the consideration for the Jinsha Buildings. However, as at the Latest Practicable Date, no real estate certificates in respect of land use right and building ownership (土地使用權、房屋所有權對應的不動產權證書) had been obtained for the Jinsha Buildings. At the time of our purchase of the Jinsha Buildings, the Jinsha Buildings Seller owned multiple buildings for the entire development and the Jinsha Buildings only made up one part of the entire development. As advised by our PRC Legal Advisers, we can only obtain a complete real certificate for Jinsha Buildings when the Jinsha Buildings Seller completes the first registration and obtains the real estate certificates for both the land use rights and building ownership (土地使用權、房屋所有權對應的不動產權證書) for the whole real estate development. It would have been unduly cumbersome to obtain a real estate certificate separately for the Jinsha Buildings pending completion of the entire development, and we agreed with the Jinsha Buildings Seller to defer the process until the entire development is completed. According to a confirmation dated 30 March 2022 issued by the Jinsha Buildings Seller, it is in the process of obtaining the complete real estate certificate for the Jinsha Buildings. To the best knowledge of our Directors, the complete real estate certificate is expected to be obtained by the end of 2023. We will seek to obtain such real estate certificate for the Jinsha Buildings as soon as it is practicable when the Jinsha Buildings Seller completes first registration and obtains the real estate certificates for both the land use right and building ownership (土地使用權、房屋所有權對應的不動產權證書) for the whole real estate development. Our PRC Legal Advisers have advised that (i) when the Jinsha Buildings Sellers have obtained the complete real estate certificate of the entire development, there is no material legal impediment that would prevent us from obtaining the complete real estate certificate; (ii) it is unlikely that we will be ordered to vacate the Jinsha Buildings, and that our entitlement to occupy and use the Jinsha Buildings is unlikely to be affected; and (iii) our use of the Jinsha Buildings in the absence of the complete real estate certificate caused by the above-mentioned reasons did not constitute a material non-compliance on our part under the relevant PRC laws and regulations.

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During the Track Record Period, relevant construction checks and fire inspection checks in relation to the Jinsha Buildings were not completed. As advised by our PRC Legal Advisers, since we were neither the land owner nor the owner of the construction project, we were therefore not the party responsible for the construction of the Jinsha Buildings, and were not permitted under relevant PRC laws and regulations to complete the relevant construction acceptance checks or fire inspection checks. On 29 July 2021, we obtained a written confirmation from the Shuozhou City Shuocheng District Housing and Urban-Rural Development Bureau\* (朔州市朔城區住房和城鄉建設局), confirming, among other things that our occupation and use of the Jinsha Buildings without a complete real estate certificate was not a non-compliance on our part. Our PRC Legal Advisers have confirmed that the Shuozhou City Shuocheng District Housing and Urban-Rural Development Bureau is the relevant competent authority to provide the aforementioned confirmation. Hence, as advised by our PRC Legal Advisers, our use of the Jinsha Buildings without completing the relevant construction acceptance checks or fire inspection checks did not constitute a non-compliance on our part under the relevant PRC laws and regulations. As advised by our PRC Legal Advisers, as we are not the party responsible for the construction of the Jinsha Buildings, the risk of our Group being ordered to cease to occupy or use this property or penalised is remote. During the Track Record Period, our Group had not been penalised in respect of the failure to complete such checks. We have adopted internal control measures to ensure that relevant construction, acceptance checks and fire inspection checks are completed in preventing recurrence of similar incidents. We will seek to ensure the relevant party responsible for construction to provide confirmation to us that the relevant checks have been completed. If such checks are not completed, we will seek to urge prompt rectification works to be done by the relevant constructing party. Our construction department conducts regular checks on fire safety equipments and reviews on emergency evacuation plan of premises and buildings occupied by us. We also have regular inspections to ensure these properties are equipped with proper fire safety facilities, equipment and safety signs, all of which are in good conditions. When required, we will engage an external legal counsel to verify and provide legal opinions as to the legal status and safety standards of the properties and/or construction works.

*(c) Science and Technology Innovation City Land Plot*

On June 2021, we won a bid for the land use right of Science and Technology Innovation City Land Plot during a State-owned construction land use right quotation and assignment event held by the Shanxi Transformation and Comprehensive Reform Demonstration Zone Land Administration Bureau\* (山西轉型綜合改革示範區土地管理局) (“**Shanxi Demonstration Zone Land Administration**”). On 1 July 2021, we entered into a State-owned construction land use right transfer agreement with the Shanxi Demonstration Zone Land Administration, pursuant to which the land use right of Science and Technology Innovation City Land Plot would be transferred to us for the purpose of public utility land use and for a term of 50 years. A construction land use permit (建設用地批准書) in respect of the Science and Technology Innovation City Land Plot was granted to us by the Shanxi Demonstration Zone Land Administration on the same date. We have fully paid the consideration under the aforementioned construction land use right transfer agreement. Our PRC Legal Advisers have advised that we have legally acquired the land use right of the Science and Technology Innovation City Land Plot through the bidding process, and the relevant land use right transfer agreement was properly approved, legally binding, valid and enforceable.

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As at the Latest Practicable Date, we were still in the process of obtaining the relevant real estate certificate (不動產權證書) for the Science and Technology Innovation City Land Plot from the Shanxi Demonstration Zone Land Administration, and it is expected to be obtained by the end of 2023. Our PRC Legal Advisers have advised that (i) there is no material legal impediment for us to obtain the real estate certificate of the land; (ii) prior to obtaining the real estate certificate of the land, we are entitled to use the land of the Science and Technology Innovation City Land Plot in accordance with the aforementioned construction land use permit; and (iii) we can use the Science and Technology Innovation City Land Plot according to the construction land use permit before we obtain the relevant real estate certificate.

We have constructed a building with includes facilities for extraction of geothermal heat as heat source for our Shanxi Demonstration Zone Project as well as heat-exchange related equipment for its operation as a heat exchange station on this parcel of land. However, we commenced the relevant construction without obtaining the construction planning permit (建設規劃許可) and construction commencement permits (建設施工許可) and did not complete the relevant construction acceptance checks for such heat exchange station prior to putting it into use. As at the Latest Practicable Date, we were still in the process of obtaining the construction planning permit and construction commencement permit for such heat exchange station. We expect to conduct the construction acceptance checks prior to obtaining the abovementioned real estate certificate. For details of the requirements for obtaining the construction planning permit and construction commencement permit, see “– Properties – Failure to obtain certain construction permits and/or complete relevant construction acceptance checks for the construction of certain properties” in this section.

### Heat exchange stations for our heat service operation

As part of our heat service operation, we use heat exchange stations which have been installed with heat exchange-related equipment necessary for the provision of our heat service operation under the Concession Agreements.

As at the Latest Practicable Date, there were 465 heat exchange stations in use, comprising 451 third-party owned heat exchange stations and 14 self-owned heat exchange stations. The heat exchange stations we use in our operations are spread across our operating areas covering different areas/regions in Taiyuan City, Shuozhou City, Shanxi Transformation and Comprehensive Reform Demonstration Zone, Lanzhou New Area and Hulunbuir City.

Set out below is a table showing the number of third-party owned heat exchange stations and self-owned heat exchange stations.

	<b>Third-party owned heat exchange stations</b>	<b>Self-owned heat exchange stations</b>
Located on third-party owned land	451	13
Located on our land	–	1

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For the 451 third-party owned heat exchange stations, they are all located on third-party owned land. These heat exchange stations were typically constructed by the property developers, construction companies or owners of the housing estates and buildings within our Concession Areas at the time when these housing estates and buildings were first developed. They are usually situated in the common areas of these housing estates or building areas. As advised by our PRC Legal Advisers, since we are only a grantee using these third-party owned heat exchange stations, (i) we are not required to obtain the underlying construction related permits and title certificates which include the land use right certificates (土地證), property ownership certificates (房產證) or the real estate certificates (不動產證) (which is a certificate for land use right and property ownership combined together pursuant to new PRC laws); and (ii) it is not our obligation to rectify the title defects of these third-party owned heat exchange stations.

For the 13 self-owned heat exchange stations located on third-party owned land:

- (a) 12 of them are in Shuozhou City, located in old housing estates and building areas without centralised heat service facilities when they were first developed. Upon the Shuozhou government's promotion of centralised heat services, we constructed the heat exchange stations at the assigned location by the Shuozhou government for these old housing estates and building areas to facilitate our provision of heat services; and
- (b) one of them is our station with a set of collection devices and equipment (氣水換熱站/首站) located in Shentou Second Power Station for our Shuozhou Project. For details, see "– Heat Sources – Residual heat collected at plants" in this section.

For the one self-owned heat exchange station located on our land, it is part of the building constructed by us on the Science and Technology Innovation City Land Plot which also serves as our geothermal heat source plant, unlike most other heat exchange stations which are typically situated in the common areas of the housing estates or building areas of the heat service end-users. That building on the Science and Technology Innovation City Land Plot has installed both heat exchange-related equipment, as well as facilities for extraction of geothermal heat as heat source for our Shanxi Demonstration Zone Project. For details of this property, see "– Properties – Other properties occupied by us – (c) Science and Technology Innovation City Land Plot" in this section.

Of the 464 heat exchange stations located on third-party owned land, we are a grantee who installs and operates the equipment in the heat exchange stations pursuant to written permissions obtained from, or pipeline connection agreements, construction contracts, heat service agreements or lease agreements we entered into with, the grantors, granting us the right to use the heat exchange stations and/or the land, either with a fee or free of charge. Among these heat exchange stations, 358 were being used by us for free, while the remaining 106 were leased from the grantors to us with rental fees payable by us. The grantors of the heat exchange stations and/or the land are mostly governmental or government-related bodies, public institutions, State-owned companies, property developers, construction companies, property



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management companies and heat service end-users. We obtained written permissions from or entered into the abovementioned agreements with these grantors due to a number of reasons, including but not limited to, (i) they are the land owners; (ii) they are government authorities which are responsible for the city development of the relevant areas which require our provision of heat services; (iii) they are the previous heat service providers, and the heat exchange stations we leased from them had been used by them to provide heat services in our Concession Areas before we were granted the relevant concessions; (iv) they are the property developers, construction companies or property management companies of the relevant housing estates or buildings to which we will provide heat services; or (v) they are the heat service end-users.

As advised by our PRC Legal Advisers, as a grantee using the heat exchange stations and/or land on which they are located, in order to use such heat exchange stations located on third-party land, we should obtain written permissions or enter into the abovementioned agreements with the owners who possess the relevant title certificates in order to obtain proper authorisation for the continuous use of the heat exchange stations and/or the land. For around 40% of the 464 heat exchange stations located on third-party owned land that were in use as at the Latest Practicable Date, we were unable to obtain written permissions or enter into such agreements with the proper owners.

### *Reasons for the third-party title defects*

We consider that the reasons for the third-party title defects are mainly because the parties which requested us to provide heat services lacked complete and valid authority to grant us lawful right to use the heat exchange stations and/or the land. These parties include (i) government bodies and public institutions who did not produce relevant valid title certificates to us when we leased the heat exchange stations and/or the land from them pursuant to the lease agreements; (ii) certain previous State-owned heat service providers who were unable to produce relevant valid title certificates when they were instructed by the local government to lease to us their heat exchange stations they previously used; (iii) property developers, construction companies or property management companies who failed to obtain and/or produce relevant valid title certificates; and (iv) heat service end-users which failed to produce relevant valid title certificates. As such, we believe that the third-party title defects were beyond our control and can only be rectified by relevant owners of such heat exchange stations and/or land.

Further, relevant government authorities have acknowledged the historical underlying circumstances for certain property title issues, for example, certain grantors that did not provide complete title documents were government authorities or public institutions which did not obtain relevant title certificates when they first started using the relevant properties. In some other cases, the heat exchange stations were used for provision of heat services to government or public properties, and those stations were either leased to us for our heat service operation pursuant to government orders, or located within the premises of which the construction was commissioned by the local governments.

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As advised by our PRC Legal Advisers, regardless of whether the grantors which have given us the written permission or entered into agreements with us are the land owners or the heat exchange station owners, the written permissions or agreements remain legally binding and valid as between the relevant grantors and us. If we are prevented from using the heat exchange stations by any rightful third party, we are entitled to seek compensation or damages against these grantors for the breach of their contractual undertakings given under the abovementioned written permissions or agreements.

Notwithstanding the abovementioned title defects, provision of heat services is a public utilities business that is considered a basic necessity that affects the people's livelihood. As a public utility company with social responsibility, we believe we are required to maintain stable heat services to our heat service end-users in our Concession Areas. As confirmed by the relevant competent authorities in respect of our Concessions, without their consent, we cannot cease the provision of our heat services solely because of the title defects of the heat exchange stations used by us, which would otherwise result in a suspension of heat service to our heat service customers.

There are relevant PRC regulations and policies, namely the Measures of City Yellow Line Management (《城市黃線管理辦法》) and the Standard for Urban Residential Area Planning and Design (《城市居住區規劃設計標準》), that provide certain protection to us by stipulating that heat exchange equipment including heat exchange stations cannot (by law) be demolished or relocated without proper authorisation from relevant government authorities.

Besides, the heat service end-users would not be able to engage other heat service providers to operate these heat exchange stations as we were granted a concession to provide heat services exclusively in that area under the relevant concession. Each of the relevant government authorities for our Hulunbuir Project, Taiyuan Project, Shanxi Demonstration Zone Project, Shuozhou Project and Lanzhou New Area Project has confirmed that our continued use of these heat exchange stations with title defects would not affect the validity of our concession operations. If due to changes in municipal planning or other factors, we become unable to properly occupy or use our existing heat exchange stations for our heat services operations, they will assist us in finding alternative premises as heat exchange stations, so as to ensure that the provision of heat services to residents will not be affected.

The title defects in relation to the heat exchange stations we used have been categorised into the following types:

***Type IA – third-party owned heat exchange stations located on third-party owned land (without property ownership certificate)***

There is a total of 269 "Type IA" heat exchange stations (representing approximately 57.9% of the total number of heat exchange stations). These third-party owned heat exchange stations are located on third-party owned land.

We have either obtained written permissions from or entered into pipeline connection agreements, construction contracts, heat service agreements or lease agreements with the grantors for the use of the heat exchange station and the land on which the heat exchange stations were located. 264 of these grantors have provided us the land use right certificates

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(under the names of relevant grantors), and five of these grantors have provided us the land use right certificates (under the names of the land owners) as well as the authorisation from the relevant land owners authorising the grantors’ use of the land.

***Type IB – third-party owned heat exchange stations located on third-party owned land (without both land use right certificate and property ownership certificate)***

There is a total of 182 “Type IB” heat exchange stations (representing approximately 39.1% of the total number of heat exchange stations). These third-party owned heat exchange stations are located on third-party owned land.

We have either obtained written permissions from or entered into pipeline connection agreements, construction contracts, heat service agreements or lease agreements with the grantors for the use of the heat exchange stations and the land on which the heat exchange stations were located. Nevertheless, these grantors did not provide us relevant land use right certificates or property ownership certificates.

Set out below is a breakdown of the background of the grantors of these “Type IB” heat exchange stations.

<b>Grantors</b>	<b>Number of stations</b>
(1) Shuocheng Housing Bureau (as defined below)	53
(2) Hailar Bureau (as defined below)	8
(3) Previous State-owned heat service providers	70
(4) Others	51
<b>Total</b>	<b>182</b>

We obtained written permissions from, or entered into pipeline connection agreements, construction contracts, heat service agreements or lease agreements with, local government authorities or previous State-owned heat service providers for the use of heat exchange stations, so as to comply with the relevant government authorities’ requests for our provision of heat services to such areas for promotion of city development. However, these grantors did not provide us with relevant title certificates of both the land and heat exchange stations.

For 53 of these heat exchange stations, we have obtained a written confirmation from Shuzhou City Shuocheng District Housing and Urban-Rural Development Bureau (朔州市朔城區住房和城鄉建設局) (“**Shuocheng Housing Bureau**”) confirming that it or its subsidiaries has ownership of the heat exchange stations and has the right to use the land, and that it or its subsidiaries has the right to grant the use of these heat exchange stations to us.

For eight of these heat exchange stations, we have also obtained a written confirmation from Housing and Urban-Rural Development Bureau of Hailar District, Hulunbuir City (呼倫貝爾市海拉區住房和城鄉建設局) (“**Hailar Bureau**”) confirming that these eight heat exchange stations invested and constructed by it were entrusted to us for heat service operations.

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As advised by our PRC Legal Advisers, Shuocheng Housing Bureau and Hailar Bureau are the relevant competent authorities supervising construction related matters of Shuocheng District of Shuozhou City and Hailar District of Hulunbuir City, respectively.

70 of these heat exchange stations were leased to us with the coordination of local government authorities in Shuozhou by three State-owned heat service providers, which were our predecessor heat service providers in Shuozhou City before we were granted the concession. They had been using these heat exchange stations to provide heat services, therefore the local government authorities coordinated for those heat exchange stations to be leased to us upon our taking over of the provision of heat services in the area.

We have also obtained a confirmation from Shuozhou City Natural Resources Bureau (朔州市規劃和自然資源局) (“**Shuozhou Planning and Natural Resources Bureau**”) confirming that each of Shuocheng Housing Bureau and its subsidiaries as well as the three State-owned heat service providers has the right to use the respective heat exchange stations and the land as mentioned above. As advised by our PRC Legal Advisers, Shuozhou Planning and Natural Resources Bureau is the relevant competent authority for real estate confirmation and registration in Shuozhou City.

Grantors of the remaining 51 heat exchange stations are public institutions, property developers, construction companies, property management companies or heat service end-users. We had either entered into construction contracts or heat service agreements with the grantors or obtained written permissions from the grantors as they require heat services to be provided in the relevant real estates or buildings which they are responsible for the construction or management, or they are the heat service end-users. For those with construction contracts or heat service agreements, both the grantors and us were involved in the construction of the heat exchange stations, with the grantors responsible for funding the construction, while we participated in the design and construction management of the heat exchange stations since we would be using the heat exchange stations for our operation during the course of the provision of heat services.

***Type IIA – self-owned heat exchange stations located on third-party owned land (without property ownership certificate)***

There is a total of three “Type IIA” heat exchange stations (representing approximately 0.6% of the total number of heat exchange stations). These self-owned heat exchange stations are located on third-party owned land.

We have either obtained written permissions from or entered into lease agreements with grantors for the right to use the land on which the heat exchange stations were located. These grantors have provided us the land use right certificates (under the relevant grantor’s name).

***Type IIB – self-owned heat exchange stations located on third-party owned land (without both land use right certificate and property ownership certificate)***

There is a total of 10 “Type IIB” heat exchange stations (representing approximately 2.2% of the total number of heat exchange stations). These self-owned heat exchange stations are located on third-party owned land.

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We have either obtained written permissions from or entered into pipeline connection agreements or lease agreements with the grantors for the use of land on which the heat exchange stations were located. However, these grantors did not provide us relevant land use right certificates.

Set out below is a breakdown of the background of the grantors of these “Type IIB” heat exchange stations.

<b>Grantors</b>	<b>Number of stations</b>
(1) Shuocheng Housing Bureau	1
(2) Others	9
<b>Total</b>	<b>10</b>

The land in respect of one of the self-owned heat exchange stations was leased from Shuocheng Housing Bureau, so as to comply with its request for our provision of heat services to certain areas for promotion of city development. We obtained a written confirmation from Shuocheng Housing Bureau confirming that it has the right to use the land on which the heat exchange station is located and that it has the right to grant the use of such land to us. We have also obtained a confirmation from Shuozhou Planning and Natural Resources Bureau confirming the same. As advised by our PRC Legal Advisers, Shuocheng Housing Bureau is the relevant competent authorities supervising construction related matters of Shuocheng District of Shuozhou City, and Shuozhou Planning and Natural Resources Bureau is the relevant competent authority for real estate confirmation and registration in Shuozhou City.

Grantors in respect of the remaining nine heat exchange stations included public institutions, construction companies and heat service end-users. We have obtained written permissions, or entered into pipeline connection agreements or lease agreements with them as they required heat services to be provided to the buildings they constructed or resided.

***Type III – a self-owned heat exchange station located on our land (without real estate certificate)***

There is one “Type III” heat exchange station (representing approximately 0.2% of the total number of heat exchange stations). This heat exchange station is owned by us and located on our Science and Technology Innovation City Land Plot.

As at the Latest Practicable Date, the real estate certificate for this heat exchange station had not been issued. As advised by our PRC Legal Advisers, as we had legally bid for the relevant land and had fully settled the consideration for such land, there is no material legal impediment for us to obtain the title certificate for such land. For details, see “– Properties – Other properties occupied by us – (c) Science and Technology Innovation City Land Plot” in this section.

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Set out below is a breakdown of the 465 heat exchange stations by project and by type of the title defect and their revenue contribution of fee from customers for provision and distribution of heat for the year ended 31 December 2022:

	Shanxi Demonstration																	
	Taiyuan Project			Zone Project			Shuozhou Project			Lanzhou New Area Project			Hulunbuir Project			Total		
Number of heat exchange stations	Revenue contribution (RMB'000)	Percentage of revenue contribution (%)	Number of heat exchange stations	Revenue contribution (RMB'000)	Percentage of revenue contribution (%)	Number of heat exchange stations	Revenue contribution (RMB'000)	Percentage of revenue contribution (%)	Number of heat exchange stations	Revenue contribution (RMB'000)	Percentage of revenue contribution (%)	Number of heat exchange stations	Revenue contribution (RMB'000)	Percentage of revenue contribution (%)	Number of heat exchange stations	Revenue contribution (RMB'000)	Percentage of revenue contribution (%)	
<b>Third-party owned heat exchange stations:</b>																		
Type IA	32	85,919	63.3	10	10,812	62.6	54	51,265	17.5	103	179,697	97.9	70	185,321	85.7	269	513,014	60.7
Type IB	15	49,949	36.7	1	891	5.2	140	177,437	60.7	6	3,849	2.1	20	30,835	14.3	182	262,861	31.1
Sub-total	47	135,768	100.0	11	11,703	67.8	194	228,702	78.2	109	183,546	100.0	90	216,156	100.0	451	775,875	91.8
<b>Self-owned heat exchange stations:</b>																		
Type IIA	-	-	-	-	-	-	3	32,706	11.2	-	-	-	-	-	-	3	32,706	3.8
Type IIB	-	-	-	-	-	-	10	30,911	10.6	-	-	-	-	-	-	10	30,911	3.7
Type III	-	-	-	1	5,560	32.2	-	-	-	-	-	-	-	-	-	1	5,560	0.7
Sub-total	-	-	-	1	5,560	32.2	13	63,617	21.8	-	-	-	-	-	-	14	69,177	8.2
Total	47	135,768	100.0	12	17,263	100.0	207	292,319	100.0	109	183,546	100.0	90	216,156	100.0	465	845,052	100.0

Note: As at the Latest Practicable Date, three, three and one heat exchange stations for our Lanzhou New Area Project, Hulunbuir Project and Shuozhou Project, respectively, have ceased operation. They were in use in 2022 and contributed approximately RMB1.6 million, RMB1.6 million and RMB0.1 million, respectively, to our revenue for the year ended 31 December 2022.

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### *View of our Directors*

Despite there are title defects associated with the heat exchange stations and the land on which the heat exchange stations are located, our PRC Legal Advisers are of the view that the imperfect titles associated with these heat exchange stations and the land are unlikely to have any material adverse effect on our daily operations, would not affect the validity of our Concession Agreements, and would not affect the legality of our heat service operations in any material respect. Our Directors, after considering the advice from our PRC Legal Advisers, are of the view that the risks arising from the title defects, whether individually or collectively, did not have and are unlikely to have a material adverse impact on our provision of heat services, financial position and results of operations. In particular:

- (a) the risk of us being evicted from the heat exchange stations currently used by us, or being requested to remove or relocate our equipment and machinery installed therein leading to the disruption of our operation, is remote because:
  - (i) we have never been evicted nor are we aware of any steps taken to evict us from any heat exchange stations used by us since the establishment of our Company in 2010;
  - (ii) the removal or relocation of the heat exchange equipment from the heat exchange stations would disrupt our provision of heat services to our heat service customers, which in turn will affect the livelihood and work conditions of our heat service customers in our Concession Area. Moreover, as advised by our PRC Legal Advisers, the Measures of City Yellow Line Management (《城市黃線管理辦法》) and the Standard for Urban Residential Area Planning and Design (《城市居住區規劃設計標準》) stipulate that heat exchange equipment including heat exchange stations cannot (by law) be demolished or relocated without proper authorisation from relevant government authorities. It is not in the government's interest to cause disruption of our heat service operation which is considered as a basic necessity for the people;
  - (iii) as advised by our PRC Legal Advisers, in light of the confirmations given by relevant government authorities, as well as the Measures of City Yellow Line Management (《城市黃線管理辦法》) and the Standard for Urban Residential Area Planning and Design (《城市居住區規劃設計標準》), since we have an obligation to ensure stable heat services to our heat service customers despite the existence of the title defects of the heat exchange stations currently used by us, the risk of us being penalised or requested to demolish or relocate the heat exchange stations currently in use or requested to remove our equipment installed therein is remote;
  - (iv) as at the Latest Practicable Date, we were not aware of any authorisation given by relevant government authorities ordering the demolition or relocation of any heat exchange station for our heat service operation due to its title defect. Even

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if we are indeed requested by the government to remove or relocate the heat exchange equipment from the heat exchange stations currently used by us, we believe that the government would assist us or give us sufficient time for identifying a new heat exchange station for relocation;

- (v) as the heat exchange stations are usually situated in the common areas of the housing estates or building areas within our Concession Area and are used to provide heat services to these housing estates or buildings, the owners of these housing estates and buildings rely on our expertise as a heat service provider to operate the heat exchange stations for continuous provision of heat services to their housing estates and buildings. It would not be in the interest of the land owners or owners of the heat exchange stations to evict us from or request us to cease to use those heat exchange stations to provide heat services to these housing estates or buildings as they would not be able to engage other heat service providers to operate those heat exchange stations given that we were granted a concession to provide heat service exclusively in that area under the relevant concession;
  - (vi) during the Track Record Period, our Group had not been requested by relevant government authorities to rectify our usage or the construction of any heat exchange station;
  - (vii) to the best knowledge of our Directors, we have never been involved in any dispute arising from any title defect of the heat exchange stations within our Concession Area which led to the removal of the equipment installed or compensation claims;
  - (viii) as advised by our PRC Legal Advisers, the confirmations from relevant competent government authorities that our continued use of the heat exchange stations with title defects will not affect the validity of our concession operations remain legally binding and valid; and
  - (ix) it is not uncommon for PRC heat service providers to have heat exchange stations associated with certain title defects, as confirmed by the study carried out by Frost & Sullivan; and
- (b) in addition to the above, we believe that the title defects, whether individually or collectively, are unlikely to result in any material adverse financial impact on us due to the following reasons:
- (i) to the best knowledge of our Directors, we have never been penalised, nor threatened to be penalised by the relevant competent government authorities for the above-mentioned title defects;



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- (ii) there is no direct connection between the revenue and profit attributable to the relevant heat exchange stations and the property title issues of them on an aggregate basis, mainly because: (a) the operation of the heat exchange stations is independent from one another, and it is unlikely that a large scale of demolition and relocation or a large number of disputes, legal proceedings or material administrative penalties will arise from the property title issues of such heat exchange stations at the same time; (b) no single heat exchange station is considered material to our operations as a whole; (c) such property title issues of heat exchange stations have never had any material adverse impact on our operations and business development; and (d) we are the exclusive heat service provider in our respective Concession Areas, hence our customers rely on us for continued provision of heat services;
- (iii) we have either obtained written permissions from or entered into agreements with the grantors for the use of the heat exchange stations and/or the land for all of the 464 heat exchange stations located on third-party owned land. Our PRC Legal Advisers have advised that such written permissions or agreements for the use of those 464 heat exchange stations and/or the land are legally binding and valid, notwithstanding that some of the abovementioned grantors may not be the proper owners who have the authority to grant the right of such use;
- (iv) as advised by our PRC Legal Advisers, in the unlikely event that we are evicted from one of the heat exchange stations currently used by us, or are requested to remove or relocate our equipment and machinery installed therein, the operations of other heat exchange stations currently in use from which we have not been evicted would not be affected;
- (v) it is unlikely that there will be large scale demolition and relocation of, or a large number of disputes, legal proceedings or material administrative penalties arising from property title issues for numerous heat exchange stations at the same time;
- (vi) in the unlikely event that any legal action or claim is lodged by a third party against us in relation to the title defects of the heat exchange stations, revenue generated from our heat services will not be confiscated;
- (vii) in the event that the owner or third party with legitimate rights raises objection to our occupation of the relevant heat exchange station, we may consider to enter to an official lease or licence arrangement with that owner or third party for our continued use, or seek alternative sites for our heat exchange station;
- (viii) even if we are requested to demolish the heat exchange station or relocate the equipment and machinery and connecting pipelines installed to a new heat exchange station, we believe we would receive advanced notice and the relevant government authorities will assist us in finding alternative premises as heat exchange stations in a timely manner;

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- (ix) the cost of relocating our equipment and machinery and the connecting pipelines from an existing heat exchange station to a new heat exchange station is relatively modest. Our equipment, machinery and connecting pipelines could generally be dismantled, reassembled and reused at alternative sites. We estimate such relocation cost to be in the range of approximately RMB17,000 to RMB200,000, which we do not believe to be material. We will endeavour to carry out and complete any relocation of heat exchange stations outside heat service period, such that it would not result in any disruption to the provision of heat services;
- (x) as advised by our PRC Legal Advisers, in case we are evicted from a heat exchange station by a third party, we are generally entitled to seek compensation or damages against the grantors for the breach of their contractual undertaking given under the aforementioned written permissions and agreements; and
- (xi) we expect that it will not be practically difficult to find alternative locations for relocation. In particular, Shuangliang Technology (one of our Controlling Shareholders) has undertaken that, for so long as it is our Controlling Shareholder, if we, for whatever reason, are unable to use any heat exchange station for our normal heat service operation, it will find alternative locations that are legally compliant and suitable for the relocation of the heat exchange stations currently used by us, and it will indemnify us of all costs resulting from such relocation, as well as all penalties or compensation that we may be required to pay as a result of the title defects. Additionally, pursuant to the Deed of Indemnity, the Controlling Shareholders have also undertaken to indemnify our Company for any losses arising from the title defects.

### *Rectification of the title defects*

If the grantors are the owners of the land and the heat exchange stations and they held the relevant title certificates, then the title to those land and heat exchange stations could be demonstrated by providing both the land use rights certificates and the property ownership certificates or real estate certificates to us.

According to Article 14 of the Provisional Regulations on Real Estate Registration (《不動產登記暫行條例》), the first application for registration of real estate that has not been registered can only be applied by the relevant owner.

Pursuant to paragraph 2 of article 2 of the Rules for the Implementation of the Provisional Regulations on the Registration of Real Property (《不動產登記暫行條例實施細則》), buildings and structures (such as houses) and fixtures (such as forest and trees) should be registered together with the land use right certificate owners under the real estate registration system in the PRC.

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Article 61 of the Urban Real Estate Management Law (《城市房地產管理法》) stipulates that, where a property is built on real estate land acquired by means of transfer or allocation pursuant to the law, the land use right certificate shall be presented for completion of registration formalities with the real estate administration authorities of a People's Government of county level and above. The real estate administration authorities of the People's Government of county level and above shall issue a property ownership certificate upon verification.

As advised by our PRC Legal Advisers, according to the above provisions, registration of the heat exchange station needs to be carried out with the land use right certificate, and can only be applied by the land use right owner. As such, if the land use right and the property ownership belong to different parties, such property ownership cannot be registered, and neither the land owner nor property owner could rectify such title defects unless either the land use right or the property ownership could be transferred to the same party. In order to carry out such transfer, we must be able to identify the land use right holder, the relevant land use right certificate must have been issued to that holder, and the relevant land use right or property has to be legally permitted to be independently transferred.

As advised by our PRC Legal Advisers, if the relevant title certificates have not been obtained by the proper owners, only the land owner who is also the owner of the heat exchange station located on such land can apply the relevant title certificates in order to rectify the title defects, otherwise the title defects in relation to these heat exchange stations could not be rectified due to separate land and building ownership (房地分離) under relevant PRC laws and regulations.

The title defects in relation to the 451 third-party owned heat exchange stations located on third-party owned land (i.e. Type IA and Type IB) were not caused by us, and their coming into existence was beyond our control.

- As we do not own or construct these 451 heat exchange stations, we are not required to apply for the underlying construction related permits or title certificates which include the land use right certificates (土地證), property ownership certificates (房產證) or real estate certificates (不動產證).
- For the 269 Type IA heat exchange stations, the grantors have provided us the land use rights certificates and the authorisation from the relevant land owners (if applicable) but not the relevant property ownership certificates. Our PRC Legal Advisers advised that such title defects can only be rectified by the owner of the land who is also the owner of the heat exchange station located on such land due to separated land and building ownership (房地分離) under relevant PRC laws and regulations.
- For the 182 Type IB heat exchange stations, the grantors did not provide us relevant land use right certificates or property ownership certificates to prove that they are the land owners or the heat exchange station owners. Our PRC Legal Advisers advised that such title defects can only be rectified by the owners of both the land and the heat exchange stations for the same reason above.

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Our PRC Legal Advisers advised that (i) as we are not the owner of the land and the heat exchange stations but only an occupant of these 451 heat exchange stations, we do not have the authority or responsibility to apply for any title certificate; and (ii) there are no laws or regulations requiring us, and we (as the occupant of the property) do not have a statutory responsibility, to ask relevant owners to apply to real estate registration authorities for any title certificate.

For the 13 self-owned heat exchange stations located on third-party owned land (i.e. Type IIA and Type IIB), three grantors have provided us the land use right certificates (under the relevant grantor's name), while 10 grantors did not provide us with relevant land use right certificates. As advised by our PRC Legal Advisers, we would not be able to apply for the corresponding property ownership certificates and/or real estate certificates for such heat exchange stations due to separated land and building ownership under relevant PRC laws and regulations. Further, as advised by our PRC Legal Advisers, as we are not the owner of the land where we constructed these 13 heat exchange stations, we would not be able to apply for the construction planning permits and complete the corresponding construction acceptance checks due to separated land and building ownership under the relevant PRC laws and regulations. According to Frost & Sullivan, it is not uncommon for PRC heat service providers to have heat exchange stations associated with similar title defects.

If any third party owner of the heat exchange station is not the land owner, the third party owner of the heat exchange station cannot apply for the property ownership certificate, but it may still evict us from or request us to cease to use the relevant heat exchange station. In such event, most grantors (as the land owners or party authorised by the land owners) confirmed that they would use their best endeavours to negotiate with such third party owners of heat exchange stations for our continued use in order to provide heat services.

### *Legal consequences of the title defects*

Our PRC Legal Advisers have advised that there are no laws and regulations providing for any potential penalty that may be imposed on us in connection with our use of the 451 heat exchange stations with title defects owned by third parties. In respect of the 14 heat exchange stations owned by us, see “– Failure to obtain certain construction planning permits and/or complete relevant construction acceptance checks for the construction of certain properties” in this section for the maximum penalty that may be imposed on us.

Our PRC Legal Advisers have also advised that, under the relevant PRC laws and regulations, the heat exchange stations with title defects may be requested to be demolished or relocated or we may be requested to remove or relocate our equipment installed therein. Further, we may be subject to claims (such as accounts for rents) lodged by third parties who can prove that they are the actual owners of the heat exchange stations and/or the land. However, due to the fact that heat services is a public utility business which affects the people's livelihood, the risk of the heat exchange stations currently used by us being requested to be demolished or relocated is remote.

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Our PRC Legal Advisers have also advised that the Measures of City Yellow Line Management (《城市黃線管理辦法》) and the Standard for Urban Residential Area Planning and Design (《城市居住區規劃設計標準》) stipulate that heat exchange equipment including heat exchange stations cannot (by law) be demolished or relocated without proper authorisation from relevant government authorities. As at the Latest Practicable Date, we had not been asked nor had we been ordered by relevant government authorities or the owners of the heat exchange stations/land, nor were we aware of any intention on their part to require us, to demolish or relocate any of the heat exchange stations we use for our heat service operation due to their title defects.

Based on the above, we believe it is unlikely that relevant government authorities or the owners of the heat exchange stations and/or the land would order or require the demolition or relocation of the heat exchange stations or our equipment installed therein without finding alternative sites for us generally.

### *Confirmations from relevant government authorities*

As most of the title defects were beyond our control and could only be rectified by relevant owners of such heat exchange stations and/or land, we have sought clarification and confirmation from relevant government authorities regarding, amongst other things, our use of the heat exchange stations.

Written confirmations have been obtained from relevant competent authorities on the following matters relating to our use of the heat exchange stations:

- (a) the title defects of the heat exchange stations did not affect the validity of the respective Concession Agreements, would not affect the legality of our heat service operations, and would not cause an early termination of the respective Concession Agreements. This was confirmed:
  - (i) in respect of our Hulunbuir Project by the Hulunbuir City Housing and Urban-Rural Development Bureau (呼倫貝爾市住房和城鄉建設局), which is the grantor of our Hulunbuir Concession Agreement;
  - (ii) in respect of our Taiyuan Project by the Taiyuan City Bureau of Municipal Affairs Administration (太原市城鄉管理局), which is the grantor of our Taiyuan Concession Agreement;
  - (iii) in respect of our Shanxi Demonstration Zone Project by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the relevant competent authority responsible for overseeing and coordinating matters relating to heat services within the Shanxi Transformation and Comprehensive Reform Demonstration Zone and an internal department of the concession grantor as advised by our PRC Legal Advisers;

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- (iv) in respect of our Shuozhou Project by Shuozhou City Bureau of Municipal Affairs Administration (朔州市城市管理局), which is the relevant competent authority overseeing matters related to heat services in Shuozhou City, and this authority and the Concession grantor are both internal departments of Shuozhou Municipal Government as advised by our PRC Legal Advisers; and
  - (v) in respect of our Lanzhou New Area Project by Lanzhou New District Urban and Rural Construction and Transportation Bureau (蘭州新區城鄉建設和交通管理局), the relevant competent authority overseeing matters related to heat services and an internal department of the Concession grantor for our Lanzhou New Area Project as advised by our PRC Legal Advisers;
- (b) if due to changes in municipal planning or other factors, we need to relocate or become unable to properly occupy or use the existing heat exchange stations for our heat services operations, the respective authorities will assist us in finding alternative premises as heat exchange stations, so as to ensure that the provision of heat services to residents will not be affected. This was confirmed:
- (i) in respect of our Hulunbuir Project by (1) the People's Government of Hailar District of Hulunbuir City (呼倫貝爾市海拉爾區人民政府), which is the highest competent authority in relation to matters in the concession areas of Hailar District of Hulunbuir city including but not limited to constructions and public utilities matters as advised by our PRC Legal Advisers, and (2) the Hulunbuir City Housing and Urban-Rural Development Bureau (呼倫貝爾市住房和城鄉建設局), which is the grantor of our Hulunbuir Concession Agreement;
  - (ii) in respect of our Taiyuan Project and Shanxi Demonstration Zone Project by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the competent authority in construction matters in jurisdiction which concession grantee is registered for its place of business and responsible for overseeing and coordinating matters relating to constructions and other auxiliary infrastructure as advised by our PRC Legal Advisers;
  - (iii) in respect of our Shuozhou Project by Shuozhou City Housing and Urban-Rural Development Bureau (朔州市住房和城鄉建設局), which is the relevant competent authority supervising and managing town planning and construction related matters of Shuozhou City as advised by our PRC Legal Advisers; and
  - (iv) in respect of our Lanzhou New Area Project by Lanzhou New Area Zhongchuan Park Management Committee (蘭州新區中川園區管理委員會), the relevant competent authority which is a subordinate authority to the Concession grantor for our Lanzhou New Area Project as advised by our PRC Legal Advisers;

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- (c) the heat exchange stations that have been used and continue to be used by us have complied with PRC laws, regulations, rules and other regulatory documents regarding housing management and construction planning, and there was no violation of housing management and construction planning related regulations. This was confirmed:
- (i) in respect of our Hulunbuir Project up to 27 February 2023 by Hulunbuir City Housing and Urban-Rural Development Bureau (呼倫貝爾市住房和城鄉建設局), which is the grantor of our Hulunbuir Concession Agreement;
  - (ii) in respect of our Taiyuan Project and Shanxi Demonstration Zone Project up to 28 July 2021 by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the competent authority in construction matters in jurisdiction which concession grantee is registered for its place of business and responsible for overseeing and coordinating matters relating to constructions and other auxiliary infrastructure as advised by our PRC Legal Advisers; and
  - (iii) in respect of our Shuozhou Project up to 27 February 2023 by Shuozhou City Housing and Urban-Rural Development Bureau (朔州市住房和城鄉建設局), which is the relevant competent authority supervising and managing town planning and construction related matters of Shuozhou City as advised by our PRC Legal Advisers;
- (d) no complaint or report had been received by the respective authorities for violation of relevant housing management and construction planning laws in respect of the heat exchange stations, and the respective authorities did not have any dispute, conflict or legal proceeding with us in relation to housing management and construction planning in respect of the heat exchange stations. This was confirmed:
- (i) in respect of our Hulunbuir Project up to 27 February 2023 by (1) the People's Government of Hailar District of Hulunbuir City (呼倫貝爾市海拉爾區人民政府), which is the highest competent authority in relation to matters in the concession areas of Hailar District of Hulunbuir city including but not limited to constructions and public utilities matters as advised by our PRC Legal Advisers, and (2) the Hulunbuir City Housing and Urban-Rural Development Bureau (呼倫貝爾市住房和城鄉建設局), which is the grantor of our Hulunbuir Concession Agreement;
  - (ii) in respect of our Taiyuan Project and Shanxi Demonstration Zone Project up to 28 July 2021 by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the competent authority in construction matters in jurisdiction which concession grantee is registered for its place of business and responsible for overseeing and coordinating matters relating to constructions and other auxiliary infrastructure as advised by our PRC Legal Advisers; and

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- (iii) in respect of our Shuozhou Project up to 27 February 2023 by Shuozhou City Housing and Urban-Rural Development Bureau (朔州市住房和城鄉建設局), which is the relevant competent authority supervising and managing town planning and construction related matters of Shuozhou City as advised by our PRC Legal Advisers;
- (e) without consent from the relevant authority, we cannot cease the provision of our heat services solely because of title defects of the heat exchange stations used by us, so as to avoid suspension of heat service. This was confirmed:
  - (i) in respect of our Hulunbuir Project by the Hulunbuir City Housing and Urban-Rural Development Bureau (呼倫貝爾市住房和城鄉建設局), which is the grantor of our Hulunbuir Concession Agreement;
  - (ii) in respect of our Taiyuan Project by the Taiyuan City Bureau of Municipal Affairs Administration (太原市城鄉管理局), which is the grantor of our Taiyuan Concession Agreement;
  - (iii) in respect of our Shanxi Demonstration Zone Project by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the relevant competent authority responsible for overseeing and coordinating matters relating to heat services within the Shanxi Transformation and Comprehensive Reform Demonstration Zone and an internal department of the concession grantor as advised by our PRC Legal Advisers; and
  - (iv) in respect of our Shuozhou Project by Shuozhou City Bureau of Municipal Affairs Administration (朔州市城市管理局), which is the relevant competent authority overseeing matters related to heat services in Shuozhou City, and this authority and the grantor are both internal department of Shuozhou Municipal Government as advised by our PRC Legal Advisers;
- (f) there had not been disputes on property rights over heat exchange stations within the jurisdiction the respective competent authorities which resulted in the need for relocation of any heat exchange station or the need for compensation. This was confirmed:
  - (i) in respect of our Hulunbuir Project up to 27 February 2023 by the Hulunbuir City Housing and Urban-Rural Development Bureau (呼倫貝爾市住房和城鄉建設局), which is the grantor of our Hulunbuir Concession Agreement;
  - (ii) in respect of our Taiyuan Project up to 6 March 2023 by the Taiyuan City Bureau of Municipal Affairs Administration (太原市城鄉管理局), which is the grantor of our Taiyuan Concession Agreement;



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- (iii) in respect of our Shanxi Demonstration Zone Project up to 30 July 2021 by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the relevant competent authority responsible for overseeing and coordinating matters relating to heat services within the Shanxi Transformation and Comprehensive Reform Demonstration Zone and an internal department of the concession grantor as advised by our PRC Legal Advisers; and
- (iv) in respect of our Shuozhou Project up to 27 February 2023 by Shuozhou City Bureau of Municipal Affairs Administration (朔州市城市管理局), which is the relevant competent authority overseeing matters related to heat services in Shuozhou City, and this authority and the grantor are both internal department of Shuozhou Municipal Government as advised by our PRC Legal Advisers;
- (g) we were not involved in any material non-compliance relating to real property within the jurisdiction of the respective authorities, and had not been penalised by the respective authorities for any violations of real property related PRC laws or regulations within its jurisdiction. This was confirmed:
  - (i) in respect of our Taiyuan Project up to 18 January 2023 by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the competent authority in construction matters and coordinating matters relating to constructions within the Shanxi Transformation and Comprehensive Reform Demonstration Zone as advised by our PRC Legal Advisers;
  - (ii) in respect of our Shuozhou Project up to 17 January 2023 by Shuozhou City Shuocheng District Housing and Urban-Rural Development Bureau (朔州市朔城區住房和城鄉建設局), which is the relevant competent authority responsible for supervising and managing town planning and construction related matters within Shuocheng District as advised by our PRC Legal Advisers; and
  - (iii) in respect of our Shuozhou Project up to 17 January 2023 by Lanzhou New District Urban and Rural Construction and Transportation Bureau (蘭州新區城鄉建設和交通管理局), which is the relevant competent authority responsible for supervising urban and rural construction, housing security within Lanzhou New Area as advised by our PRC Legal Advisers;

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- (h) we were not involved in any material non-compliance relating to construction within the jurisdiction of the respective authorities, and had not been investigated or penalised by the respective authorities for any violations of construction related PRC laws or regulations within its jurisdiction. This was confirmed:
  - (i) in respect of our Shanxi Demonstration Zone Project up to 18 January 2023 by the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), which is the competent authority responsible for overseeing construction within the Shanxi Transformation and Comprehensive Reform Demonstration Zone as advised by our PRC Legal Advisers; and
  - (ii) in respect of our Shuozhou Project up to 17 January 2023 by Shuozhou City Shuocheng District Housing and Urban-Rural Development Bureau (朔州市朔城區住房和城鄉建設局), which is the relevant competent authority supervising construction related matters of Shuocheng District as advised by our PRC Legal Advisers.

Our PRC Legal Advisers have advised that the aforementioned authorities are the relevant competent authorities to issue opinions with respect to the aforementioned issues concerning the heat services we provide in their respective administrative regions.

### *Enhanced internal control measures*

We have adopted the following enhanced internal control measures to address current and future problems concerning title defects:

- (1) we have amended our internal control manual, including Measures of Heat Exchange Stations and Origin Stations (《換熱站、首站管理制度》), in order to strengthen our execution and monitoring system in respect of the title defects and to ensure that our Directors, supervisors and senior management are properly updated on a regular basis;
- (2) we have designated our operation department as the department responsible for carrying out overall monitoring and management of the title defects. This includes conducting regular and random checks and inspections on the status of the title defects, following up with the progress of obtaining title certificates and proper authorisations for those heat exchange stations with title defects, and preparing a monthly report based on the progress status for the new heat exchange stations;
- (3) we have compiled a register to record and document the details and status of heat exchange stations with title defects. Designated staff will follow up with the status of the heat exchange stations with title defects at specified times and will make quarterly progress reports to the operation department;

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- (4) we will (i) have an internal control evaluation on the title defects of heat exchange stations from time to time; (ii) evaluate the works of the designated staff in handling such title defects; (iii) assess the overall status of title defects; and (iv) report to our Directors, supervisors and senior management regarding the risks arising from title defects and assess the risks in a timely manner based on the factors such as any claims or eviction by third parties for unauthorised use shall there be any such incidents arising in the future;
- (5) we will ensure that proper authorisations or confirmations in relation to the right to use the land and/or heat exchange stations are obtained during construction of heat exchange stations or installation of equipment in any existing heat exchange stations, and will endeavour to obtain all relevant title certificates before putting heat exchange stations into use. If title certificates are unable to be obtained, our operation department should report to our management team prior to commencement of heat service period. After the grantors grant us the right to use the heat exchange stations, we will also obtain authorisation from our management team before putting them into use for our operation;
- (6) we will ensure that proper disclaimers and an indemnity provision will be included in new written permission and agreements for use of heat exchange stations to be obtained from the grantors before installing our equipment into any new heat exchange stations, so as to ensure that the grantors will be responsible for any damages and losses arising from their title defects;
- (7) for grantors who were unable to provide relevant title certificates, we have sought confirmation from the relevant regulatory authority to confirm that the relevant government authorities will assist us in finding alternative premises as heat exchange stations, so as to ensure that the provision of heat services to residents will not be affected, and we will seek to obtain the same should we have to use any other heat exchange stations with title defects in the future; and
- (8) we will engage external legal advisers to provide legal training to our Directors and senior management on a regular basis in order to keep pace with relevant laws and regulations.

Our internal control consultant has reviewed the corresponding internal control policies, and did not have any further recommendation after such review.

Based on the above, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures adopted by our Group are adequate and sufficient in preventing recurrence of similar future incidents.

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### **Failure to obtain certain construction permits and/or complete relevant construction acceptance checks for the construction of certain properties**

#### *Event of non-compliance and reasons*

During the Track Record Period, we failed to obtain certain construction permits and/or complete relevant construction acceptance checks for (a) 14 heat exchange stations owned by us for our Shanxi Demonstration Zone Project and Shuozhou Project, and (b) our peak shaving station for our Lanzhou New Area Project.

In respect of the 14 heat exchange stations (of which one was located on our land and 13 were located on third-party owned land) owned by us, we did not obtain the relevant construction planning permits before commencement of construction and/or complete the relevant construction acceptance checks before putting them into use.

- For that one heat exchange station (i.e. Type III) located on our land in Science and Technology Innovation City Land Plot, we commenced the relevant construction without obtaining the construction planning permit (建設規劃許可) and construction commencement permits (建設施工許可) prior to the construction and did not complete relevant construction acceptance checks of such heat exchange station prior to putting it into use, with a view to expediting the progress of construction to ensure the provision of heat services for the winter heating season to new users in the relevant areas due to urgent needs. As at the Latest Practicable Date, we were in the process of obtaining the construction planning permit and construction commencement permit, after which we expect to conduct the construction acceptance checks and obtain the real estate certificate (不動產權證書). It is expected that the real estate certificate will be obtained by the end of 2023.
- For those 13 heat exchange stations (i.e. Type IIA and Type IIB) which were located on third-party owned land, since we were not the land owner, as advised by our PRC Legal Advisers, we were not permitted under relevant PRC laws and regulations to apply for the construction planning permits and complete the corresponding construction acceptance checks due to separate land and building ownership (房地分離). As at the Latest Practicable Date, we could not obtain the relevant permits before commencement of construction and/or complete the relevant construction acceptance checks as we were not the owner of such land and could not provide the land use rights certificate which is required to obtain such construction permits and complete such construction acceptance checks.

In respect of our peak-shaving station, we did not complete the construction acceptance checks before its commencement of operation. According to the construction plan of such peak-shaving station, six peak-shaving boilers and the corresponding buildings to be constructed. After completion of construction of three peak-shaving boilers and the corresponding buildings, our peak-shaving station commenced operation in response to urgent needs of residents under our Lanzhou New Area Project as it was winter at the material time. As we had not yet completed the construction of all six peak-shaving boilers and all

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corresponding buildings according to the construction plan, we could not complete the requisite construction acceptance check of the constructed buildings where the three constructed boilers are located at the time. We attended a meeting with the government prior to our commencement of operation of the peak-shaving station, and understood that we are required to ensure we have the ability to provide heat services for the upcoming heat service period in order to satisfy the urgent needs of residents of Lanzhou New Area Project. We therefore had to start operating our peak-shaving station despite not having completed the relevant construction acceptance check. It was subsequently agreed with the relevant authorities that the construction acceptance check of the constructed buildings where the three constructed boilers are located will be carried out first according to the respective construction schedule of each of the peak-shaving boilers and the corresponding buildings. As at the Latest Practicable Date, we were in the process of conducting the construction acceptance check covering the constructed buildings where the three constructed boilers are located. It is expected that the construction acceptance check covering the constructed buildings where the three constructed boilers are located shall be completed by the end of 2023.

During the Track Record Period and up to the Latest Practicable Date, there had not been any material safety incidents directly attributable to the safety conditions of the 14 heat exchange stations owned by us and the peak-shaving station during our time of operation.

### *Legal consequences*

According to Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), if a construction project proceeded without obtaining the construction planning permit or violated relevant provisions under the construction planning permit (建設工程規劃許可證), the relevant government authority may stop the construction. It may also request for rectification or demolition of the building or structure within a certain time limit and impose a fine of not more than 10% of the construction cost, and any revenue generated from the building or structure may be confiscated.

According to the Measures for Construction Permission Management of Construction Projects (《建築工程施工許可管理辦法》), for any construction project without a construction permit (施工許可證) being obtained, the relevant government authority may stop the construction, request for rectification within a specified time limit, impose on the owner of the construction project a fine of 1% to 2% of the contract value of the construction project, and impose a fine of not more than RMB30,000 upon the contractor. Further, no construction commencement permit is required for construction projects with an investment amount of less than RMB300,000 or with a construction area of less than 300 sq.m. As at the Latest Practicable Date, there were five heat exchange stations owned by us did not require a construction commencement permit, and for the remaining nine heat exchange stations owned by us, we failed to obtain a construction commencement permit.

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》), and the Regulations on the Quality Management of Construction Projects (《建設工程質量管理條例》), the relevant government authority may impose an administrative fine in the amount between 2% to 4% of the construction cost contract value to owner of the construction project for the failure to conduct a construction acceptance check (竣工驗收) before use.

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As confirmed by our Directors the maximum potential penalty that may be imposed on the Group amounts to approximately RMB7.6 million, which represents the aggregate amount of (i) 10% of the total construction cost in relation to the 14 heat exchange stations owned by us; (ii) 2% of the total contract value of the project sum in relation to the nine heat exchange stations which we failed to obtain construction permits; and (iii) 4% of the total contract value of the project sum in relation to the 14 heat exchange stations owned by us.

### *Remedial measures and enhanced internal control measures*

We have adopted a set of internal control policies to ensure our construction projects are in compliance with applicable statutory procedures and to prevent any recurrence of similar future non-compliance:

- (a) prior to the commencing construction works, we are required to obtain all the requisite construction permits and approvals from the relevant competent government authorities;
- (b) prior to the commencement of operation of each newly constructed facility or equipment, the relevant constructor shall prepare an acceptance report for review by our supervising engineer, who will subsequently sign the acceptance report;
- (c) if the supervising engineer considers the acceptance procedures are inadequate to meet the acceptance conditions required, a notice will be issued to the relevant contractor to rectify any deficiency identified;
- (d) upon satisfaction of acceptance conditions as determined by our supervising engineer, our supervising unit and project construction unit will further review whether the relevant construction project has gone through all required procedures before commencement of operation or use; and
- (e) we are not allowed to commence operations or use any newly constructed facility or equipment until we obtain the official notice of completion of construction acceptance procedures.

Our internal control consultant has reviewed the corresponding enhanced internal control policies which our Group has adopted, and did not have any further recommendation after such review.

Based on the above, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures adopted by our Group are adequate, effective and sufficient in preventing recurrence of similar future non-compliance.

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### *Impact on our Group*

We have obtained confirmations from the relevant competent government authorities that no penalty will be imposed on us in respect of the above-mentioned non-compliance.

In respect of the heat exchange station constructed for our Shanxi Demonstration Zone Project, we obtained a written confirmation from the Construction and Public Utilities Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會建設與公用事業管理部), confirming that, among others, (i) our failure to obtain the requisite construction permits and/or complete construction completion acceptance check for heat exchange stations owned by us does not constitute a material non-compliance; and (ii) it will not impose administrative penalties on us for this reason.

In respect of the heat exchange stations constructed for our Shuozhou Project, we obtained a written confirmation from Shuozhou City Housing and Urban-Rural Development Bureau (朔州市住房和城鄉建設局) confirming that, among others, (i) our failure to obtain the requisite construction permits and/or complete relevant construction acceptance checks for heat exchange stations owned by us does not constitute a material non-compliance; and (ii) it will not impose administrative penalties on us for this reason.

In respect of the peak-shaving station, we obtained a written confirmation from Lanzhou New Area Zhongchuan Area Urban (Rural) Development Management Bureau (蘭州新區中川園區城市(鄉)建設管理局) confirming that (i) given the peak-shaving station is mainly used for heat services operation which is public utility relating to people's livelihood, in order to ensure the normal provision of heat service, we can continue to use such peak-shaving station; (ii) our use of the peak-shaving station does not constitute a material non-compliance; and (iii) no penalty has been or will be imposed on us in this regard.

As we have received confirmations from the relevant competent government authorities, our PRC Legal Advisers are of the view that the risk of us being requested to cease the use of such heat exchange stations and peak-shaving station and/or being penalised as a result of such non-compliance is remote, and that such non-compliance would not have a material impact on the business operation of our Group.

Based on the above-mentioned confirmations received from relevant competent government authorities and the advice from our PRC Legal Advisers, our Directors confirm that such non-compliances do not and will not have any material impact on the operations or financial position of our Group.

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### Other facilities owned by us

In addition to the owned properties, leased properties and equipment installed in heat exchange stations set out above, we also own heat service facilities for our operation. Almost all of our facilities are located in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region, and mainly comprise primary distribution pipelines and facilities and devices we installed in the heat exchange stations used by us. See “Heat distribution – Our heat service facilities” in this section for details.

### REGULATORY COMPLIANCE

Save as disclosed in this section, our Directors are of the view that we had complied with all relevant laws and regulation in all material respects during the Track Record Period and up to the Latest Practicable Date.

### Licences, permits and certificates

We are subject to laws, regulations and supervision by different levels of regulatory authorities and are required to maintain various licences, permits and certificates in order to operate our business. A summary of such relevant PRC laws and regulations to which our business operations are subject is set out in “Regulatory overview” in this document. Our PRC Legal Advisers have confirmed that we had obtained necessary licences, permits and certificates for our current business operations in all material aspects in the PRC and such licences, permits and certificates are valid and remain in effect as at the Latest Practicable Date. The following table sets out the details of our licences, permits and certificates which are material to our operations:

No.	Licence, permit and certificate name	Serial number	Awarding body	Recipient	Date of award	Validity
1	Pollutant discharge permit (排污許可證)	91620100073586604Y001P	Lanzhou New Area Ecology and Environment Bureau (蘭州新區生態環境局)	Lanzhou Shuangliang	13 September 2021	12 September 2026
2	Work safety licence (安全生產許可證)	(Jin)JZ An Xu Zheng Zi [2020]010334-3/1 (晉)JZ安許證字[2020]010334-3/1	Taiyuan Municipal Administrative Approval Services Management Bureau (太原市行政審批服務管理局)	Taiyuan Renewable Energy	12 November 2020	11 November 2023
3	Work safety licence (安全生產許可證)	(Jin)JZ An Xu Zheng Zi [2017]TY0272-2/2 (晉)JZ安許證字 [2017]TY0272-2/2	Taiyuan Municipal Commission of Housing and Urban-Rural Development (太原市住房和城鄉建設委員會)	Shanxi Shuangliang Renewable Energy	27 December 2017	7 December 2023
4	Work safety licence (安全生產許可證)	(Jin)JZ An Xu Zheng Zi [2020]060028 (晉)JZ安許證字[2020]060028	Shuozhou Municipal Administrative Approval Services Management Bureau (朔州市行政審批服務管理局)	Shuozhou Renewable Energy	29 October 2020	28 October 2023



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No.	Licence, permit and certificate name	Serial number	Awarding body	Recipient	Date of award	Validity
5	Construction industry enterprise qualification (建築業企業資質證書)	D314006270	Taiyuan Municipal Commission of Housing and Urban-Rural Development (太原市住房和城鄉建設委員會)	Shanxi Shuangliang Renewable Energy	14 June 2017	31 December 2023
6	Construction industry enterprise qualification (建築業企業資質證書)	D314006536	Taiyuan Municipal of Housing and Urban-Rural Development Bureau (太原市住房和城鄉建設局)	Taiyuan Renewable Energy	10 December 2019	31 December 2023
7	Construction industry enterprise qualification (建築業企業資質證書)	D314078474	Shuozhou Municipal Administrative Approval Services Management Bureau (朔州市行政審批服務管理局)	Shuozhou Renewable Energy	13 January 2020	13 January 2025
8	Engineering design qualification certificate (Municipal sector (Heating engineering) Grade 2) (工程設計資質證書(市政行業(熱力工程)專業乙級))	A214012131	Shanxi Provincial Department of Housing and Urban-Rural Development (山西省住房和城鄉建設廳)	Shanxi Shuangliang New Energy	4 May 2017	31 December 2023
9	High and new technology enterprises certificate (高新技術企業證書)	GR202114000653	Shanxi Provincial Department of Science and Technology (山西省科學技術廳); Shanxi Provincial Department of Finance (山西省財政廳); Shanxi Provincial Office of the State Taxation Administration (國家稅務總局山西省稅務局)	Taiyuan Renewable Energy	7 December 2021	7 December 2024
10	High and new technology enterprises certificate (高新技術企業證書)	GR201914000016	Shanxi Provincial Department of Science and Technology (山西省科學技術廳); Shanxi Provincial Department of Finance (山西省財政廳); Shanxi Provincial Office of the State Taxation Administration (國家稅務總局山西省稅務局)	Shanxi Shuangliang New Energy	12 December 2022	12 December 2025
11	High and new technology enterprises certificate (高新技術企業證書)	GR202014000500	Shanxi Provincial Department of Science and Technology (山西省科學技術廳); Shanxi Provincial Department of Finance (山西省財政廳); Shanxi Provincial Office of the State Taxation Administration (國家稅務總局山西省稅務局)	Shanxi Demonstration Zone Heat Supply	3 December 2020	3 December 2023

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No.	Licence, permit and certificate name	Serial number	Awarding body	Recipient	Date of award	Validity
12	High and new technology enterprises certificate (高新技術企業證書)	GR2022622000035	Gansu Provincial Department of Science and Technology, Gansu Provincial Department of Finance, Gansu Provincial Taxation Bureau of the State Taxation Administration (甘肅省科學技術廳、甘肅省財政廳、國家稅務總局甘肅省稅務局)	Lanzhou Shuangliang	18 October 2022	18 October 2025
13	Food operation licence (食品經營許可證)	JY31401710001753	Taiyuan Food and Drug Administration Bureau (太原市食品藥品監督管理局)	Shanxi Smart Life	3 August 2022	2 August 2027
14	Heat service operation licence (供熱經營許可證)	Hai Gong Ri Zi No. 2020003 海供熱字第 2020003號	Hailar Region Housing and Urban-Rural Development Bureau (海拉爾區住房和城鄉建設局)	Hulunbuir Shuangliang	22 December 2020	21 December 2025

### Non-compliance incidents

During the Track Record Period and up to the Latest Practicable Date, save for the non-compliance incidents as disclosed in “– Properties – Failure to obtain certain construction planning permits and/or complete relevant construction acceptance checks for the construction of certain properties” in this section and below under this paragraph, our Directors are not aware of any non-compliance incidents, which taken as a whole, in the opinion of our Directors, are likely to have a material and adverse effect on our business, financial condition or results of operations. During the same periods, we also did not experience any other material non-compliance of the laws or regulations, which taken as a whole, in the opinion of our Directors, reflects negatively on the ability or tendency of our Company, our Directors or our senior management, to operate our business in a compliant manner.

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Set forth below is a summary of our non-compliance incidents during the Track Record Period and up to the Latest Practicable Date, as well as rectification actions and preventive measures that we have taken in respect of such incidents:

Event(s) of non-compliance and reasons	Legal consequences	Remedial measures and enhanced internal control measures	Impact on our Group
<p>(1) <i>Social insurance and housing provident fund contributions</i></p> <p>During the Track Record Period, some of our PRC subsidiaries did not make full contributions to the social insurance and housing provident funds for some of our employees as required under PRC laws and regulations.</p> <p>For the years ended 31 December 2020, 2021 and 2022, we estimate the shortfall in the amount of contributions made by the Company to its employees' social insurance was approximately RMB0.5 million, RMB1.3 million and RMB1.3 million, respectively, and the shortfall in the amount of unpaid housing provident fund was approximately RMB1.1 million, RMB1.0 million and RMB0.6 million, respectively.</p> <p>We failed to make full contributions to the social insurance and housing provident funds for some of our employees as a result of insufficient understanding and incorrect interpretation by our human resources personnel in relation to the applicable PRC laws and regulations relating to social insurance and housing provident fund contributions.</p> <p>The main reasons that contributions were not made for certain employees are: (i) certain employees had passed their statutory retirement ages, were rehired after retirement and it was thought that no social insurance contributions need to be made for them under the relevant laws and regulations; (ii) certain employees had already made contributions elsewhere before joining our Group, and we were unable to make contributions for them locally without their contributions.</p>	<p>According to relevant PRC laws and regulations, we are required to make contributions to social insurance fund (including pension fund, medical insurance, unemployment insurance), work-related injury insurance, and maternity insurance) and housing provident fund for the benefit of our employees in the PRC.</p> <p>According to relevant PRC laws and regulations in respect of social insurance contributions, if we do not pay the full amount of social insurance contributions as required, the relevant government authorities may demand us to pay the outstanding social insurance contributions by the deadline stipulated by them, and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay. We may be liable to an additional fine from one to three times of the outstanding contributions amount if we fail to make such payments by the deadline stipulated by them.</p> <p>In respect of the outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within the time period stipulated by relevant government authorities. If payment is not made within such simulated time period, relevant PRC government authorities may apply to PRC courts for compulsory enforcement.</p> <p>As at the Latest Practicable Date, no administrative penalties have been imposed by relevant regulatory authorities regarding the outstanding social insurance and housing provident funds, and we have not been ordered to settle any shortfall. As at the Latest Practicable Date, the late payment fees that we may be liable for amounted to approximately RMB0.2 million, RMB0.3 million and RMB0.04 million for the years ended 31 December 2020, 2021 and 2022, respectively. Our Directors confirmed that if we are ordered to make such payment by competent government authorities, we will do so within the prescribed time period. As advised by our PRC Legal Adviser, we do not expect to incur fines for the outstanding amounts of social insurance contributions if we make such payment within the prescribed time period when we are ordered to do so by competent government authorities. See "Risk factors – 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" in this document for more information.</p>	<p>We will strictly, in the future, follow the relevant PRC laws and regulations in respect of social insurance and housing provident fund contributions. Our human resources manager will be responsible for our compliance with full contribution of social insurance and housing provident fund.</p> <p>From an internal control perspective, we have issued an administrative notice, namely Management Measures of Social Insurance and Housing Provident Fund* (《社会保险、住房公积金管理制度》), pursuant to which our legal department and human resource department will regularly check the compliance status of social insurance and housing provident fund contributions to prevent any shortfall.</p> <p>We have adopted internal control policies requiring our human resource department to (i) provide, on a monthly basis, an updated list of social insurance and housing provident fund contribution to our management for review; and (ii) consult our PRC Legal Advisers on the relevant laws and regulations on social insurance and housing provident fund contributions from time to time.</p> <p>Since 2022, we have been in the process of adjusting the contribution base of social insurance and housing provident funds for our employees with a view to fully comply with the relevant PRC laws and regulations. The adjustment of the contribution base is usually made during a designated time period each year and such time period varies in different regions pursuant to the relevant PRC laws and regulations. As at the Latest Practicable Date, we had completed all adjustment of contribution base of housing provident fund for all of our employees and we expect to make full contribution of social insurance for all of our employees by the end of 2022, depending on when the administrative window of each of Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region opens for our application for the adjustment of the contribution base.</p> <p>Our internal control consultant has reviewed the corresponding enhanced internal control policies which our Group has adopted, and did not have any further recommendation after such review.</p> <p>Based on the above, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures adopted by our Group are adequate, effective and sufficient in preventing recurrence of similar future non-compliance.</p>	<p>Our Directors have considered the following in assessing our exposures arising from our failure to make full contribution to social insurance and housing provident funds:</p> <p>(i) during the Track Record Period and up to the Latest Practicable Date, we had not received any notification from relevant government authorities requiring us to pay any shortfalls or penalties with respect to social insurance and housing provident funds;</p> <p>(ii) during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any administrative penalties, material litigations and legal proceedings, nor were we aware of any material employee complaints or material labour disputes with our employees with respect to social insurance and housing provident funds;</p> <p>(iii) during the Track Record Period and as at the Latest Practicable Date, no penalties had been imposed on us with respect to social insurance and housing provident funds;</p> <p>(iv) we had not received any complaint from our employees and were not aware of any employee lodging any complaint to the relevant authority or bureau, or other competent authorities or initiating any arbitration or court proceedings against our Group in relation to our failure to make social insurance or housing provident fund contributions; and</p> <p>(v) we will make full contributions or pay any shortfall within a prescribed time period if demanded by the relevant government authorities.</p> <p>Based on the above, our PRC Legal Advisers consider that the risk of our Group being penalised or ordered to make retrospective payments or make up the shortfall to the social insurance or housing provident fund contributions as a result of our failure to make the contributions as mentioned above is remote. In light of the above, our Directors believe that our failure to fully contribute to social insurance and housing provident funds during the Track Record Period would not have any material adverse effect on our financial performance or results of operations.</p> <p>Based on the above, there is no imminent need to make provisions for social insurance and housing provident fund contributions on our financial statements. Nonetheless, our Controlling Shareholders have undertaken to fully indemnify our Group if we are ordered by the relevant government authorities to pay the outstanding social insurance and housing provident fund contributions and the aggregate late payment fees and additional fine according to the relevant PRC laws and regulations.</p>

## BUSINESS

Event(s) of non-compliance and reasons	Legal consequences	Remedial measures and enhanced internal control measures	Impact on our Group
<p>(2) <i>Dispatched staff</i></p> <p>During the Track Record Period, the percentage of dispatched staff that worked at four of our subsidiaries exceeded the threshold of 10% as required by the Interim Provisions on Labour Dispatch (《勞務派遣暫行規定》) (the “Interim Provisions”) (the “Labour Dispatch Incident”).</p>	<p>Pursuant to 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 staff.</p> <p>According to the Interim Provisions and the Labour Contract Law of the PRC* (《勞動合同法》), in the event of violation of the Interim Provisions, the relevant labour authorities would order the violating company to rectify such violation. If violation was not rectified within a specified time limit, relevant labour authorities may impose a maximum penalty of RMB10,000 for each dispatched staff exceeding the limit. If we fail to rectify such violation within the time limit required by relevant labour authorities, the maximum potential penalty that we may face for the Labour Dispatch Incident is RMB2.52 million.</p>	<p>As at the Latest Practicable Date, all of our four subsidiaries completed the rectification process and brought the dispatched staff level below the limit by subcontracting certain services such as logistics, warehouse management and cargo handling previously provided by the dispatched staff to third-party service providers.</p> <p>We expect that we will continue to use dispatched staff from time to time in order to better allocate our resources to the provision of heat services operations. We have implemented certain internal control measures such as preparing a control list to monitor the proportion of dispatched staff and such list will be submitted to human resource department for review every three months. In addition, our human resources department has published our own Measures of Regulation of Dispatch Staff (《勞務用工管理規定》) as a guiding principle for each subsidiary to closely monitor the percentage of its dispatched staff in order to comply with the Interim Provisions at all times.</p> <p>Our internal control consultant has reviewed the corresponding enhanced internal control policies which our Group has adopted, and did not have any further recommendation after such review.</p> <p>Based on the above, our Directors and the Sole Sponsor consider that we have taken adequate and effective measures to ensure the percentage of dispatched staff working in our Group will remain below the prescribed limit going forward.</p>	<p>During the Track Record Period and up to the Latest Practicable Date, we had not received any notice of rectification from any relevant labour authorities nor is there any pecuniary penalty imposed on us in relation to any violation of the Interim Provisions.</p> <p>We have fully completed the rectification process and have obtained written confirmations from the relevant competent human resources and social security authorities, (being Lanzhou New District Zhongchuan Park Civil Affairs and Social Security Bureau (蘭州新區中川園民政和社會保障局), Shuozhou City Human Resources and Social Security Bureau (朔州市人力資源和社會保障局), Shuozhou Labor Security Supervision Comprehensive Administrative Law Enforcement Team (朔州市勞動保障監察綜合行政執法隊), Human Resources Department of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會人力資源部), and General Enforcement Bureau of the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone (山西轉型綜合改革示範區管理委員會綜合執法局)) which confirmed that (i) our Labour Dispatch Incident was not a material non-compliance; (ii) there was no complaint lodged against us; and (iii) we has not been and will not be subject to administrative penalties due to the Labour Dispatch Incident.</p> <p>Based on the above, our PRC Legal Advisers are of the view that (i) the risk of us being subject to administrative penalties is remote; and (ii) the above-mentioned subcontracting arrangements are different from and do not constitute labour dispatch arrangements, and are therefore not subject to the Interim Provisions.</p> <p>Accordingly, our Directors are of the view that the Labour Dispatch Incident will not have a material adverse impact on our business or results of operations.</p>
<p>As at 31 December 2020, 2021 and 2022, the total number of dispatched staff at four of our subsidiaries was 211, 193 and 10, which accounted for approximately 24.8%, 18.1% and 5.1% of the total number of our staff at those subsidiaries, respectively.</p> <p>These labour dispatch arrangements were temporary in nature (e.g. heat supply period). And our dispatched staff were mainly involved in supporting functions of our business operation in respect of warehouse and logistics management, cargo handling and transportation.</p>	<p>During the Track Record Period, due to inadequate legal knowledge and inadvertent oversight of relevant legal requirements of certain employees of our four subsidiaries, we did not fully comply with the Interim Provision, and the number of dispatched staff engaged by us exceeded 10% of the total number of our employees.</p>	<p>Based on the above, our PRC Legal Advisers are of the view that (i) the risk of us being subject to administrative penalties is remote; and (ii) the above-mentioned subcontracting arrangements are different from and do not constitute labour dispatch arrangements, and are therefore not subject to the Interim Provisions.</p> <p>Accordingly, our Directors are of the view that the Labour Dispatch Incident will not have a material adverse impact on our business or results of operations.</p>	<p>Based on the above, our PRC Legal Advisers are of the view that (i) the risk of us being subject to administrative penalties is remote; and (ii) the above-mentioned subcontracting arrangements are different from and do not constitute labour dispatch arrangements, and are therefore not subject to the Interim Provisions.</p> <p>Accordingly, our Directors are of the view that the Labour Dispatch Incident will not have a material adverse impact on our business or results of operations.</p>

BUSINESS

Event(s) of non-compliance and reasons	Legal consequences	Remedial measures and enhanced internal control measures	Impact on our Group
<p>(3) <i>Failure to obtain mining permit for extracting geothermal heat</i></p> <p>During the Track Record Period and up to the Latest Practicable Date, we failed to obtain mining permit for extracting geothermal heat (探礦許可證).</p> <p>At the relevant time, we attempted to apply for a mining permit in accordance with these PRC laws and regulations but were unable to obtain one. At the relevant time and up to the Latest Practicable Date, there has been no established practice for Shanxi Province to issue such mining permit to heat service providers operating there.</p>	<p>Under the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》) and the Procedures for Administrative Measures for Registration of the Mining of Mineral Resources (《礦產資源開採登記管理辦法》), a mining permit should be obtained for the mining and extraction of geothermal heat. The Regulations on Authorising the Issuance of Excavation Licenses and Mining Permits (《關於授權頒發勘查許可證探礦許可證的規定》) provides that each province, municipality and autonomous region has the right to adopt its own laws and regulations in respect of the issuance of mining permits in relation to the mining and extraction of geothermal heat. In Shanxi Province, the Regulations of Administration of Mineral Resources of Shanxi Province (《山西省礦產資源管理條例》) provide that mining permits for mining and extracting geothermal heat should be issued at provincial level.</p> <p>According to the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》), in the event of mining without the relevant mining permit, the relevant government authority may order the violating company to stop mining, confiscate their products extracted from the mining activity concerned, and impose a fine on them. According to the Detailed Rules for the Implementation of the Mineral Resources Law of PRC (《礦產資源法實施條例》), a fine of no more than 50% of the gains from the mining activity concerned may be imposed on the violating Company for mining without the relevant mining permit.</p>	<p>We conducted an interview with the Department of Natural Resources of Shanxi Province* (山西省自然資源廳) (the “Shanxi Natural Resources Department”) and it confirmed to us that no penalty has been or will be imposed on us for our extraction of geothermal heat as heat source for the Shanxi Demonstration Zone Project without a mining permit.</p> <p>We also conducted an interview with the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone* (山西轉型綜合改革示範區管理委員會), which confirmed that our concession right will not be terminated due to our failure to obtain a mining permit.</p> <p>We have adopted internal control policies requiring our Group to, in the future, (i) commence heat service operations only after all necessary licences, permits or approvals have been obtained from relevant authorities; (ii) designate staff to monitor our Group’s compliance with relevant laws and regulations; and (iii) designate staff to keep record of the licences, permits or approvals obtained to ensure that we are able to renew our licences and permits with the relevant government authorities in time. Our internal control consultant has reviewed the corresponding enhanced internal control policies which our Group has adopted, and did not have any further recommendation after such review.</p> <p>Based on the above, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures adopted by our Group are adequate, effective and sufficient in preventing recurrence of similar future non-compliance.</p>	<p>We conducted interviews with the Shanxi Natural Resources Department and consulted them in relation to our failure to obtain a mining permit for the purpose of extracting geothermal heat. It was confirmed to us that (i) the Shanxi Natural Resources Department would consider a number of factors, including the location of the mining areas, mineral reserves, particular fluidity of minerals and all relevant local circumstances in respect of the extraction of underground resources in Shanxi Province; and (ii) no mining permits for the purpose of extracting geothermal heat had been issued to heat service providers in Shanxi Province, as an established provincial practice.</p> <p>It was confirmed to us that (i) our failure to obtain (and thus the lacking of) a mining permit for the purpose of extracting geothermal heat was in line with the current practice of Shanxi Province and did not constitute a material non-compliance of the relevant rules and laws; (ii) no penalty had been or will be imposed on us for our extraction of geothermal heat as heat source for the Shanxi Demonstration Zone Project without a mining permit; and (iii) revenue generated from the Shanxi Demonstration Zone Project will not be confiscated as a result of us not having a mining permit. Our PRC Legal Advisers have confirmed that Shanxi Natural Resources Department is the relevant competent authority in charge of all matters in respect of the regulation of natural resources and the issuance of mining permits at provincial level and the officer interviewed at the Shanxi Natural Resources Department in relation to the mining and extraction of geothermal heat was competent to provide those confirmations.</p> <p>We also conducted interviews with the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone* (山西轉型綜合改革示範區管理委員會), which confirmed that (i) our failure to obtain (and thus the lacking of) a mining permit did not give rise to any violation of the Shanxi Demonstration Zone Concession Agreement and our concession right will not be terminated due to our failure to obtain a mining permit; and (ii) in an unlikely event that we are ordered to cease to extract geothermal heat, we are still entitled to use other heat sources to provide heat services under the Concession Agreement. Our PRC Legal Advisers have confirmed that the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone* (山西轉型綜合改革示範區管理委員會) (being the concession grantor) is the relevant competent authority in charge of all matters in respect of the concession and the officer interviewed was competent to provide the relevant confirmations.</p>

## BUSINESS

Event(s) of non-compliance and reasons	Legal consequences	Remedial measures and enhanced internal control measures	Impact on our Group
			<p>Based on the above, our PRC Legal Advisers are of the view that the risks of any material impact on the operations of our Group, due to our failure to obtain a mining permit for the purpose of extracting geothermal heat, and the risk that a penalty will be imposed on us for such non-compliance, are remote.</p> <p>Our Directors are of the view that, based on the advice from our PRC Legal Advisers and the confirmation from the relevant government authority, such non-compliance does not and will not have any material impact on the operations or financial conditions of our Group.</p>

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### *Suitability for [REDACTED] and Directors' suitability*

Each of our Directors has confirmed that the non-compliance incidents did not involve any fraud or dishonesty and did not impugn his/her character, integrity or competence. Having considered the relevant facts and circumstances, the financial condition and/or business operations of our Group as a whole have not been and will not be materially and adversely affected. Moreover, as confirmed by our Directors and our PRC Legal Advisers, our Group's non-compliance incidents were isolated events relating to a wide variety of laws and regulations, and only came about under specific circumstances some of which were not caused by us and beyond our control. We did not deliberately contravene the relevant laws, nor did we intend to conduct any of our business operations in any non-law-abiding manner. As explained above, some of the non-compliance incidents could not be rectified by us, including failure to obtain certain construction permits and/or complete relevant construction acceptance check for the construction of certain properties, failure to register lease and tenancy agreements, failure to obtain a heat service operation license and failure to obtain a mining permit for extracting geothermal heat. For non-compliance incident relating to dispatched staff, our Group had completed the rectification process. For non-compliance incidents relating to social insurance and housing provident fund contributions, our Group has completed all adjustment of contribution base of housing provident fund for all of our employees and made full contribution of social insurance for all of our employees as at the Latest Practicable Date. In any event, our Group had obtained confirmations from relevant competent government authorities acknowledging these non-compliance incidents would not lead to a cessation of or material adverse impact on our business operations. Our PRC Legal Advisers advised that none of the aforesaid non-compliances will have a material adverse impact on our continued operation of our concessions and other business activities.

Having considered the nature and reasons for the historical non-compliance incidents identified and disclosed in "– non-compliance incidents" above, the remedial actions taken and the enhanced internal control measures adopted by us, our Directors are of the view that, and the Sole Sponsor concurs that, (i) our enhanced internal control measures are adequate and effective to prevent recurrence of future non-compliance incidents; and (ii) none of the past non-compliance incident would affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or our suitability for [REDACTED] under Rule 8.04 of the Listing Rules.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

We are primarily exposed to the following risks: (i) operational risks, such as access to heat sources, prices of energy resources, weather, quality control and customer services; (ii) regulatory risks, such as government policies on pricing, safety, environmental protection and obtaining of required licences, permits and certificates; (iii) financial risks, such as interest rate risk, credit risk and capital management; and (iv) environmental and social risks, such as climate change, supply chain and human resources.

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Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system. To enhance our internal controls as well as in connection with the [REDACTED], our Group has engaged an independent internal control consultant to perform a review over our internal controls over financial reporting in July 2021 and January 2023, covering entity-level control, revenue and receivables, heating engineering construction, heating equipment production and cost management, purchase and payables, treasury, human resources and payroll, financial reporting, tax, fixed assets, intangible assets, insurance, intellectual property, environmental protection and information technology. The scope of internal control review work performed and the long form report issued have been agreed between the Sole Sponsor, the internal control consultant and our Group.

As a result of the internal control review conducted by our internal control consultant, we have identified certain areas in our internal control system, policies and procedures that require improvement. We have subsequently taken remedial actions in response to the findings and recommendations by our internal control consultant.

The internal control consultant performed a follow-up review on our Group’s internal control system in September 2021 and February 2023, with regard to the remedial actions taken by our Group. The work performed and the follow-up review did not identify any material internal control weakness, and our internal control consultant did not raise any further recommendation. The aforementioned internal control review was conducted based on the information provided by our Company and no assurance or opinion was expressed by the internal control consultant. The following sets out the key measures adopted by our Group under our risk management and internal control system:

- as our business continues to expand, we will refine and enhance our internal control system in response to the evolving requirements of our expanded operations as appropriate. We will continue to review our internal control system to ensure compliance with applicable legal and regulatory requirements;
- See “Regulatory compliance – Non-compliance incidents” in this section for our enhanced internal control measures that we have implemented to prevent recurrence of similar non-compliance incidents. Our Directors and the Sole Sponsor are of the view that the enhanced internal control measures are adequate, effective and sufficient in preventing recurrence of similar future non-compliance;
- Mr. Ma Ke (馬克先生), one of our company secretaries, will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinators to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, he will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of our Group and/or our Board;



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- we have established a compliance department which is responsible for monitoring legal and regulatory compliance and the control environment at the group level as well as the subsidiary level. The compliance department comprises our legal and company secretarial teams;
- our Directors believe that compliance creates value for us. We are dedicated to cultivating a compliance culture among all of our employees. To ensure such compliance culture is embedded into daily workflow and set the expectations for individual behavior across our Group, we will conduct regular internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training;
- we will comply with the Corporate Governance Code. We have established three board committees, namely, the audit committee, the remuneration committee and the nomination committee, with respective terms of reference in compliance with the Corporate Governance Code. For details, see "Directors, supervisors and senior management" in this document;
- we have formulated an anti-bribery policy at the group level, which covers the anti-bribery measures, channels for reporting suspected bribery, such as the hot-line and mail box, and disciplinary actions against bribery within our Group;
- in September 2021, we published our ESG risk management and disclosure report which regulates, among other things, our responsibility to the environment and community, corporate governance, health and safety within our Group. Under this report, we are required, among other things, to monitor and manage our emissions and use of resources. See "Environmental, social and governance" in this section for further details regarding our ESG policy; and
- we have formulated a comprehensive internal control policy which covers various major areas of our operations including approval process and authority, compliance, risk management, capital investment management and contract management. For example:
  - (i) in terms of contract management, we have developed a contract management system at a group level which covers, among other things, the signing, approval process, internal monitoring and dispute resolution of the contracts entered into by our Group;
  - (ii) in terms of risk management, we have developed a risk management system at a group level which stipulates, among other things, our risk management framework, internal risk monitoring, risk management process and frequency of compliance checks within our Group. Our Directors are in charge of matters in relation to risk management;

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- (iii) in terms of capital management, we have formulated a fixed assets management system at a group level which regulates, among other things, the addition, disposal and accounting treatment of fixed assets within our Group. We have also developed management measures on internal capital flow at a group level which sets out internal rules governing among other things, group borrowings and capital flows.

Based on the above, our Directors are of the view that our Group has taken reasonable steps to establish a proper internal control system to minimise risks of non-compliance and prevent future recurrence of the non-compliance incidents disclosed in this section, at both working and monitoring levels, and hence, our Directors are of the view that the internal control measures adopted by our Group are adequate and effective in preventing recurrence of future non-compliance by our Group with legal and regulatory requirements. The Sole Sponsor concurs with the views of our Directors if the enhanced internal control measures can be continuously implemented and regularly reviewed.

## LITIGATION

From time to time, we may become subject to legal proceedings, investigations and claims incidental to the conduct of our business. During the Track Record Period and up to the Latest Practicable Date, some of the members of our Group were involved in legal proceedings. As advised by our PRC Legal Advisers, these members of our Group were mainly involved in the legal proceedings relating to the disputes in the ordinary course of our business, and none of these litigations would have a material adverse effect on our assets and financial position.

## EFFECTS OF THE COVID-19 OUTBREAK

### Effects of the COVID-19 outbreak on our business operations

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) was first reported in late 2019 and continues to spread across the PRC and globally. In March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As at the Latest Practicable Date, measures responding to COVID-19 relating to temporary travel restrictions and shutdown of certain business operations have been lifted, leading to the gradual resumption of normal commercial and industrial business operations.

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

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## BUSINESS

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### *In respect of our heat services*

Our provision of heat services has not been interrupted since the COVID-19 outbreak as it is a basic necessity in northern China. During the Track Record Period and up to the Latest Practicable Date, our heat service customers included both residential and non-residential heat service customers. For example, northern China experienced the shutdown of certain industrial and commercial business operations from February to April of 2020. However, due to the fact that heat service fees are usually calculated based on actual heat service area (instead of actual consumption of heat) and are prepaid by our customers prior to the commencement of the heat service period, and also our customers were able to resume normal business operation as soon as the local government lifted restrictions once the spread of COVID-19 was under control, our Directors consider that demand for heat service from our heat service customers did not materially fluctuate due to measures imposed by the PRC Government in response to the outbreak of COVID-19 (the “**COVID-19 Measures**”). For the two months ended 30 April in the 2019/2020 heat service period, 2020/2021 heat service period and 2021/2022 heat service period, we had 237,979, 265,823 and 282,438 heat service customers, respectively. Since the COVID-19 outbreak, we have not experienced material dispute with our heat suppliers for the provision of our heat services, nor have we encountered any difficulty in securing sufficient heat sources to ensure the stability of our heat services.

We encountered delays in the settlement of trade receivables by some of our customers since the outbreak of COVID-19 as their business activities have been interrupted. The balance of our trade receivables aged over one year amounted to approximately RMB78.3 million, RMB93.5 million and RMB91.6 million, representing approximately 19.7%, 24.5% and 17.4% of our total trade receivables as at 31 December 2020, 2021 and 2022, respectively. In light of this, our Group has adopted various measures to manage credit risk. We consider that the delays in settlement of trade receivables would not have a material adverse impact on our business and operation in the long term.

### *In respect of our engineering construction services*

Our engineering construction services were not materially affected by the outbreak of COVID-19 during the Track Record Period. Our Directors have confirmed that we closely monitored the construction progress of our contractors for the provision of our engineering construction services, and we managed to complete all engineering construction services to facilitate our provision of heat services during the Track Record Period.

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## BUSINESS

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### **Our response towards the COVID-19 outbreak**

In response to the COVID-19 outbreak and its resurgence from time to time, we have issued internal notices, implemented a series of COVID-19 response plans and adopted enhanced hygiene and precautionary measures for our heat service in our actual heat service area. Our senior management, together with the general managers of various operating entities within our Group, are responsible for overseeing the operation of each department and team and ensure they operate in a safe manner during the pandemic. Our human resources department and administration officers are jointly responsible for monitoring the implementation of our COVID-19 health and hygiene measures. In light of our cross-provincial operation in four provinces and one autonomous region, domestic travel records of our staff and managers are accurately recorded for our internal risk management.

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. We consider our response measures towards the COVID-19 outbreak are adequate and effective at each level within our Group.

Our Directors believe that the additional costs associated with the enhanced measures, after taking into consideration the medical and cleaning supplies distributed by the local governments and the promulgation of relevant regulatory policies such as deduction of a portion of the payment of social insurance contribution and announcement and implementation of refund of PRC corporate income tax credits, have no significant impact on our financial position as at 31 December 2020, 2021 and 2022.

In light of the above, our Directors confirm that the outbreak of COVID-19 and its resurgence from time to time has not had a material adverse impact on our Group’s continuing business operations and financial position.

Based on the above, our Directors consider that COVID-19 is unlikely to result in any material adverse impact on our business operation and financial performance in the foreseeable future. We believe our future plans set out in “– Our business strategies” are feasible, and it is unlikely that we would change the use of the [REDACTED] from the [REDACTED] as disclosed in “Future plans and [REDACTED]” in this document as a result of the COVID-19.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in note 38 to the accountant's report as set out in Appendix I to this document. Several transactions are expected to continue after the [REDACTED] and shall constitute continuing connected transactions (as defined under Chapter 14A of the Listing Rules) of our Company upon the [REDACTED].

### BACKGROUND OF THE RELEVANT CONNECTED PERSONS

#### Shuangliang Eco-Energy

Shuangliang Eco-Energy is a joint stock limited liability company incorporated in the PRC and listed on the Shanghai Stock Exchange (stock code: 600481.SH), which is principally engaged in the manufacturing and sales of products of (i) energy-saving and water-saving systems; and (ii) new energy systems (新能源系統). As at the Latest Practicable Date, the equity interest of Shuangliang Eco-Energy was held (i) as to approximately 17.61% by Shuangliang Group Co.; (ii) as to approximately 9.00% by Shuangliang Technology; (iii) as to approximately 15.53% by Shanghai Tongsheng LP; (iv) as to approximately 1.04% by Jiangsu Lichuang; (v) as to approximately 0.78% by Mr. Miao Shuangda (繆雙大先生); and (vi) as to approximately 0.52% by Jiangsu Chengli Investment Consulting Co., Ltd., a subsidiary of Shuangliang Group Co.. Mr. Miao Shuangda (one of our Controlling Shareholders) and his associates collectively hold (i) approximately 68% of the registered capital in Shuangliang Group Co., (ii) approximately 65% of the registered capital in Shuangliang Technology, (iii) approximately 65% of the registered capital in Jiangsu Lichuang, and (iv) approximately 68.5% of the interest in Shanghai Tongsheng LP. Each of Shuangliang Group Co., Shuangliang Technology and Jiangsu Lichuang is therefore a connected person of our Company. The general partner of Shanghai Tongsheng LP is Shuangliang Technology who has full power (i) to execute the business of Shanghai Tongsheng LP, and (ii) to represent Shanghai Tongsheng LP for its external affairs. Therefore, Shanghai Tongsheng LP would also be regarded as a connected person of our Company. Mr. Miao Shuangda (one of our Controlling Shareholders) and his associates, both directly and indirectly and individually and collectively, hold approximately 44.48% equity interest in Shuangliang Eco-Energy. Therefore, Shuangliang Eco-Energy is a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Shuangliang Eco-Energy Group had mainly supplied us with equipment for heat service.

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## CONNECTED TRANSACTIONS

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### **Shuangliang New Energy Equipment**

Shuangliang New Energy Equipment is a limited liability company established in the PRC which is principally engaged in manufacturing and sales of new energy equipment. Its registered capital is held as to 15% by Jiangsu Lichuang (one of our Controlling Shareholders) and 85% by Shuangliang Eco-Energy, respectively. As a subsidiary of Shuangliang Eco-Energy (which is a connected person of our Company as mentioned above), Shuangliang New Energy Equipment is a connected person of our Company under Chapter 14A of the Listing Rules. Shuangliang New Energy Equipment had mainly supplied us with equipment for heat service during the Track Record Period.

### **Shuangliang Boiler**

Shuangliang Boiler is a limited liability company established in the PRC which is principally engaged in manufacturing and sales of boilers. Its registered capital is held as to 66.67% by Shuangliang Technology (one of our Controlling Shareholders). As a subsidiary of Shuangliang Technology, Shuangliang Boiler is a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Shuangliang Boiler had supplied us with equipment for heat service.

### **Shuangliang Group Co.**

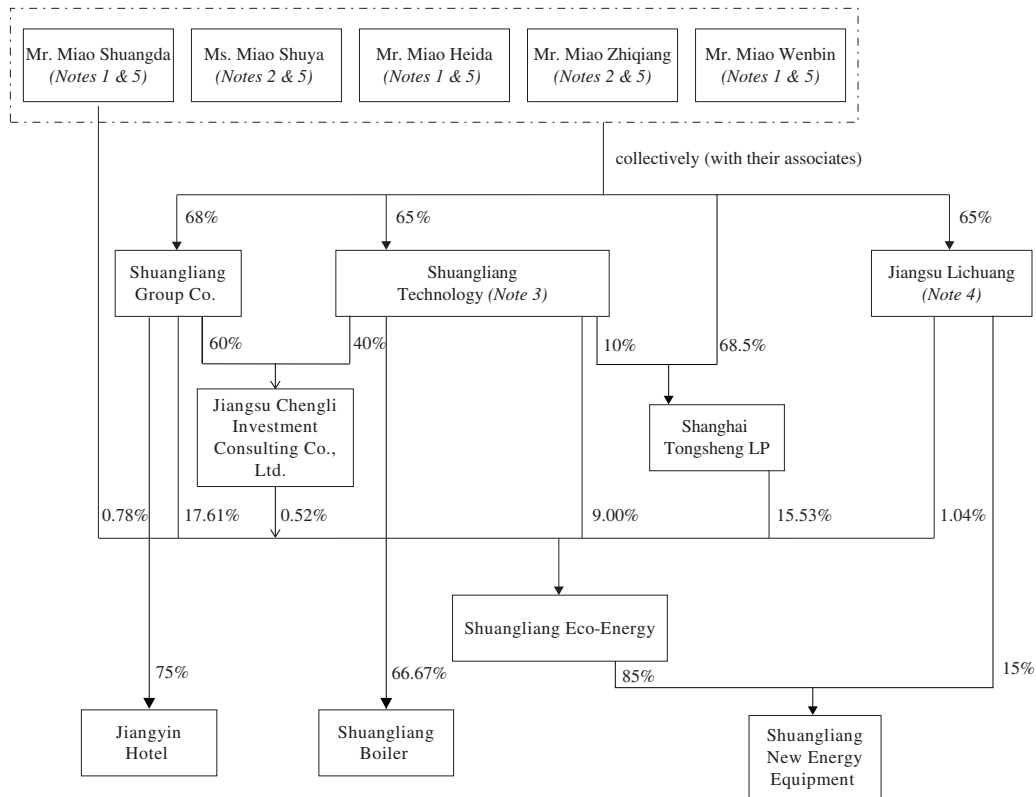
Shuangliang Group Co. is a limited liability company established in the PRC which is principally engaged in manufacturing and sales of devices, equipment and accessories. Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates collectively hold an aggregate of approximately 68% of the registered capital in Shuangliang Group Co.. Therefore, Shuangliang Group Co. is an associate of Mr. Miao Shuangda and hence a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Shuangliang Group Co. had authorised us to use one of its trademarks (  ). The authorisation period ended on 31 December 2021 and has not been extended. Therefore, with the exception to the trademark or logo shown on the machinery or devices our Group procured from Shuangliang Group Co. and/or its associated companies, our Group has ceased to use Shuangliang Group Co.'s trademark as at the Latest Practicable Date and has no intention to use such trademark in the future.

### **Jiangyin Hotel**

Jiangyin Hotel is a limited liability company established in the PRC which is principally engaged in accommodation business. Its registered capital is held as to 75% by Shuangliang Group Co. (which is a connected person of our Company as mentioned above), and thus Jiangyin Hotel is a subsidiary of Shuangliang Group Co. and hence a connected person of our Company under Chapter 14A of the Listing Rules. During the Track Record Period, Jiangyin Hotel had provided us services of accommodation, catering, reception and conference organising, and leased premises to us.

## CONNECTED TRANSACTIONS

The following diagram shows the shareholding relationship amongst the relevant connected persons of our Company as at the Latest Practicable Date:



*Notes:*

1. Mr. Miao Shuangda (繆雙大先生) and Mr. Miao Heida (繆黑大先生) are siblings and uncle of their respective brothers' children. Mr. Miao Shuangda is the father of Mr. Miao Wenbin (繆文彬先生).
2. Mr. Miao Zhiqiang (繆志強先生) and Ms. Miao Shuya (繆舒涯女士) are cousins of Mr. Miao Wenbin (繆文彬先生).
3. Shuangliang Technology is a Controlling Shareholder and the general partner of Shanghai Tongsheng LP.
4. Jiangsu Lichuang is a Controlling Shareholder.
5. Each of Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Ms. Miao Shuya (繆舒涯女士), Mr. Miao Heida (繆黑大先生), and Mr. Miao Zhiqiang (繆志強先生) is a Controlling Shareholder.

## FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

### Procurement of consumer services from connected person

Our Group has been procuring consumer services, including but not limited to accommodation, catering, reception and conference organising services (the “**Comprehensive Services**”), from Jiangyin Hotel since 2010, which are in our ordinary and usual course of business and on normal commercial terms or better than those available from Independent Third Parties. The respective service fees to be charged shall be determined after arm’s length negotiations between our Group on one hand, and Jiangyin Hotel on the other hand, with reference to (i) the prevailing market price for the provision of similar Comprehensive Services; and (ii) all costs incurred for the provision of such services.

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## CONNECTED TRANSACTIONS

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Taking into account that (i) our Company has over 10 years of business relationship with Jiangyin Hotel; (ii) the quality of Comprehensive Services provided by Jiangyin Hotel has been satisfactory to us; and (iii) the proximity of the relevant facilities of Jiangyin Hotel with our Company, we expect that we will continue to engage Jiangyin Hotel for such Comprehensive Services after the [REDACTED] from time to time on an as-needed basis, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The Comprehensive Services are: (i) of the type ordinarily supplied for our Group’s own private use or consumption and not for resale; (ii) not used by our Group for any of our businesses or contemplated businesses; (iii) to be consumed by our Group in the same state as when they are procured; and (iv) to be made on no more favourable terms to Jiangyin Hotel, or no less favourable terms to our Group than those available from Independent Third Parties. Therefore, the provision of Comprehensive Services by Jiangyin Hotel is fully exempt from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.97 of the Listing Rules.

### PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

**Master Agreements for (a) purchase of heat services-related equipment, devices and materials; and (b) procurement of add-on services in relation to heat services-related equipment, devices and materials**

#### *Principal terms*

On [●] 2023, our Company entered into (i) Annual Master Supply and Service Agreement for the year ending 31 December 2023 (the “**Master Agreement 1**”) with Shuangliang Eco-Energy (on its own and on behalf of its subsidiaries); and (ii) Master Supply Agreement for the three years ending 31 December 2025 with Shuangliang Boiler (the “**Master Agreement 2**”, together with the Master Agreement 1 referred hereinafter to as collectively the “**Master Agreements**”).

Pursuant to the Master Agreement 1, our Company shall purchase heat services-related equipment, devices and materials (with related supporting services) and/or add-on services in relation to heat services-related equipment, devices and materials (such as equipment modification, maintenance and safety monitoring). The Master Agreement 1 shall commence from the [REDACTED] and will expire on 31 December 2023.

Pursuant to the Master Agreement 2, our Company shall purchase heat services-related equipment, devices and materials (with related supporting services). The Master Agreement 2 shall commence from the [REDACTED] and will expire on 31 December 2025.



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## CONNECTED TRANSACTIONS

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The following sets forth the principal terms of the Master Agreements:

We will make purchase order or service request with Shuangliang Eco-Energy Group or Shuangliang Boiler from time to time on an as-needed basis when we need to purchase any heat services-related equipment, devices and materials (with related supporting services) and/or add-on services in relation to heat services-related equipment, devices and materials. The purchase price for each individual purchase order and/or the service fee for each request shall be determined after arm's length negotiations between Shuangliang Eco-Energy Group or Shuangliang Boiler and us from time to time with reference to the then prevailing market price, quality and logistics capacity of similar products or services in the market by way of independent third-party quotation.

Since the Master Agreements are framework agreements, the Master Agreements did not specify any repayment terms. According to our dealings with Shuangliang Eco-Energy Group and Shuangliang Boiler during the Track Record Period, we are usually required to settle the relevant fees by instalments in accordance with the terms of each agreement. The actual payment terms should be determined on a case by case basis.

### *Reasons for entering into the Master Agreements*

#### *For Master Agreement 1*

For conducting our business, we procured heat service-related equipment, such as pipes, heat exchangers and heat pumps. Shuangliang Eco-Energy Group has supplied heat services-related equipment, devices and materials (with related supporting services) and provided add-on services in relation to heat services-related equipment, devices and materials to our Group since 2014.

Taking into account (i) Shuangliang Eco-Energy is a company established in 1995 and listed on the Shanghai Stock Exchange and has been supplying heat service-related equipment for some time; (ii) Shuangliang Eco-Energy Group is capable of supplying equipment, devices, materials and services required by our Group; (iii) Shuangliang Eco-Energy Group was able to meet our requirements on a timely basis with a price that we considered relatively competitive, our Directors consider that entering into the Master Agreement 1 with Shuangliang Eco-Energy (on its own and on behalf of its subsidiaries) would allow our Group to maintain a stable supply of heat services-related equipment, devices and materials (with related supporting services) as well as related add-on services required for our business.

Further, our Directors are of the opinion that the terms of the Master Agreement 1 are fair and reasonable, on normal commercial terms or better and in the interest of our Group and the Shareholders as a whole.

## CONNECTED TRANSACTIONS

### *For Master Agreement 2*

For conducting our business, we procured boilers as one of the heat service-related equipment. Shuangliang Boiler has been supplying heat services-related equipment, devices and materials (with related supporting services) to our Group during the Track Record Period.

Taking into account that (i) Shuangliang Boiler is capable of supplying certain equipment, devices, materials and providing related supporting services required by our Group on a timely basis with a competitive price, satisfactory product quality and after-sales service offerings; and (ii) Shuangliang Boiler has a track record in going through our supplier selection processes and supplying heat services-related equipment including boilers, our Directors consider that entering into the Master Agreement 2 with Shuangliang Boiler would allow our Group to maintain a stable supply of heat services-related equipment, devices and materials.

Further, our Directors are of the opinion that the terms of the Master Agreement 2 are fair and reasonable, on normal commercial terms or better and in the interest of our Group and the Shareholders as a whole.

### *Historical amounts*

#### *For Master Agreement 1*

In respect of Shuangliang Eco-Energy, during the Track Record Period, Hulunbuir Shuangliang, Taiyuan Renewable Energy, Gansu Shuangliang and Lanzhou Shuangliang had purchased heat services-related equipment, devices and materials (with related supporting services) or received add-on services in relation to heat services-related equipment, devices and materials from Shuangliang Eco-Energy and its subsidiary, namely Shuangliang New Energy Equipment.

For the three years ended 31 December 2020, 2021 and 2022, the transaction amounts with Shuangliang Eco-Energy Group were as follows:

Connected person	Nature of transactions	For the year ended 31 December		
		2020	2021	2022
		RMB'000	RMB'000	RMB'000
Shuangliang Eco-Energy and Shuangliang New Energy Equipment	• Purchase of heat services-related equipment, devices and material (with related supporting services)	30,103	11,743	11,683
	• Add-on services in relation to heat services-related equipment, devices and material	170	148	2,231

## CONNECTED TRANSACTIONS

During the Track Record Period, the changes in our transaction amounts with Shuangliang Eco-Energy Group were in line with the varying procurement demand for each of our projects. On 20 March 2019 and 5 July 2019, our Group entered into a technology agreement and a commercial agreement with Shuangliang Eco-Energy in respect of Phase I construction for the flue gas waste heat recovery and utilisation project\* (煙氣餘熱回收利用項目一期工程) of the Lanzhou New Area Project (the “**Lanzhou New Area Project Agreement**”), under which Shuangliang Eco-Energy was responsible for the design, supply of various equipment, instruments and devices, construction and installation, delivery of the relevant documents and testing. Certain services and/or products under the Lanzhou New Area Project Agreement were received during the year ended 31 December 2020, representing approximately 40% of the total transaction amount for the year ended 31 December 2020. In addition to the Lanzhou New Area Project Agreement, Shuozhou Project and Taiyuan Project also procured from Shuangliang Eco-Energy Group during the year ended 31 December 2020. For the year ended 31 December 2021, there was no service and/or product received under the Lanzhou New Area Project Agreement, and our procurement from Shuangliang Eco-Energy Group was mainly made for Taiyuan Project and Shanxi Demonstration Zone Project for which the procurement demand was lower as compared to that for the year ended 31 December 2020. Therefore, the transaction amount was lower as compared to the year ended 31 December 2020. For the year ended 31 December 2022, our procurement of heat services-related equipment, devices and materials from Shuangliang Eco-Energy Group was mainly made for Taiyuan Project, and the transaction amount was similar to that for the year ended 31 December 2021.

There was an increase for the transaction amount for add-on services for the year ended 31 December 2022 as compared to the years ended 31 December 2020 and 2021, as we entered into a new service agreement in respect of the maintenance and repair of the Lithium bromide absorption heat pumps unit for Shuozhou Project in 2022.

### *For Master Agreement 2*

In respect of Shuangliang Boiler, during the Track Record Period, Lanzhou Shuangliang had purchased heat services-related equipment, devices and materials (with related supporting services) from Shuangliang Boiler.

For the three years ended 31 December 2020, 2021 and 2022, the transaction amounts with Shuangliang Boiler were as follows:

Connected person	Nature of transactions	For the year ended 31 December		
		2020	2021	2022
		RMB'000	RMB'000	RMB'000
Shuangliang Boiler	<ul style="list-style-type: none"> <li>• Purchase of heat services-related equipment and devices (with related supporting services) (i.e. boilers)</li> </ul>	419	2,205	2,177

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## CONNECTED TRANSACTIONS

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During the Track Record Period, the changes in the transaction amounts with Shuangliang Boiler for the three years ended 31 December 2020, 2021 and 2022 were basically in line with the numbers of boilers purchased during the same period. The boilers purchased from Shuangliang Boiler were mainly used as back-up heat services in the event of heat supply shortage, unexpected incidents, sudden demand, suspension or disruption. For the year ended 31 December 2020, there was only one boiler purchased from Shuangliang Boiler for the Shanxi Demonstration Zone Project. The increase in our transaction amount with Shuangliang Boiler for the year ended 31 December 2021 was mainly due to the purchase of five boilers for the Taiyuan Project and Shanxi Demonstration Zone Project. Our transaction amount with Shuangliang Boiler for the year ended 31 December 2022 remained stable as compared with the transaction amount for the year ended 31 December 2021, as five boilers were purchased for the Taiyuan Project during 2022.

### *Annual caps and basis*

#### *For Master Agreement 1*

Our Directors estimate that under the Master Agreement 1 for the year ending 31 December 2023,

- (i) the transaction amount between our Group and Shuangliang Eco-Energy Group for the purchase of heat services-related equipment, devices and materials (with related supporting services) will not exceed RMB10.5 million;
- (ii) the transaction amount for the add-on services in relation to heat services-related equipment, devices and materials will not exceed RMB200,000.

In arriving at the aforesaid annual caps, our Directors have considered (i) the existing contracts entered into between our Group and Shuangliang Eco-Energy Group; (ii) the historical transaction amounts between our Group and Shuangliang Eco-Energy Group for the three years ended 31 December 2020, 2021 and 2022; and (iii) the expected demand for heat services-related equipment, devices and materials (with related supporting services) and/or add-on services in relation to heat service-related equipment, devices and materials with reference to the prevailing market price for similar products/services in the market.

#### *For Master Agreement 2*

Our Directors estimate that under the Master Agreement 2, the transaction amount between our Group and Shuangliang Boiler for the purchase of heat service-related equipment, devices and materials with related supporting services will not exceed RMB4.0 million, RMB4.5 million and RMB4.7 million for each of the years ending 31 December 2023, 2024 and 2025 respectively.

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## CONNECTED TRANSACTIONS

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In arriving at the aforesaid annual cap for the year ending 31 December 2023, our Directors have considered (i) the expected procurement of not more than six sets of boilers for Taiyuan Project and/or Shanxi Demonstration Zone Project for the year ending 31 December 2023; (ii) the estimated unit price for each type of boilers to be purchased; and (iii) the transaction amount in relation to the purchase of heat services-related equipment, devices and materials (with related supporting services) from Shuangliang Boiler for the year ended 31 December 2022. Our Group will also procure related materials and services from Shuangliang Boiler from time to time.

The annual caps for the years ending 31 December 2024 and 2025 are estimated with reference to (i) the annual cap for the year ending 31 December 2023; and (ii) the estimated increase in the actual heat service area.

### *Implications under the Listing Rules for the Master Agreements*

Given that (i) both Shuangliang Eco-Energy and Shuangliang Boiler (a subsidiary of Shuangliang Technology) are controlled by Mr. Miao Shuangda (繆雙大先生); (ii) the terms of each of the Master Agreements are substantially identical, except for their respective contracting parties, annual caps and terms of duration; and (iii) both of the Master Agreements set out the purchase of heat service-related equipment, devices and materials with related supporting services, our Directors are of the view that, when calculating the relevant applicable ratios, all transaction amounts of each of the Master Agreements shall be aggregated.

The aggregated annual caps for the years ending on 31 December 2023, 2024 and 2025 under the Master Agreements are RMB14.7 million, RMB4.5 million and RMB4.7 million respectively. The relevant applicable percentage ratios (other than the profit ratio) with respect to the transactions contemplated under the Master Agreements, as aggregated, are expected to exceed 0.1% but less than 5% on an annual basis. Therefore the transactions under the Master Agreements are subject to the reporting and announcement requirements, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **WAIVER APPLICATION FOR PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS**

As the continuing connected transactions under “Partially exempt continuing connected transactions” in this section are expected to continue in the ordinary and usual course of our business on a continuing and recurring basis over a period of time and have been fully disclosed in this section, our Directors consider that it would add administrative costs to our Company if these transactions are subject to strict compliance with the announcement requirements set out under Chapter 14A of the Listing Rules.

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## CONNECTED TRANSACTIONS

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Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted] to us, a waiver of the above partially exempt continuing connected transactions to be exempted from strict compliance with the announcement requirements during the subsistence of the Master Agreements pursuant to Rule 14A.105 of the Listing Rules, subject to the following conditions:

- (i) the respective proposed annual caps for the continuing connected transactions under the Master Agreements as stated above will not be exceeded;
- (ii) we are still subject to the reporting requirements pursuant to Rules 14A.49 and 14A.71 of the Listing Rules and shall disclose the details of the continuing connected transactions under the Master Agreements in the annual reports for the three financial years ending 31 December 2025;
- (iii) if any of the material terms of the continuing connected transactions under the Master Agreements are altered and/or if our Group enters into any new continuing connected transaction with (i) Shuangliang Eco-Energy Group; and (ii) Shuangliang Boiler, in the future resulting in the aggregate annual amount paid or payable by our Group to them during the subsistence of the Master Agreements exceeding the proposed annual caps as stated above, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules;
- (iv) upon expiry of the waiver, or upon the expiry of the respective term of the Master Agreements, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules; and
- (v) in the event of any further amendments to the Listing Rules which impose more stringent requirements than those as of the date of this submission on the continuing connected transactions, our Company will take appropriate steps to ensure compliance with such requirement within a reasonable time.

The transactions under the Master Agreements will be reviewed by the auditors and our independent non-executive Directors in accordance with Chapter 14A of the Listing Rules on an annual basis to ensure that the purchases or services procured will be conducted on normal commercial terms or better and not prejudicial to our Group and the Shareholders as a whole.

### **DIRECTORS' VIEW**

Our Directors, including the independent non-executive Directors, are of the view that the continuing connected transactions disclosed in this section, which have been and will be entered into in the ordinary and usual course of business of our Group, are fair and reasonable, on normal commercial terms or better, and in the interests of our Company and the Shareholders as a whole, and that the proposed annual caps for the partially exempt continuing connected transactions described in this section are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

## CONNECTED TRANSACTIONS

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### CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor, having reviewed the relevant information and historical figures (where applicable) relating to the continuing connected transactions as disclosed above, is of the view that (i) the above continuing connected transactions will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and the Shareholders as a whole; and (ii) the proposed annual caps for these transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shuangliang Technology and Jiangsu Lichuang will hold approximately [REDACTED]% and [REDACTED]% of the registered capital of our Company, respectively. Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Mr. Miao Zhiqiang (繆志強先生), Ms. Miao Shuya (繆舒涯女士), Mr. Miao Heida (繆黑大先生), Mr. Jiang Rongfang (江榮方先生), Mr. Ma Peilin (馬培林先生), and Mr. Ma Fulin (馬福林先生) (together the “**Individual Shareholders**”) are the legal and beneficial owners of the entire issued share capital of both Shuangliang Technology and Jiangsu Lichuang. Since the Individual Shareholders have decided to restrict their ability to exercise direct control over our Company by holding their equity interests through Shuangliang Technology and Jiangsu Lichuang, all of Shuangliang Technology, Jiangsu Lichuang and the Individual Shareholders will be regarded as a group of our Controlling Shareholders under the Listing Rules.

Shuangliang Technology and Jiangsu Lichuang are investment holding companies, which were established in the PRC on 18 December 1997 and 24 December 1997, respectively. As at the Latest Practicable Date, our Controlling Shareholders collectively held (i) approximately 82% of the registered capital of Shuangliang Group Co.; (ii) directly or indirectly through Shanghai Tongsheng LP and other corporate vehicles, approximately 44.48% of the total issued shares of Shuangliang Eco-Energy, the shares of which are listed on Shanghai Stock Exchange; (iii) approximately 66.67% of the registered capital of Shuangliang Boiler; and (iv) certain equity interest in other companies which engage in the businesses in the industries of water environment engineering construction and water ecology protection, cooling machines, biochemistry and biology and fertilisers, packaging film, spandex, hotel, and development, design and construction intelligent systems and cloud computing.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are of the view that our Group is capable of independently carrying on our business from, and does not place undue reliance on, our Controlling Shareholders upon the [REDACTED]:

#### **Clear delineation of business**

Our Group is principally engaged in the provision of heat services to our residential and non-residential heat services customers under our concession rights. On top of our provision of heat services, which is considered as a public utility business, we also provide heat-related (i) engineering construction services; and (ii) EMC services. Our Directors consider heat services and heat-related engineering construction services as our core businesses. Our core businesses (namely heat services and heat-related engineering construction services) accounted for approximately 97.0%, 98.0% and 97.0% of our total revenue for the years ended 31 December 2020, 2021 and 2022 respectively.



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The businesses of our Controlling Shareholders (other than our Group) are principally conducted by (i) Shuangliang Group Co. and its subsidiaries (“**Shuangliang Group Co. Group**”); (ii) Shuangliang Eco-Energy Group; (iii) Shuangliang Boiler; and other companies directly or indirectly owned by our Controlling Shareholders and which are not the subsidiaries of Shuangliang Group Co., Shuangliang Eco-Energy and Shuangliang Boiler (“**Other Companies**”). The table below sets forth the businesses of our Group and those of our Controlling Shareholders and companies (other than our Group) controlled by them.

	Our Group	Our Controlling Shareholders and companies (other than our Group) controlled by them			
		Shuangliang Group Co. Group	Shuangliang Eco- Energy Group	Shuangliang Boiler	Other Companies
Business segments	<p>Core business</p> <ul style="list-style-type: none"> <li>• Provision of heat services to residential and non-residential heat service end-users</li> <li>• Heat-related engineering construction services</li> </ul> <p>Others</p> <ul style="list-style-type: none"> <li>• Heat-related EMC services</li> <li>• Sales of heat-related equipment</li> </ul>	<p>Core business</p> <ul style="list-style-type: none"> <li>• Manufacturing, trading and sale of equipment of devices and accessories</li> </ul> <p>Others</p> <ul style="list-style-type: none"> <li>• Water environment engineering construction and water ecology protection</li> <li>• Cooling machines</li> <li>• Biochemistry, biology and fertilisers</li> <li>• Packaging film</li> <li>• Hotel services</li> <li>• Investment management</li> </ul>	<p>Core business</p> <ul style="list-style-type: none"> <li>• Manufacturing and sale of products of (i) energy-saving and water-saving systems; and (ii) new energy systems (新能源系統)</li> </ul> <p>Others</p> <ul style="list-style-type: none"> <li>• EMC services in relation to conservation of electricity or water</li> </ul>	<p>Core business</p> <ul style="list-style-type: none"> <li>• Manufacturing and sale of boilers</li> </ul>	<ul style="list-style-type: none"> <li>• Investment management</li> <li>• Development, design and construction of intelligent systems and cloud computing</li> <li>• Engineering constructions services in relation to water environment protection and management</li> <li>• Spandex</li> </ul>

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors are of the view that there is a clear delineation between these businesses conducted by such companies controlled by our Controlling Shareholders and those of our Group. The table below illustrates these businesses and reasons for such clear delineation of businesses.

<u>Business</u>	<u>Conducted by</u>	<u>Reasons for clear delineation from the businesses of our Group</u>
Manufacturing, trading and sale of equipment devices and accessories	(i) Shuangliang Group Co. Group (ii) Shuangliang Eco-Energy Group (for energy-saving and water-saving systems and new energy systems)	<ul style="list-style-type: none"> <li>- Our heat services-related equipment sold only cover (i) semi-finished skid-mounted heat exchange unit (半成品撬裝換熱機組) and (ii) heat meters (熱力計量表)</li> <li>- Shuangliang Eco-Energy Group sells, amongst others, fully manufactured skid-mounted heat exchange unit (成品撬裝換熱機組), and does not manufacture or sell heat meters (熱力計量表)</li> <li>- Shuangliang Group Co. Group manufactures and sells (i) equipment, devices in relation to environment protection and (ii) equipment, devices and accessories in relation to environmental pollution prevention</li> <li>- Our Group does not carry out trading of equipment or devices</li> </ul>
Manufacturing and sale of boilers	Shuangliang Boiler	Our Group does not manufacture or sell boilers
Cooling machines	Shuangliang Group Co. Group	Our Group does not manufacture or sell cooling machines
Biochemistry, biology and fertilisers	Shuangliang Group Co. Group	Our Group does not carry out biochemistry, biology and fertilisers business
Packaging film	Shuangliang Group Co. Group	Our Group does not manufacture or sell packaging film
Hotel services	Shuangliang Group Co. Group	Our Group does not provide hotel services
Investment management	(i) Shuangliang Group Co. Group (ii) Jiangyin Youli Investment Management Company Limited* (江陰友利投資管理有限公司), being one of the Other Companies	Our Group does not carry out investment management business

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Business	Conducted by	Reasons for clear delineation from the businesses of our Group
EMC services	Shuangliang Eco-Energy Group	<ul style="list-style-type: none"> <li>– Our EMC services are related to conservation of heat for thermal power plant</li> <li>– The EMC services conducted by Shuangliang Eco-Energy Group are related to conservation of electricity or water for commercial and industrial building</li> </ul>
Engineering construction services	<ul style="list-style-type: none"> <li>(i) Shuangliang Group Co. Group</li> <li>(ii) Jiangsu Shuangliang Environmental Technology Co., Limited* (江蘇雙良環境科技有限公司), being one of the Other Companies</li> </ul>	<ul style="list-style-type: none"> <li>– Our engineering construction services are related to heat services under our Concession Agreements</li> <li>– The engineering construction services conducted by Shuangliang Group Co. Group are related to water environment and water ecology protection</li> <li>– The engineering construction services conducted by Jiangsu Shuangliang Environmental Technology Co., Limited are related to water environment protection and management</li> </ul>
Spandex	Shuangliang Spandex, being one of the Other Companies	Our Group does not manufacture or sell spandex
Development, design and construction of intelligent systems and cloud computing	Wuxi Hundun, being one of the Other Companies	Our Group does not carry out development, design and construction of intelligent systems and cloud computing business

Taking into account the aforementioned delineating reasons, our Directors are of the view that the businesses of our Controlling Shareholders and companies controlled by them (other than our Group) are clearly delineated and do not compete with the businesses of our Group.

As at the Latest Practicable Date, our Controlling Shareholders had confirmed that none of them and their respective close associates had any interest in any business which competes or is likely to compete, whether directly or indirectly, with our business which would require disclosure under Rule 8.10 of the Listing Rules.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Operational independence

We believe that we can operate independently from our Controlling Shareholders due to the following reasons:

- (a) all relevant qualifications and licences necessary to operate our businesses, including the grant of concession rights for exclusive provision of heat services in the relevant Concession Areas, are held by our Group, and we enjoy all the rights and benefits thereof;
- (b) we have sufficient capital, operations, assets, facilities and employees to operate and function our business independently from our Controlling Shareholders. We do not rely on our Controlling Shareholders for access to customers, because we have independent access to our customers. We are principally engaged in the provision of heat services to residential and non-residential heat service customers, and our non-residential heat service customers include property management companies, commercial operators, government institutions, education institutions, airports, train stations and hospitals. Our employees are independent from, and none of them are remunerated by, our Controlling Shareholders and their respective associates;
- (c) we also maintain a comprehensive set of internal control procedures for facilitating the effective operation of our business. With reference to the relevant laws, regulations and rules, we have developed sound corporate governance practice and have adopted our rules of procedure for general meetings, rules of procedure for Board meetings and connected transactions regulations in order to maintain effective and independent operation; and
- (d) we have a designated office serving our Board (responsible for the day-to-day affairs of our Board), general office (responsible for administrative matters and the operation of our Group), financial department (responsible for financial cost management, contract cost department (responsible for and undertaking the control and management of costs relating to the total cost structure of the development projects), audit department (responsible for internal audit), engineering department (responsible for engineering project implementation and management), technology and quality management department (responsible for the research and development of quality technology and product), safety and environmental management department (responsible for safe production), material center and legal department, human resources department, corporate control department (responsible for comprehensive management of corporate). These departments are led and supervised by our own senior management team. Our senior management report to our Board and make decisions and form business plan and strategies in sales, marketing, finance, technology, research and development and human resources management independently from our Controlling Shareholders. In addition, we have our own internal financial procedures and prepare our own financial budget independently.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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We have entered into a number of transactions with the associates of our Controlling Shareholders. In particular, we have entered into transactions with Shuangliang Eco-Energy Group and Shuangliang Boiler for the purchase of heat services-related equipment and procurement of add-on services in relation to heat service-related equipment in the course of operation of our business during the Track Record Period. We also rented office premises from Jiangyin Hotel and Shuangliang Spandex, the respective terms of which shall expire 31 December 2025 and 31 December 2024. Jiangyin Hotel is a direct non-wholly owned subsidiary of Shuangliang Group Co., while Shuangliang Spandex is an indirect non-wholly owned subsidiary of Shuangliang Technology. In addition, during the Track Record Period, Jiangyin Hotel also provided accommodation, catering, reception and conference organising services to our Group.

Our Directors are of the view that the above transactions will not undermine the operational independence of our Group due to the following reasons:

- (a) given that for the three years ended 31 December 2020, 2021 and 2022, the aggregated transaction amounts for purchase of plant and equipment and other assets and services from the associates of our Controlling Shareholders were approximately RMB37.8 million, RMB15.8 million and RMB18.4 million, respectively, which accounted to approximately 3.8%, 1.8% and 1.8%, respectively, of our total cost of purchases for the same years, the transaction amounts with the associates of our Controlling Shareholders;
- (b) the services we obtain from our Controlling Shareholders (including add-on services in relation to heat services-related equipment, renting of offices premises, subscription to accommodation, catering, reception and conference organising services) are supporting in nature;
- (c) we are not bound to and will not enter into further transactions with the associates of our Controlling Shareholders unless we agree to do so;
- (d) such equipment or assets purchased can be obtained or procured from Independent Third Parties on similar or comparable commercial terms; and
- (e) we have been engaged and will continue to be engaged in business relations with our suppliers and customers, which are independent from our Controlling Shareholders. Our Directors believe that these connected transactions will not give rise to any business dependence or reliance issue between our Group and our Controlling Shareholders or their respective associates, and that we will be able to find substitute suppliers for the supply of products and equipment necessary for the operation of our Group.

Based on the above, our Directors are of the view that there is no operational dependence by our Group on the Controlling Shareholders or their respective associates.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Financial independence

During the Track Record Period and up to the Latest Practicable Date, we have established our own finance department with a team of independent financial staff who are responsible for our financial management, accounting, reporting, funding and internal control functions, which are independent from our Controlling Shareholders.

We are capable of making financial decisions independently according to our own needs, and our Controlling Shareholders do not and will not interfere with our use of funds. We maintain and manage bank accounts independently and do not share any bank accounts with our Controlling Shareholders and/or their associates. We are registered independently for tax in accordance with applicable laws and we pay tax independently pursuant to applicable PRC tax laws and regulations, rather than on a combined basis with our Controlling Shareholders or other enterprises under their control.

Our Group’s bank borrowings guaranteed by Shuangliang Group Co., a connected person of our Company, as at 31 December 2020, 2021 and 2022 amounted to RMB286.1 million, RMB271.9 million and RMB378.1 million, respectively. The guarantees provided by Shuangliang Group Co. for our bank borrowings will be released upon [REDACTED]. Our Group’s bank borrowings guaranteed by Shuangliang Technology, our Controlling Shareholder, as at 31 December 2020, 2021 and 2022 amounted to RMB90.0 million, RMB130.0 million and nil, respectively. As at the Latest Practicable Date, our bank borrowings guaranteed by Shuangliang Technology had been fully settled. See notes 28 and 38(g) to the accountant’s report as set out in Appendix I to this document for details of the guarantees provided. Our Directors are of the view that we are capable of obtaining financing from external sources without reliance of the securities or collaterals provided by the Controlling Shareholders.

During the Track Record Period, our subsidiaries, namely Shuozhou Renewable Energy, Hulunbuir Shuangliang, Lanzhou Shuangliang and Gansu Smart Energy entered into certain financial lease agreements with Beijing Zhongchuang, a connected person of our Company, in respect of sales and lease-back or financial arrangements in relation to certain assets and equipment for operating heat service business of our Group (the “**Financial Lease Agreements**”). The purpose of entering into the Financial Lease Agreements was to improve the financial structure of our Group particularly our asset liability ratio, and to obtain financing for the operation of our Group. The interest rate under these Financial Lease Agreements ranged from 6.30% per annum to 6.90% per annum. The Financial Lease Agreements matured in December 2022.

Our Directors confirm that (i) the terms of the Financial Lease Agreements were determined by arm’s length negotiations between the respective parties with reference to the prevailing market rent at the time when the Financial Lease Agreements were entered into and on normal commercial terms which are fair and reasonable; and (ii) all borrowings and interest under the Financial Lease Agreements shall be fully repaid to Beijing Zhongchuang before [REDACTED], and the Financial Lease Agreements will cease before [REDACTED].

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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As at 31 December 2020, 2021 and 2022, the outstanding balance of our borrowings from Beijing Zhongchuang amounted to approximately RMB556.5 million, RMB300.9 million and nil, respectively, which accounted for approximately 11.1%, 6.0% and nil of our total assets as at the same dates. We intend to use bank borrowings to repay the outstanding balance of the borrowings and interest under the Financial Lease Agreements.

During the Track Record Period, we also entered into a financing arrangement with Shuangliang Technology pursuant to which advances from Shuangliang Technology were made to us to facilitate our normal business development needs. As at 31 December 2019, such advances from Shuangliang Technology had been fully repaid. Save for the above financing arrangement, there was no other financing arrangement between our Group and the Controlling Shareholders and/or their associates during the Track Record Period and up to the Latest Practicable Date.

Our Directors believe that we have the ability to conduct our business independently from our Controlling Shareholders and/or their associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders due to the following reasons:

- (a) during the Track Record Period, instead of relying on the financial assistance provided by our Controlling Shareholders and/or their associates, our Group had diversified its sources of fund to borrowings from including banks and other financial institutions; as at 31 December 2020, 2021 and 2022, our Group had aggregate banking facilities of approximately RMB752.1 million, RMB760.4 million and RMB1,707.5 million, respectively; for details, see note 28 to the accountant's report as set out in Appendix I to this document;
- (b) we are able to obtain borrowing from Independent Third Parties on comparable terms, as well as pledging the equity interest of our subsidiaries for securing bank loans;
- (c) our working capital will be funded by our operating income; for the years ended 31 December 2020, 2021 and 2022, our Group had recorded total revenue of approximately RMB1,376.3 million, RMB1,290.6 million and RMB1,443.7 million, respectively;
- (d) our financial management department is capable of discharging the treasury functions for cash receipts and payments, accounting, reporting and internal control independently from our Controlling Shareholders and their associates.

Other than disclosed above, our Directors confirm that we do not intend to obtain any further borrowings, guarantees, pledges or mortgages from any of our Controlling Shareholders or their respective associates following the [REDACTED].

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Management independence

Our Board will consist of nine Directors upon the [REDACTED], including four executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Miao Wenbin (繆文彬先生) and Mr. Ma Fulin (馬福林先生), are the non-executive Directors and Mr. Ma Peilin (馬培林先生) is one of the members of our supervisory committee.

Our Directors are of the view that our Group will be able to operate independently from our Controlling Shareholders upon the [REDACTED] for the following reasons:

- (a) our Board comprises nine Directors, except Mr. Miao Wenbin (繆文彬先生) and Mr. Ma Fulin (馬福林先生), none of them will hold any directorship or senior management roles in the associated companies of our Controlling Shareholders upon [REDACTED]. As for Mr. Miao Wenbin (繆文彬先生) and of Mr. Ma Fulin (馬福林先生), they will be the non-executive Directors, thus they will not be involved in day-to-day management or affairs and operations of our businesses. In the event that either Mr. Miao Wenbin (繆文彬先生) or Mr. Ma Fulin (馬福林先生) is required to abstain from any Board meeting of our Company, or any matter which may give rise to a potential conflict of interest with our Controlling Shareholders and/or their associates, the remaining Directors will have sufficient expertise and experience to fully consider any of such matter. For details of roles of Mr. Miao Wenbin (繆文彬先生) and of Mr. Ma Fulin (馬福林先生) in the associated companies of our Controlling Shareholders, see “Directors, supervisors and senior management – Board of Directors – Non-executive Directors” in this document;
- (b) our Directors believe that our Board has a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors which ensures the independence of our Board in making decisions affecting our Company. Our independent non-executive Directors account for one-third of our Board required under the Listing Rules, and all three independent non-executive Directors do not, and will not, have any ongoing role with the associated companies of our Controlling Shareholders and accordingly, the independent non-executive Directors can exercise independent judgement free from any conflict of interest;
- (c) we have adopted a number of corporate governance measures in order to manage any potential conflict of interests which may arise between our Group and our Controlling Shareholders as to safeguard the interests of our independent Shareholders, the details of which are set out in “– Corporate Governance Measures” below; and
- (d) each of our Directors is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit and in the best interest of our Shareholders as a whole and does not allow any conflict between his/her duties as a Director and his/her personal interests to affect the performance of his/her duties as a Director.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Based on the above, our Directors believe that our management team is independent from our Controlling Shareholders, and that our Company can operate its business independently from our Controlling Shareholders, and that all of our Directors have relevant experience and ability to ensure proper and effective operation of our Board.

### CORPORATE GOVERNANCE MEASURES

With a view to managing any potential conflict of interests arising between our Group and our Controlling Shareholders as well as safeguarding the interests of our independent Shareholders, we will adopt the following measures:

- (a) in the event that the proposal of connected transactions between our Group and other business or entity in which any Director or his respective associates had any interest is submitted to our Board for consideration, such interested Director shall not be counted in the quorum of the meeting, and shall abstain from voting on such matters. In such event, the other non-interested Directors, with the assistance of our senior management, will be responsible for making decisions for our Board. If necessary, our Company will engage external professionals such as auditors, valuers and other advisers to give advice;
- (b) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit of our Company and the Shareholders as a whole and does not allow any conflict of interests between his/her duties as a Director and his/her personal interests. If potential conflict of interest arises, the interested Director(s) will bring the matter to the independent non-executive Directors and shall not be present during the discussion of the relevant resolution in which the conflict of interest may arise and shall abstain from voting on such proposed resolution;
- (c) our Company will engage Guotai Junan Capital Limited as our compliance adviser who shall ensure that our Company is properly guided and advised as to compliance with the Listing Rules and any other applicable laws and regulations. In particular, any transactions between our Company and its connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, annual reporting and independent shareholders' approval requirements (if applicable) under the Listing Rules;
- (d) the independent non-executive Directors may engage an independent professional advisers in appropriate circumstances at the costs of our Company; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (e) our Directors are obliged under the Articles of Association to declare to our Board any potential conflict of interest with our Group at Board meetings. It is provided in the Articles of Association that a Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested. Our Board (including the independent non-executive Directors) will monitor the potential conflict of interest of Directors and our Directors have to submit confirmations to our Board disclosing details of any interests in competing businesses in any interim or annual reports to be issued by our Company.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between each of Controlling Shareholders and their respective associates and our Group, and that the interests of our Shareholders, in particular, the minority Shareholders are protected.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

Our Board currently consists of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. Our Board is responsible and has the general authority for the management and operation of our Company, as well as exercising other powers, functions and duties as conferred by our Articles of Association. Our Directors are appointed for a term of three years and are eligible for re-election upon expiry of their term of office.

The following table sets forth certain information regarding the members of our Board upon [REDACTED]:

Name	Age	Current position	Date of appointment of initial term of office	Date of joining our Group	Roles and responsibilities	Relationship with other Directors/supervisors/senior management
Mr. Geng Ming (耿鳴先生)	59	Chairman and executive Director	December 2015	September 2010	Convening and hosting Board meetings, hosting general meetings of our Company, participating in the decision-making process of our Group's daily operation and management	Nil
Mr. Li Baoshan (李寶山先生)	56	Executive Director and general manager	December 2015	September 2010	Overall management oversight of our Group's business	Nil
Mr. Hu Xirong (胡錫榮先生)	51	Executive Director and deputy general manager	October 2021	October 2010	Participating in daily operation of our Group with a focus on its marketing, public relation and business development	Nil
Mr. Luo Wei (羅偉先生)	49	Executive Director, deputy general manager, and Board secretary	November 2016	September 2015	Participating in daily operation, management and the decision making of our Group, and taking charge of the daily activities of the office of our Board	Nil
Mr. Miao Wenbin (繆文彬先生)	44	Non-executive Director	April 2020	April 2020	Participating in strategic planning and advising on the decision making of our Group	Cousin of Mr. Ma Fulin's (馬福林先生) spouse

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Current position	Date of appointment of initial term of office	Date of joining our Group	Roles and responsibilities	Relationship with other Directors/supervisors/senior management
Mr. Ma Fulin (馬福林先生)	59	Non-executive Director	April 2020	October 2010	Participating in strategic planning and advising on decision-making of our Group	Brother of Mr. Ma Peilin (馬培林先生), a supervisor of our Company, spouse of Mr. Miao Wenbin's (繆文彬先生) cousin
Mr. Cheung Ho Kong (張浩剛先生)	43	Independent non-executive Director	[●]	[●]	Supervising and providing independent opinions and advice to our Board	Nil
Dr. Tse Hiu Tung, Sheldon (謝曉東博士)	58	Independent non-executive Director	[●]	[●]	Supervising and providing independent opinions and advice to our Board	Nil
Dr. Zhu Qing (朱青博士)	65	Independent non-executive Director	[●]	[●]	Supervising and providing independent opinions and advice to our Board	Nil

### Chairman

**Mr. Geng Ming** (耿鳴先生), aged 59, joined our Group in September 2010 and is currently the chairman of our Board and an executive Director. Mr. Geng Ming is primarily responsible for convening and hosting Board meetings, hosting general meetings of our Company, participating in decision making process of our Group's daily operation and management.

Mr. Geng Ming has also held several positions in the companies within our Group, including acting as (i) a supervisor of Shanxi Shuangliang Renewable Energy between October 2010 and April 2014 and the chairman of the board of directors of Shanxi Shuangliang Renewable Energy since May 2014; (ii) a director of Gansu Shuangliang since January 2013; (iii) a supervisor of Hulunbuir Shuangliang between March 2013 and January 2014 and a director of Hulunbuir Shuangliang since January 2014; (iv) a director of Lanzhou Shuangliang since February 2014; (v) an executive director of Wise Living Energy since November 2016; (vi) the chairman of the board of directors of Wise Living Energy (Baotou) since November 2020; and (vii) an executive director of Wise Living Times (Beijing) Technology Company Limited\* (慧居時代(北京)技術有限公司) since August 2022, and has been responsible for managing and supervising the operation of these companies.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. Geng Ming gained corporate management experience from the following companies:

Period of services	Names of companies outside our Group	Principal business activities	Last positions	Main responsibilities
Between May 1996 and June 1997, and between September 1998 and April 2004	Tianjin Office (天津辦事處) of Shuangliang Eco-Energy Systems Company Limited Sales Branch* (雙良節能系統股份有限公司銷售分公司) (formerly known as Jiangsu Shuangliang Air-conditioning Limited Sales Branch* (江蘇雙良空調設備股份有限公司銷售分公司)) (“Shuangliang Eco-Energy Sales Branch”) <i>(Note 1)</i>	<ul style="list-style-type: none"> <li>• Sale of environmental equipment and devices</li> <li>• Sales of environmental equipment and devices</li> </ul>	<ul style="list-style-type: none"> <li>• Manager</li> <li>• Deputy general manager</li> </ul>	<ul style="list-style-type: none"> <li>• Managing sales operation in Tianjin market</li> <li>• Managing and supervising operation, and forming business development plans</li> </ul>
Between July 1997 and August 1998	Jiangyin Hotel <sup>(Note 2)</sup>	Hotel business	General manager	Managing and supervising daily operation
Between May 2004 and July 2010	Jiangsu Lishide Chemical Company Limited* (江蘇利士德化工有限公司) (formerly known as Jiangsu Lishide Storage Company Limited* (江蘇利士德倉儲有限公司)) <i>(Note 3)</i>	Production of chemicals	General manager	Managing and supervising daily operation, safety production and sales network

*Notes:*

- (1) Shuangliang Eco-Energy Sales Branch was held as to 44.48% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (2) Jiangyin Hotel was held as to 68% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (3) Jiangsu Lishide Chemical Company Limited was a subsidiary of Shuangliang Technology (one of our Controlling Shareholders) as at the Latest Practicable Date.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Geng Ming graduated from the Inner Mongolia College of Technology\* (內蒙古工學院) (currently known as the Inner Mongolia University of Technology (內蒙古工業大學)) in Inner Mongolia, the PRC with a major in chemical engineering (化工機械) in July 1986. He was accredited as an engineer in chemical engineering (化工機械) by the Office of Leading Unit of Shaanxi Province Professional Title Deformation\* (陝西省職稱改革領導小組辦公室) in April 1995.

Immediately following the completion of the [REDACTED] (taking no account of any Shares which may be allocated and issued pursuant to the exercise of the [REDACTED]), Mr. Geng Ming will be interested in [REDACTED] Shares, representing approximately [REDACTED]% of the issued share capital of our Company within the meaning of Part XV of the SFO.

### Executive Directors

**Mr. Li Baoshan** (李寶山先生), aged 56, joined our Group in September 2010. He is currently an executive Director and the general manager of our Company, and is primarily responsible for the overall management oversight of our Group's business.

Mr. Li Baoshan has and had also held several positions in the companies within our Group, including acting as (i) a general manager of Taiyuan Renewable Energy between May 2009 and December 2020; (ii) the chairman of the board of directors of Datong Renewable Energy Since September 2009; (iii) the chairman of the board of directors of Lvliang City Renewable Energy between November 2009 and December 2019; (iv) a director and a general manager of Shanxi Shuangliang Renewable Energy since October 2010; (v) a director of Inner Mongolia Wise Living since June 2018; and (vi) a director of Tech-Thermal (Zhengzhou) since December 2020, and was responsible for managing and supervising the operation of these companies.

Mr. Li Baoshan joined Sinopec New Star, an associate of our Company, in September 2014 and is currently its director. Sinopec New Star is principally engaged in the business of development, construction and operation of heating and cooling and power generation projects, and exploration and utilisation of renewable energy, and provision of heat services. Mr. Li Baoshan's main responsibilities at Sinopec New Star include attending the board meetings, participating in the decision making in relation to business plans and investment plans, as well as formulation of management policy.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Li Baoshan has and had served several public offices as set out in the following table:

<u>Period of services</u>	<u>Names of public offices</u>	<u>Positions</u>
Between July 2016 to July 2020	Research Institute of Shanxi Province Renewable Energy* (山西可再生能源研究院) in Shanxi Province, the PRC	Legal representative
Between August 2017 to August 2021	Shanxi Province Renewable Energy Industry Association* (山西省可再生能源協會) in Shanxi Province, the PRC	Legal representative
Not Applicable	12th Meeting of National Representatives All-China Federation of Industry & Commerce* (中國工商業聯合會第十二次全國代表大會) in the PRC held in November 2017	Representative
Since January 2018	12th Committee of The Chinese People's Political Consultative Conference, Shanxi Province, the PRC* (中國人民政治協商會議第十二屆山西省委員會)	Committee member

Mr. Li Baoshan graduated from the master's program in economics and management (經濟管理) at Shanxi Provincial Committee Party School of C.P.C\* (中共山西省委黨校) (currently known as Shanxi Provincial Committee Party School of C.P.C (Shanxi Administrative College)\* (中共山西省委黨校(山西行政學院)) in Shanxi Province, the PRC in July 2005. He was accredited as an engineer by the Shanxi Province Forestry Department Intermediate Technical Job Evaluation Committee\* (山西省林業廳中級技術職務評審委員會) on 20 July 1997.

Immediately following the completion of the [REDACTED] (taking no account of any Shares which may be allocated and issued pursuant to the exercise of the [REDACTED]), Mr. Li Baoshan will be interested in [REDACTED] Shares, representing approximately [REDACTED]% of the issued share capital of our Company within the meaning of Part XV of the SFO.

**Mr. Hu Xirong** (胡錫榮先生), aged 51, joined our Group in October 2010 and is currently an executive Director and a deputy general manager of our Company. Mr. Hu Xirong is primarily responsible for participating in the daily operation of our Group with a focus on its marketing, public relation and business development.

Mr. Hu Xirong has and had also held several positions in the companies within our Group, including acting as (i) a director of Shanxi Shuangliang Renewable Energy since October 2010; (ii) a supervisor of Shuozhou Renewable Energy since May 2011, and (iii) a director of Tech-Thermal (Zhengzhou) since December 2020.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Prior to joining our Group, Mr. Hu Xirong was a branch manager and a sales representative at Shanxi Office (山西辦事處) of Shuangliang Eco-Energy Sales Branch between April 1998 and October 2010, and was responsible for the product sales and marketing in the Shanxi market.

Between August 2005 and August 2021, Mr. Hu Xirong had been a supervisor of Taiyuan Zhiyuanxiang HVAC Equipment Co., Limited\* (太原市志遠翔暖通設備有限公司) (a company established in Taiyuan, Shanxi Province, the PRC in the business of the trading of heating equipment) (“**Taiyuan Zhiyuanxiang**”). The business licence of Taiyuan Zhiyuanxiang was revoked on 23 January 2007 for not undergoing regulatory annual inspection, and was deregistered on 7 August 2021 due to the shareholders’ decision to cease the business of Taiyuan Zhiyuanxiang. Mr. Hu Xirong confirmed that (i) Taiyuan Zhiyuanxiang was solvent immediately prior to the revocation of business licence; (ii) there was no wrongful act or any personal liability on his part leading to the revocation of business licence of Taiyuan Zhiyuanxiang.

Mr. Hu Xirong graduated with a bachelor’s degree in accounting from Shanxi College of Finance and Economics\* (山西財經學院) (currently known as Shanxi University of Finance and Economics (山西財經大學)) in Shanxi Province, the PRC, in July 1993. Further, Mr. Hu Xirong obtained a master’s degree of business administration from Shanxi University of Finance and Economics (山西財經大學) in December 2008. Mr. Hu Xirong was accredited as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) on 20 December 2002.

**Mr. Luo Wei (羅偉先生)**, aged 49, joined our Company in September 2015 and is currently an executive Director, a deputy general manager of our Company and the Board secretary. Mr. Luo Wei is primarily responsible for participating in daily operation, management and decision making of our Group, and taking charge of the daily activities of the office of our Board.

Mr. Luo Wei has also held several positions in the companies within our Group, including acting as (i) a supervisor of Wise Living Energy since November 2016; (ii) a supervisor of Gansu Smart Energy since November 2016; (iii) a supervisor of Lanzhou Shuangliang since December 2016; (iv) a supervisor of Gansu Shuangliang since December 2016; (v) a supervisor of Hulunbuir Shuangliang since December 2016; (vi) a supervisor of Shanxi Shuangliang Renewable Energy since April 2017; (vii) a supervisor of Inner Mongolia Wise Living since June 2018; (viii) a supervisor of Lanzhou Wise Living since August 2018; (ix) a director of Wise Living Energy (Baotou) since November 2020; and (x) a director of Tech-Thermal (Zhengzhou) since December 2020, and has been responsible for managing and supervising the operation of these companies.

Mr. Luo Wei has approximately 25 years of working experience in auditing and financial matters and gained experience from various auditing and corporate positions. Mr. Luo Wei commenced his career as an auditor in Nanjing Yongsheng United Accountant’s Firm\* (南京永盛聯合會計師事務所) (a firm providing audit services) between September 1994 and May



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

2001 and worked at the audit department of Shuangliang Group Co. (a connected person of our Company) between May 2001 and January 2004, where he was responsible for dealing with auditing and financial matters in both companies. Subsequently, he served as the chief financial officer at Shuangliang Spandex (a subsidiary of Shuangliang Technology, our Controlling Shareholders which principally engages in the business of production of differentiated chemical fibres and spandex high-tech chemical fibres) between January 2004 and December 2013, and was mainly responsible for overseeing overall financial matters. Between January 2014 and September 2015, he worked as a general manager at Wuxi Zhongchuang Technology Microfinance Company Limited\* (無錫市中創科技小額貸款有限公司) (formerly known as Wuxi FinTech Small Loans Limited\* (無錫市融創科技小額貸款有限公司) and Wuxi Changda Shuangliang Technology Microfinance Company Limited\* (無錫市長達雙良科技小額貸款有限公司), a company held as to 40% by Shuangliang Technology and 20% by Jiangsu Lichuang, our Controlling Shareholders) which is in the money lending business, and he was mainly responsible for the overall management of business and operation.

Mr. Luo Wei graduated from Nanjing Audit College (南京審計學院) (currently known as Nanjing Audit University (南京審計大學)) in Jiangsu Province, the PRC, with a college degree in finance in July 1994. Mr. Luo Wei was accredited as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) on 26 November 2009.

### Non-executive Directors

**Mr. Miao Wenbin** (繆文彬先生), aged 44, joined our Group in April 2020 and is currently a non-executive Director. Mr. Miao Wenbin is primarily responsible for participating in strategic planning and advising on decision making of our Group.

Mr. Miao Wenbin has and had served several companies (including listed companies) as set out in the following table:

<u>Period of services</u>	<u>Names of companies outside our Group</u>	<u>Principal business activities</u>	<u>Last/current position</u>	<u>Main responsibilities</u>
Between January 2004 and December 2006	Shuangliang Eco-Energy Sales Branch <sup>(Note 1)</sup>	Sale of environmental equipment and devices	Assistant of general manager	Participating in the management of sales business
Since January 2007	Shuangliang Group Co. <sup>(Note 2)</sup>	Manufacturing and sales of devices, equipment and accessories	Vice president	Managing affairs of investment and public relations

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Period of services	Names of companies outside our Group	Principal business activities	Last/current position	Main responsibilities
Since January 2009	Shanghai Shuangliang Equity Investment Company Limited* (上海雙良股權投資有限公司) (formerly known as Shanghai Shuangliang Borun Equity Investment Company Limited* (上海雙良博潤股權投資有限公司)) (Note 3)	Equity investment and investment management	Chairman of the board and general manager	Convening and hosting the board meetings, hosting general meetings, managing operation and supervision
Since March 2014	Wuxi Zhongchuang Technology Microfinance Company Limited* (無錫市中創科技小額貸款有限公司) (formerly known as Wuxi FinTech Small Loans Limited* (無錫市融創科技小額貸款有限公司) and Wuxi Changda Shuangliang Technology Microfinance Company Limited* (無錫市長達雙良科技小額貸款有限公司)) (Note 7)	Money lending business	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy
Between June 2014 and February 2020	Jiangsu Hagong Intelligent Robot Co., Ltd* (江蘇哈工智能機器人股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 000584)	Manufacturing high-end intelligent equipment manufacturing and artificial intelligence robots	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy
Since October 2014	Jiangsu Shuangliang International Trade Company Limited* (江蘇雙良國際貿易有限公司)	Trading of goods	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Period of services	Names of companies outside our Group	Principal business activities	Last/current position	Main responsibilities
Between August 2015 and October 2022	Wuxi Shuangliang Biological Technology Company Limited* (無錫雙良生物科技有限公司) <i>(Note 4)</i>	R&D, technology transfer and technical services of pharmaceuticals, biological reagents, chemical reagents, pharmaceutical intermediates, and APIs	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making process of the company’s daily operation and management
Since March 2016	Wuxi Biotech Company Limited* (無錫佰翺得生物科學有限公司)	R&D, technology transfer and technical services of pharmaceuticals, biological reagents, chemical reagents, pharmaceutical intermediates, and APIs	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making process of the company’s operation and management
Since June 2017	Shuangliang Technology	Investment holding	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, and participating in the decision making of the company’s operation and management
Since August 2017	Shuangliang Eco-Energy (stock code: 600481.SH), a company listed on Shanghai Stock Exchange <i>(Note 5)</i>	Manufacturing and sales of products of (i) energy-saving and water-saving system; and (ii) new energy system (新能源系統)	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making of the company’s daily operation and management

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Period of services	Names of companies outside our Group	Principal business activities	Last/current position	Main responsibilities
Since January 2018	Zhejiang Shangda Public Environmental Protection Company Limited* (浙江商達公用環保有限公司) (formerly known as Zhejiang Shuangliang Shangda Environmental Protection Company Limited* (浙江雙良商達環保有限公司), Hangzhou Zhanwang Environmental Technology Company Limited* (杭州展望環保科技有限公司), Zhejiang Shangda Environmental Protection Company Limited* (浙江商達環保有限公司), Hangzhou Zhejiang-business Environmental Engineering Company Limited* (杭州浙商大環境工程有限公司))	Manufacturing and sales of environmental protection equipment	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy
Since October 2018	Shanghai Shuangliang Jiixin Investment Management Company Limited* (上海雙良嘉信投資管理有限公司) (formerly known as Shanghai Fantong Investment Management Company Limited* (上海帆通投資管理有限公司)) <i>(Note 3)</i>	Investment management	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making process of the company's operation and management
Between November 2018 and November 2019 and since February 2021	Wuxi Hundun <i>(Note 6)</i>	Development, design and construction of intelligent systems and cloud computing	Director	Attending the board meetings, and participating in the decision making in relation to business plans and investment plans as well as formulation of management policy

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

*Notes:*

- (1) Shuangliang Eco-Energy Sales Branch was held as to 44.48% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (2) Shuangliang Group Co. was held as to 68% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (3) Shanghai Shuangliang Equity Investment Company Limited and Shanghai Shuangliang Jiaxin Investment Management Company Limited were subsidiaries of Shuangliang Group Co.. Shuangliang Group Co. was held as to 68% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (4) Wuxi Shuangliang Biological Technology Company Limited was a subsidiary of Shuangliang Technology (one of our Controlling Shareholders) as at the Latest Practicable Date.
- (5) Shuangliang Eco-Energy was held as to 44.48% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (6) Wuxi Hundun was held as to 83.8% by Shanghai Tongsheng LP. Shanghai Tongsheng LP was held as to 68.5% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (7) Wuxi Zhongchuang Technology Microfinance Company Limited was held as to 40% by Shuangliang Technology and 20% by Jiangsu Lichuang, both were our Controlling Shareholders as at the Latest Practicable Date.

Further, Mr. Miao Wenbin holds several public offices:

<b>Period of services</b>	<b>Names of public offices</b>	<b>Last/current position</b>
Since January 2015	Jiangyin Young Entrepreneurs Association* (江陰市青年企業家協會)	Vice chairman
Since May 2015	Jiangsu Young Entrepreneurs Association* (江蘇省青年企業家聯合會)	Vice chairman
Between September 2016 and August 2018	APEC China Business Council (亞太經合組織(APEC)中國工商理事會)	Council member
Since December 2017	Jiangsu Sushang Development Promotion Association* (江蘇省蘇商發展促進會)	Co-chairman
Since April 2019	Jiangsu Youth Association* (江蘇省青年聯合會)	Committee member
Not Applicable	Fifth Meeting of the 13th National People’s Congress of Jiangsu Province* (江蘇省第十三屆人民代表大會第五次會議) held in January 2022	Representative

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Miao Wenbin obtained a bachelor’s degree in information management from Nanjing University (南京大學) in Jiangsu Province, the PRC, in July 2000. He further achieved a master’s degree of business administration (financial management emphasis) from City University of Seattle in Seattle, Washington State, the U.S., in September 2003.

Mr. Miao Wenbin is one of our Controlling Shareholders through his shareholdings in Shuangliang Technology and Jiangsu Lichuang.

**Mr. Ma Fulin (馬福林先生)**, aged 59, joined our Group in October 2010 and is currently a non-executive Director. Mr. Ma Fulin is primarily responsible for participating in strategic planning and advising on decision-making of our Group.

Mr. Ma Fulin had also held several positions in the companies within our Group, including acting as (i) the chairman of the board of directors of Shanxi Shuangliang Renewable Energy between October 2010 and May 2014, (ii) the chairman of the board of directors of Hulunbuir Shuangliang between March 2013 and February 2014, and (iii) a director of Lanzhou Shuangliang between July 2013 and February 2014, and was responsible for managing and supervising the operation of these companies.

Prior to joining our Group, Mr. Ma Fulin has accumulated his rich managerial experience through several business and management positions as set out in the following table:

Period of services	Names of companies outside our Group	Principal business activities	Last/current position	Main responsibilities
Since October 1995	Shuangliang Group Co. <sup>(Note 1)</sup>	Manufacturing and sales of devices, equipment and accessories	Vice president (副 總裁)	Managing the sales of various products
Since December 1997	Shuangliang Technology	Investment holding	Director	Attending the board meetings, participating in the decision making in relation to business plans and investment plans, as well as formulation of management policy

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Period of services	Names of companies outside our Group	Principal business activities	Last/current position	Main responsibilities
Since October 1998	Jiangsu Chengli Investment Consulting Company Limited* (江蘇澄利投資諮詢有限公司) <sup>(Note 2)</sup>	Advising on investments	Director	Attending the board meetings, and participating in the decision making of the company's operation and management
Since March 2000	Shuangliang Boiler <sup>(Note 3)</sup>	Manufacturing and sales of boilers	Director	Attending the board meetings, participating in the decision making of business plans and investment plans, as well as formulation of management policy
Since December 2003	Jiangsu Shuangliang Composite Material Company Limited* (江蘇雙良複合材料有限公司) <sup>(Note 4)</sup>	Manufacturing of plastic alloys (GMT sheet) and its products	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy
Between September 2004 and April 2020, and since May 2020	Jiangsu Lichuang	Investment Holding	<ul style="list-style-type: none"> <li>• Chairman of the board (between September 2004 and April 2020)</li> <li>• Director (since May 2020)</li> </ul>	<ul style="list-style-type: none"> <li>• Convening and hosting the board meetings, hosting general meetings, and participating in the decision making process of the company's daily operation and management</li> <li>• Attending the board meetings, participating in the decision making of business plans and investment plans, as well as formulation of management policy</li> </ul>

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Period of services	Names of companies outside our Group	Principal business activities	Last/current position	Main responsibilities
Since June 2005	Jiangyin Shuangliang Machinery Company Limited* (江陰雙良機械有限公司) <sup>(Note 3)</sup>	Research, development and production of cleaning machines and their accessories	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy
Since August 2011	Beijing Supower Technology Co. Ltd (北京蘇電能源技術有限公司)	Project contracting	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy
Since August 2017	Jiangyin Shuangliang Graphene Photocatalysis Technology Company Limited* (江陰雙良石墨烯光催化技術有限公司) (formerly known as Jiangyin Lichuang Graphene Photocatalysis Technology Company Limited* (江陰利創石墨烯光催化技術有限公司))	Air pollution prevention and control services	Director	Attending the board meetings, and participating in the decision making in relation to business plans and investment plans as well as formulation of management policy

*Notes:*

- (1) Shuangliang Group Co. was held as to 68% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (2) Jiangsu Chengli Investment Consulting Company Limited was a subsidiary of Shuangliang Group Co.. Shuangliang Group Co. was held as to 68% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (3) Shuangliang Boiler and Jiangyin Shuangliang Machinery Company Limited were subsidiaries of Shuangliang Technology (one of our Controlling Shareholders) as at the Latest Practicable Date.
- (4) Jiangsu Shuangliang Composite Material Company Limited was held as to 60.7% in aggregate by Mr. Ma Fulin (馬福林先生) (our non-executive Director and one of our Controlling Shareholders), Mr. Ma Peilin (馬培林先生) (our supervisor and one of our Controlling Shareholders) and their associates.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ma Fulin obtained a bachelor's degree in chemical-engineering from the Inner Mongolia College of Technology\* (內蒙古工學院) (currently known as the Inner Mongolia University of Technology (內蒙古工業大學)) in Inner Mongolia, the PRC, in July 1986. He further achieved an executive master's degree of business administration (Executive MBA Programme) from China Europe International Business School (中歐國際工商學院) in Shanghai, the PRC, in March 2002.

Mr. Ma Fulin is one of our Controlling Shareholders through his shareholdings in Shuangliang Technology and Jiangsu Lichuang.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Cheung Ho Kong** (張浩剛先生), aged 43, was appointed as an independent non-executive Director on [●]. He is responsible for supervising and providing independent opinions and advice to our Board.

Mr. Cheung Ho Kong is a managing director of China Goldlink Capital Group Limited since November 2021, which is primarily engaged in the business of financial service. Mr. Cheung Ho Kong has accumulated more than 20 years of experience in accounting and finance in the following companies, where he was mainly involved in audit and corporate finance matters.

<u>Period of services</u>	<u>Names of companies</u>	<u>Principal business activities</u>	<u>Last position</u>
Between September 2001 and December 2004	KPMG	Audit, tax and advisory services	Assistant manager
Between January 2005 and May 2007	Hong Kong Exchanges and Clearing Limited (stock code: 388), a company listed on the Stock Exchange	Stock exchange operation	Assistant manager
Between June 2007 and May 2010	GuocoCapital Limited (currently known as Mason Securities Limited)	Financial service	Senior manager

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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<u>Period of services</u>	<u>Names of companies</u>	<u>Principal business activities</u>	<u>Last position</u>
Between June 2010 and April 2013	Guotai Junan (Hong Kong) Limited	Financial service	Associate director
Between April 2013 and January 2014	Taiping Capital Limited	Financial service	Executive director
Between April 2014 and November 2021	Messis Capital Limited	Financial service	Managing director

Mr. Cheung Ho Kong has been a certified public accountant of The Hong Kong Institute of Certified Public Accountants since January 2005. Further, he has been a responsible officer licenced and registered with the SFC to conduct type 1 (dealing in securities) regulated activities since April 2016 and type 6 (advising on corporate finance) regulated activities since August 2012.

Mr. Cheung Ho Kong obtained a bachelor's degree in accounting and finance from the University of Hong Kong in Hong Kong in November 2001 and a master's degree in business administration through a distant learning program from Royal Holloway and Bedford New College of University of London in the U.K. in December 2018.

**Dr. Tse Hiu Tung, Sheldon (謝曉東博士)** (also known as Xie Xiaodong), aged 58, was appointed as our independent non-executive Director in [●]. He is responsible for supervising and providing independent opinions and advice to our Board.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Since 1998, Dr. Tse Hiu Tung, Sheldon has been a practicing solicitor in Hong Kong and is currently a partner at a law firm in Hong Kong, and has over 20 years of experience in corporate finance, mergers and acquisitions, private equity and foreign direct investment matters. Outside our Group, Dr. Tse Hiu Tung, Sheldon has held positions in the following companies the shares of which are listed on the Stock Exchange in the past three years:

<u>Period of services</u>	<u>Names of listed companies</u>	<u>Last/current position</u>	<u>Main responsibilities</u>
Between August 2018 and December 2020	Fullsun International Holdings Group Co., Limited, a company listed on the Stock Exchange (stock code: 627)	Independent non-executive director	Overseeing the management of the group independently
Since September 2020	China Aircraft Leasing Group Holdings Limited, a company listed on the Stock Exchange (stock code: 1848)	Independent non-executive director	Overseeing the management of the group independently

Dr. Tse Hiu Tung, Sheldon is qualified to practise law in Hong Kong (admitted in July 1998), England and Wales (admitted in November 1998) and the PRC (admitted in September 1995). Dr. Tse Hiu Tung, Sheldon is currently a China-appointed Attesting Officer (中國委託公證人). He has also been a member of the 12th China Political Consultative Committee of Guizhou Province since January 2018.

Dr. Tse Hiu Tung, Sheldon obtained a bachelor's degree in law from Zhongshan University in Guangzhou, the PRC in July 1986. Further, Dr. Tse Hiu Tung, Sheldon obtained a degree of master of laws and a degree of doctor of philosophy from the University of London, the United Kingdom in November 1989 and January 1994 respectively.

**Dr. Zhu Qing (朱青博士)**, aged 65, was appointed as an independent non-executive Director on [●]. He is responsible for supervising and providing independent opinions and advice to our Board.

Dr. Zhu Qing has been working in the School of Finance (財政金融學院) of Renmin University of China (中國人民大學) in Beijing, the PRC since June 1987 with current position as a professor, and has been responsible for teaching and research work in the fields of public finance and tax. Dr. Zhu Qing (朱青博士) has also served as an independent director of Zhongtai Trust Company Limited (中泰信託有限責任公司) (formerly known as Agricultural Bank of China Xiamen Trust and Investment Company\* (中國農業銀行廈門信託投資公司)) since July 2014, responsible for overseeing the management of the group independently.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Further, he has and had held the positions in several listed companies as set out in the following table:

Period of services	Names of listed companies	Last/current positions	Main responsibilities
Between June 2014 and February 2017	Jiangsu Hagong Intelligent Robot Co., Ltd* (江蘇哈工智能機器人股份有限公司) (formerly known as Jiangsu Youli Investment Holding Company Limited* (江蘇友利投資控股股份有限公司)) (stock code: 000584), a company listed on Shenzhen Stock Exchange	Independent director	Overseeing the management of the group independently
Between April 2013 and April 2018, and since March 2022	Jangho Group Company Limited* (江河創建集團股份有限公司) (stock code: 601886), a company listed on Shanghai Stock Exchange	Independent director	Overseeing the management of the group independently
Between August 2014 and June 2021	Industrial Bank Company Limited (興業銀行股份有限公司) (stock code: 601166), a company listed on Shanghai Stock Exchange	Independent director	Overseeing the management of the group independently
Since June 2021	Industrial Bank Company Limited (興業銀行股份有限公司) (stock code: 601166), a company listed on Shanghai Stock Exchange	Supervisor	Monitoring and supervising the operational and financial activities of the company
Between January 2017 and October 2020	Zhejiang Jinlihua Electric Company Limited* (浙江金利華電氣股份有限公司) (stock code: 300069), a company listed on Shenzhen Stock Exchange	Independent director	Overseeing the management of the group independently

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

<u>Period of services</u>	<u>Names of listed companies</u>	<u>Last/current positions</u>	<u>Main responsibilities</u>
Since June 2017	Jiangsu Jiangyin Rural Commercial Bank Company Limited* (江蘇江陰農村商業銀行股份有限公司) (stock code: 002807), a company listed on Shenzhen Stock Exchange	Independent director	Overseeing the management of the group independently

Dr. Zhu Qing obtained a bachelor’s degree in economics majoring in public finance from the Beijing Economics Institute (北京經濟學院) (currently known as Capital University of Economics and Business (首都經濟貿易大學)) in Beijing, the PRC in July 1984. Further, Dr. Zhu Qing obtained a master’s degree in economics from Renmin University of China (中國人民大學) in Beijing, the PRC in July 1987 and a doctorate degree in economics from Renmin University of China (中國人民大學) in June 2001.

Dr. Zhu Qing was accredited as an independent director by Shanghai Stock Exchange (上海證券交易所) in April 2013.

Except as disclosed in this section, to the best of the knowledge, information and belief of our Directors, supervisors and senior management having made all reasonable enquiries, there are no other matters that need to be brought to the attention of the Shareholders in connection with the appointment of our Directors, supervisors and senior management, and there is no information relating to our Directors, supervisors and senior management that is required to be disclosed pursuant to Rule 13.51(2) or paragraph 41(3) of Appendix 1A to the Listing Rules, including matters relating to directorships held by our Directors, supervisors and senior management in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years immediately preceding the date of this document.

Save as disclosed in “Relationship with our Controlling Shareholders” in this document, none of our Directors, supervisors and senior management has any interests in any business, apart from our Group’s business, which competes or is likely to compete, either directly or indirectly, with our Group’s business.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### SUPERVISORY COMMITTEE

Our supervisory committee consists of three members, one of whom is an employee representative supervisor. The supervisors are appointed for a term of three years and eligible for re-election upon expiry of their term of office.

The following table sets forth certain information regarding the members of our supervisory committee:

Name	Age	Current position	Date of appointment of initial term of office	Date of joining our Group	Roles and responsibilities	Relationship with other Directors/supervisors/senior management
Mr. Ma Peilin (馬培林先生)	56	Chairman of our supervisory committee	November 2015	January 2013	Directing the activities of our supervisory committee, monitoring and supervising our operational and financial activities	Brother of Mr. Ma Fulin, a non-executive Director of our Company
Mr. Chen Zhen (陳振先生)	41	Supervisor	April 2020	April 2020	Monitoring and supervising our operational and financial activities	Nil
Mr. Liu Zhigang (劉志剛先生)	42	Employee representative supervisor	September 2019	August 2015	Monitoring and supervising our operational and financial activities	Nil

**Mr. Ma Peilin** (馬培林先生), aged 56, is the chairman of the supervisory committee of our Company. He was appointed as our supervisor on 17 November 2015, and is primarily responsible for directing the activities of our supervisory committee, and monitoring and supervising our operational and financial activities.

Mr. Ma Peilin joined our Group as a supervisor at Gansu Shuangliang between January 2013 and April 2014 and was responsible for monitoring and supervising operational and financial activities. Since December 2015, he has been the chairman of the supervisory committee of our Company, and has been responsible for directing the activities of the supervisory committee, monitoring and supervising our operational and financial activities.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Outside of our Group, Mr. Ma Peilin had gained his work experience in several companies as set out in the following table:

Period of services	Names of public offices outside our Group	Principal business activities	Last/current position	Main responsibilities
Between January 1993 and October 1995, between March 2000 and December 2006, and since January 2017	Shuangliang Group Co. <sup>(Note 1)</sup>	Manufacturing and sales of devices, equipment and accessories	President	Managing and supervising daily operation and business
Between October 1995 and March 2000, and since August 2015	Shuangliang Eco-Energy, a company listed on Shanghai Stock Exchange (stock code: 600481.SH) <sup>(Note 2)</sup>	Manufacturing and sales of products of (i) energy-saving and water-saving system; and (ii) new energy system (新能源系統)	Supervisor	Monitoring and supervising operational and financial activities
Between September 2004 and April 2020, and since May 2020	Jiangsu Lichuang	Investment Holding	<ul style="list-style-type: none"> <li>• Director (between September 2004 and April 2020)</li> <li>• Chairman of the board (since May 2020)</li> </ul>	<ul style="list-style-type: none"> <li>• Attending the board meetings, participating in the decision making of business plans and investment plans, as well as formulation of management policy</li> <li>• Convening and hosting the board meetings, hosting general meetings, and participating in the decision making process of the company’s daily operation and management</li> </ul>
Between November 2005 and June 2017	Shuangliang Technology	Investment holding	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making process of the company’s daily operation and management

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Period of services	Names of public offices outside our Group	Principal business activities	Last/current position	Main responsibilities
Since October 2012	Beijing Zhongchuang <sup>(Note 3)</sup>	Financial leasing	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making process of the company’s daily operation and management
Since November 2013	Jiangsu Lishide Chemical Company Limited* (江蘇利士德化工有限公司) (formerly known as Jiangsu Lishide Storage Company Limited* (江蘇利士德倉儲有限公司)) <sup>(Note 4)</sup>	Manufacturing chemicals	Director	Attending the board meetings, participating in the decision making of business plans and investment plans as well as formulation of management policy
Since March 2014	Wuxi Zhongchuang Technology Microfinance Company Limited* (無錫市中創科技小額貸款有限公司) (formerly known as Wuxi FinTech Small Loans Limited* (無錫市融創科技小額貸款有限公司) and Wuxi Changda Shuangliang Technology Microfinance Company Limited* (無錫市長達雙良科技小額貸款有限公司)) <sup>(Note 5)</sup>	Money lending business	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making process of the company’s daily operation and management
Between January 2015 and February 2017	Jiangsu Hagong Intelligent Robot Co., Ltd* (江蘇哈工智能機器人股份有限公司), a company listed on Shenzhen Stock Exchange (stock code: 000584)	Manufacturing high-end intelligent equipment manufacturing and artificial intelligence robots	Chairman of the board	Convening and hosting the board meetings, hosting general meetings, participating in the decision making process of daily operation and management

*Notes:*

- (1) Shuangliang Group Co. was held as to 68% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (2) Shuangliang Eco-Energy was held as to 44.48% in aggregate by Mr. Miao Shuangda (繆雙大先生) (one of our Controlling Shareholders) and his associates as at the Latest Practicable Date.
- (3) Beijing Zhongchuang was held as to 90% by Mr. Ma Fulin (馬福林先生) (our non-executive Director and one of our Controlling Shareholders), Mr. Ma Peilin (馬培林先生) (our supervisor and one of our Controlling Shareholders) and their associates as at the Latest Practicable Date.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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- (4) Jiangsu Lishide Chemical Company Limited was a subsidiary of Shuangliang Technology (one of our Controlling Shareholders) as at the Latest Practicable Date.
- (5) Wuxi Zhongchuang Technology Microfinance Company Limited was held as to 40% by Shuangliang Technology and 20% by Jiangsu Lichuang, both are our Controlling Shareholders as at the Latest Practicable Date.

Between November 2001 and February 2005, Mr. Ma Peilin was a supervisor of Shenzhen Zhongtuo Investment Co., Limited (深圳市中拓投資有限公司) (a company established in Shenzhen, Guangdong Province, the PRC in the business of investment management) (“**Zhongtuo Investment**”). The business licence of Zhongtuo Investment was revoked on 1 February 2005 for not undergoing regulatory annual inspection, and was not deregistered as at the Latest Practicable Date. Mr. Ma Peilin confirmed that (i) Zhongtuo Investment was solvent immediately prior to the revocation of business licence; and (ii) there was no wrongful act or any personal liability on his part leading to the revocation of business licence of Zhongtuo Investment.

Mr. Ma Peilin obtained a bachelor’s degree in economics from Inner Mongolia University of Finance and Economics (內蒙古財經學院) in Inner Mongolia, the PRC, in July 1990 and an executive master’s degree of business administration (Executive MBA Programme) from China Europe International Business School (中歐國際工商學院) in Shanghai, the PRC, in July 2006. Mr. Ma Peilin was awarded as the Accountant of the Year 2010\* (2010年中國總會計師年度人物) by China Association of Chief Financial Officers (中國總會計師協會) on 19 December 2010.

Mr. Ma Peilin is one of our Controlling Shareholders through his shareholdings in Shuangliang Technology and Jiangsu Lichuang.

**Mr. Chen Zhen** (陳振先生), aged 41, was appointed as a supervisor of our Company for the first time on 27 April 2020, and he is primarily responsible for monitoring and supervising our operational and financial activities.

Between October 2009 and May 2012, Mr. Chen Zhen gained his corporate and audit experience by working at Talent Certified Public Accountants (天衡會計師事務所), a firm providing audit services in Jiangsu Province, the PRC and as a treasurer at Shuangliang Eco-Energy (a company which is principally engaged in the manufacturing and sales of products of (i) energy-saving and water-saving systems and (ii) new energy systems (新能源系統)) between June 2012 and December 2012. Between January 2013 and September 2019, Mr. Chen Zhen was promoted as the chief financial officer of Shuangliang New Energy Equipment, and was responsible for overall management of auditing and financial matters. Since September 2019, Mr. Chen Zhen has been the general manager of the auditing department of Shuangliang Group Co. (a company which is principally engaged in the manufacturing of equipment, devices and accessories) and has been mainly responsible for internal control and overall management of audit affairs. Since September 2022, Mr. Chen Zhen has been a supervisor of Shuangliang Eco-Energy.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen Zhen obtained a bachelor’s degree of art majoring in journalism from Nanchang University (南昌大學) in Jiangxi Province, the PRC in July 2004. Mr. Chen Zhen obtained a master’s degree of business administration from Southeast University (東南大學) in Jiangsu Province, the PRC, in March 2012.

**Mr. Liu Zhigang (劉志剛先生)**, aged 42, is an employee representative supervisor of our Company. He was appointed as our supervisor for the first time in September 2019, and is primarily responsible for monitoring and supervising our operational and financial activities.

Mr. Liu Zhigang joined our Group in August 2015 and has held several positions in the companies within our Group, including acting as (i) the deputy general manager of Hulunbuir Shuangliang between August 2015 and September 2018, and the general manager and a director of Hulunbuir Shuangliang since March 2022; and (ii) a director of Inner Mongolia Wise Living since June 2018 and the deputy general manager of Inner Mongolia Wise Living since September 2018, and has been mainly responsible for the overall management of these companies.

Mr. Liu Zhigang was a sales representative at Shuangliang Eco-Energy Sales Branch (a branch which is principally engaged in the sales of environmental equipment and devices) between May 2010 and September 2014, where he was responsible for marketing and sales. Mr. Liu later worked as a sales manager between September 2014 and August 2015, where he was responsible for managing and supervising operation and formation of business development plans.

Mr. Liu Zhigang graduated from Inner Mongolia Agricultural University (內蒙古農業大學) in Inner Mongolia, the PRC, with a major in environmental engineering in July 2004.

### SENIOR MANAGEMENT

The following table sets forth certain information regarding the members of our senior management:

Name	Age	Current position	Date of appointment of initial term of office	Date of joining our Group	Roles and responsibilities	Relationship with other Directors/supervisors/members of our senior management
Mr. Li Baoshan (李寶山先生)	56	Executive Director and general manager	December 2015	May 2009	Overall management oversight of our Group business	Nil
Mr. Hu Xirong (胡錫榮先生)	51	Executive Director and deputy general manager	January 2018	October 2010	Participating in the daily operation of our Group with a focus on its marketing, public relation and business development	Nil

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Current position	Date of appointment of initial term of office	Date of joining our Group	Roles and responsibilities	Relationship with other Directors/supervisors/members of our senior management
Mr. Luo Wei (羅偉先生)	49	Executive Director, deputy general manager, and Board secretary	September 2015	September 2015	Participating in the daily operation, management and decision making of our Group; and taking charge of the daily activities of the office of our Board	Nil
Mr. Chen Xibao (陳喜報先生)	48	Deputy general manager	December 2015	October 2010	Heating technology, CCHP (a balanced energy mix) and quality control with a focus on project expansion and development in Zhengzhou, Henan Province, the PRC	Nil
Mr. Yang Xiaojin (楊小進先生)	35	Chief financial officer	October 2019	May 2017	Overall financial management of our Group	Nil

**Mr. Li Baoshan** (李寶山先生), aged 56, is the general manager of our Company. For details of biography of Mr. Li Baoshan, see “Directors, supervisors and senior management – Board of Directors – Executive Directors” in this document.

**Mr. Hu Xirong** (胡錫榮先生), aged 51, is one of the deputy general managers of our Company. For details of biography of Mr. Hu Xirong, see “Directors, supervisors and senior management – Board of Directors – Executive Directors” in this document.

**Mr. Luo Wei** (羅偉先生), aged 49, is one of the deputy general managers of our Company. For details of biography of Mr. Luo Wei, see “Directors, supervisors and senior management – Board of Directors – Executive Directors” in this document.

**Mr. Chen Xibao** (陳喜報先生), aged 48, joined our Group in December 2009 and is currently one of the deputy general managers of our Company. He is primarily responsible for heating technology, CCHP (a balanced energy mix) and quality control with a focus on project expansion and development in Zhengzhou, Henan Province, the PRC.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In addition to his role as a deputy general manager of our Company, Mr. Chen Xibao has and had held several other positions within our Group including acting as (i) a vice president of Shanxi Shuangliang Renewable Energy between December 2009 and October 2015, (ii) a supervisor of Southern Taiyuan Heat Supply between April 2013 and March 2020, (iii) an executive director and a general manager of Zhengzhou Wise Living since November 2018, and (iv) a supervisor of Tech-Thermal (Zhengzhou) since December 2020, and has been responsible for managing and supervising the operation of these companies.

Mr. Chen Xibao gained his managerial experience through various positions before joining our Group, the details of which are set out in the following table:

Period of services	Names of public offices	Principal business		
		activities	Positions	Main responsibilities
Between March 2001 and November 2006 and between December 2007 and November 2009	Architecture Eco-energy Research Institute of Zhengzhou University Multi-Functional Design and Research Academy* (鄭州大學綜合設計研究院 建築節能研究所)	Research and development	Chief engineer and deputy dean	Supervising projects of research and development
Between December 2006 and December 2007	Linzhou Second Construction Group Construction Company Limited* (林州二建集團建設有限公司)	Construction	New and renewable energy development and utilisation engineer	Planning, design, construction, commissioning and maintenance of new and renewable energy projects

Between February 2006 and February 2012, Mr Chen Xibao was a supervisor of Zhengzhou Clay Building Energy Saving Technology Co., Limited\* (鄭州克萊建築節能技術有限公司) (a company established in Zhengzhou, Henan Province, the PRC and was engaged in the business of energy contract management services) (“**Zhengzhou Clay**”). The business licence of Zhengzhou Clay was revoked on 17 February 2012 for not undergoing regulatory annual inspection, which was not deregistered as at the Latest Practicable Date. Mr. Chen Xibao confirmed that (i) Zhengzhou Clay was solvent immediately prior to the revocation of business licence; and (ii) there was no wrongful act or any personal liability on his part leading to the revocation of business licence of Zhengzhou Clay.

Further, Mr. Chen Xibao has been a vice chairman (副理事長) of Shanxi Renewable Energy Association\* (山西可再生能源協會) and a vice dean of Shanxi Renewable Energy Academy\* (山西可再生能源研究院) since December 2010.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Mr. Chen Xibao graduated with a college degree majoring in fine chemical engineering from Zhengzhou College of Technology\* (鄭州工學院) (currently known as Zhengzhou University (鄭州大學)) in Henan Province, the PRC in June 1995. Mr. Chen Xibao further obtained a bachelor’s degree of engineering majoring in computer science and technology through correspondence education from the PLA Information Engineering University (中國解放軍信息工程大學) (currently known as the PLA Strategic Support Force Information Engineering University (中國解放軍戰略支援部隊信息工程大學)) in Henan Province, the PRC, in June 2010. He was accredited as an urban construction engineer\* (城建工程師) by Anyang People’s Government (安陽市人民政府) in Henan Province, the PRC, in September 2007.

**Mr. Yang Xiaojin** (楊小進先生), aged 35, joined our Group in May 2017 and is currently the chief financial officer of our Company. He is primarily responsible for the overall financial management of our Group. Within our Group, Mr. Yang Xiaojin has also been serving as the chief financial officer of Shanxi Shuangliang Renewable Energy since May 2017, and has been responsible for managing and supervising financial and auditing affairs.

Prior to joining our Group, Mr. Yang Xiaojin worked as an audit specialist dealing with internal audit matters in Shuangliang Group Co. (a company which is principally engaged in the manufacturing of equipment, devices and accessories) between April 2014 and May 2015. He then worked at Shuangliang Eco-Energy (a company which is principally engaged in the manufacturing and sales of products of (i) energy-saving and water-saving systems and (ii) new energy systems (新能源系統)) as a finance manager between June 2016 and April 2017 and was responsible for managing and processing financials of its group and subsidiaries.

Mr. Yang Xiaojin obtained a bachelor’s degree majoring in business administration from Tiangong University (天津工業大學) in Tianjin Municipality, the PRC, in June 2011. Mr. Yang Xiaojin further obtained a master’s degree of management majoring in accounting from the same university in March 2014.

Except as disclosed in this section, none of the members of our senior management held any other directorships in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, in the last three years immediately preceding the date of this document.

### BOARD SECRETARY

**Mr. Luo Wei** (羅偉先生), aged 49, is currently the Board secretary of our Company. For details of biography of Mr. Luo Wei, see “Directors, supervisors and senior management – Board of Directors – Executive Directors” in this document.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### JOINT COMPANY SECRETARIES

**Mr. Ma Ke (馬克先生)**, aged 31, is the joint company secretary of our Company effective from the [REDACTED]. Within our Group, Mr. Ma Ke has been a supervisor of Wise Living Energy (Baotou) since November 2020, a supervisor of Tech-Thermal (Zhengzhou) since December 2020 and a supervisor of Wise Living Times (Beijing) Technology Company Limited\* (慧居時代(北京)技術有限公司) since August 2022, and has been responsible for monitoring and supervising operational and financial activities.

Prior to joining our Group, Mr. Ma Ke commenced his career in July 2017 as an assistant auditor at Talent Certified Public Accountants (天衡會計師事務所) Beijing office, a firm providing audit service until May 2018. From August 2018 to December 2019, he worked at Bank of China Insurance Company Limited (中銀保險有限公司) in Beijing, the PRC.

Mr. Ma Ke obtained a bachelor’s degree majoring in accounting from University of San Francisco in California, the U.S. in May 2016, and further obtained a master’s degree of finance from Tulane University in New Orleans, Louisiana, the U.S. in May 2017.

**Mr. Tso Ping Cheong, Brian (曹炳昌先生)**, aged 42, is the joint company secretary of our Company effective from the [REDACTED].

Mr. Tso Ping Cheong, Brian has over 16 years of experience in accounting and financial management. From September 2003 to December 2008, Mr. Tso Ping Cheong, Brian worked for Ernst & Young and last held the position of manager and was responsible for the assurance and advisory business services. From December 2008 to May 2010, he worked for Greenheart Group Limited (stock code: 94), a company listed on the Main Board of the Stock Exchange as financial controller. From May 2010 to August 2012, he worked for Maxdo Project Management Company Limited as senior vice president of the investment team. Since October 2020, Mr. Tso Ping Cheong, Brian has been a company secretary of Bright Future Technology Holdings Limited (stock code: 1351), a company listed on the Main Board of the Stock Exchange. Mr. Tso Ping Cheong, Brian founded Teton CPA Company, an accounting firm, in January 2013 and he has been the sole proprietor since then.

Mr. Tso Ping Cheong, Brian obtained his bachelor’s degree in accountancy from the Hong Kong Polytechnic University in Hong Kong in November 2003. He obtained his master’s degree in corporate governance from the Hong Kong Polytechnic University in Hong Kong in October 2013. Mr. Tso Ping Cheong, Brian is currently a practising and fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Chartered Secretaries.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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Pursuant to Rule 3.28 of the Listing Rules, an issuer must appoint as its company secretary an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules, with regards to the qualifications of Mr. Ma Ke for acting as one of the joint company secretaries. For further details of this waiver application, see “Waivers from strict compliance with the Listing Rules – Joint company secretaries” in this document.

### **WAIVER FROM RULE 8.12 AND RULE 19A.15 OF THE LISTING RULES**

We have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Listing Rules regarding the requirement of management presence in Hong Kong. For details of the waiver, see “Waivers from strict compliance with the Listing Rules – Management presence in Hong Kong” in this document.

### **BOARD COMMITTEES**

Our Board delegates certain responsibilities to various Board committees. In accordance with the relevant PRC laws and regulations, the Articles of Association and the Listing Rules, we have established our audit committee, remuneration committee, and nomination committee.

#### **Audit committee**

We have established our audit committee with the terms of reference in compliance with relevant laws and regulations of the PRC, Rule 3.21 of the Listing Rules and paragraph D.3.3 of part 2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Audit committee of our Company consists of three Directors, namely Mr. Cheung Ho Kong (張浩剛先生), Dr. Zhu Qing (朱青博士) and Mr. Miao Wenbin (繆文彬先生). Mr. Cheung Ho Kong (張浩剛先生) currently serves as the chairman of our audit committee. The primary responsibilities of the audit committee include but not limited to:

- monitoring and evaluating the work of the external auditor;
- supervising the implementation of our internal audit system of our Company;
- being responsible for the communications among the management level of our Company, internal and external audit;
- reviewing the financial reports of our Company;
- examining the financial reporting system, risk management and internal control systems of our Company;

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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- making recommendations to our Company on the appointment, re-appointment and removal of the external auditor; and
- performing such other duties determined by our Board or required under the relevant laws and regulations.

### Remuneration committee

We have established our remuneration committee with the terms of reference in compliance with relevant laws and regulations of the PRC, Rule 3.25 of the Listing Rules and paragraph E.1.2 of part 2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee of our Company consists of three Directors, namely Dr. Zhu Qing (朱青博士), Dr. Tse Hiu Tung, Sheldon (謝曉東博士) and Mr. Ma Fulin (馬福林先生). Dr. Zhu Qing (朱青博士) currently serves as the chairman of our remuneration committee. The primary responsibilities of the remuneration committee include but not limited to:

- making recommendations to our Board on our Company's policy and structure for all remuneration of our Directors and senior management and making recommendations on employee benefit arrangement and formulating a formal and transparent procedure for developing remuneration policies;
- determining the specific remuneration for all executive Directors and senior management and proposing to our Board with respect to the remuneration of the non-executive Directors;
- discussing the policies of and plans on the salary, benefits and rewards of our Company, making recommendations to our Board about and monitoring the implementation of the same; and
- performing such other duties determined by our Board or required under the relevant laws and regulations.

### Nomination committee

We have established our nomination committee with the terms of reference in compliance with relevant laws and regulations of the PRC, Rule 3.27A of the Listing Rules and paragraph B.3.1 of part 2 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee of our Company consists of three Directors, namely Mr. Geng Ming (耿鳴先生), Dr. Zhu Qing (朱青博士) and Dr. Tse Hiu Tung, Sheldon (謝曉東博士). Mr. Geng Ming currently serves as the chairman of our nomination committee. The primary responsibilities of the nomination committee include but not limited to:

- making recommendations to our Board on its size and composition to complement our Company's business operation and shareholding structure;



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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- reviewing and making recommendations to the selection standards and procedures of Directors and senior management;
- reviewing the structure, size and composition (including skills, knowledge and experience) of our Board at least annually and making recommendations on any proposed changes to our Board to complement our Company's corporate strategies;
- assessing the independence of our independent non-executive Directors; and
- performing such other duties determined by our Board or required under the relevant laws and regulations.

### **REMUNERATION POLICY AND EMOLUMENT OF OUR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Our Group offers our executive Directors, employee representative supervisor and senior management members, who are also employees of our Company, remuneration in the form of salaries, allowances, discretionary bonus and benefits in kind. Our independent non-executive Directors receive emolument-based on their responsibilities (including being members or chairman of the Board committees). We adopt a market and incentive based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

For the three years ended 31 December 2020, 2021 and 2022, the aggregate emolument (including the aggregate amount of fees, salaries, discretionary bonus, welfare contribution plans (including pensions), housing, other allowances and other benefits in kind) of our Directors and supervisors were approximately RMB6,001,000, RMB7,971,000 and RMB7,179,000 respectively. Details of the arrangement for remuneration are set out in Note 9(c) to the accountant's report as set out in Appendix I to this document. In accordance with the arrangements currently in force, the aggregate emolument payable to our Directors and supervisors for the year ending 31 December 2023 will be approximately RMB10.6 million.

For the three years ended 31 December 2022, the aggregate amount of emolument of the five highest-paid individuals of our Group excluding Directors and supervisors were RMB1,616,000, RMB2,200,000 and RMB950,000 respectively.

During the Track Record Period, no remuneration was paid to, or receivable by, our Directors, supervisors or the five highest-paid individuals of our Company as an inducement to join or upon joining our Company, or as a compensation for loss of office in the Track Record Period. In addition, none of our Directors or supervisors had waived any emolument during the same period.

Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors, supervisors or the five highest paid individuals of our Company for the Track Record Period.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **COMPLIANCE ADVISER**

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the [REDACTED] from the [REDACTED] in a manner different from that detailed in this document or where our Group's business activities, developments or results of operation deviate from any forecast, estimate or other information in this document; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of its listed securities or any other matters under Rule 13.10 of the Listing Rules.

The term of appointment will commence on the [REDACTED] and end on the date on which we despatch our annual report of the first full financial year commencing after the [REDACTED] and such appointment may be subject to extension by mutual agreement.

### **CORPORATE GOVERNANCE**

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal procedures of our Group so as to achieve effective accountability and are committed to ensure the lawful, ethical and responsible operation of our Group's businesses. Our Company has adopted the core provisions stated in the Corporate Governance Code, with internal compliance policies in place which set out our compliance requirements so as to ensure consistency with the code provisions stated in the Corporate Governance Code.

In addition, our Company provides regular and ad hoc trainings to our employees to familiarise them with our internal compliance policies and equip them with the necessary knowledge for effective and consistent implementation of our internal compliance policies. Our Company is also committed to the view that our Board should include a balanced composition of executive Directors and independent non-executive Directors to ensure a strong independent element on our Board, which allows for effective exercise of independent judgment.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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In addition, pursuant to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, our Board will regularly review whether each of our Directors is devoting sufficient time and attention to the affairs of our Group including but not limited to the review of the attendance record of Board meetings or Board committee meetings. Should there be concerns on the time commitments by the relevant Director(s) to our Group, our Board may request the relevant Director(s) to provide an update to our Board in relation to any changes with respect to his significant commitments.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, our Directors were not aware of any deviation from the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

### **BOARD DIVERSITY POLICY**

In order to enhance the effectiveness of our Board and maintain a high standard of corporate governance, we have adopted a board diversity policy, which sets out the aim and approach towards achieving and maintaining diversity of our Board. Pursuant to such board diversity policy, when selecting candidates to our Board, we will consider a wide range of factors, including but not limited to, the appropriate balance of gender, skills, age, cultural and education background, ethnicity, professional experience, knowledge, length of service and any other factors that our Board may consider relevant and applicable from time to time, in order to achieve board diversity. The ultimate decision of the appointment will be based on merit and contribution that the selected candidates will bring to our Board.

Our Directors have a balanced mix of knowledge and skills, including overall corporate management, business strategies and planning, heating engineering, construction projects management, finance and business administration. They also obtained degrees in various majors, including engineering, economics, finance, accounting and business administration. We have three independent non-executive Directors, representing one-third of the members of our Board. Further, our Board has a relatively wide range of age, ranging from 43 years old to 65 years old.

We recognise that the gender diversity at the Board level can be improved. As much as we value gender parity and female leadership that enhance the effectiveness of our Board and standard of corporate governance, we are in an industry that is dominated primarily by male professionals with science background. With that said, our Board will ensure that appropriate balance of gender diversity is achieved with reference to investors' expectation, and international and local recommended best practices. With a view to developing a pipeline of potential successors to our Board that may achieve gender diversity, we will (i) make appointments based on merits with reference to board diversity as a whole; (ii) take steps to promote gender diversity at all levels of our Group by recruiting staff of different gender; (iii) consider the possibility of nominating female management staff who has the necessary skills and experience to our Board; and (iv) provide career development opportunities and more resources in training female staff with the aim of promoting them to our senior management or our Board so that we will have a pipeline of female senior management and potential successors to our Board in a few years' time.

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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Going forward, our nomination committee will be responsible for ensuring the diversity of our Board. After the [REDACTED], our nomination committee will monitor the implementation of our board diversity policy, review and amend this policy when necessary to ensure its effectiveness. We will also disclose the implementation of our board diversity policy in our corporate governance report on an annual basis.

Taking into account our existing business model and specific needs as well as the different background and abilities of our Directors, our Directors are of the view that the current composition of our Board satisfies our board diversity policy.

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS AS AT THE LATEST PRACTICABLE DATE

As at the Latest Practicable Date, our registered capital was RMB226,000,000 comprising 226,000,000 Domestic Shares and the following persons directly or indirectly controlled or were entitled to exercise the control of 10% or more of our Shares:

Name of Shareholder	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Shuangliang Technology <sup>(Note 1)</sup>	Legal and beneficial owner	150,000,000 Domestic Shares	66.38%
Jiangsu Lichuang <sup>(Note 2)</sup>	Legal and beneficial owner	51,000,000 Domestic Shares	22.58%

*Notes:*

- (1) The registered capital of Shuangliang Technology is held as to 20% by Mr. Miao Shuangda (繆雙大先生), 15% by Mr. Miao Wenbin (繆文彬先生), 10% by Mr. Miao Zhiqiang (繆志強先生), 10% by Ms. Miao Shuya (繆舒涯女士), 10% by Mr. Miao Heida (繆黑大先生), 15% by Mr. Jiang Rongfang (江榮方先生), 10% by Mr. Ma Peilin (馬培林先生) and 10% by Mr. Ma Fulin (馬福林先生).
- (2) The registered capital of Jiangsu Lichuang is held as to 20% by Mr. Miao Shuangda (繆雙大先生), 15% by Mr. Miao Wenbin (繆文彬先生), 10% by Mr. Miao Zhiqiang (繆志強), 10% by Ms. Miao Shuya (繆舒涯女士), 10% by Mr. Miao Heida (繆黑大先生), 15% by Mr. Jiang Rongfang (江榮方先生), 10% by Mr. Ma Peilin (馬培林先生) and 10% by Mr. Ma Fulin (馬福林先生).

### SUBSTANTIAL SHAREHOLDERS UPON [REDACTED]

So far as our Directors are aware immediately following the completion of the [REDACTED], and assuming the [REDACTED] is not exercised, the following persons will, have or be deemed or taken to have interests or short positions in our Shares or underlying shares of our Company which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Class of Shares	Immediately prior to the [REDACTED] <sup>(Note)</sup>		Immediately following the completion of the [REDACTED] <sup>(Note)</sup>	
			Number	Percentage (approx.)	Number	Percentage (approx.)
Shuangliang Technology	Beneficial owner	Domestic Shares	150,000,000 (L)	66.38%	[REDACTED] (L)	[REDACTED]%
Jiangsu Lichuang	Beneficial owner	Domestic Shares	51,000,000 (L)	22.58%	[REDACTED] (L)	[REDACTED]%

*Note:* The letter “L” denotes a long position in our Shares.

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## SUBSTANTIAL SHAREHOLDERS

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Save as disclosed in “– Substantial Shareholders upon [REDACTED]” in this section, our Directors are not aware of any person who will, immediately following the completion of the [REDACTED], have a direct or indirect interest or short position in the Shares or the underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Company. We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

For those who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of our Group, see “Statutory and general information” as set out in Appendix VII to this document.

## SHARE CAPITAL

This section presents certain information regarding our share capital before and upon completion of the [REDACTED].

### BEFORE THE [REDACTED]

As at the Latest Practicable Date, the registered capital of our Company was RMB226,000,000, comprising 226,000,000 Domestic Shares of nominal value RMB1.00 each.

### UPON COMPLETION OF THE [REDACTED]

Immediately following completion of the [REDACTED], assuming that the [REDACTED] Option is not exercised, our share capital would be categorised as follows:

<u>Description of Shares</u>	<u>Number of Shares</u>	<u>Approximate percentage of issued share capital</u>
Domestic Shares	226,000,000	[REDACTED]%
H Shares to be issued under the [REDACTED]	[REDACTED]	[REDACTED]%
	[REDACTED]	100.00%

Immediately following completion of the [REDACTED] and assuming that the [REDACTED] is fully exercised, our share capital would be categorised as follows:

<u>Description of Shares</u>	<u>Number of Shares</u>	<u>Approximate percentage of issued share capital</u>
Domestic Shares	226,000,000	[REDACTED]%
H Shares to be issued under the [REDACTED]	[REDACTED]	[REDACTED]%
	[REDACTED]	100.00%

### SHARE CLASSES

Upon completion of the [REDACTED], we would have two classes of Shares: Domestic Shares and H Shares. Domestic Shares and H Shares are all ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for or be traded between legal or natural persons of the PRC.

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## SHARE CAPITAL

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Domestic Shares and H Shares are regarded as different classes of shares under our Articles of Association. The differences between the two classes of shares and provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the method of share transfer and appointment of dividend receiving agents are set out in the Articles of Association and summarised in "Summary of Articles of Association" as set out in Appendix VI to this document. The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the holders of Shares of that class at a separate meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in "Summary of Articles of Association" as set out in Appendix VI to this document. However, the procedures for approval by separate classes of Shareholders shall not apply (a) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued Domestic Shares and H Shares; (b) where our plan to issue Domestic Shares and H Shares at the time of its establishment is implemented within 15 months from the date of approval by the securities regulatory authorities under the State Council; and (c) where the conversion of Domestic Shares for [REDACTED] and [REDACTED] on the Stock Exchange as H Shares has been approved by the securities authorities under the State Council.

Further information about circumstances under which general meeting and class meeting are required are set out in the Articles of Association and summarised in "Summary of Articles of Association" as set out in Appendix VI to this document.

Except for the differences above, Domestic Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this document. All dividends in respect of the H Shares are to be declared and paid by us in Hong Kong dollars or in the form of H Shares whereas all dividends in respect of Domestic Shares are to be declared in Renminbi and paid by us in Hong Kong dollars.

### CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

All our Domestic Shares are not listed or traded on any stock exchange. The holders of Domestic Shares may convert their Domestic Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the overseas stock exchange(s) and have been approved by the securities regulatory authorities of the State Council, including the CSRC. The listing of such converted Shares on the Stock Exchange will also require the approval of the Stock Exchange.

Based on the procedures for the conversion of our Domestic Shares into H Shares as disclosed in this section, we can apply for the [REDACTED] of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion



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## SHARE CAPITAL

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to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of Shares for entry on the H Share register. As any [REDACTED] of additional Shares after our [REDACTED] on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it will not require such prior application for [REDACTED] at the time of our [REDACTED] in Hong Kong.

No class Shareholder voting is required for the [REDACTED] and trading of the converted Shares on the Stock Exchange. Any application for [REDACTED] of the converted Shares on the Stock Exchange after our [REDACTED] is subject to prior notification by way of announcement to inform Shareholders and the public of such proposed conversion.

See “Risk factors – Risks relating to our business and industry – The sales or potential sales of substantial amounts of our H Shares in the [REDACTED] (including any future [REDACTED]) may affect the prevailing market price of our H Shares and our ability to raise capital in the future, and future additional issuance of securities may dilute your shareholdings” in this document for more details.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our [REDACTED] maintained in Hong Kong and instruct the [REDACTED] to issue H Share certificates. Registration on our H Share register will be on the condition that (a) our [REDACTED] lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Shares certificates and (b) the admission of the H Shares to trade on the Stock Exchange will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as we are aware, none of our Shareholders currently propose to convert any of their Domestic Shares into H Shares.

### REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register and deposit its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 working days upon [REDACTED] and provide a written report to the CSRC regarding the centralised registration and deposit of non-overseas listed shares as well as the [REDACTED] and [REDACTED] of the H Shares.

## FINANCIAL INFORMATION

*The following discussion and analysis of our business, financial position and results of operations are based on and should be read in conjunction with our financial statements as at and for each of the years ended 31 December 2020, 2021 and 2022, respectively, including the notes thereto, as set out in the accountant’s report as set out in Appendix I to this document and other financial information appearing elsewhere in this document. Our consolidated financial statements have been prepared in accordance with IFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.*

*The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed “Risk factors” and “Business”.*

### OVERVIEW

We are a cross-provincial heat service provider mainly operating in the “Three North” region. We were ranked No. 9 in terms of the aggregate actual heat service area in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region in 2022, according to the Frost & Sullivan Report. We are principally engaged in the provision of heat services to residential and non-residential heat service customers under concession rights. On top of our provision of heat services, which is considered as a public utility business, we also provide heat-related (i) engineering construction services; and (ii) EMC services. We have over a decade of operational experience since we started our operation in 2010.

During the Track Record Period and up to the Latest Practicable Date, our principal business was the provision of heat services. As a core public utility service in northern China, such business has generated steady revenue and cash flow for us. For the years ended 31 December 2020, 2021 and 2022, we primarily generated revenue from our heat services. Revenue generated from our heat services for the years ended 31 December 2020, 2021 and 2022 was approximately RMB973.3 million, RMB1,035.2 million and RMB1,098.9 million, representing approximately 70.7%, 80.2% and 76.1% of our total revenue, respectively.

### BASIS OF PREPARATION

The historical financial information of our Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”) and related interpretations issued by the International Accounting Standards Board (the “IASB”).

The historical financial information of our Group has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

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## FINANCIAL INFORMATION

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The preparation of the historical financial information of our Group in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information of our Group are disclosed in Note 4 to the accountant's report as set out in Appendix I to this document.

As at 31 December 2022, our Group had net current liabilities of approximately RMB551.8 million. The net current liabilities included contract liabilities amounting to approximately RMB440.5 million which represented advance receipts from customers in relation to heat service and pipeline connection fee. Such contract liabilities will normally be recognised as revenue in subsequent years and will not involve cash outflow in the future. Our Group's total borrowings as at 31 December 2022 amounted to approximately RMB881.2 million of which RMB246.8 million are classified as current liabilities, while its cash and cash equivalents amounted to RMB378.1 million as at the same date.

Management closely monitors our Group's financial performance and liquidity position. Our Group generated cash inflow from operating activities for each of the three years ended 31 December 2020, 2021 and 2022 which amounted to approximately RMB442.5 million, RMB500.0 million and RMB617.8 million, respectively. Our Group planned its capital expenditure activities in a conservative manner to avoid any excessively high liquidity risk exposure. Our management proactively managed the financing structure of our Group and was able to renew the short-term borrowings and raise new borrowings during the Track Record Period as necessary. As at 31 December 2022, our Group had unused banking facilities amounting to approximately RMB824.0 million. Although our Group failed to comply with certain covenants and financial undertakings of two long-term bank borrowings during the Track Record Period, we successfully obtained waivers from strict compliance with the covenants and financial undertakings of the two long-term bank borrowings from the relevant banks.

As at 31 December 2022, our Group had unused banking facilities amounting to approximately RMB824.0 million, of which approximately RMB60 million is available to our Group up to June 2023, RMB125.0 million is available to the Group up to July 2023 and could be extended to July 2024, RMB489.5 million is available to our Group up to April 2024, and the remaining RMB149.5 million is available to our Group up to December 2030.

Our Directors have reviewed our Group's cash flow projections for a period not less than twelve months from the balance sheet date, made due enquiries with management and considered the bases and assumptions of the projections. Our Directors are of the opinion that, taking into account our Group's financial performance and operating cash inflows, the capital expenditure plans, the continuous availability of existing facilities and the new credit facilities secured, our Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2022. The Historical Financial Information has been prepared on a going concern basis.

## FINANCIAL INFORMATION

In preparation of the historical financial information as disclosed in this document, the following issued new standards and amendments to existing standards are not yet effective and have not yet been adopted by our Group:

		<b>Effective for the financial year beginning on or after</b>
IFRS 17	Insurance contracts	1 January 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates	1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
IFRS 16 (Amendments)	Leases liability on sale and leaseback	1 January 2024
IAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2024
IAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

Our Group has commenced an assessment of the impact of these new or revised standards and amendments. According to the preliminary assessment made by our Directors, no significant impact on the financial performance and position of our Group is expected when they become effective.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial position have been and will continue to be affected by a number of factors, including those set out in “Risk factors” in this document and those discussed below:

#### **Economic conditions, government policies or business environment in the “Three North” region**

During the Track Record Period, all of our revenue was generated from services provided in the “Three North” region. Due to such concentration, and also considering the provision of heat service is a regulated industry in the PRC, any development in government policies or business environment in the “Three North” region materially affects our business, financial position and results of operations.

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## FINANCIAL INFORMATION

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This includes (but is not limited to) (i) changes in the economic condition, the level of economic activities and the pace of urban development; (ii) the future regional development prospects; (iii) changes in government regulations and policies regarding heat service industry and its related businesses; and (iv) our ability to compete with other heat service providers operating in the “Three North” region by renewing our current Concession Agreements upon their expiry and obtaining new concession rights. These macro-environmental factors are, generally speaking, beyond our control.

### **Our concession rights for heat services business**

We were principally engaged in heat service projects under five concessions in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region. Our concession right to provide heat services in Xinmi of Henan Province was granted to us in December 2021. As at the Latest Practicable Date, we had reached the final stages of our preparation to provide heat services in Xinmi. We expect that our provision of heat services in Xinmi will commence from the 2023/2024 heat service period in or around November 2023.

We have concession rights under our Concession Agreements to supply heat for a total Concession Area of approximately 419.9 million sq.m. in the above-mentioned provinces and autonomous region. 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 the terms with the concession grantors prior to or upon their expiration. If there is change to our Concession Agreements or our Concession Area, our operation, our business, financial position and results of operations may be affected. See “Risk factors – Our concession rights for our heat services business will expire or may be terminated before expiration” in this document for related risks.

### **Expansion of actual heat service area**

During the Track Record Period, our actual heat service area increased by approximately 2.4 million sq.m., or 6.4%, from approximately 37.4 million sq.m. as at 31 December 2020 to approximately 39.8 million sq.m. as at 31 December 2021. Our actual heat service area further increased by 2.1 million sq.m., or 5.3% to approximately 41.9 million sq.m. as at 31 December 2022. Growth of our actual heat service area was mainly attributable to (i) organic growth of actual heat service areas driven by urbanisation and municipal planning; and (ii) requests from customers for connection to our heat distribution network.

Pursuant to the relevant PRC laws and regulations, heat service area of a particular heat service provider and the construction of primary distribution pipelines thereof are subject to municipal planning by the relevant local government. We believe that our revenue generation relating to our actual heat service area will remain stable as our concession rights give us the exclusive right to provide heat services in our Concession Area under concession rights. Other heat service providers are unlikely to enter our actual heat service area due to the concession rights and other significant entry barriers. For more information relating to the entry barriers of heat service market, see “Industry overview – Competitive analysis of the heat services industry in the PRC – Entry barriers of the heat services industry in China” in this document.

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## FINANCIAL INFORMATION

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Since expansion of our actual heat service area is subject to municipal planning and authorisation by the local government, any future changes in the municipal planning by the local government or relevant laws and regulations, or our failure to obtain authorisation to operate in the areas we wish to expand, will materially affect our growth potential. See “Risk factors – Risks relating to our business and industry – Our actual heat service area may be adjusted due to unanticipated events” in this document.

### **Government grants and price subsidies**

The provision of heat services is considered to be a public utility in northern China. It is regulated and at the same time supported by the PRC Government and local governments by way of government grants and price subsidies. During the Track Record Period, the government grants we received were primarily related to our heat service operation, and the price subsidies we received were related to our Shuozhou Project. Government grants are not recurring in nature, there are no specific formulae for the determination of the government grants as they are determined by the local government on an incidental basis, and are not directly related to heat rates. Price subsidies to our Shuozhou Project granted to us are not one-off in nature and have been continuously granted to us. See “Risk factors – Risks relating to our business and industry – 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” in this document.

### **Heat procurement price**

During the Track Record Period, we procured heat from cogeneration plants for our Taiyuan Project, Shuozhou Project and Hulunbuir Project. Heat procurement price is subject to regulatory control. The price determined by the local government and pricing bureau is binding on us. For details, see “Business – Heat sources – Heat procured from cogeneration plants” in this document. Since we cannot automatically nor necessarily proportionally transfer any increased heat procurement cost in its entirety to our heat service customers, if heat procurement price increases significantly, our profitability is likely to be affected. For related information, see “Risk factors – Fluctuation in heat procurement cost may materially and adversely affect our profitability” in this document.

### **Fluctuations in coal procurement costs**

Coal is the primary raw material used for the heat production by our coal-fired boilers in Lanzhou of Gansu Province. Coal is also a major raw material for heat production at the cogeneration plants from which we purchase heat. Accordingly, our heat services business is, to a certain extent, affected by fluctuations in coal price. See “Industry overview – Analysis of the heat services industry in the PRC – Coal price and heat services price – Coal price in China” and “Business – Heat sources – Heat produced by our coal-fired boilers” in this document. Since we may not necessarily be able to transfer all of the increased coal procurement cost to our heat service customers, if coal price increases, our profitability may be affected. For related information, see “Risk factors – Fluctuation in coal procurement cost may materially and adversely affect our profitability” in this document.

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### **Preferential tax scheme**

During the Track Record Period, some of our subsidiaries were entitled to preferential tax treatments as well as other incentives. However, these preferential tax schemes and incentives are reviewed by the relevant authority from time to time, and on an as-needed basis and therefore may be adjusted from time to time. We cannot assure that the preferential tax treatments and incentives we enjoy currently will remain unchanged going forward. Our tax expenses may increase and incentives can be withdrawn, which may affect our financial position accordingly. See “Risk factors – Risks relating to our business and industry – There is no assurance that we will continue to receive the preferential tax treatment or other incentives we currently enjoy” in this document for relevant information.

### **Heat rate mechanism**

Heat rate which applies to all our heat service projects is subject to regulatory control in the PRC. The heat rate applies to all our heat service projects. According to the PRC Pricing Law (《中華人民共和國價格法》), the PRC Government may formulate, adjust or guide public utilities prices. Local government authorities, upon approval by the local municipal government, usually set the benchmark heat rates. For details, see “Business – Heat distribution – Pricing” and “Regulatory overview – Overview – Pricing” in this document.

It is possible that heat rates in the geographical regions in which we operate our heat service projects are adjusted downwards. Meanwhile, our procurement prices (such as our coal procurement price, being our primary procurement cost) may be adjusted upwards by our suppliers. Since we cannot necessarily transfer the entire increased costs to our heat service customers, our financial performance may be adversely affected. See “Business – Heat distribution – Pricing” and “Risk factors – Fluctuation in coal procurement cost may materially and adversely affect our profitability” in this document for more information.

### **IFRIC 12 Service Concession Arrangements**

#### *Impact of the accounting treatment for service concession arrangements*

The accounting treatment for service concession arrangements involves judgment and affects the presentation of our results of operation. We have entered into Concession Agreements with several governmental authorities to operate and manage our heat service facilities for a term ranging from 25 to 30 years. IFRIC 12 Service Concession Arrangements is applicable to our concession agreements and services provided thereunder. Under these service concession arrangements:

- the concession grantors control or regulate the services which we must provide with the infrastructure, to whom we must provide the services, and at what price; and
- the concession grantors generally control any significant residual interest in the infrastructure at the end of the term of the arrangement. All heat service related infrastructure in use (and, in some cases, under construction) will generally be transferred to the concession grantors upon the expiry of the relevant concession term.

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## FINANCIAL INFORMATION

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Under IFRIC 12 Service Concession Arrangements, we recognise revenue during both the construction phase and the operation phase of our heat service projects. We recognise non-cash revenue during the construction phase, which appears on our financial statements as revenue from "engineering construction services". Such revenue is affected by the number of our heat service projects under construction, the estimated fair value of the construction work of our heat service projects, and the stage of completion.

The fair value of our construction services was calculated as the estimated total construction cost plus a profit margin which was based on the prevailing market rate applicable to construction services rendered in a similar location. Such profit margin was estimated with reference to the profit margin range of 14.6% to 16.35% which was derived from the valuation conducted by the independent valuer.

While we record revenue on the statement of comprehensive income during the construction phase, we record intangible assets correspondingly. An intangible asset is recognised to the extent that the right to charge our heat service customers is dependent upon the usage or amount of our heat services rendered. The intangible asset is amortised on a straight-line basis over the remaining concession period when it becomes available for use, that is, at the point in time when we exercise our concession rights to charge public users.

Intangible assets are subject to impairment testing when there is an impairment indicator, i.e. whenever events or circumstances indicate that the carrying amount may not be recoverable. An example of an impairment indicator is if the actual net cash inflow or operating profit or loss are significantly worse than budgeted. During the Track Record Period, no intangible assets relating to our operating concessions were impaired as the recoverable amounts of the intangible assets exceeded or approximated their carrying amounts.

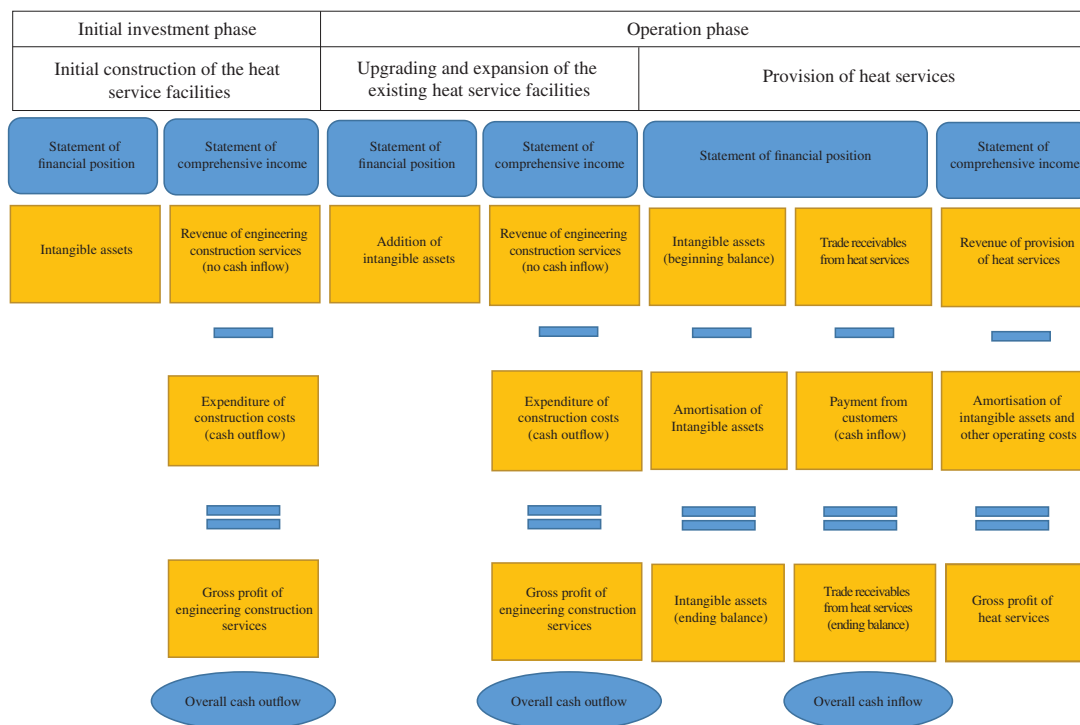
During the operating period when heat services are provided, revenue is recognised on a straight-line basis over the scheduled period (i.e. usually from October each year to April of the following year) because the customer simultaneously receives and consumes the benefits provided by our Group.

As a result of the aforementioned business model, we incur significant cash outflow for the cost of the construction in the early years of our heat service projects, and are exposed to operational risk and the credit risk of our customers until the end of the concession term. Despite we recognise revenue in respect of our engineering construction services during the same period, we will not receive any payment in cash for such engineering construction services. We will only receive actual cash inflow when we charge our heat service customers during the operation period. Therefore, it results in a cash flow mismatch between the construction phase and the operation phase.



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Set out below is a simplified diagram illustrating the effects of *IFRIC 12 Service Concession Arrangements* to our financial statements:



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

	<b>Intangible assets (operating concessions)</b>
	<i>RMB’000</i>
<b>As at 1 January 2020</b>	2,852,216
Additions	458,969
Amortisation	(164,396)
<b>As at 31 December 2020</b>	3,146,789
Additions	208,132
Disposal	(4,348)
Amortisation	(183,008)
<b>As at 31 December 2021</b>	3,167,565
Additions	359,084
Disposal	(4,640)
Amortisation	(193,770)
Impairment	(9,398)
<b>As at 31 December 2022</b>	3,318,841

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### Services and customer mix

During the Track Record Period, the majority of our revenue was derived from the provision of heat services relating to the five concessions all of which are BOT contracts.

For the years ended 31 December 2020, 2021 and 2022, revenue generated from our heat services, which includes fees from customers for provision and distribution of heat, price subsidies from local government and pipeline connection fee, was approximately RMB973.3 million, RMB1,035.2 million and RMB1,098.9 million, representing approximately 70.7%, 80.2% and 76.1% of our total revenue, respectively; revenue generated from our engineering construction services was approximately RMB362.1 million, RMB229.1 million and RMB301.6 million, representing approximately 26.3%, 17.8% and 20.9% of our total revenue, respectively; and revenue generated from our EMC services was approximately RMB4.2 million, RMB4.0 million and RMB3.0 million, representing approximately 0.3%, 0.3% and 0.2% of our total revenue, respectively.

### Cash flow and external financing

From time to time, we may need external financing to supplement cash flows from operations in order to meet our payment obligations in full and on time. During the Track Record Period, our borrowings were primarily bank borrowings, but also included other borrowings. If we fail to secure sufficient external financing or generate sufficient cash flows 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 affected.

### Seasonality

Our heat services are affected by seasonality. During the Track Record Period, our heat services experienced seasonality due to its business nature. Revenue generated from heat services was recognised over the heat service period, usually begins from October each year to April of the following year, by reference to the progress towards complete satisfaction of the performance obligation. As a result, our revenue generated from the provision of heat services was higher in the first and fourth quarter during each financial year. In addition, we incurred our cost of sales for the provision of heat services during different periods of the year. Heat and coal procurement costs were typically incurred over the heat service period, while maintenance and repair costs in relation to our concession operation were incurred outside the heat service period during which maintenance and repair works were carried out and the rest of the cost components such as employee expenses and depreciation of right-of-use assets spread throughout the year. In addition, our financial performance of heat services may vary depending on weather condition. See “Risk factors – Risks relating to our business and industry – Our heat service operation is affected by seasonality” in this document for more details. Therefore, our quarterly or interim results may not be a meaningful indicator of our overall performance.

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Our engineering construction services also experienced seasonality during the Track Record Period since most of our engineering construction services were conducted outside the heat service period in order to avoid interruption or suspension of heat services to our heat service customers. Therefore, revenue generated from our engineering construction services was generally recognised outside the heat service period. Therefore, you should not solely rely on our quarterly or interim results to assess our annual performance.

### **Impact of COVID-19**

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) was first reported in late 2019 and continues to spread across the PRC and globally. In March 2020, the World Health Organisation characterised the outbreak of COVID-19 as a global pandemic. As at the Latest Practicable Date, measures responding to COVID-19 relating to temporary travel restrictions and shutdown of certain business operations have been lifted, leading to the gradual resumption of normal commercial and industrial business operations. For details of the impact of COVID-19 on our business operations, see "Business – Effects of the COVID-19 outbreak – Effects of the COVID-19 outbreak on our business operations" in this document.

The situation of the COVID-19 pandemic is constantly evolving and it remains uncertain when it will end. The COVID-19 pandemic has, and may continue to, adversely affect the global and PRC's economy. As a result, our business operation and financial position may be adversely affected.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We have identified certain accounting policies that are most significant to the preparation of our historical financial information. Some of our significant accounting policies involve subjective assumptions and estimates, as well as complex judgements by our management relating to accounting items. Our Group makes estimates and assumptions concerning the future. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. Our Directors believe that accounting policies in relation to (i) service concession arrangements; (ii) impairment assessment of intangible assets (iii) useful lives of the property, plant and equipment; (iv) expected credit loss for receivables; and (v) current tax and deferred income tax are amongst the most significant accounting estimates and judgements used in the preparation of our financial statements. See Note 4 to the accountant's report as set out in Appendix I to this document for the critical accounting estimates and judgments.

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### **IFRIC 12 Service Concession Arrangements**

We have entered into Concession Agreements with several governmental authorities to operate and manage our heat service facilities for a term ranging from 25 to 30 years. IFRIC 12 is applicable to our Concession Agreements and services provided thereunder.

As stated in the accountant's report as set out in Appendix I to this document, the key assumptions in calculating the value of the concession rights under the Concession Agreements include a basis of the estimated total construction cost plus a profit margin ranging from approximately 14.6% to 16.35% during the Track Record Period.

### **Initial investment**

During the initial construction of heat service facilities for our provision of heat services, we recognised non-cash revenue in respect of our engineering construction services under our Concession Agreements which is calculated according to the total construction costs plus a reasonable profit margin based on the prevailing market rate applicable to similar construction services.

Revenue from engineering construction services is recognised over time by measuring the progress towards complete satisfaction of the services. The progress towards complete satisfaction of the performance obligation is measured based on our Group's efforts or inputs to the satisfaction of the performance obligations, by reference to the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Significant judgement is exercised when determining the fair value of the consideration for the construction service. An estimate of the construction margin was used in the process of determining such fair value.

While we record revenue in respect of our engineering construction services on the statement of comprehensive income during the construction phase, we record intangible assets accordingly. The initial consideration for the acquisition of our concession rights and the establishment of heat service facilities is accounted for as an intangible asset (operating concession), which is recognised to the extent that the accumulated right to charge our heat service customers is dependent upon the usage or amount of our heat services rendered, and is not an unconditional right to receive cash.

### **Operational phase post acquisition**

Our Group recognises revenue (i) for the upgrading and expansion of the existing heat service facilities; and (ii) for heat service operation, whereby revenue is recognised for the provision of heat services.

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*(i) Upgrading and expansion of the existing heat service facilities*

Similar to the initial establishment of the heat service facilities, during the upgrading and expansion of the heat service facilities, our Group recognised non-cash revenue in respect of the heat service facilities construction services. The construction services revenue for the upgrading and expansion services under the Concession Agreement is calculated as the total construction costs plus a reasonable profit margin advised by an independent valuer, based on prevailing market rate applicable to comparable construction services.

Revenue from upgrading and expansion of the existing heat service facilities is recognised over time by measuring the progress towards complete satisfaction of the construction. The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligations, by reference to the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Significant judgement is exercised in determining the fair value of the consideration for the construction service. An estimate of the construction margin was used in the process of determining such fair value.

*(ii) Heat service operation during the concession period*

During the operating period when heat services are provided, revenue is recognised on a straight line basis over the scheduled period (i.e. from October each year to April of the following year) because the customers simultaneously receive and consume the benefits provided by our Group. The revenue is measured mainly by reference to the proportion of days of provision of heat to total number of days of the scheduled period as regulated by the government. Costs for heat service operation are recognised the period in which they are incurred.

Our Group depreciates the property, plant and equipment, and amortises the intangible assets in accordance with the accounting policies. See Note 2.7 and Note 2.9 to the accountant's report as set out in Appendix I to this document. The estimated useful lives reflect our Directors' estimate of the periods that our Group intends to derive future economic benefits from the use of these assets.

Our Group makes allowances on receivables based on assumptions about risk of default and expected loss rates. Our Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on our Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and deposits and the impairment losses in the periods in which such estimate has been changed. For details of the key assumptions and inputs used, see Note 3.1(b) to the accountant's report as set out in Appendix I to this document.

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### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets out our consolidated statements of comprehensive income with line items in absolute amounts for the years indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	1,376,321	1,290,635	1,443,732
Cost of sales	<u>(1,084,931)</u>	<u>(976,969)</u>	<u>(1,146,851)</u>
<b>Gross profit</b>	<u>291,390</u>	<u>313,666</u>	<u>296,881</u>
Administrative expenses	(124,951)	(141,306)	(139,589)
(Provision)/reversal of impairment losses on financial assets and contract assets	(13,548)	995	23,118
Other income	48,384	73,584	53,742
Other losses – net	<u>(157)</u>	<u>(19)</u>	<u>(3,603)</u>
<b>Operating profit</b>	<u>201,118</u>	<u>246,920</u>	<u>230,549</u>
Finance income	26,393	29,354	26,314
Finance costs	<u>(92,866)</u>	<u>(81,503)</u>	<u>(84,065)</u>
Finance costs – net	<u>(66,473)</u>	<u>(52,149)</u>	<u>(57,751)</u>
Share of profit of associates accounted for using the equity method	<u>9,282</u>	<u>11,960</u>	<u>13,538</u>
<b>Profit before income tax</b>	143,927	206,731	186,336
Income tax expense	<u>(45,611)</u>	<u>(35,671)</u>	<u>(45,961)</u>
<b>Profit and total comprehensive income for the year</b>	<u><u>98,316</u></u>	<u><u>171,060</u></u>	<u><u>140,375</u></u>
<b>Profit and total comprehensive income attributable to:</b>			
– Owners of the Company	66,830	110,696	96,431
– Non-controlling interests	<u>31,486</u>	<u>60,364</u>	<u>43,944</u>
	<u><u>98,316</u></u>	<u><u>171,060</u></u>	<u><u>140,375</u></u>
<b>Earnings per share (expressed in RMB per share)</b>			
– Basic and diluted	<u><u>0.30</u></u>	<u><u>0.49</u></u>	<u><u>0.43</u></u>

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### DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

#### Revenue

For the years ended 31 December 2020, 2021 and 2022, our revenue was approximately RMB1,376.3 million, RMB1,290.6 million and RMB1,443.7 million, respectively. During the Track Record Period, our revenue was mainly generated from (i) our heat services; and (ii) our engineering construction services. During the Track Record Period, all of our revenue was generated in the PRC.

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

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

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### *Heat services*

During the Track Record Period, revenue generated from our heat services included (i) fees from customers for provision and distribution of heat, (ii) price subsidies from local government, and (iii) pipeline connection fee, the majority of which was attributable to (i) and (ii).

During the Track Record Period, our revenue generated from heat services mainly derived from Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region.

The following table sets out a breakdown of revenue generated from our heat services for the years indicated.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Heat services</b>			
– Fees from customers for provision and distribution of heat	739,940	778,442	853,542
– Price subsidies from local government	167,908	182,500	161,676
– Pipeline connection fee	65,429	74,211	83,725
	<u>973,277</u>	<u>1,035,153</u>	<u>1,098,943</u>

*(i) Fees from customers for provision and distribution of heat*

Our customers for our provision and distribution of heat generally included residential and non-residential customers. Revenue from our provision and distribution of heat amounted to RMB739.9 million, RMB778.4 million and RMB853.5 million for the years ended 31 December 2020, 2021 and 2022, respectively. Revenue from our provision and distribution of heat is recognised on a straight line basis over the scheduled heat service period.



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The table below sets out our revenue generated from (i) our fees from customers for provision and distribution of heat by location and (ii) price subsidies from local government in Shuozhou, for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Shanxi Province</b>						
Taiyuan	113,549	12.5	132,462	13.8	153,031	15.1
Shuozhou	435,513	48.0	466,224	48.5	453,996	44.7
Others	4,481	0.5	4,874	0.5	5,280	0.5
<b>Gansu Province</b>						
Lanzhou	166,929	18.4	151,411	15.8	185,108	18.2
<b>Inner Mongolia Autonomous Region</b>						
Hulunbuir	187,376	20.6	203,100	21.1	217,803	21.5
<b>Other regions</b>	–	–	2,871	0.3	–	–
<b>Total</b>	907,848	100.0	960,942	100.0	1,015,218	100.0

For the years ended 31 December 2020, 2021 and 2022, revenue from provision and distribution of heat in Taiyuan, which includes our Taiyuan Project and Shanxi Demonstration Zone Project, amounted to RMB113.5 million, RMB132.5 million and RMB153.0 million, representing 12.5%, 13.8% and 15.1% of our total revenue from provision and distribution of heat, respectively.

For the years ended 31 December 2020, 2021 and 2022, revenue from provision and distribution of heat for our Shuozhou project, amounted to RMB435.5 million, RMB466.2 million and RMB454.0 million, representing 48.0%, 48.5% and 44.7%, respectively, being the largest portion of the total revenue from provision and distribution of heat over the Track Record Period.

For the years ended 31 December 2020, 2021 and 2022, revenue from provision and distribution of heat in Lanzhou, amounted to RMB166.9 million, RMB151.4 million and RMB185.1 million, representing 18.4%, 15.8% and 18.2% of our total revenue from provision and distribution of heat, respectively.

For the years ended 31 December 2020, 2021 and 2022, revenue from provision and distribution of heat for our Hulunbuir Project, amounted to RMB187.4 million, RMB203.1 million and RMB217.8 million, representing 20.6%, 21.1% and 21.5% of our total revenue from provision and distribution of heat, respectively.

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Revenue from provision and distribution of heat in other locations in Shanxi Province and in other regions represented our heat services independent from our concessions. In aggregate, such revenue amounted to approximately RMB4.5 million, RMB7.7 million and RMB5.3 million for the years ended 31 December 2020, 2021 and 2022, respectively.

Our customers of provision and distribution of heat generally included two types, namely (i) residential heat service customers, and (ii) non-residential heat service customers (including but not limited to commercial operators of office buildings or shopping malls, manufacturing companies, public facilities like hospital and train station, etc.)

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

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

### Residential

Our heat services to residential heat service customers amounted to RMB433.6 million, RMB484.1 million and RMB519.8 million respectively, representing 58.6%, 62.2% and 60.9% of our total revenue from heat services for the years ended 31 December 2020, 2021 and 2022. The amount increased steadily during the Track Record Period as a result of an increase in the total number of our residential customers that used heat during the heat service periods, along with the growth of demand for our heat services leading to the expansion of our actual heat service area under our concessions. During the Track Record Period, the monthly heat rates for our residential heat service customers ranged from RMB2.5 per sq.m. to RMB5.8 per sq.m. in the regions we are operating. The monthly heat rate for residential heat service customers for our Lanzhou New Area Project increased from RMB5.0 per sq.m. to RMB5.8 per sq.m. for the 2022/2023 heat service period. Save for such increase, the heat rates remained unchanged in each of Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region during the Track Record Period. See “Business – Heat distribution – Pricing – Heat rate for heat service users” in this document for a summary of our heat rate.

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### Non-residential

Our heat services to non-residential customers amounted to RMB306.3 million, RMB294.3 million, and RMB333.7 million, respectively, representing 41.4%, 37.8%, and 39.1% of our total revenue from heat services in the respective years. The revenue from our non-residential heat service customers decreased for the year ended 31 December 2021 as a result of a decrease in the total number of our non-residential heat service customers using heat due to the cessation of our heat services provided to certain non-residential heat service customers in Lanzhou City during 2021 (such as hotel operators and other commercial operators whose businesses were closed). The revenue from our non-residential heat service customers increased to approximately RMB333.7 million for the year ended 31 December 2022 as compared to approximately RMB294.3 million in 2021 due to the increase in total number of our non-residential heat service customers during the year. During the Track Record Period, the monthly heat rate for our non-residential heat service customers ranged from RMB4.8 per sq.m. to RMB10.2 per sq.m.. The monthly heat rates for non-residential heat service users for our Lanzhou New Area Project increased to the range of RMB8.0 per sq.m. to RMB10.2 per sq.m. for the 2022/2023 heat service period from the range of RMB7.0 per sq.m. to RMB9.2 per sq.m. for the 2019/2020, 2020/2021 and 2021/2022 heat service periods. Save for such increase, the heat rates for our non-residential heat service users remained unchanged in each of Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region during the Track Record Period. See “Business – Heat distribution – Pricing – Heat rate for heat service users” in this document for a summary of our heat rate.

#### (ii) *Price subsidies from local government*

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

The Shuozhou government’s heat service year commences on 1 May of a year and ends on 30 April of the following year (“**Shuozhou Government’s Heat Service Year(s)**”). For each of the three Shuozhou Government’s Heat Service Years ended 30 April 2022, we submitted financial information in relation to our Shuozhou Project as audited by our PRC local auditor, as well as the actual heat service area for our Shuozhou Project to the relevant government authorities to assess, determine and calculate the amount of price subsidies entitled by our Group.

For the purpose of assessing, determining and calculating the amount of price subsidies entitled by our Group under the Shuozhou Project for each of the three Shuozhou Government’s Heat Service Years ended 30 April 2022, the Pricing Cost Supervision Conclusion Assessment Reports\* (政府定價成本監審結論報告) were issued by the Shuozhou Municipal Reform and Development Commission (朔州市發展和改革委員會) (the “**Shuozhou DRC**”), the competent authority responsible for heat pricing and assessing heat service costs as advised by our PRC Legal Advisers, pursuant to relevant PRC laws and regulations to confirm the total relevant heat service costs and the

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Assessment Reports on Actual Heat Service Area\* (供熱面積核實情況報告/供熱面積核查調研結論報告) were issued by the Assessment and Monitoring Centre of Shanxi Provincial Bureau of Statistics\* (山西省統計局朔州市調查檢測中心) (the “**Assessment and Monitoring Centre of Shanxi Provincial Bureau of Statistics**”), the competent authorities responsible for monitoring and assessing statistics on economic and social development in the relevant municipal area, and an industry consulting company which was instructed by the Assessment and Monitoring Centre of Shanxi Provincial of Statistics to prepare an assessment report as confirmed by our Directors, to confirm the actual heat service area for residential and non-residential heat users under our Shuozhou Project. Subsequently, based on the total relevant heat service costs and the actual heat service area as confirmed in each of the aforementioned reports, the Shuozhou City Bureau of Municipal Affairs Administration\* (朔州市城市管理局), the competent authorities responsible for the operation and safety of municipal public facilities as advised by our PRC Legal Advisers, and Shuozhou DRC jointly issued a confirmation report which set out the finalised amount of price subsidies for each of the three Shuozhou Government’s Heat Service Years ended 30 April 2022 and the detailed calculation of such finalised amount of price subsidies pursuant to the specific formula stipulated under the “Minutes of the Shuozhou City Mayor’s Office Meeting of the People’s Government of Shuozhou (2016) No. 45” (《朔州市人民政府朔州市長辦公會議紀要(2016)第45期》) (“**No. 45 of 2016 Minutes**”). The specific formula for the calculation of the price subsidies is as follows:

*Price subsidies = relevant heat service costs x (1+3%) - monthly heat rate x heat service area x heat service period*

For the details of revenue recognition of price subsidies for our Shuozhou Project, see Note 2.27(a) to the accountant’s report as set out in Appendix I to this document. Price subsidies from local government were recognised as revenue over a scheduled heat service period according to IFRS 15 on the basis that there was a reasonable assurance that such subsidies will be received. Such assurance is based on (i) price subsidies were granted to our heat service in Shuozhou City in relation to our Group’s ordinary and usual course of business, which are heat services; (ii) the Concession Agreement for our Shuozhou Project explicitly stipulates that Shuozhou Renewable Energy is contractually entitled to a reasonable amount of subsidy and compensation from the concession grantor (being the agent of the Shuozhou City People’s Government) if the heat rates are too low which results in a loss incurred by the heat service operator; and (iii) based on an interview with Shuozhou City Bureau of Municipal Affairs Administration\* (朔州市城市管理局), it is expected that there will no change to the subsidising mechanism pursuant to the Interim Measures and the No. 45 of 2016 Minutes. For illustrative purpose only, if no price subsidies had been entitled and based on the current monthly heat rate of RMB2.52 per sq.m. and RMB4.8 per sq.m. for our residential and non-residential customers under our Shuozhou Project, respectively, the Shuozhou Project would have incurred a gross loss of heat services of approximately RMB109.1 million, RMB84.4 million and RMB117.6 million for the years ended 31 December 2020, 2021 and 2022, respectively. If the monthly heat rates for residential and non-residential customers were to be adjusted upward to such an extent that we would cease to be entitled to any price subsidies under the Shuozhou Project based on the No. 45 of 2016 Minutes, such monthly heat rates would reach the breakeven points where the price subsidies from the Shuozhou government entitled by us during the Track Record Period were assumed to be fully

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factored into the heat rates (i.e. as if the heat rates had been adjusted upwards to such an extent that we were no longer entitled to such price subsidies). For illustrative purposes only, the following table sets out a sensitivity analysis to illustrate how the hypothetical increase in the current monthly heat rates for residential customers would change the breakeven monthly heat rates for non-residential customers of Shuozhou Project, with all other factors remaining constant, for each of the 2019/2020, 2020/2021 and 2021/2022 heat service periods. The current monthly heat rate for residential customers is assumed to be increased by 10%, 20%, 30% and 40% for each of the heat service periods based on our expectation that the monthly heat rate for residential customers would be increased gradually to levels similar to the monthly heat rates for residential customers in our other concession areas in Shanxi Province, which are approximately 40% higher than the current monthly heat rate for residential customers under our Shuozhou Project.

<b>Breakeven monthly heat rates</b>	<b>Heat service period</b>		
	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>
	<i>RMB/sq.m.</i>	<i>RMB/sq.m.</i>	<i>RMB/sq.m.</i>
<b>If the current monthly heat rate for residential customers is increased by 10%</b>			
<b>Residential</b>	2.8	2.8	2.8
<b>Non-residential</b>	10.2	10.2	10.1
<b>If the current monthly heat rate for residential customers is increased by 20%</b>			
<b>Residential</b>	3.0	3.0	3.0
<b>Non-residential</b>	9.7	9.6	9.5
<b>If the current monthly heat rate for residential customers is increased by 30%</b>			
<b>Residential</b>	3.3	3.3	3.3
<b>Non-residential</b>	9.2	9.1	9.0
<b>If the current monthly heat rate for residential customers is increased by 40%</b>			
<b>Residential</b>	3.5	3.5	3.5
<b>Non-residential</b>	8.7	8.5	8.4

Pursuant to the terms of the Shuozhou Concession Agreement, our Group is entitled to a reasonable amount of subsidy and compensation from the concession grantor if our Group has incurred losses due to low heat rates. As advised by our PRC Legal Advisers, (i) in the event that we have incurred losses resulting from low heat rates and thus shall enjoy any price subsidies under the Shuozhou Concession Agreement but the Shuozhou government does not pay price subsidies to us in full compliance with the specific formula or the Shuozhou government refuses to pay price subsidies to us at all, the Shuozhou government would breach its obligations under the Shuozhou Concession Agreement and we may have legal recourse or remedies against the Shuozhou government by initiating an administrative proceeding according to the Administrative Procedure Law of the PRC (《行政訴訟法》) against the Shuozhou government to claim for the Shuozhou government to continue the performance of its obligations, take remedial action, compensate for losses or assume other obligations.

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The nature of price subsidies is different from that of other government grants recognised as our Group's other income, mainly because (i) price subsidies represent compensation of revenue due to low heat rates, (ii) the amount of price subsidies are determined by a specific formula, and (iii) price subsidies are considered to be recurring in nature. Under the Announcement No. 45 of the State Administration of Taxation in 2019, the government subsidies directly linked to income or quantity of its sales of goods, services, intangible assets and real estates were subject to value-added tax with effect from 1 January 2020. Value-added tax in the amount of RMB15.1 million, RMB16.4 million and RMB14.6 million were deducted from the subsidies recognised as part of our revenue for the years ended 31 December 2020, 2021 and 2022, respectively. As such, the deduction of such value-added tax had an offsetting effect on the amount of subsidies recognised as part of our revenue for the years ended 31 December 2020, 2021 and 2022. Revenue from price subsidies in relation to our Shuozhou Project for the year ended 31 December 2021 increased by approximately 8.7% when compared to that for the year ended 31 December 2020 primarily as a result of the expansion of our Shuozhou Project leading to the increase in revenue from provision and distribution of heat during the same period. Revenue from price subsidies for our Shuozhou Project for the year ended 31 December 2022 decreased by approximately 11.4% when compared to that for the year ended 31 December 2021 because of the decrease in relevant heat service costs used in the calculation of price subsidies.

*(iii) Pipeline connection fee*

According to the terms of our Concession Agreements and heat service agreements, we may charge pipeline connection fee. The pipeline connection fee is a one-off charge and is charged when our customers first connect their properties to our primary distribution pipelines. During the Track Record Period, our heat service customers in Shanxi Province, Gansu Province and Inner Mongolia Autonomous Region paid pipeline connection fees to us. Revenue from pipeline connection fee in each actual heat service area was recognised on a straight-line basis over the relevant remaining concession period. For the years ended 31 December 2020, 2021 and 2022, revenue from pipeline connection fee was approximately RMB65.4 million, RMB74.2 million and RMB83.7 million, representing approximately 4.8%, 5.7% and 5.8% of our total revenue, respectively. Revenue from our pipeline connection fee increased during the Track Record Period primarily attributed to an increase in the total number of property developers and property owners or occupants who first connect their properties to our primary distribution pipelines.

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### *Engineering construction services*

During the Track Record Period, revenue generated from our engineering construction services comprised construction works mainly related to our concession operation. During the same period, we also provided engineering construction services to expedite the construction of its public utility facilities. During the Track Record Period, we provided all of our engineering construction services in the PRC. For details of our engineering construction services projects during the Track Record Period, see “Business – Engineering construction services” in this document.

Revenue from engineering construction services was recognised over time by measuring the progress towards complete satisfaction of the services. For the years ended 31 December 2020, 2021 and 2022, revenue generated from our engineering construction services was approximately RMB362.1 million, RMB229.1 million and RMB301.6 million, representing approximately 26.3%, 17.8% and 20.9% of our total revenue, respectively. Revenue from our engineering construction services decreased from 2020 to 2021, primarily attributable to the general expansion of our concession operation in 2021 without any further large-scale construction activities as well as a general decrease in construction activities. For the year ended 31 December 2022, revenue from our engineering construction services increased by approximately 31.6% to approximately RMB301.6 million as compared to approximately RMB229.1 million in 2021. The increase was mainly due to (i) the increase in demand for heat service, resulting in more engineering construction activities to facilitate our provision of heat services and (ii) the construction project of new peak-shaving boiler in our heat source peak-shaving station for our Lanzhou New Area Project.

The following table sets out our revenue generated from our engineering construction services by service type for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<i>Engineering construction services</i>						
– construction services for our concession operations	349,356	96.5	208,133	90.8	271,010	89.9
– construction services provided to customers	12,694	3.5	21,014	9.2	30,557	10.1
<b>Total</b>	362,050	100.0	229,147	100.0	301,567	100.0

## FINANCIAL INFORMATION

The following table sets out our revenue generated from our engineering construction services by geographical location for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Shanxi Province</b>						
– Taiyuan	35,976	9.9	92,020	40.2	98,622	32.7
– Shuozhou	244,650	67.6	38,264	16.7	44,815	14.9
<b>Gansu Province</b>						
– Lanzhou	56,230	15.5	94,649	41.3	139,084	46.1
<b>Inner Mongolia Autonomous Region</b>						
– Hulunbuir	25,194	7.0	4,214	1.8	10,520	3.5
<b>Henan Province</b>						
– Zhengzhou	–	–	–	–	8,526	2.8
<b>Total</b>	362,050	100.0	229,147	100.0	301,567	100.0



**FINANCIAL INFORMATION**

The following table sets out the revenue and gross profit from construction services for our concession operations, and subcontracting costs recorded by our Group for each heat service project under concession for the years indicated:

	For the year ended 31 December					
	2020			2021		
	Revenue	Subcontracting costs	Gross profit	Revenue	Subcontracting costs	Gross profit
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Taiyuan Project	16,474	14,278	2,196	22,976	19,747	3,229
Shanxi Demonstration Zone Project	19,502	16,902	2,600	67,695	58,183	9,512
Shuozhou Project	231,956	201,036	30,920	18,599	15,986	2,613
Hulunbuir Project	25,194	21,836	3,358	4,214	3,622	592
Lanzhou New Area Project	56,230	48,735	7,495	94,649	81,347	13,302
Xinmi Project	-	-	-	-	-	-
<b>Total</b>	<b>349,356</b>	<b>302,787</b>	<b>46,569</b>	<b>208,133</b>	<b>178,887</b>	<b>29,248</b>
				<b>Revenue</b>	<b>Subcontracting costs</b>	<b>Gross profit</b>
				RMB'000	RMB'000	RMB'000
				271,010	236,484	29,248
				<b>Revenue</b>	<b>Subcontracting costs</b>	<b>Gross profit</b>
				RMB'000	RMB'000	RMB'000
				17,719	121,366	13,302
				8,526	7,440	-
				28,726	25,068	3,229
				39,338	34,326	9,512
				44,815	39,105	2,613
				10,520	9,179	592
				139,085	121,366	13,302
				8,526	7,440	-
				271,010	236,484	29,248
				<b>Revenue</b>	<b>Subcontracting costs</b>	<b>Gross profit</b>
				RMB'000	RMB'000	RMB'000
				34,326	34,326	0
				5,710	5,710	0
				1,341	1,341	0
				17,719	121,366	13,302
				1,086	7,440	-
				25,068	25,068	0
				34,326	34,326	0
				39,105	39,105	0
				9,179	9,179	0
				121,366	121,366	0
				7,440	7,440	0
				236,484	236,484	0
				<b>Revenue</b>	<b>Subcontracting costs</b>	<b>Gross profit</b>
				RMB'000	RMB'000	RMB'000
				34,326	34,326	0
				5,710	5,710	0
				1,341	1,341	0
				17,719	121,366	13,302
				1,086	7,440	-
				25,068	25,068	0
				34,326	34,326	0
				39,105	39,105	0
				9,179	9,179	0
				121,366	121,366	0
				7,440	7,440	0
				236,484	236,484	0

## FINANCIAL INFORMATION

The following table sets out the respective balances of prepayments and other payables outstanding in relation to engineering construction services for each project as at 31 December 2022:

	As at 31 December 2022	
	Prepayments	Other payables
	<i>RMB'000</i>	<i>RMB'000</i>
Taiyuan Project	1,965	43,311
Shanxi Demonstration Zone Project	2,476	23,868
Shuozhou Project	2,446	52,393
Hulunbuir Project	4,519	8,883
Lanzhou New Area Project	1,004	119,382
Xinmi Project	–	28,667

During the Track Record Period, we also provide engineering construction services which were one-off in nature. Majority of the revenue from these one-off engineering construction services were derived from a reformation project in Shuozhou City. In May 2019, we entered into a cooperation agreement with the Shuozhou City Shuocheng District Housing Urban-Rural Construction Administration Bureau\* (朔州市朔城區住房和城鄉建設局) (“**Shuocheng District Government**”), pursuant to which we were entrusted by the Shuocheng District Government to undertake the engineering construction work of 19 urban villages in Shuocheng District of Shuozhou City (the “**Reformation Project**”). The Reformation Project was implemented by the Shuocheng District Government to reflect the aim of the “2017 Action Plan for Air Pollution Prevention and Control in Shuozhou City” (《朔城區大氣污染防治2017年行動計劃》) to promote clean energy and control pollution from coal burning. Despite the 19 urban villages were in the Concession Area under the Shuozhou Project, these engineering construction services were for the purpose of upgrading the heat service infrastructure in the urban villages and a separate engineering construction services agreement was entered into with the Shuocheng District Government for such project with terms separated from the Shuozhou Concession Agreement, including but not limited to (i) the legal titles of the constructed assets belong to the Shuocheng District Government and there would be no subsequent transfer arrangement under a normal BOT model; and (ii) the Shuocheng District Government was solely responsible for the construction costs. Given that the Reformation Project was to improve the livelihoods of people in Shuocheng District of Shuozhou City, and for the purpose of maintaining a good relationship with the Shuocheng District Government, we took up the reformation project at cost as agreed with the Shuocheng District Government, resulting in a zero gross profit margin on the Reformation Project during the Track Record Period.

## FINANCIAL INFORMATION

### *EMC services*

During the Track Record Period, our revenue generated from EMC services represented the income for our services to operate and manage the heat service facilities in our customer's power plant to collect the residual heat generated from its operation, and the resulting accounts receivable will be settled subsequently based on the amount calculated by pre-determined revenue sharing ratio and the actual amount of residual heat collected for each heat service period.

For the years ended 31 December 2020, 2021 and 2022, revenue generated from our EMC services amounted to approximately RMB4.2 million, RMB4.0 million and RMB3.0 million, respectively.

### *Others*

During the Track Record Period, revenue generated from other businesses included (i) fees from customers for our provision of heat transmission, (ii) sale of heat service facilities, and (iii) fees from customers for designing services. Our heat transmission services comprised transmission of heat to a number of customers. Our sale of goods comprised sale of heat service equipment, devices and relevant parts to the operators who required these facilities for their business operation. Our designing services mainly comprised indoor heat operation designing and consultancy services to some government authorities and commercial operators.

### **Cost of sales**

During the Track Record Period, our cost of sales mainly included (i) costs for purchase of heat, (ii) construction costs of engineering construction services, (iii) amortisation of intangible assets, and (iv) materials consumed. For the years ended 31 December 2020, 2021 and 2022, such items amounted to approximately RMB938.7 million, RMB847.8 million and RMB986.4 million in aggregate, representing approximately 86.5%, 86.8% and 86.0% of our total cost of sales, respectively. For the same periods, our total cost of sales was approximately RMB1,084.9 million, RMB977.0 million and RMB1,146.9 million, respectively.

The following table sets out a breakdown of our cost of sales for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Cost for purchase of heat	380,312	35.1	376,447	38.5	400,948	35.0
Amortisation of intangible assets	163,758	15.1	182,382	18.7	194,283	16.9
Impairment of intangible assets	–	–	–	–	9,398	0.9
Materials consumed	79,165	7.3	90,073	9.2	129,401	11.3
Construction costs of engineering construction services	315,481	29.1	198,908	20.4	261,767	22.8

## FINANCIAL INFORMATION

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Depreciation of right-of-use assets	172	0.0	172	0.0	–	–
Cost of goods sold	13,294	1.2	1,944	0.2	12,555	1.1
Utility costs	71,538	6.6	73,772	7.6	69,756	6.1
Maintenance expenses	16,091	1.5	12,331	1.3	18,469	1.6
Employee benefit expenses	19,083	1.8	19,515	2.0	21,770	1.9
Depreciation of property, plant and equipment	2,254	0.2	2,597	0.3	2,837	0.2
Others	23,783	2.1	18,828	1.8	25,667	2.2
	1,084,931	100.0	976,969	100.0	1,146,851	100.0

During the Track Record Period, costs of purchase of heat represented the direct heat procurement costs incurred for our heat services. The amortisation of intangible assets was recognised on a straight-line basis over the remaining concession periods. Materials consumed mainly consisted of coal that was consumed in coal-fired boilers to generate heat for our Lanzhou New Area Project, as well as other consumables which were used in our ordinary course of business operation. Construction costs were incurred for constructing heat service facilities according to our Concession Agreements.

Construction costs are recognised when we incur actual costs for constructing heat service facilities and generate engineering construction services revenue. For the years ended 31 December 2020, 2021 and 2022, our construction costs amounted to approximately RMB315.5 million, RMB198.9 million and RMB261.8 million, respectively.

The amortisation of intangible assets mainly relates to the amortisation of our operating concessions. Such amortisation is recognised on a straight-line basis over the remaining concession period as direct costs incurred for our provision and distribution of heat services. For the years ended 31 December 2020, 2021 and 2022, our amortisation of intangible assets amounted to approximately RMB163.8 million, RMB182.4 million and RMB194.3 million, respectively.

Materials consumed mainly comprise coal and other chemicals that are consumed in coal-fired boilers for our Lanzhou New Area Project to produce heat for our provision of heat services. For the years ended 31 December 2020, 2021 and 2022, our materials consumed amounted to approximately RMB79.2 million, RMB90.1 million and RMB129.4 million, respectively.

## FINANCIAL INFORMATION

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

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Heat services	741,187	68.3	764,700	78.3	859,497	74.9
Engineering construction services	315,481	29.1	198,908	20.4	261,767	22.8
EMC services	876	0.1	1,674	0.2	3,309	0.3
Heat transmission services	10,963	1.0	8,280	0.8	2,083	0.2
Sale of goods	13,294	1.2	1,944	0.2	12,555	1.1
Others	3,130	0.3	1,463	0.1	7,640	0.7
<b>Total</b>	<b><u>1,084,931</u></b>	<b><u>100.0</u></b>	<b><u>976,969</u></b>	<b><u>100.0</u></b>	<b><u>1,146,851</u></b>	<b><u>100.0</u></b>

### *Sensitivity analysis*

Any unfavourable changes to heat rates, heat procurement price, material procurement prices and construction costs may adversely affect our revenue, cash flows and results of operations. For illustrative purposes, the table below sets out a sensitivity analysis of the effect of fluctuations in heat rates, heat procurement prices, material procurement prices and construction costs on our profit before tax during the Track Record Period. Fluctuations are assumed to be 5% and 10%, respectively. Prospective investors should note that this sensitivity analysis is based on assumptions and is for reference only. As such, it should not be viewed as actual effect.

	Impact on our profit before tax		
	For the year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Average heat rate</b>			
+/- 5%	36,547	38,922	42,677
+/- 10%	73,094	77,844	85,354
<b>Average heat procurement price</b>			
+/- 5%	19,016	18,822	20,047
+/- 10%	38,031	37,645	40,095

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	<b>Impact on our profit before tax</b>		
	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Average material procurement price</b>			
+/- 5%	3,983	4,521	6,470
+/- 10%	7,966	9,421	12,940
<b>Average construction costs</b>			
+/- 5%	15,774	9,945	13,088
+/- 10%	31,548	19,891	26,177

### ***Heat services***

Costs of sales for our provision of heat services primary consists of (i) purchase of heat; (ii) amortisation of intangible assets; (iii) materials consumed (including coal and other consumables); and (iv) utility costs. For the years ended 31 December 2020, 2021 and 2022, costs of sales for our provision of heat services were approximately RMB741.2 million, RMB764.7 million and RMB859.5 million, respectively.

### ***Engineering construction services***

Costs of sales for our provision of engineering construction services represents construction costs, including direct material costs and contracting costs, for the construction of heat service facilities. For the years ended 31 December 2020, 2021 and 2022, costs of sales for our provision of engineering construction services were approximately RMB315.5 million, RMB198.9 million and RMB261.8 million, respectively.

### ***EMC services***

Costs of sales for our provision of EMC services primarily consists of (i) employee benefit expenses, and (ii) utility and other operation costs. For the years ended 31 December 2020, 2021 and 2022, costs of sales for our provision of EMC services were approximately RMB0.9 million, RMB1.7 million and RMB3.3 million, respectively.

### ***Heat transmission services***

Costs of sales for our heat transmission services mainly include the relevant direct costs for the purchase of heat. For the year ended 31 December 2020, 2021 and 2022, costs of sales for our heat transmission services were approximately RMB11.0 million, RMB8.3 million and RMB2.1 million, respectively.

## FINANCIAL INFORMATION

### Gross profit and gross profit margin

For the years ended 31 December 2020, 2021 and 2022, our gross profit amounted to approximately RMB291.4 million, RMB313.7 million and RMB296.9 million, respectively. For the same periods, our gross profit margin was approximately 21.2%, 24.3% and 20.6%, respectively.

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

	For the year ended 31 December					
	2020		2021		2022	
	<i>Gross profit</i>		<i>Gross profit</i>		<i>Gross profit</i>	
	<u><i>Gross profit</i></u>	<u><i>margin</i></u>	<u><i>Gross profit</i></u>	<u><i>margin</i></u>	<u><i>Gross profit</i></u>	<u><i>margin</i></u>
	RMB'000	%	RMB'000	%	RMB'000	%
Heat services	232,090	23.8	270,453	26.1	239,446	21.8
Engineering						
construction services	46,569	12.9	30,239	13.2	39,800	13.2
EMC services	3,281	78.9	2,298	57.9	(307)	(10.2)
Heat transmission						
services	5,998	35.4	6,253	43.0	3,438	62.3
Sale of goods	3,050	18.7	3,812	66.2	11,026	46.8
Others	402	11.4	611	29.5	3,478	31.3
<b>Total</b>	<u>291,390</u>	21.2	<u>313,666</u>	24.3	<u>296,881</u>	20.6

### *Gross profit of heat services (including fees from customers for provision and distribution of heat, price subsidies from local government and pipeline connection fee)*

For the years ended 31 December 2020, 2021 and 2022, gross profit for our heat services was approximately RMB232.1 million, RMB270.5 million and RMB239.4 million, respectively. For the same periods, the gross profit margin of our heat services was approximately 23.8%, 26.1% and 21.8%, respectively.

## FINANCIAL INFORMATION

The following table sets out the gross profit/(loss) margin of our heat services by heat service project for the years indicated.

	<b>For the years ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	%	%	%
<b>Shanxi Province</b>			
Taiyuan Project	39.3	44.1	45.1
Shanxi Demonstration Zone Project	(60.3)	(55.7)	(13.4)
Shuozhou Project	13.2	20.5	9.0
<b>Gansu Province</b>			
Lanzhou New Area Project	26.9	9.4	9.8
<b>Inner Mongolia Autonomous Region</b>			
Hulunbuir Project	38.1	43.3	43.8
<b>Henan Province</b>			
Xinmi Project	–	20.8	–

### *Gross profit margin of Taiyuan Project*

For the years ended 31 December 2020, 2021 and 2022, the gross profit margin for the Taiyuan Project was approximately 39.3%, 44.1%, and 45.1%, respectively. The increases in gross profit margin for this project during the Track Record Period were due to the expansion of our heat service area for the project, while our cost of sales did not increase to the same extent due to the implementation of cost-saving strategies such as conducting daily operational analysis and weather variation studies to improve the precision of heat control in the heat exchange stations used by us.

### *Gross loss margin of Shanxi Demonstration Zone Project*

For the years ended 31 December 2020, 2021 and 2022, the gross loss margin for the Shanxi Demonstration Zone Project was approximately 60.3%, 55.7% and 13.4%, respectively. Our gross loss margin for this project for the years ended 31 December 2020, 2021 and 2022 was mainly due to a relatively high level of depreciation compared to our revenue in relation to the construction of heat service facilities for the project in 2019. Our gross loss margin gradually decreased during the Track Record Period as a result of the continuing expansion of actual heat service area, leading to a higher revenue generated from provision of heat services, while the aforementioned depreciation expense remained stable during the Track Record Period.



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## FINANCIAL INFORMATION

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### *Gross profit margin of Shuozhou Project*

For the years ended 31 December 2020, 2021 and 2022, the gross profit margin for the Shuozhou Project was approximately 13.2%, 20.5% and 9.0%, respectively.

As disclosed in the paragraph headed “Financial Information – Description of major components of our results of operations – Revenue – Heat services – (ii) Price subsidies from local government”, the local government authorities calculated the price subsidies by applying a 3% mark-up margin on the relevant heat service costs and deduct the revenue based on the financial information submitted by us as adopted in a specific formula (“the **Government Formula**”).

The gross profit margin of the Shuozhou Project (the “**Shuozhou GP Margin**”) is higher than the 3% mark-up margin because the formulae and the inputs of the parameters for the two calculations were different. The Shuozhou GP Margin is calculated by dividing the gross profit by revenue, while the 3% mark-up margin is calculated by dividing the gross profit by relevant heat service costs.

The gross profit margin for the Shuozhou Project increased for the year ended 31 December 2021. Such increase was mainly due to an increase in price subsidies which was in line with the expansion of the actual heat service area of this project, as well as a decrease in costs as we began sourcing heat from a new cogeneration plant with a shorter heat transmission distance. The gross profit margin for this project decreased for the year ended 31 December 2022, mainly due to the decrease in the price subsidies from a local government. For illustrative purposes only, if price subsidies had not been recognised as revenue, the Shuozhou Project would have incurred a gross loss margin of 39.2%, 28.6% and 38.6% for the years ended 31 December 2020, 2021 and 2022, respectively.

### *Gross profit margin of Lanzhou New Area Project*

For the years ended 31 December 2020, 2021 and 2022, the gross profit margin for the Lanzhou New Area Project was approximately 26.9%, 9.4% and 9.8%, respectively. The gross profit margin for the Lanzhou New Area Project decreased for the year ended 31 December 2021. Such decrease was mainly due to an increase in costs resulting from a substantial increase in coal prices. The gross profit margin for this project remained stable at 9.8% for the year ended 31 December 2022.

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## FINANCIAL INFORMATION

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### *Gross profit margin of Hulunbuir Project*

The gross profit margin for the Hulunbuir Project remained stable during the Track Record Period, and was 38.1%, 43.3% and 43.8% for the years ended 31 December 2020, 2021 and 2022, respectively.

The gross profit margins for our heat service projects are largely affected by (i) the monthly heat rates for our heat services, which are set by the relevant pricing authorities and generally do not fluctuate in accordance with market dynamics; and (ii) the type of heat source used for the heat project, which affects our cost of heat. During the Track Record Period, we procured heat from cogeneration plants in the PRC for our Taiyuan Project, Hulunbuir Project and Shuozhou Project. The procurement prices of heat from such cogeneration plants are set by the relevant pricing authorities. The gross profit margins for our Taiyuan Project and our Hulunbuir Project were higher than the gross profit margins for our other heat projects, mainly because it is generally cheaper to purchase heat from cogeneration plants as compared to self-generating heat. On the other hand, the gross profit margin for our Shuozhou Project was lower during the Track Record Period as the purchase price of heat was slightly higher than that for the Taiyuan Project and the Hulunbuir Project. During the Track Record Period, heat for our Lanzhou New Area Project was produced through coal-fired boilers. As a result, the gross profit margin for our Lanzhou New Area Project was impacted by the relatively high prices for the procurement of coal, which led to a lower gross profit margin for this project during the period. During the Track Record Period, the gross profit margin for our Shanxi Demonstration Zone Project was the lowest of our heat service projects, mainly due to a relatively high level of depreciation compared to our revenue in relation to the construction of heat service facilities for the project in 2019.

### *Gross profit of engineering construction services*

For the years ended 31 December 2020, 2021 and 2022, gross profit for our engineering construction services was approximately RMB46.6 million, RMB30.2 million and RMB 39.8 million, respectively. For the same periods, the gross profit margin for our engineering construction services was approximately 12.9%, 13.2% and 13.2%, respectively.

### *Gross profit/(loss) of EMC services*

For the years ended 31 December 2020 and 2021, gross profit for our EMC services was approximately RMB3.3 million and RMB2.3 million, respectively. For the years ended 31 December 2022, the gross loss for our EMC services was approximately RMB0.3 million. For the same periods, the gross profit margin of our EMC services was approximately 78.9% and 57.9%, respectively, and the gross loss margin was approximately 10.2% for the year ended 31 December 2022.

## FINANCIAL INFORMATION

### Administrative expenses

Administrative expenses mainly consist of (i) employee benefit expenses; (ii) depreciation of property, plant and equipment; (iii) research and development expenses; (iv) travelling expenses; and (v) business entertainment expenses. For the years ended 31 December 2020, 2021 and 2022, our administrative expenses were approximately RMB125.0 million, RMB141.3 million and RMB139.6 million, respectively. The following table sets out a breakdown of our administrative expenses for the years indicated.

	For the year ended 31 December					
	2020		2021		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Employee benefit expenses	54,329	43.5	63,969	45.3	62,632	44.8
Depreciation of property, plant and equipment	9,106	7.3	10,167	7.2	12,393	8.9
Amortisation of intangible assets	2,292	1.8	1,900	1.3	650	0.5
Research and development expenses	4,675	3.7	7,739	5.5	8,166	5.9
Depreciation of right-of-use assets	2,940	2.4	4,607	3.3	4,615	3.3
Legal and professional fees	4,334	3.5	5,617	4.0	2,722	2.0
Office expenses	1,469	1.2	1,188	0.8	1,085	0.8
Auditor remuneration	891	0.7	1,320	0.9	858	0.6
Travelling expenses	7,815	6.3	6,606	4.7	5,780	4.1
Business entertainment expenses	10,929	8.7	12,440	8.8	10,625	7.6
Technical service expenses	2,629	2.1	2,677	1.9	2,673	1.9
Utility expenses	818	0.7	1,146	0.8	1,386	1.0
Property management and rental expenses	2,375	1.9	2,684	1.9	2,607	1.9
Tax and other surcharges	4,372	3.5	4,203	3.0	4,189	3.0
[REDACTED] expenses	–	–	299	0.2	3,597	2.6
Others	15,976	12.7	14,745	10.4	15,611	11.1
<b>Total</b>	<b>124,950</b>	<b>100.0</b>	<b>141,307</b>	<b>100.0</b>	<b>139,589</b>	<b>100.0</b>

Employee benefit expenses were the largest portion of our administrative expenses during the Track Record Period, which included basic salary, bonus and pension.

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Depreciation of property, plant and equipment represented mainly the depreciation of the building premises used for our operations and was relatively stable during the Track Record Period.

Research and development expenses mainly represented our costs incurred for the purpose of the innovation and development of our portfolio of heat sources.

### Reversal/(provision) of impairment losses on financial assets and contract assets

During the Track Record Period, we recorded reversals or provisions of impairment losses in respect of our trade, lease and other receivables and contract assets, For the years ended 31 December 2020, 2021 and 2022, we recorded a provision of impairment losses of approximately RMB13.5 million, a reversal of impairment losses of approximately RMB1.0 million and a reversal of impairment loss of approximately RMB23.1 million, respectively.

### Other income

During the Track Record Period, other income consisted of (i) government grants; and (ii) rental income. For the years ended 31 December 2020, 2021 and 2022, our other income was approximately RMB48.4 million, RMB73.6 million and RMB53.7 million, respectively. The following table sets out a breakdown of our other income for the years indicated.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	32,518	58,722	37,472
Rental income	15,866	14,862	16,270
	48,384	73,584	53,742

For the years ended 31 December 2020, 2021 and 2022, we recorded government grant related income of approximately RMB32.5 million, RMB58.7 million and RMB37.5 million, respectively, primarily attributable to government grants in respect of our heat service operation, subsidising our purchase/construction of heat service facilities or subsidising for losses of our heat service projects. Government grants are not recurring in nature, there are no specific formulae for the determination of the government grants, they were determined by the local government on an incidental basis, and they are not directly related to heat rates. The types of government grants may differ each year and the income are recognised when they are received. We recognised government grants of approximately RMB10.0 million, RMB24.4 million and nil for the years ended 31 December 2020, 2021 and 2022, respectively, to make up for the aggregate losses of our Lanzhou New Area Project since 2013 and up to the end of 2018. We recognised government grants of approximately nil, RMB8.0 million and RMB10.0 million for the years ended 31 December 2020, 2021 and 2022, respectively, mainly for the

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agreed shortfall by the local government for the heat service year from 1 April 2019 to 31 March 2020 of our Shanxi Demonstration Zone Project. Such grants represented the agreed loss and shortfall in the governments’ discretion, taking into consideration, among others, excessive loss at the early stage of operation and prior to achieve economies of scales; and motivating the implementation of clean and renewable energy sources. Our rental income was mainly arisen from the lease with tenants in our investment properties – Shantou Complex and industrial complex.

### Other losses – net

During the Track Record Period, our net other losses primarily consisted of (i) fair value losses of investment properties; (ii) gains on investments in wealth management products; (iii) gains/(losses) on disposal of property, plant and equipment; (iv) gains on disposal of intangible assets; and (v) gains on disposal of right-of-use assets. The following table sets out a breakdown of our other gains/(losses) – net for the years indicated.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Fair value losses of investment properties	(6,300)	(2,000)	(5,300)
Gains on disposal and deregistration of subsidiaries	72	4	39
Gains on investments in wealth management products, net	1,207	418	146
Gains/(losses) on disposal of property, plant and equipment, net	3,443	(119)	242
Gains on disposal of intangible assets	–	462	1,086
Others	1,421	1,216	184
	(157)	(19)	(3,603)

Our fair value losses of investment properties were mainly due to a change in the market value of our investment properties (namely Shantou Complex and certain levels of industrial complex), based on a valuation conducted by an independent valuer for each of the years ended 31 December 2020, 2021 and 2022, respectively. Our gains on investments in wealth management products (being the short-term investment products or structured bank deposits) referred to fair value gains based on their expected return rates.

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### Finance income

During the Track Record Period, our finance income mainly consisted of (i) interest income from financing arrangements; (ii) interest income from a loan to a related party; (iii) interest income derived from bank deposits; (iv) interest income from a finance lease to a related party; and (v) interest income from lease receivables. For the years ended 31 December 2020, 2021 and 2022, our finance income was approximately RMB26.4 million, RMB29.4 million and RMB26.3 million, respectively.

The following table sets out a breakdown of our finance income for the years indicated.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Finance income</b>			
Interest income derived from bank deposits	2,519	1,822	2,696
Interest income from financing arrangements <sup>(1)</sup>	17,462	13,659	10,877
Interest income from finance lease to a related party <sup>(2)</sup>	1,320	1,468	1,334
Interest income from lease receivables <sup>(3)</sup>	692	4,813	10,983
Interest income from loans to a related party <sup>(4)</sup>	4,400	7,592	424
	26,393	29,354	26,314

*Notes:*

- (1) For details related to the relevant financing arrangements, see “Discussion of certain items of consolidated statements of financial position – Current assets and liabilities – Prepayments and other receivables” in this section.
- (2) On 1 March 2020, we entered into a finance lease with Sinopec New Star, an associate of our Company. The finance lease has a fixed term of 10 years.
- (3) The lease receivables were recognised in relation to the EMC arrangement for which we leased certain equipment and machinery for a power plant in 2017. See “Business – Provision of EMC services” in this document for details.
- (4) On 8 July 2020, we entered into a loan financing arrangement with Beijing Zhongchuang, a related party of our Company. Such loan financing arrangement has a fixed term of three years.

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### Finance costs

During the Track Record Period, our finance costs mainly consisted of (i) interest expenses on borrowings; (ii) interest expenses on lease liabilities; (iii) interest paid on installment payment of acquisition of intangible assets; (iv) interest expenses on installment payment of purchase of equipment; and (v) interest expenses on loans from government. For the years ended 31 December 2020, 2021 and 2022, our finance costs was approximately RMB92.9 million, RMB81.5 million and RMB84.1 million, respectively.

The following table sets out a breakdown of our finance costs for the years indicated.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on borrowings	(85,659)	(72,686)	(62,858)
Interest expenses on lease liabilities	(1,218)	(1,465)	(1,386)
Interest expenses on installment payable for acquisition of intangible assets	(2,338)	(5,087)	(3,090)
Interest expenses on installment payable for purchase of equipment	(1,657)	–	–
Interest expenses on loans from government	(1,342)	(1,343)	(931)
Unwinding of provision <sup>(Note)</sup>	(652)	(922)	(1,156)
Loss from modification of lease receivables	–	–	(14,644)
	(92,866)	(81,503)	(84,065)

*Note:*

Unwinding of provision mainly refers to periodic amortisation of discounting effect on the non-current provision being made in relation to our service concession.

Our net finance costs decreased from approximately RMB66.5 million for the year ended 31 December 2020 to approximately RMB52.1 million for the year ended 31 December 2021, mainly due to a decrease in our bank and other borrowings resulting from our repayments during the same period. Our net finance costs increased from approximately RMB52.1 million for the year ended 31 December 2021 to approximately RMB57.8 million for the year ended 31 December 2022, mainly due to a loss from modification of lease receivables resulting from the modification of EMC contract and a decrease in interest income from a loan to Beijing Zhongchuang as such loan was fully repaid in 2022.

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### Share of profit of associates accounted for using the equity method

Share of profit of associates accounted for using the equity method is derived from our Group’s equity interests in our associates, namely Sinopec New Star and Shaanxi Gas Group New Energy Development. Sinopec New Star is principally engaged in the development, construction and operation of heating, cooling and power generation projects, exploration and utilisation of renewable energy, and provision of heat services. Shaanxi Gas Group New Energy Development is principally engaged in the sale of natural gas and related businesses. For the years ended 31 December 2020, 2021 and 2022, our share of net profit of associates accounted for using the equity method was approximately RMB9.3 million, RMB12.0 million and RMB13.5 million, respectively.

### Income tax expenses

For the years ended 31 December 2020, 2021 and 2022, our income tax expenses were approximately RMB45.6 million, RMB35.7 million and RMB46.0 million, respectively. During the Track Record Period, all of our profits were derived from our business in the PRC and our profits generated from our operations were principally subject to the PRC corporate income tax. The reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which our Company and majorities of subsidiaries are domiciled to the tax expense at the effective tax rate is disclosed in Note 11 to the accountant’s report as set out in Appendix I to this document.

The table below sets out our income tax expenses for the years indicated.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Current income tax:			
– PRC corporate income tax	47,095	53,858	60,337
Deferred income tax	(1,484)	(18,187)	(14,376)
	46,074	35,671	45,961

For the years ended 31 December 2020, 2021 and 2022, our effective tax rate was approximately 31.7%, 17.3% and 24.7%, respectively. Our effective tax rate decreased from 31.7% in 2020 to 17.3% in 2021. Such decrease was mainly attributable to the decrease in profit before tax in 2020 and an increase in tax losses not recognised for deferred income tax, which was mainly due to increase in the losses from Shuo Zhou Renewable Energy in 2020. Our effective tax rate increased from approximately 17.3% for the year ended 31 December 2021 to approximately 24.7% for the year ended 31 December 2022.



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

Taiyuan Renewable Energy was approved as a high and new technology enterprise in 2018 and was subject to a preferential CIT rate of 15% from 2018 to 2020 according to the relevant CIT laws. In December 2021, Taiyuan Renewable Energy was approved to the renewal of high and new technology enterprise for three years from 2021 to 2023, and a preferential CIT rate of 15% has been applied for 2021. In September 2019, Shanxi Shuangliang New Energy was qualified as a high and new technology enterprise and entitled to enjoy a preferential CIT rate of 15% from 2019 to 2021 and was approved for the renewal as a high and new technology enterprise in 2022. In December 2020, Shanxi Demonstration Zone Heat Supply was qualified as a high and new technology enterprise and entitled to enjoy a preferential CIT rate of 15% from 2020 to 2022.

During the Track Record Period, Lanzhou Shuangliang and Hulunbuir Shuangliang were subject to a preferential PRC corporate income tax rate of 15% according to the relevant PRC corporate income tax laws and regulations since they are enterprises established and operated in the western region of the PRC with the latest approvals given in October 2022 and December 2022, respectively, where they were subject to such preferential CIT rate of 15% from 2022 to 2024. In addition, according to the relevant tax circulars issued by the PRC tax authorities, Gansu Smart Energy was entitled to other tax concessions and was exempted from taxation for three consecutive years since 2017, followed by a 50% reduction of the applicable tax rates for another three consecutive years. Gansu Smart Energy was exempted from taxation from 2017 to 2019 and was entitled to a preferential PRC corporate income tax rate of 12.5% from 2020 to 2022.

Since the commencement of the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved tax issues or disputes with the relevant tax authorities.

### **Profit for the year**

As a result of the foregoing, for the years ended 31 December 2020, 2021 and 2022, our net profit was approximately RMB98.3 million, RMB171.1 million and RMB140.4 million, respectively. For the same periods, our net profit margin was approximately 7.1%, 13.3% and 9.7%, respectively.

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### YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS

#### Year ended 31 December 2022 compared to year ended 31 December 2021

##### *Revenue*

Our consolidated revenue increased by approximately RMB153.1 million, or 11.9%, from approximately RMB1,290.6 million for the year ended 31 December 2021 to RMB1,443.7 million for the year ended 31 December 2022, primarily due to a combined effect of an increase in the revenue generated from our engineering construction services of approximately RMB72.4 million, or 31.6%, as well as the increase in the revenue generated from our heat services of approximately RMB63.8 million, or 6.2% during the same period. Such increase was mainly attributable to (i) a general increase of constructions activities for our concession projects; and (ii) an increase in the actual heat service area brought by the expansion of our concession projects in general during the year.

The change in revenue over 2022 by major service/product type is analysed as follows:

- (i) The revenue from the provision and distribution of heat (which included fees from customers for distribution and provision of heat and price subsidies from a local government) increased by approximately RMB54.3 million or 5.6% from RMB960.9 million for the year ended 31 December 2021 to RMB1,015.2 million for the year ended 31 December 2022, which was mainly related to an increase in the actual heat service area brought by the expansion of our concession projects in general during the same year.
- (ii) The revenue from pipeline connection fee increased by approximately RMB9.5 million or 12.8%, from RMB74.2 million for the year ended 31 December 2021 to RMB83.7 million for the year ended 31 December 2022, which was mainly related to the increase in the actual heat service area.
- (iii) The revenue from our engineering construction services increased by approximately RMB72.4 million or 31.6% from RMB229.1 million for the year ended 31 December 2021 to RMB301.6 million for the year ended 31 December 2022, which was mainly due to (i) the increase in our actual heat service area, resulting in more engineering construction activities to facilitate our provision of heat services and (ii) a new construction project provided to a customer in Shanxi during the same year.

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- (iv) The revenue from our EMC services decreased by approximately RMB1.0 million or 25.0% from RMB4.0 million for the year ended 31 December 2021 to RMB3.0 million for the year ended 31 December 2022, which was mainly due to our execution of the Supplemental EMC, resulting in lower revenue generated from the Original EMC during the year.
- (v) The revenue from our heat transmission services decreased by approximately RMB9.0 million or 62.1% from RMB14.5 million for the year ended 31 December 2021 to RMB5.5 million for the year ended 31 December 2022 because one of our major heat transmission customers did not procure heat from us during the year.
- (vi) The revenue from sale of goods increased by approximately RMB17.8 million or 309.7% from RMB5.8 million for the year ended 31 December 2021 to RMB23.6 million for the year ended 31 December 2022, which was mainly due to an increase in demand for heat service devices and equipment during the year.

### *Cost of sales*

Cost of sales increased by approximately RMB169.9 million or 17.4% from approximately RMB977.0 million for the year ended 31 December 2021 to approximately RMB1,146.9 million for the year ended 31 December 2022, which was in line with the increase in our revenue from the provision of our heat services and engineering construction services during the year.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit decreased by approximately RMB16.8 million or 5.4% from approximately RMB313.7 million for the year ended 31 December 2021 to approximately RMB296.9 million for the year ended 31 December 2022. Our gross profit margin decreased from approximately 24.3% for the year ended 31 December 2021 to approximately 20.6% for the year ended 31 December 2022, primarily attributable to the decrease in gross profit of our heat services due to the decrease in price subsidies for our Shuozhou Project and an increase in coal price, resulting in an increase in procurement prices for our Lanzhou New Area Project.

The gross profit and gross profit margin by major type of service/product are analysed as follows:

- (i) *Heat services (including fees from customers for the provision and distribution of heat, price subsidies from local government and pipeline connection fee)*

The gross profit decreased by approximately RMB31.1 million or 11.5% from approximately RMB270.5 million for the year ended 31 December 2021 to approximately RMB239.4 million for the year ended 31 December 2022. The gross profit margin amounted to approximately 26.1% and 21.8% for the year ended 31 December 2021 and for the year ended 31 December 2022, respectively. The decrease in gross profit and gross

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profit margin was mainly attributed to (i) the decrease in price subsidies revenue for the Shuozhou Project for the year ended 31 December 2022 and (ii) an increase in costs resulting from a substantial increase in coal price, resulting in an increase in procurement prices for our Lanzhou New Area Project during the same year. For further details of the gross profit margin of our heat services by heat service project during the Track Record Period, see "Gross profit of heat services (including fees from customers for provision and distribution of heat, price subsidies from local government and pipeline connection fee)" in this section.

*(ii) Engineering construction services*

The gross profit increased by approximately RMB9.6 million or 31.6% from approximately RMB30.2 million for the year ended 31 December 2021 to approximately RMB39.8 million for the year ended 31 December 2022 because the increase in construction activities for our concession projects, mainly attributable to expansions in Taiyuan Project and Lanzhou New Area Project. The gross profit margin amounted to approximately 13.2% and 13.2% for the years ended 31 December 2021 and 2022, respectively. The gross profit margin remained stable for the year ended 31 December 2022.

*(iii) EMC services*

The gross profit decreased by approximately RMB2.6 million or 113.4% from a gross profit of approximately RMB2.3 million for the year ended 31 December 2021 to a gross loss of approximately RMB0.3 million for the year ended 31 December 2022. The gross profit margin amounted to approximately 57.9% for the years ended 31 December 2021 and the gross loss margin amounted to approximately 10.2% for the year ended 31 December 2022, respectively. The decrease in gross profit and gross profit margin mainly resulted from our execution of the Supplemental EMC, resulting in lower revenue generated from the Original EMC during the year ended 31 December 2022 as compared to in 2021.

*(iv) Heat transmission services*

The gross profit decreased by approximately RMB2.8 million or 45.0% from approximately RMB6.3 million for the year ended 31 December 2021 to approximately RMB3.4 million for the year ended 31 December 2022 because the reduced amount of heat transmitted as one of our major customers for our heat transmission services did not procure heat from us during the year. The gross profit margin amounted to approximately 43.0% and 62.3% for the year ended 31 December 2021 and for the year ended 31 December 2022, respectively. The increase in gross profit margin mainly resulted from higher fees charged by us for our heat transmission service to a new customer for our heat transmission services during 2022 as compared to 2021.

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### *(v) Sale of goods*

The gross profit increased by approximately RMB7.2 million or 189.2% from approximately RMB3.8 million for the year ended 31 December 2021 to approximately RMB11.0 million for the year ended 31 December 2022 because of the increase in sale of heat service devices and equipment during the year. The gross profit margin amounted to approximately 66.2% and 46.8% for the year ended 31 December 2021 and for the year ended 31 December 2022, respectively. The decrease in gross profit margin was mainly attributed to the increase in sales of lower margin heat service devices and equipments which offset the effect of increase in revenue in the total sale of heat service device and equipment during the year.

### *Administrative expenses*

Administrative expenses remained relatively stable at approximately RMB139.6 million for the year ended 31 December 2022 as compared to RMB141.3 million for the year ended 31 December 2021.

### *Reversal of impairment losses on financial assets and contract assets*

The reversal of impairment losses on financial assets and contract assets increased by approximately RMB22.1 million or 2,223.4% from approximately RMB1.0 million for the year ended 31 December 2021 to approximately RMB23.1 million for the year ended 31 December 2022, primarily resulting from a decrease in expected credit loss rate related to our EMC customer during the year.

### *Other income*

Other income decreased by approximately RMB19.8 million or 27.0% from approximately RMB73.6 million for the year ended 31 December 2021 to approximately RMB53.7 million for the year ended 31 December 2022, primarily attributable to the reduction of government grants provided by the relevant local government for our Lanzhou New Area Project.

### *Other losses – net*

Net other losses increased from approximately RMB0.02 million for the year ended 31 December 2021 to net other losses of approximately RMB3.6 million for the year ended 31 December 2022. This increase was primarily attributable to a significant decrease in market rental of our investment properties during the year, resulting in a fair value losses of such investment properties.

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### *Finance income*

Finance income decreased by approximately RMB3.0 million or 10.4% from approximately RMB29.4 million for the year ended 31 December 2021 to approximately RMB26.3 million for the year ended 31 December 2022. This decrease was primarily attributable to a significant decrease of interest income from loans to Beijing Zhongchuang as such loan was fully repaid in 2022.

### *Finance costs*

Finance costs increased by approximately RMB2.6 million or 3.1% from approximately RMB81.5 million for the year ended 31 December 2021 to approximately RMB84.1 million for the year ended 31 December 2022. This increase was primarily attributable to an increase in loss from modification of lease receivables during the year.

### *Income tax expenses*

Income tax expense increased by approximately RMB10.3 million or 28.8% from approximately RMB35.7 million for the year ended 31 December 2021 to approximately RMB46.0 million for the year ended 31 December 2022. This increase was primarily attributable to the increase in current income tax expense in relation to PRC corporate income tax during the year.

## **Year ended 31 December 2021 compared to year ended 31 December 2020**

### *Revenue*

Our consolidated revenue decreased by approximately RMB85.7 million, or 6.2%, from approximately RMB1,376.3 million for the year ended 31 December 2020 to RMB1,290.6 million for the year ended 31 December 2021, primarily due to a combined effect of decrease by approximately RMB133.0 million in revenue generated from our engineering construction services. Nonetheless, revenue generated from our heat services increased by approximately RMB61.9 million, or 6.4% during the same period. Such increase was mainly attributable to the expansion of our Shuo Zhou Project and Hulunbuir Project which led to an increase in the actual heat service area of the aforementioned two projects during the same period.

The change in revenue over 2021 by major service/product type is analysed as follows:

- (i) The revenue from the provision and distribution of heat (which included fees from customers for distribution and provision of heat and price subsidies from a local government) increased by approximately RMB53.1 million or 5.8% from RMB907.8 million for the year ended 31 December 2020 to RMB960.9 million for the year ended 31 December 2021, which was mainly related to the expansion of our heat services during the year.
- (ii) The revenue from pipeline connection fee increased by approximately RMB8.8 million or 13.5%, from RMB65.4 million for 2020 to RMB74.2 million for the year ended 31 December 2021, which was in line with increase in the actual heat service area.

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- (iii) The revenue from our engineering construction services decreased by RMB133.0 million or 36.7% from RMB362.1 million for the year ended 31 December 2020 to RMB229.1 million for the year ended 31 December 2021, which was mainly due to a one-off construction of primary distribution pipelines for our Shuozhou Project in order to extend and connect our heat distribution network to a cogeneration plant as a new heat source to enhance our heat transmission efficiency in 2020.
- (iv) The revenue from our EMC services remained stable at RMB4.2 million and RMB4.0 million for the year ended 31 December 2020 and the year ended 31 December 2021, respectively.
- (v) The revenue from our heat transmission services decreased by approximately RMB2.5 million or 14.7% from approximately RMB17.0 million for the year ended 31 December 2020 to RMB14.5 million for the year ended 31 December 2021, mainly due to less heat being transmitted during the year, as the largest heat transmission contract ended on November 2021.
- (vi) The revenue from sale of goods decreased by approximately RMB10.5 million or 64.4% from approximately RMB16.3 million for the year ended 31 December 2020 to RMB5.8 million for the year ended 31 December 2021 which was mainly due to a decrease in demand for heat service devices and equipment during the year.

### *Cost of sales*

Cost of sales decreased by approximately RMB107.9 million or 9.9% from approximately RMB1,084.9 million for the year ended 31 December 2020 to approximately RMB977.0 million for year ended 31 December 2021, primarily attributable to the decrease in costs for the construction of primary distribution pipelines for our Shuozhou Project.

### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by approximately RMB22.3 million or 7.7% from approximately RMB291.4 million for the year ended 31 December 2020 to approximately RMB313.7 million for the year ended 31 December 2021. Our gross profit margin increased from approximately 21.2% for the year ended 31 December 2020 to approximately 24.3% for the year ended 31 December 2021, primarily attributable to an increase in gross profit of our heat services due to the expansion of our actual heat service area.

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The gross profit and gross profit margin by major type of service/product are analysed as follows:

- (i) *Heat services (including fees from customers for the provision and distribution of heat, price subsidies from local government and pipeline connection fee)*

The gross profit increased by RMB38.4 million or 16.5% from approximately RMB232.1 million for the year ended 31 December 2020 to RMB270.5 million for the year ended 31 December 2021. The gross profit margin amounted to 23.8% and 26.1% for 2020 and 2021, respectively. The increase in gross profit and gross profit margin was mainly attributed to an improvement of profitability of the Hulunbuir Project, mainly as a result of an increase in our actual heat service area and a decrease in our cost of sales for the Hulunbuir Project since there was a downward adjustment on unit cost of heat procurement in the region during the year. The increase in revenue from pipeline connection fee also led to an increase in the gross profit during the year.

- (ii) *Engineering construction services*

The gross profit decreased by RMB16.4 million or 35.2% from approximately RMB46.6 million for the year ended 31 December 2020 to RMB30.2 million for the year ended 31 December 2021 because there was no large scale construction for primary distribution pipeline in 2021. The gross profit margin remained stable at 12.9% and 13.2% for 2020 and 2021, respectively.

- (iii) *EMC services*

The gross profit decreased from RMB3.3 million for the year ended 31 December 2020 to RMB2.3 million for the year ended 31 December 2021 which was mainly resulting from an increase in staff costs and maintenance expenses incurred during the year.

- (iv) *Heat transmission services*

The gross profit remained stable at approximately RMB6.0 million for the year ended 31 December 2020 to RMB6.3 million for the year ended 31 December 2021. The gross profit margin increased from approximately 35.4% for 2020 to 43.0% for 2021 which was mainly resulting from a decrease in the unit cost of heat procurement in Hulunbuir.

- (v) *Sale of goods*

The gross profit increased by RMB0.7 million or 22.6% from approximately RMB3.1 million for the year ended 31 December 2020 to RMB3.8 million for the year ended 31 December 2021 and the gross profit margin increased from 18.7% for the year ended 31 December 2020 to 66.2% for the year ended 31 December 2021, which was mainly resulting from an increase in sales of heat service related devices such as semi-finished skid-mounted heat exchange units which generally has a higher gross profit margin.



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### *Administrative expenses*

Administrative expenses increased by approximately RMB16.3 million or 13.0% from approximately RMB125.0 million for the year ended 31 December 2020 to RMB141.3 million for the year ended 31 December 2021 as we incurred more employee benefit expenses for our expansion of our Lanzhou New Area Project and Shuozhou Project and incurred more research and development expenses.

### *Reversal/(provision) of impairment losses on financial assets and contract assets*

We recorded a provision of impairment losses on financial assets and contract assets of approximately RMB13.5 million for the year ended 31 December 2020 and recorded a reversal of impairment losses of approximately RMB1.0 million for the year ended 31 December 2021, primarily resulting from our execution of the Supplemental EMC, thereby decreasing the expected credit loss rate related to our EMC customer during the same period.

### *Other income*

Other income increased by approximately RMB25.2 million from approximately RMB48.4 million for the year ended 31 December 2020 to approximately RMB73.6 million for the year ended 31 December 2021, primarily attributable to additional government grants received from the relevant local governments for our Lanzhou New Area Project and Shanxi Demonstration Zone Project, respectively.

### *Other losses – net*

Net other losses decreased from approximately RMB0.2 million for the year ended 31 December 2020 to net other losses of approximately RMB0.02 million for the year ended 31 December 2021. This decrease was primarily attributable to the decrease in fair value losses of our investment properties, mainly resulting from a decrease in market rental and losses on disposal of our property, plant and equipment being recognised during the same period.

### *Finance income*

Finance income increased by approximately RMB3.0 million or 11.4% from approximately RMB26.4 million for the year ended 31 December 2020 to approximately RMB29.4 million for the year ended 31 December 2021. This increase was primarily attributable to an increase in interest income from lease receivables and interest income from loans to Beijing Zhongchuang.

### *Finance costs*

Finance costs decreased by approximately RMB11.4 million or 12.3% from approximately RMB92.9 million for the year ended 31 December 2020 to approximately RMB81.5 million for the year ended 31 December 2021. This decrease was primarily attributable to a decrease in bank and other borrowings resulting from our repayments during the same period.

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### *Income tax expenses*

Income tax expense decreased by approximately RMB9.9 million or 21.7% from approximately RMB45.6 million for the year ended 31 December 2020 to approximately RMB35.7 million for the year ended 31 December 2021. This decrease was primarily attributable to an increase in credit of our deferred income tax.

### DISCUSSION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	As at 31 December		
	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	164,800	156,521	155,929
Investment properties	274,500	272,500	267,200
Right-of-use assets	34,171	29,890	28,381
Intangible assets	3,169,936	3,190,673	3,340,965
Investments accounted for using the equity method	72,713	84,824	94,966
Trade receivables	68,964	81,867	88,158
Prepayments and other receivables	304,209	238,119	41,865
Contract assets	44,137	58,671	14,610
Deferred income tax assets	41,117	49,140	53,674
	4,174,547	4,162,205	4,085,748
<b>Current assets</b>			
Inventories	32,900	38,178	48,926
Trade receivables	364,744	337,726	477,986
Prepayments and other receivables	324,544	215,510	153,127
Financial assets at fair value through profit or loss	11,041	17,139	–
Restricted cash	34,848	76,688	100,374
Cash and cash equivalents	91,826	136,185	378,068
	859,903	821,426	1,158,481
<b>Total assets</b>	<b>5,034,450</b>	<b>4,983,631</b>	<b>5,244,229</b>

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	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	226,000	226,000	226,000
Other reserves	162,739	186,008	200,114
Retained earnings	131,767	218,791	301,003
	520,506	630,799	727,117
Non-controlling interests	92,179	151,597	195,445
<b>Total equity</b>	612,685	782,396	922,562
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	371,973	597,762	634,464
Other payables	67,004	32,631	7,386
Contract liabilities	1,506,471	1,628,637	1,821,454
Lease liabilities	22,215	18,387	18,677
Deferred income	54,831	85,125	83,459
Deferred income tax liabilities	40,322	30,167	20,331
Provision	15,382	20,210	25,593
	2,078,198	2,412,919	2,611,364
<b>Current liabilities</b>			
Borrowings	936,663	463,515	246,750
Trade and other payables	965,506	816,102	976,277
Contract liabilities	409,505	462,888	440,546
Lease liabilities	1,342	1,588	1,005
Current income tax liabilities	30,551	44,223	45,725
	2,343,567	1,788,316	1,710,303
<b>Total liabilities</b>	4,421,765	4,201,235	4,321,667
<b>Total equity and liabilities</b>	5,034,450	4,983,631	5,244,229

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### Non-current assets and liabilities

#### *Property, plant and equipment*

During the Track Record Period, property, plant and equipment mainly represented the properties and facilities that we owned for our normal course of business operation. We owned certain levels of industrial complex, Jinsha Buildings and some retail properties, which were classified as buildings under property, plant and equipment. As at 31 December 2020, 2021 and 2022, the total net book amounts of our property, plant and equipment were approximately RMB164.8 million, RMB156.5 million and RMB155.9 million, respectively. The decrease in total net book amounts of our property, plant and equipment, mainly resulted from the depreciation throughout the Track Record Period and our disposal of certain pipelines and heat service facilities to Sinopec New Star, our associate, in 2020.

#### *Investment properties*

During the Track Record Period, our investment properties included certain levels of industrial complex and Shantou Complex that we used for rental purpose. Investment properties were valued by an Independent Third Party by using an income approach. The following table sets out the movement in our investment properties for the years indicated.

	<b>For the year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year	280,800	274,500	272,500
Net losses from fair value adjustment	(6,300)	(2,000)	(5,300)
Balance at the end of the year	274,500	272,500	267,200

The following table sets out the amounts recognised in profit or loss for our investment properties as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income from operating leases	15,866	14,862	15,149
Fair value losses	(6,300)	(2,000)	(5,300)

During the same period, the fluctuation of investment properties was mainly related to the fluctuation of fair value adjustments mainly due to change in market conditions.

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### *Right-of-use assets*

During the Track Record Period, we entered into a number of new leases of office buildings for our operation in Lanzhou and Hulunbuir upon the expiry of the original leases. We also own certain land use rights of office premises, industrial and commercial complex and State-owned allocated land use rights (國有劃撥土地). Such leases and land use rights were recognised as right-of-use assets. Right-of-use assets were generally depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. For the details of the measurement and depreciation of our right-of-use assets, see Note 2.30 to the accountant’s report as set out in Appendix I to this document.

We had right-of-use assets of approximately RMB34.2 million, RMB29.9 million and RMB28.4 million as at 31 December 2020, 2021 and 2022, respectively. Our right-of-use assets decreased from approximately RMB34.2 million as at 31 December 2020 to approximately RMB29.9 million as at 31 December 2021 and further decreased to approximately RMB28.4 million as at 31 December 2022 mainly because of the depreciation of such right-of-use assets.

### *Intangible assets*

As at 31 December 2020, 2021 and 2022, our intangible assets included (i) goodwill in relation to Taiyuan Renewable Energy, (ii) operating concessions, and (iii) software, amounting to RMB3,169.9 million, RMB3,190.7 million and RMB3,341.0 million, respectively. Our intangible assets mostly related to our operating concessions, which accounted for 99.3%, 99.3% and 99.3% of the total intangible assets balances as at 31 December 2020, 2021 and 2022, respectively.

Our intangible assets increased from approximately RMB3,169.9 million as at 31 December 2020 to approximately RMB3,190.7 million as at 31 December 2021 and further increased to approximately RMB3,341.0 million as at 31 December 2022, mainly attributable to the construction of additional heat service facilities leading to the increase in operating concessions.

Intangible assets in relation to operating concessions are recognised principally when we recognise related revenue from engineering construction services for our concession operations. During the Track Record Period, the largest portion of our intangible assets in relation to our operating concessions was associated with our Lanzhou New Area Project, primarily due to the fact that we self-produced heat by coal-fired boilers. The smallest portion of our intangible assets in relation to our operating concessions was associated with our Shanxi Demonstration Zone Project in Taiyuan, which only commenced operations in September 2018. Intangible assets associated to our other heat service projects generally increased due to our continuing expansion during the Track Record Period.

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The following table sets out our operating concessions recognised under intangible assets by geographical location as at the dates indicated.

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Shanxi Province</b>			
Taiyuan	689,007	735,297	755,579
Shuozhou	780,557	728,861	692,334
<b>Gansu Province</b>			
Lanzhou	967,568	1,020,891	1,111,423
<b>Inner Mongolia Autonomous Region</b>			
Hulunbuir	709,657	682,516	662,906
<b>Henan Province</b>			
Zhengzhou	–	–	96,599
<b>Total</b>	<b>3,146,789</b>	<b>3,167,565</b>	<b>3,318,841</b>

In June 2017, we reduced our original Concession Area in Taiyuan of Shanxi Province. See “Business – Heat services – Reduction of the size of the Concession Boundary Area for our Taiyuan Project and the possible transfer of the heat facilities in relation to the Subject Area which is currently under negotiation” in this document for the relevant background. Subsequent to the end of 2016/2017 heat service period, we ceased to provide any heat services in the Subject Area and have not recorded any revenue in respect of the Subject Area. All our heat service facilities in the Subject Area have been subsequently operated by a new operator. At the end of 2017, the carrying value of the concession relating to the Subject Area amounted to approximately RMB71.4 million (with original cost and accumulated amortisation of RMB81.9 million and RMB10.5 million, respectively). Since our Group can no longer generate any future economic benefits from the concession relating to the Subject Area, our Group decided to accelerate the amortisation for the concession relating to the Subject Area and the carrying value of which became zero after such accelerated amortisation took place.

### Impairment assessment on operating concession assets of our Shuozhou Project

With assistance of an independent valuer, we assessed the impairment of the operating concession assets of Shuozhou Renewable Energy and we made certain impairments of concession assets for our Shuozhou Project. We adopted value-in-use calculation method in line with income method to evaluate the value in use of our Shuozhou Project by using pre-tax cash flow projections based on our financial forecasts covering the service concession periods. We recognised an impairment provision of nil, nil and RMB9.4 million for the year ended 31 December 2020, 2021 and 2022.

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### *Investments in associates accounted for using the equity method*

Investments in associates accounted for using the equity method represent our investments in our associates, namely our 40% equity interest in Sinopec New Star and 10% equity interest in Shaanxi Gas Group New Energy Development. We had investments in associates accounted for using the equity method of approximately RMB72.7 million, RMB84.8 million and RMB95.0 million as at 31 December 2020, 2021 and 2022, respectively. The increase in our investments in associates throughout the Track Record Period was mainly due to the increase in the net profit of Sinopec New Star as a result of its expanding heat service area over the Track Record Period.

See “Description of major components of our results of operations – Share of profit of associates accounted for using the equity method” in this section for details.

### *Contract assets*

Contracts assets mainly represent our rights to receive consideration in respect of our engineering construction services provided to a local government.

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.

Our contract assets increased from 2020 to 2021 as we provided more engineering construction services which were pending certification by the local government. A project settlement report for the engineering construction services provided in 2019 was issued by the local government in 2022, therefore such part of contract assets were transferred to trade receivable resulting in the decrease in contract assets in 2022.

As at 31 January 2023, no contract assets as at 31 December 2022 had been subsequently certified by the local government.

### *Provisions*

Provisions represent provisions made for maintenance and/or restoration under our Concession Agreements. Provisions are measured at the present value of management’s best estimate of the expenditures required to settle the present obligation at the end of the Track Record Period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

Under our Concession Agreements, our Group has contractual obligations (i) to maintain the infrastructure to a specified level of serviceability or (ii) to restore the infrastructure to a specified condition before it is handed over to the Grantor at the end of the service arrangement. These contractual obligations to maintain or restore the infrastructure, except for

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any upgrade element, are recognised in the consolidated statements of financial position and measured in accordance with IAS 37 at the best estimate of the expenditures that will be required to settle the contractual obligations.

Provisions made for such maintenance amounted to approximately RMB15.4 million, RMB20.2 million and RMB25.6 million as at 31 December 2020, 2021 and 2022, respectively. The increase in our provisions during the Track Record Period was primarily resulted from an increased level of usage of our heat service facilities along with the expansion of our actual heat service area.

### Current assets and current liabilities

The following table sets out our current assets and current liabilities as at the dates indicated.

	As at 31 December			As at 31 January
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Inventories	32,900	38,178	48,926	38,173
Trade receivables	364,744	337,726	477,986	493,509
Prepayments and other receivables	324,544	215,510	153,127	160,007
Financial assets at fair value through profit or loss	11,041	17,139	–	–
Restricted cash	34,848	76,688	100,374	105,524
Cash and cash equivalents	91,826	136,185	378,068	385,029
<b>Total current assets</b>	<b>859,903</b>	<b>821,426</b>	<b>1,158,481</b>	<b>1,182,242</b>
Borrowings	936,663	463,515	246,750	346,750
Trade and other payables	965,506	816,102	976,277	959,477
Contract liabilities	409,505	462,888	440,546	332,422
Lease liabilities	1,342	1,588	1,005	180
Current income tax liabilities	30,551	44,223	45,725	36,921
<b>Total current liabilities</b>	<b>2,343,567</b>	<b>1,788,316</b>	<b>1,710,303</b>	<b>1,675,750</b>
<b>Net current liabilities</b>	<b>1,483,664</b>	<b>966,890</b>	<b>551,822</b>	<b>493,508</b>



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As at 31 December 2020, 2021 and 2022, our net current liabilities were approximately RMB1,483.7 million, RMB966.9 million and RMB551.8 million, respectively. Such net current liabilities primarily consisted of our (i) trade and other payables; (ii) borrowings; and (iii) contract liabilities. During the Track Record Period, we had substantial planned capital expenditures for the purchase of property, plant and equipment and construction services for our construction of heat service facilities, resulting in a significant amount of other payables for the acquisition of intangible assets. During this period, we also had a substantial amount of borrowings which were mainly used to support our capital expenditures, and which contributed to our net current liability position. As at 31 December 2020 and 2021, some of our borrowings (in the amounts of approximately RMB193.0 million and RMB179.0 million, respectively), were classified as current liabilities due to our failure to comply with certain covenants and financial undertakings in respect of two long-term bank borrowings, leading to a higher level of current liabilities for those years. As at 31 December 2022, we have re-complied with such financial covenants, and accordingly, we reclassified the loan amounting to RMB158.0 million as at 31 December 2022 as non-current liabilities according to the original payment schedules as set out in the loan contract. Our net current liabilities during the Track Record Period were also attributable to a significant amount of contract liabilities (which represented the advance receipts from customers in relation to heat service and pipeline connection fee) at the end of each year. Such contract liabilities will be recognised as revenue in the following years when the relevant services are provided. Our net current liabilities were higher as at 31 December 2020 primarily due to an increase in short-term borrowings mainly related to our initial capital expenditures required for the expansion of our heat services. See “Risk factors – Risks relating to our business and industry – We had net current liabilities as at 31 December 2020, 2021 and 2022” in this document for the risk relating to our net current liabilities.”

Going forward, we plan to improve our net current liability position by closely monitoring the timing and scale of our heat service facilities construction with a view to regulating the extent of our capital expenditures. We have also been actively communicating with certain financial institutions to adjust the capital structure of our Group by increasing the proportion of our long-term borrowings and reducing the proportion of our short-term borrowings.

Our net current liabilities decreased by approximately RMB415.1 million, or 42.9% from RMB966.9 million as at 31 December 2021 to RMB551.8 million as at 31 December 2022. Such decrease was primarily resulted from (i) a decrease in current portion of borrowings by approximately RMB216.8 million or 46.8%; and (ii) an increase in cash and cash equivalents by approximately RMB241.8 million or 177.6%. Our net current liabilities decreased by approximately RMB58.3 million, or 10.6% from RMB551.8 million as at 31 December 2022 to RMB493.5 million as at 31 January 2023. Such decrease was primarily resulted from (i) an increase in borrowings by approximately RMB100.0 million or 40.5%; and (ii) a decrease in contract liabilities by approximately RMB108.1 million or 24.5%.

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Our net current liabilities decreased by approximately RMB516.8 million, or 34.8%, from RMB1,483.7 million as at 31 December 2020 to RMB966.9 million as at 31 December 2021. Such decrease primarily resulted from a decrease in (i) trade and other payables by approximately RMB149.4 million or 15.5%; and (ii) borrowings by approximately RMB473.1 million or 50.5%, which were partially offset by an increase in (i) restricted cash by approximately RMB41.8 million or 120.1%; and (ii) cash and cash equivalents by approximately RMB44.4 million or 48.4%.

Despite our net current liabilities position during the Track Record Period, our Directors confirm that we did not experience any material financial difficulties with respect to our cash flow for the following reasons:

- we did not experience any material deterioration in our revenue and net profit during the Track Record Period;
- our net cash from operating activities recorded steady growth during the Track Record Period as a result of the organic growth of our business;
- we were not involved in any material legal proceeding in relation to our failure to settle our trade payables during the Track Record Period;
- we were not involved in any material legal proceeding in relation to our failure to repay our loans during the Track Record Period;
- during the Track Record Period, we did not experience any difficulty in obtaining credit facilities and there was no situation in which a financial institution refused to provide us with a credit facility;
- during the Track Record Period, there was no situation in which we were unable to obtain the normal business credit of a supplier; and
- during the Track Record Period, we did not experience any difficulty in fulfilling our loan repayment obligations, interest or tax obligations or paying wages to our employees.

Our Directors believe that we are able manage our liquidity risk and ensure working capital sufficiency due to the stability of our operating cash flow, in particular from our provision of heat services. For the years ended 31 December 2020, 2021 and 2022, net cash generated from our operating activities amounted to approximately RMB442.5 million, RMB500.0 million and RMB617.8 million, respectively. Going forward, we have implemented a policy to strictly manage the collection of trade receivables to ensure the stability of our operating cash flow. In addition, our management has supervised and will continue to supervise the scale and timing of our investment and capital expenditures to ensure that such expenditures do not result in excessively high liquidity risk exposure. Further, our management has been actively communicating with financial institutions to obtain new credit facilities and

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adjust the loan structure of our Group by increasing the proportion of our long-term borrowings and reducing the proportion of our short-term borrowings. For future borrowings, we will negotiate with banks to obtain long-term bank loans on favourable terms. From an internal control perspective, we have also designated Mr. Yang Xiaojin, our chief financial officer, to regularly review and update our liquidity funding policies to ensure that it is aligned with our business plan and financial position, and report comprehensively on our Group’s working capital and liquidity management to the Board at least once every quarter.

As at 31 December 2022, our Group had unused banking facilities amounting to RMB824.0 million, of which RMB60 million is available to our Group up to June 2023, RMB125.0 million is available to our Group up to July 2023 and could be extended to July 2024, RMB489.5 million is available to our Group up to April 2024 and the remaining RMB149.5 million is available to our Group up to December 2030.

Our Directors have reviewed our Group’s cash flow projections for a period not less than twelve months from the balance sheet date, made due enquiries with management and considered the bases and assumptions of the projections. Our Directors are of the opinion that, taking into account our Group’s financial performance and operating cash inflows, the capital expenditures plans, the continuous availability of existing facilities and the new credit facilities secured, our Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2022. Accordingly, our historical financial information has been prepared on a going concern basis.

### *Inventories*

During the Track Record Period, our inventories mainly consisted of (i) raw materials in relation to our heat services such as coal and other chemical consumables; (ii) raw materials being used in our engineering construction services like parts; and (iii) work in progress such as semi-finished skid-mounted heat exchange units and other equipment mainly related to the our sale of heat service-related goods. Costs are assigned to individual items of inventory on the basis of weighted average costs. The following table sets out a breakdown of the inventories as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Raw materials and consumables	32,851	38,178	48,926
Work in progress	49	–	–
	32,900	38,178	48,926

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Our inventories increased by approximately RMB10.7 million, or 28.2%, from approximately RMB38.2 million as at 31 December 2021 to approximately RMB48.9 million as at 31 December 2022, mainly due to (i) the increase in our coal stock to support more coal consumption for our provision of heat service due to the overall expansion of actual heat service area of our Group, and (ii) the increase in coal price in 2022. Our inventories increased by approximately RMB5.3 million, or 16.1%, from approximately RMB32.9 million as at 31 December 2020 to approximately RMB38.2 million as at 31 December 2021, mainly due to an increase in procurement price of coals which were consumed in order to generate heat for our Lanzhou New Area Project.

The following table sets out our average inventories turnover days for the years indicated.

	For the year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Average inventories turnover days <sup>(1)</sup>	151.3	140.4	111.5

*Note:*

- (1) Average inventories turnover days are equal to the average balances of inventories divided by the respective cost of sales and multiplied by 365 days for a year. Average balances of inventories are equal to the sum of the balances of inventories at the beginning of the period and the balances of inventories at the end of the year and divided by two.

Our average inventories turnover days were 151.3 days, 140.4 days and 111.5 days for the years ended 31 December 2020, 2021 and 2022, respectively. Our inventories turnover days decreased from approximately 151.3 days for the year ended 31 December 2020 to approximately 140.4 days for the year ended 31 December 2021 and further decreased to approximately 111.5 days for the year ended 31 December 2022, mainly because we managed our inventories more frequently and efficiently to reduce our inventories level, resulting in higher inventories turnover rate.

For the years ended 31 December 2020, 2021 and 2022, ending balances of our coal stock were approximately RMB6.4 million, RMB11.0 million and RMB19.1 million, respectively.

We periodically review our inventory levels for slow-moving inventory, obsolescence or decline in market value. Write-down of inventories is recorded when estimated net realisable value is less than cost. In view of the fact that (i) we generally consumed our raw materials in relation to our heat services within the heat service period and keep it at a low level when it is outside the heat service period, and (ii) our raw materials used in engineering construction services generally had a long lifespan, no write-down of inventories was recorded during the Track Record Period.

As at 31 January 2023, approximately 41.7% of our inventories as at 31 December 2022 had been subsequently sold to our customers and/or consumed by our Group.

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### *Trade receivables*

During the Track Record Period, our trade receivables mainly represented fees from customers for provision and distribution of heat, price subsidies from local government, and pipeline connection fee.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in current assets</b>			
Trade receivables			
– Related parties	11,443	8,252	10,090
– Third parties	385,612	373,483	515,490
	397,055	381,735	525,580
Notes receivables	–	–	50
Lease receivables	24,251	35,106	21,346
Less: allowance for impairment of trade receivables and lease receivables	(56,562)	(79,115)	(68,990)
	364,744	337,726	477,986
<b>Included in non-current assets</b>			
Lease receivables	127,855	116,737	109,749
Less: allowance for impairment of lease receivables	(58,891)	(34,870)	(21,591)
	68,964	81,867	88,158
<b>Total trade receivables</b>	<b>433,708</b>	<b>419,593</b>	<b>566,144</b>

Our trade receivables mainly represent the amounts receivable from (i) local government for price subsidies; (ii) certain large customers of our heat services, such as governmental institutions and property management companies; and (iii) the customer of EMC services. For more information relating to credit policy, see “Business – Heat distribution – Payment and credit policy” in this document.

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Our trade receivables decreased by approximately RMB14.1 million, or 3.3%, from RMB433.7 million as at 31 December 2020 to RMB419.6 million as at 31 December 2021. Such decrease was primarily due to more settlement made by our customers, including the decrease in the outstanding balance of price subsidies from Customer A, which is the government authority granting price subsidies. Our trade receivables increased by approximately RMB146.6 million, or 34.9%, from approximately RMB419.6 million as at 31 December 2021 to approximately RMB566.1 million as at 31 December 2022. Such increase was primarily due to (i) an increase in amount receivable from local government for price subsidies for the heat services provided in 2022; and (ii) an increase in receivables in relation to the engineering construction services provided to a local government, which is transferred from contract assets.

The following table sets out an aging analysis of our trade receivables (excluding notes receivables and lease receivables) from the date of sales, as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	318,786	288,269	434,000
1 to 2 years	59,186	60,780	52,158
2 to 3 years	11,044	17,381	24,704
Over 3 years	8,039	15,305	14,718
	397,055	381,735	525,580

The balance of our trade receivables aged over one year amounted to approximately RMB78.3 million, RMB93.5 million and RMB91.6 million, representing approximately 19.7%, 24.5% and 17.4% of our total trade receivables (excluding notes receivables and lease receivables) as at 31 December 2020, 2021 and 2022, respectively. The increase in the balance of our trade receivables aged over one year from approximately RMB78.3 million as at 31 December 2020 to approximately RMB93.5 million as at 31 December 2021 was mainly attributable to the outbreak of COVID-19 as a global pandemic since early 2020. To contain the COVID-19, the PRC Government has imposed a number of measures across the PRC including, but not limited to, temporary travel restrictions and quarantine for travellers or returnees and shutdown of certain business operations. As a result, some of our customers faced temporary interruption of business activities and financial difficulties in their business operations which led to longer settlement period or their inability in settling the amount due to us. In light of this, our Group has adopted various measures to manage credit risk, such as (i) conducting monthly review of our balance of trade receivables to regularly analyse aging of our trade receivables; (ii) following up with our customers more frequently in order to improve settlement of the trade receivable balances; and (iii) assessing the credit quality of our customers by taking into account various factors such as their financial position, historical settlement record and other factors including, but not limited to, the economic impact of the

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unprecedented COVID-19 pandemic on the customers and the regions in which they operate. The balance of our trade receivables aged over one year slightly decreased as at 31 December 2022 due to the gradual resumption of normal commercial and industrial business operations.

The following table sets out our average trade receivables turnover days for the years indicated.

	For the year ended 31 December		
	2020	2021	2022
Average trade receivables turnover days <sup>(1)</sup>	135.2	133.9	145.0

*Note:*

- (1) Average trade receivables turnover days are calculated based on the average gross balances of trade receivables divided by respective revenue (excluded the engineering construction services income for concessions) and multiplied by 365 days for a year. Average gross balances of trade receivables are equal to the sum of the gross balances of trade receivables at the beginning of the period and the gross balances of trade receivables at the end of the year and divided by two.

Our average trade receivables turnover days remained relatively stable at 135.2 days and 133.9 days for the years ended 31 December 2020 and 2021, respectively.

Our turnover days increased from approximately 133.9 days for the year ended 31 December 2021 to approximately 145.0 days for the year ended 31 December 2022, which was mainly due to aforementioned impact of COVID-19.

As at 31 January 2023, approximately 20.7% of our trade receivables as at 31 December 2022 were subsequently settled.

During the Track Record Period, our notes receivables represented the notes from our customers in respect of their payment to us. We did not record notes receivables in 2020 and 2021 because we did not receive notes from customers. During the same period, our allowance for impairment of trade receivables was made primarily due to the long outstanding trade receivables in relation to our EMC services.

Lease receivables represented the amounts receivable from a power plant in relation to certain equipment and machinery installed in such plant by us in 2017. Such balance remained relatively stable during the Track Record Period.

Our trade receivables generally have no credit term as we require fees for the provision and distribution of heat and pipeline connection fees to be paid in advance in accordance with industry practice. Our loss allowance provision of trade receivables amounted to approximately RMB115.5 million, RMB114.0 million and RMB90.6 million, as at 31 December 2020, 2021 and 2022, respectively.

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Our Group applies the IFRS 9 simplified approach to measure the expected credit loss ("ECL"), which uses a lifetime expected loss provision for all trade receivables. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Our Group has identified the Consumer Price Index, Producer Price Index and the unemployment rate of the cities in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on the expected changes in these factors.

The following table sets out the movements in loss allowance provision of trade receivables and lease receivable for the years indicated.

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	102,169	115,453	113,985
Provision/(reversal) of loss allowance recognised in profit or loss			
– Trade receivables and lease receivables	13,284	(1,468)	(23,404)
At the end of the year	115,453	113,985	90,581
 <i>At the year ended 31 December</i>			
Loss allowance provision of:			
– Trade receivables and lease receivables	115,453	113,985	90,581

We have been constantly evaluating the financial and credit conditions of our customers and periodically make collective assessment on the recoverability of trade receivables. We use a provision matrix to calculate expected credit loss from trade receivables. The provision rates are based on the number of days past due for different groupings of various customer segments that have similar loss pattern. For the expected loss rates adopted and movement of the gross carrying amount of and loss allowance provision for our trade receivables, please refer to note 3.1(b) to the accountant's report as set out in Appendix I to this document.

In view of the fact that (i) the trade receivables from the local government for price subsidies are generally settled after the heat service period upon the completion of the assessment done and issuance of formal report by the local government and no default events occurred historically; (ii) the trade receivables from the customers, who are governmental institutions and/or State-owned companies, normally have a longer settlement period due to their longer and more complex internal process in settling payments to suppliers, while maintaining generally high historical recovery rates due to their good credit standing; (iii) we have made collective assessment on the trade receivables from other customers and followed



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up with them more frequently based on their historical settlement records, overall quality and credit strength and we have adopted higher expected loss rates on these customers; and (iv) the settlement rate of our trade receivables is consistent with its historical patterns, we considered that sufficient provision has been made on trade receivables.

### *Prepayments and other receivables*

The following table sets out the breakdown of our prepayments and other receivables as at the dates indicated.

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in current assets</b>			
Other receivables and deposits			
– Amounts due from a related party	154,400	40,074	–
– Deposits	11,610	8,542	8,798
– Consideration receivable from disposal of intangible assets	10,564	10,564	1,482
– Consideration receivable from disposal of right-of-use assets	–	–	–
– Receivable of financing arrangements with a third party	52,412	54,724	59,072
– Others	9,732	10,091	11,013
	238,718	123,995	80,365
Less: allowance for impairment of other receivables and deposits	(3,500)	(4,085)	(4,754)
	235,218	119,910	75,611
Deductible value-added tax	54,946	53,070	19,736
Prepayments to suppliers	16,028	18,292	16,304
Prepayments for income tax	5,590	2,727	3,856
Prepaid [REDACTED] expenses	12,762	21,511	37,620
	89,326	95,600	77,516
	324,544	215,510	153,127

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	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in non-current assets</b>			
Receivable of financing arrangements			
with a third party	106,980	46,207	–
Receivable of finance lease of plant and equipment to a related party	30,786	28,403	25,886
Less: allowance for impairment of other receivables and deposits	(642)	(389)	(265)
	137,124	74,221	25,621
Prepayments to related parties	79	3,747	3,819
Deductible value-added tax	155,639	145,315	–
Prepayments for intangible assets	11,367	14,836	12,425
	167,085	163,898	16,244
	304,209	238,119	194,992

During the Track Record Period, amounts due from a related party was mainly attributable to the loan financing arrangement with Beijing Zhongchuang. Such amount decreased from approximately RMB154.4 million as at 31 December 2020 to approximately RMB40.1 million as at 31 December 2021 resulting from the repayment made by Beijing Zhongchuang during the same period. As at 31 December 2022, Beijing Zhongchuang had fully repaid the amounts due to us in accordance with the loan financing arrangement.

During the Track Record Period, deposits mainly represented deposits required for utility services. Our deposits remained relatively stable at approximately RMB8.5 million and RMB8.8 million as at 31 December 2021 and 2022, respectively. Our deposits decreased from approximately RMB11.6 million as at 31 December 2020 to approximately RMB8.5 million as at 31 December 2021, as the utility deposits related to our business operation in Shuozhou of Shanxi Province were adjusted downwards during the same period.

As at 31 January 2023, approximately RMB15.2 million, or 7.8% of our prepayments and other receivables as at 31 December 2022 had been subsequently utilised/settled.

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During the Track Record Period, consideration receivable from disposal of right-of-use assets represented the difference between our purchase price of such assets and the compensation received from the Management Committee of Shanxi Transformation and Comprehensive Reform Demonstration Zone\* (山西轉型綜合改革示範區管理委員會) for the transfer of a parcel of idle land to it for public usage, which was fully settled in 2019. During the Track Record Period, consideration receivable from disposal of intangible assets represented the compensation related to land reclamation relating to such parcel of idle land by the local government in Taiyuan of Shanxi Province in 2019.

During the Track Record Period, our Group recognised finance income from receivables from financing arrangements with an energy company, which is not a connected person to our Group. In early 2018, such energy company was engaged by the local government authority to conduct the engineering construction works for Xinmi Project. The engineering construction works for phase I of Xinmi Project were completed in December 2018. But the energy company experienced serious financial difficulties so phase II of the engineering construction works cannot be duly completed. After obtaining consent from the local government authority, it started to identify suitable transferee for the heat service-related assets of phase I of Xinmi Project. It was our Group's strategic target to explore the heat services market in Xinmi city of Henan Province at that time and our Group needed such an opportunity to enter into its heat services market, therefore our Group approached the energy company for cooperation. On 4 December 2018, we entered into a series of arrangements with such energy company, pursuant to which they undertook sale and buyback arrangements with our Group for certain heat service infrastructure for the provision of heat service in Xinmi. Such energy company sold such facilities to our Group in December 2018. The total consideration payable to them by our Group for the sale and buyback arrangements was approximately RMB176.0 million. They agreed to purchase back the infrastructure at a total consideration of RMB244.1 million over five years. According to the payment schedule, RMB48.8 million will be paid each year during a five-year operating period. The repurchase price included the effect of the time value of money which is more than the original sale price of the heat service infrastructure. Therefore, the arrangement was accounted for as a financing arrangement provided by our Group to the aforementioned energy company. For the years ended 31 December 2020, 2021 and 2022, our Group recognised finance income from the aforesaid receivables of approximately RMB17.5 million, RMB13.7 million and RMB10.9 million, respectively. Such heat service infrastructure for the provision of heat service in Xinmi is expected to be one of the heat service facilities of our Xinmi Project in the future. Such receivables decreased during the Track Record Period as the aforementioned energy company consistently repaid us in accordance with the repayment schedule as stipulated in the relevant agreements. As advised by our PRC Legal Advisers, such sale and buyback arrangements stipulated under relevant agreements do not violate the relevant PRC laws and regulation. Save for the financing arrangements as mentioned above, our Directors confirmed that there is no past or present relationship (including but not limited to business, shareholding, employment, family, trust, financing and fund flows) between the energy company, its shareholders, directors, senior management and/or any of their respective associates and our Group, our shareholders, directors, senior management and/or any of their respective associates.

During the Track Record Period, other receivables mainly included deposits and prepayments to our suppliers mainly related to our engineering construction services. Other receivables remained relatively stable during the same period.

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Deductible value-added tax represented the recoverable of the value-added tax in relation to the heat procurement, purchase of coals and construction services. Deductible value-added tax decreased over the Track Record Period mainly because the increase in the revenue throughout the Track Record Period resulted in the increase in output value-added taxes, leading to the decrease in deductible value-added tax.

The table below sets out our prepayments as at the dates indicated.

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for:			
– suppliers	16,028	18,292	16,304
– income tax	5,590	2,727	3,856
– [REDACTED] expenses	12,762	21,511	37,620
– intangible assets	11,367	14,836	12,425
<b>Total</b>	<b>45,747</b>	<b>57,366</b>	<b>70,205</b>

During the Track Record Period, our prepayments mainly consisted of our prepayments for (i) suppliers; (ii) income tax; (iii) [REDACTED] expenses to be capitalised; and (iv) intangible assets. During the same period, our prepayments for suppliers were primarily our prepayments in relation to our heat services, which mainly represented prepayments for heat procurement costs and coal procurement costs. Our prepayments for intangible assets mainly represented our prepayments for certain heat service facilities required for our engineering construction services under our concession rights.

Our prepayments increased from approximately RMB45.7 million as at 31 December 2020 to approximately RMB57.4 million as at 31 December 2021, and further increased to approximately RMB70.2 million as at 31 December 2022, which were mainly due to the increase in prepayments for [REDACTED] expenses.

### *Financial assets at fair value through profit or loss*

During the Track Record Period, financial assets at fair value through profit or loss represented the investments in wealth management products issued by banks in the PRC with expected investment return rates ranged from 2.10% to 3.88% per annum. The financial assets at fair value through profit or loss were all denominated in RMB. Since we collected the prepayments from our heat service customers before or at the beginning of each heat service period, we utilised temporary idle funds to invest in wealth management products to optimise our capital structure.

As at 31 December 2020, 2021 and 2022, we had financial assets at fair value through profit or loss of approximately RMB11.0 million, RMB17.1 million and nil, respectively.

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Our investment in wealth management products is categorised within level 3 of fair value measurement. In relation to the valuation of the wealth management products, our Directors have considered and understand, among others, the following: (i) the terms of the wealth management products subscription agreements; (ii) the valuation related policies and other supporting documents; (iii) the available market information of similar wealth management products; (iv) the expected return rates of the wealth management products and cost of financing in order to assess the level of returns to our Group; and (v) the methodology, assumptions and key parameters adopted for our valuation of such financial instruments. Based on the above considerations, our Directors are of the view that the valuation of our Group's level 3 financial instruments is fair and reasonable and the financial statements of our Group are properly prepared.

Details of the fair value measurement of our level 3 financial instruments, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs and the relationship of unobservable inputs to fair value of level 3 measurements are disclosed in Note 3.3 to our accountant's report as set out in Appendix I to this document. Our Company's reporting accountant has carried out audit procedures in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants. Our reporting accountant's opinion on the historical financial information of our Group for the Track Record Period as a whole is set out on pages I-1 to I-2 of this document.

In relation to the valuation analysis performed by our Directors, the Sole Sponsor has conducted relevant due diligence work, including but not limited to (i) discussing with management of our Company regarding the nature and background of its investment in the wealth management products, including the risk profiles, and the reasons for making such investments; (ii) reviewing the relevant wealth management products subscription agreements and profile of financial products to independently assess the merits of the proposed investments; (iii) discussing with our Company about the material information affecting the valuation of the wealth management products; (iv) discussing with our Company about the methodology, assumptions and parameters for the valuation of the wealth management products; and (v) discussing with the Company's reporting accountant to understand the work they have performed in relation to the valuation of the wealth management products for the purpose of reporting on the historical financial information of our Group, as a whole, for the Track Record Period.

Based on the work done by our Directors and our Company's reporting accountant, and having considered the relevant due diligence done as stated above, nothing has come to the attention of the Sole Sponsor that would cause the Sole Sponsor to question the valuation analysis performed by our Company on its level 3 financial instruments.

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### Our treasury and investment policy

It is our treasury management policy to utilise surplus cash reserves to invest in financial products and generate income without interfering with our business operations or capital expenditures, in order to provide sustainable benefits for our Group. We expect to continue to invest in such financial products after [REDACTED]. Mr. Luo Wei, our executive Director, a deputy general manager of our Company and our Board secretary, and Mr. Yang Xiaojin, our chief financial officer, both possess the management expertise for the investment in financial products. Mr. Luo Wei has approximately 25 years of working experience in auditing and financial matters and gained experience from various auditing and corporate positions. Mr. Luo Wei was accredited as a Certified Public Accountant by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) on 20 December 2002. Mr. Yang Xiaojin also has significant experience in finance and accounting. Prior to joining our Group, Mr. Yang Xiaojin worked as an auditing specialist in Shuangliang Group Co. between April 2014 and May 2015 and then worked as a finance manager in Shuangliang Eco-Energy between June 2016 and April 2017. See “Directors, supervisors and senior management” in this document for further details. To control our risks, we typically invest in low-risk and short-term financial products issued by banks in the PRC.

We have adopted the following internal control measures in place for our investments in financial assets such as wealth management products:

- we typically use our idle funds or spare cash to invest in low-risk financial products, and such investment shall not affect our operation activities and capital expenditures in relation to our main scope of business;
- the financial products we invest in shall be generally short-term and the annualised expected return rate of which shall be typically higher than the annual interest rate of fixed deposits;
- we generally invest in financial products provided by sizable and reputable licensed commercial banks;
- our Board is responsible for the overall planning and evaluation of treasury policy. For investments with an investment amount which is expected to utilise (i) more than 50% of our Group’s total net assets and (ii) more than 30% of our Group’s total assets based on the latest audited financial statements of our Group, approval from our Board must be obtained before the investment is made. All investments shall comply with the Listing Rules if applicable; and
- our finance department is responsible for the review and oversight of the on-going performance of the financial products.

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### *Restricted cash*

During the Track Record Period, our restricted cash represented deposits placed with the banks for the issuance of bank acceptance notes and as deposits of capital expenditures. As at 31 December 2020, 2021 and 2022, we had restricted cash of approximately RMB34.8 million, RMB76.7 million and RMB100.4 million, respectively. The main reason for the increase in the restricted cash during the Track Record Period was that an increase in the amount of cash pledged for bank’s acceptance notes and bank loan over the Track Record Period.

### *Trade and other payables – current liabilities*

During the Track Record Period, our trade payables included trade payables to third parties and related parties in relation to our purchases during the ordinary course of our business operation. For details of our transactions of trade nature with related parties, see “Related party transactions” in this section. We were typically not granted any credit term by our major suppliers during the Track Record Period. Our other payables included payables for acquisition of intangible assets, payables for acquisition of property, plant and equipment, employee benefits payables, other taxes payables and others. As at 31 December 2020, 2021 and 2022, our trade and other payables included in current liabilities were RMB965.5 million, RMB816.1 million and RMB976.3 million, respectively.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Trade payables			
– third parties	261,666	259,455	333,259
Notes payables	73,241	57,802	109,738
Other payables			
– amounts due to related parties	50,279	43,195	31,566
– payables for acquisition of intangible assets	407,349	270,678	299,269
– payables for acquisition of property, plant and equipment	4,357	4,230	4,217
– employee benefits payables	24,804	28,286	25,218
– other taxes payables	28,527	24,599	37,080
– interest payables	808	489	1,107
– employee reimbursement payables	843	717	2,465
– dividends payables to non-controlling interests	40,778	40,778	40,778
– loans from government	28,724	28,067	22,498
– refundable pipeline connection fees	17,811	14,175	2,941
Installment payment for acquisition of intangible assets	14,408	34,373	40,551
Others	11,911	9,258	25,590
	<b>965,506</b>	<b>816,102</b>	<b>976,277</b>

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Our current trade payables primarily relate to our heat procurement that we require for our business operations. The change in balances of our current trade payables is generally in line with the change in heat procurement cost, and remained relatively stable from 2020 to 2021. The increase in the current trade payables from 2021 to 2022 was mainly due to (i) the increase in procurement of heat and coal and (ii) increase in coal price.

During the Track Record Period, our notes payables mainly represented banks' acceptance bill. Notes payables decreased from approximately RMB73.2 million as at 31 December 2020 to approximately RMB57.8 million as at 31 December 2021 and increased to approximately RMB109.7 million as at 31 December 2022 mainly due to the gradual change in the settlement method by using more notes issued by us for the settlement of the payables from our suppliers.

During the Track Record Period, our payables for acquisition of intangible assets mainly represented the heat service facilities required for the provision of our engineering construction services under our concession rights. Our payables for acquisition of intangible assets decreased from approximately RMB407.3 million as at 31 December 2020 to approximately RMB270.7 million as at 31 December 2021 and slightly increased to approximately RMB299.3 million as at 31 December 2022, which were in line with the changes in our cost of sales of our engineering construction services during the Track Record Period.

During the Track Record Period, our payables for acquisition of property, plant and equipment mainly represented those equipments related to the provision of our heat services. Our payables for acquisition of property, plant and equipment remained stable as at 31 December 2020, 2021 and 2022.

During the Track Record Period, loans from government were mainly related to our business in Shanxi Province. In August 2012 and July 2013, we entered into agreements with Shanxi Provincial Government Investment Asset Management Centre (“**Shanxi Government Investment Centre**”), pursuant to which Shanxi Government Investment Centre provided to us interest free loans in the aggregate amount of RMB27,500,000 with a term of seven years to support our construction of heating projects in Shanxi Province. Advances in the amount of RMB23,000,000 enjoyed an interest-free period from 2012 to 2019 and advances in the amount of RMB4,500,000 enjoyed an interest-free period from 2013 to 2020. After that, interest would be calculated according to the benchmark loan interest rate. During the Track Record Period and as at the Latest Practicable Date, we did not repay the aforementioned outstanding loans to the government. Such loans were repayable on demand by the government.



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During the Track Record Period, refundable pipeline connection fee was related to the shantytown reformation scheme in Hulunbuir of Inner Mongolia Autonomous Region. According to a government notice issued by the local government, 50% of the pipeline connection fee we received was refundable to our heat service customers before or at the beginning of each heat service period. As a result, we recorded refundable pipeline connection fee of approximately RMB17.8 million, RMB14.2 million and RMB2.9 million as at 31 December 2020, 2021 and 2022, respectively.

Our dividends payable to non-controlling interests amounted to approximately RMB40.8 million, RMB40.8 million and RMB40.8 million as at 31 December 2020, 2021 and 2022, respectively. Our Directors expect such dividends payable will be settled upon [REDACTED].

The following table sets out an aging analysis of our trade payables based on goods/services receipt dates, as at the dates indicated.

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	203,639	183,213	224,470
1 to 2 years	28,750	22,777	34,074
2 to 3 years	12,555	25,687	22,761
Over 3 years	16,722	27,778	51,954
	261,666	259,455	333,259

The table below sets out our average trade payables and payables for acquisition of intangible assets turnover days for the years indicated.

	For the year ended 31 December		
	2020	2021	2022
Average trade payables and payables for acquisition of intangible assets turnover days <sup>(Note)</sup>	286.2	306.6	255.6

*Note:* Average trade payables and payables for acquisition of intangible assets turnover days is equal to the average trade payables and payables for acquisition of intangible assets divided by relevant cost of sales (excluding the amortisation of relevant intangible assets, right-of-use assets and property plant and equipment) and multiplied by 365 days for a year. Average trade payables and payables for acquisition of intangible assets are equal to the sum of the trade payables and payables for acquisition of intangible assets at the beginning of the period and the trade payables and payables for acquisition of intangible assets at the end of the year and divided by two.

Our average trade payables and payables for acquisition of intangible assets turnover days was 286.2 days, 306.6 days and 255.6 days for the years ended 31 December 2020, 2021 and 2022, respectively.

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Our turnover days increased from approximately 286.2 days for 2020 to 306.6 days for 2021 which was merely due to decrease in costs of sales.

Our turnover days decreased from approximately 306.6 days for 2021 to approximately 255.6 days for 2022, which was mainly due to shorter payment terms provided by our suppliers.

As at 31 January 2023, approximately 20.8% of the trade payables as at 31 December 2022 were subsequently settled.

### *Contract liabilities*

Our contract liabilities represented the payments received from customers by us while the goods or services are yet to be delivered. Our contract liabilities mainly included the payments received in advance in respect of (i) our provision and distribution of heat; and (ii) pipeline connection fees.

The table below sets out our contract liabilities as at the dates indicated.

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i><b>Included in current liabilities</b></i>			
Provision and distribution of heat	334,067	381,208	345,139
Pipeline connection fees	73,863	80,159	95,032
Sale of goods	350	420	348
Others	1,225	1,101	27
<i><b>Included in non-current liabilities</b></i>			
Pipeline connection fees	1,506,471	1,628,637	1,821,454
	1,915,976	2,091,525	2,262,000

For our provision and distribution of heat, we normally regulates our customers to make upfront payments before the commencement of service period. For pipeline connection fees, the contract liabilities balances refer to the total pipeline connection fees received since the beginning of respective concession periods. Subsequently, the pipeline connection fee will be recognised as revenue over respective concession periods.

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The table below sets out the aging analysis of our contract liabilities in respect of pipeline connection fees by heat service project as at 31 December 2022.

	Shanxi						Total
	Taiyuan Project	Demonstration Zone Project	Shuozhou Project	Lanzhou Project	Hulunbuir Project	Xinmi Project	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	37,140	1,317	13,086	23,222	20,267	–	95,032
Between 1 and 2 years	37,140	1,317	13,086	23,222	20,267	570	95,602
Between 2 and 5 years	111,420	3,952	39,258	69,665	60,801	1,709	286,805
Over 5 years	460,350	42,109	188,681	413,577	319,520	14,810	1,439,047
	<u>646,050</u>	<u>48,695</u>	<u>254,111</u>	<u>529,686</u>	<u>420,855</u>	<u>17,089</u>	<u>1,916,486</u>

Our contract liabilities (current) include 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. As at 31 December 2020, 2021 and 2022, our contract liabilities (current) were approximately RMB409.5 million, RMB462.9 million and RMB440.5 million, respectively. Our contract liabilities (current) increased by RMB53.4 million, or 13.0%, from RMB409.5 million as at 31 December 2020 to RMB462.9 million as at 31 December 2021, primarily due to an increase in number of heat service customers. Our contract liabilities (current) decreased by RMB22.3 million, or 4.8%, from RMB462.9 million as at 31 December 2021 to RMB440.5 million as at 31 December 2022, primarily due to a decrease in advances payment from customers in relation to the provision and distribution of heat.

As at 31 January 2023, approximately RMB113.9 million, or 5.0% of our contract liabilities as at 31 December 2022 had been subsequently recognised as revenue.

### *Deferred income*

During the Track Record Period, our deferred income mainly represented government grants which were recognised on a straight-line over the relevant course of useful live of the respective heat service facilities. As at 31 December 2020, 2021 and 2022, we had deferred income of approximately RMB54.8 million, RMB85.1 million and RMB83.5 million, respectively.

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The following table sets out the movement of deferred income for the year indicated.

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	68,765	54,831	85,125
Additions	–	44,500	17,000
Recognised in profit or loss	(13,934)	(14,206)	(18,666)
At the end of the year	54,831	85,125	83,459

The increase in our deferred income in 2021 was mainly due to an increase in receipt of government subsidies during the year. The decrease in our deferred income in 2020 was mainly due to the periodic amortisation of the income over the period without any new addition in 2020. Our deferred income remained stable as at 31 December 2022.

### Indebtedness

The following table sets out the breakdown of our indebtedness as at the dates indicated.

	As at 31 December			As at 31 January
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Borrowings	1,308,636	1,061,277	881,214	983,906
Lease liabilities	23,557	19,975	19,682	18,775
Loans from government	28,724	28,067	22,498	22,579
Amounts advanced from related party	700	700	700	700

### Borrowings

During the Track Record Period, our borrowings primarily consisted of bank borrowings. 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. As at 31 January 2023, being the latest practicable date for this indebtedness statement, our bank borrowings were approximately RMB983.9 million. Our bank borrowings and other borrowings were unsecured or secured and/or guaranteed, and denominated in RMB.

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The table below sets out a breakdown of our borrowings as at the dates indicated.

	As at 31 December			As at
	2020	2021	2022	31 January
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Included in non-current liabilities:</b>				
Other borrowings				
– secured	53,000	49,500	–	–
– unsecured	556,518	300,854	–	–
Bank borrowings				
– unsecured and guaranteed	286,118	271,923	203,075	204,216
– unsecured	–	–	59,500	59,500
– secured and guaranteed	–	–	408,139	409,690
	<u>895,636</u>	<u>622,277</u>	<u>670,714</u>	<u>673,406</u>
Less: current portion of non-current liabilities	<u>(523,663)</u>	<u>(24,515)</u>	<u>(36,250)</u>	<u>(36,250)</u>
	<u>371,973</u>	<u>597,762</u>	<u>634,464</u>	<u>637,156</u>
<b>Included in current liabilities:</b>				
Bank borrowings				
– secured and guaranteed	223,000	209,000	100,000	100,000
– unsecured and guaranteed	190,000	230,000	100,000	200,000
– secured and unguaranteed	–	–	10,500	10,500
Current portion of non-current liabilities	<u>523,663</u>	<u>24,515</u>	<u>36,250</u>	<u>36,250</u>
	<u>936,663</u>	<u>463,515</u>	<u>246,750</u>	<u>346,750</u>
<b>Total borrowings</b>	<u>1,308,636</u>	<u>1,061,277</u>	<u>881,214</u>	<u>983,906</u>

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## FINANCIAL INFORMATION

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As at 31 December 2020, 2021 and 2022 and 31 January 2023, we had aggregate credit facilities of approximately RMB752.1 million, RMB760.4 million, RMB1,707.5 million and RMB1,807.5 million, respectively. Unused facilities as at the same dates amounted to approximately nil, nil, RMB824.0 million and RMB822.4 million, respectively.

As at 31 December 2020, 2021 and 2022, the other borrowings of Lanzhou Shuangliang amounted to RMB53.0 million, RMB49.5 million and nil, respectively, were secured by intangible assets, which comprised our heat service pipelines. As at 31 December 2020, 2021 and 2022 and 31 January 2023, the bank borrowings of Taiyuan Renewable Energy amounting to RMB30.0 million, RMB30.0 million, nil and nil, respectively, were guaranteed by Shanxi Shuangliang Renewable Energy and secured by the concession right under the Taiyuan Concession Agreement; and the bank borrowings of Hulunbuir Shuangliang amounting to RMB193.0 million, RMB179.0 million, RMB158.0 million and RMB158.0 million, respectively were guaranteed by our Company and secured by trade receivables.

Bank borrowings of approximately RMB100.0 million as at 31 December 2020 and 2021 were guaranteed by a company owned as to 96.0% by a business acquaintance of one of our Controlling Shareholders (the “**Guarantor**”). At the same time, Shuangliang Group Co. provided its guarantee to a subsidiary of the Guarantor for its bank loan of similar amount to our bank borrowings of approximately RMB100 million. Our bank borrowings guaranteed by the Guarantor had been fully settled as at the Latest Practicable Date. In addition, bank borrowings of RMB286.1 million, RMB271.9 million, RMB203.1 million and RMB204.2 million as at 31 December 2020, 2021 and 2022 and 31 January 2023, respectively were guaranteed by Shuangliang Group Co.. Bank borrowings of RMB90.0 million, RMB130.0 million, nil and nil as at 31 December 2020, 2021 and 2022 and 31 January 2023 were guaranteed by Shuangliang Technology. Banking borrowings of Lanzhou Shuangliang amounting to RMB53.0 million, RMB49.5 million, nil and nil as at 31 December 2020, 2021 and 2022 and 31 January 2023 were guaranteed by our Company and secured by intangible assets which comprised our heat service pipelines; the bank borrowings of Shuozhou Renewable Energy amounting to RMB175.0 million and RMB175.0 million were guaranteed by our Company, Shuangliang Group Co. and Mr. Miao Wenbin, and secured by certain intangible assets as at 31 December 2022 and 31 January 2023, respectively. Bank borrowings amounting to RMB274.6 million and RMB374.6 million were guaranteed by Gansu Shuangliang as at 31 December 2022 and 31 January 2023 respectively. Shuangliang Group Co. and Shuangliang Technology were our connected persons. For the details, see “Relationship with our Controlling Shareholders – Independence from our Controlling Shareholders – Financial independence” in this document. As at the Latest Practicable Date, the borrowings guaranteed by Shuangliang Technology had been fully settled, and the guarantees by Shuangliang Group Co. and Mr. Miao Wenbin will be released upon [REDACTED].

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Certain of our bank borrowings are subject to the fulfilment of covenants relating to certain debt servicing financial indicators during the Track Record Period. During the Track Record Period, Lanzhou Shuangliang, a subsidiary of our Company, failed to comply with its debt liability ratio covenant and current ratio covenant under its loan contract with the lending bank. As at 31 December 2022, Lanzhou Shuangliang has not re-complied with such financial covenants. In March 2020, we obtained from the lending bank a letter of waiver from strict compliance with certain financial covenants which the letter of waiver continued to take effect as at the Latest Practicable Date as confirmed by a supplemental interview with the lending bank. Accordingly, we reclassified the loan amounting to approximately RMB286.1 million, RMB271.9 million and RMB203.1 million as at 31 December 2020, 2021 and 2022, respectively, as non-current liabilities according to the original payment schedules as set out in the loan contract.

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 covenants, respectively. As at 31 December 2020, Hulunbuir Shuangliang, a subsidiary of our Company, failed to comply with its debt liability ratio covenant and interest-bearing debt ratio covenant under its loan contract. As at 31 December 2022, Hulunbuir Shuangliang has re-complied with such financial covenants. In connection with Hulunbuir Shuangliang’s loan contract, we obtained a waiver letter from the lending bank on March 2022. Accordingly, we reclassified the loan amounting to RMB158.0 million as at 31 December 2022 as non-current liabilities according to the original payment schedules as set out in the loan contract. See Note 3.1(c) to the accountant’s report as set out in Appendix I to this document for maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments.

In respect of the above-mentioned failure to comply with certain financial covenants for two bank borrowings, we have adopted enhanced internal control measures to prevent recurrence of similar incidents. Such measures include: (i) adopting a policy requiring us to assess the viability of financial covenants included in loan agreements upon taking out new bank loans; (ii) all loan agreements and financial covenants contained in such agreements shall be approved by our chief financial officer; (iii) all financial covenants that we are required to comply with shall be recorded and reviewed regularly to ensure our compliance to the same financial covenants; and (iv) our chief financial officer shall regularly monitor our ability to comply with such financial covenants and confirm our compliance status of the same in each financial year and in each report to ensure the ongoing compliance with our financial covenants.

In addition, we obtained other borrowings, which mainly comprised several sales and leaseback financing arrangements between Beijing Zhongchuang and us, which normally have a term of one to two years and bear a fixed interest rate of 6.3% to 6.9% per annum and were secured by heat service pipelines. As at the Latest Practicable Date, these other borrowings from Beijing Zhongchuang had been fully settled.

For details regarding legal compliance of the financing arrangements involving Beijing Zhongchuang and Shuangliang Technology, see “– Related party transactions – (v) financing arrangements” below.

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The following table sets out the annual weighted average effective interest rates of borrowings for the years indicated.

	Year ended 31 December			Month ended 31 January
	2020	2021	2022	2023
				<i>(unaudited)</i>
Borrowings	<u>5.97%</u>	<u>5.35%</u>	<u>5.54%</u>	<u>5.02%</u>

As at 31 January 2023, being the latest practicable date for the purpose of this indebtedness statement, we had unused facilities of approximately RMB822.4 million.

### *Lease liabilities*

During the Track Record Period, we incurred lease liabilities as a result of our leasing of pipeline, heat service equipment and office premises. These lease liabilities were measured at net present value of the minimum lease payments during the lease terms that are not yet paid. There was no extension option clause in the relevant lease agreements. As at 31 December 2020, 2021 and 2022 and 31 January 2023, our lease liabilities amounted to approximately RMB23.6 million, RMB20.0 million, RMB19.7 million and RMB18.8 million, respectively.

The table below sets out a breakdown of our lease liabilities as at the dates indicated.

	As at 31 December			As at 31 January
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Lease liabilities				
– Current	1,342	1,588	1,005	180
– Non-current	<u>22,215</u>	<u>18,387</u>	<u>18,677</u>	<u>18,595</u>
	<u>23,557</u>	<u>19,975</u>	<u>19,682</u>	<u>18,775</u>



## FINANCIAL INFORMATION

### *Guarantee*

Our guarantee provided to an associate in respect of its borrowings amounted to RMB7.2 million, RMB7.2 million, nil and nil as at 31 December 2020, 2021 and 2022 and 31 January 2023, respectively. The guarantee provided to an associate had been released as at the Latest Practicable Date.

### *Amount advanced from a related party*

Amount advanced from a related party amounted to RMB700,000, RMB700,000, RMB700,000 and RMB700,000 as at 31 December 2020, 2021 and 2022 and 31 January 2023 is expected to be settled upon [REDACTED].

### *Indebtedness statement and confirmation*

Except as disclosed in this section above or any intra-group liabilities, we did not have any outstanding or authorised to be issued but unissued debt securities, term loans, other borrowings or indebtedness in nature of borrowing, acceptance credits, mortgages and charges, contingent liabilities or guarantees. Save as disclosed above, our Directors confirm that there had been no material adverse change in our indebtedness since 31 January 2023 and up to the date of this document.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

We had cash and cash equivalents of approximately RMB91.8 million, RMB136.2 million and RMB378.1 million as at 31 December 2020, 2021 and 2022, respectively. Our cash and cash equivalents are all held in RMB.

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

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

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### *Net cash from operating activities*

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

For the year ended 31 December 2020, we had net cash generated from operating activities of approximately RMB442.5 million, which was primarily attributable to (i) profit before tax of approximately RMB143.9 million; (ii) amortisation of intangible assets of approximately RMB166.1 million; (iii) profit from construction services under operating concessions of approximately RMB46.6 million; and (iv) cash inflows of approximately RMB145.0 million for working capital adjustment. Our general working capital adjustment included (i) an increase in contract liabilities of approximately RMB162.8 million, which was primarily due to an increase in our heat fees received in advance; (ii) an increase in restricted cash of approximately RMB54.7 million, which was primarily due to the policy related to restricted cash; (iii) a decrease in trade and other payables of approximately RMB44.8 million, which was primarily due to payment to our major suppliers of construction and maintenance; and (iv) a decrease in trade and other receivables of approximately RMB28.7 million, which was primarily due to payment from our major customers for our construction, maintenance and other services.

For the year ended 31 December 2021, we had net cash generated from operating activities of approximately RMB500.0 million, which was primarily attributable to (i) profit before tax of approximately RMB206.7 million; (ii) amortisation of intangible assets of approximately RMB184.3 million; (iii) profit from construction services under operating concessions of approximately RMB29.2 million; and (iv) cash inflows of approximately RMB132.6 million for working capital adjustments. Our general working capital adjustments included (i) an increase in contract liabilities of approximately RMB175.5 million, which was primarily due to an increase in our heat fees received in advance; (ii) a decrease in restricted cash of approximately RMB3.0 million, which was primarily due to the policy related to restricted cash; (iii) a decrease in trade and other payables of approximately RMB11.4 million, which was primarily due to payment to our major suppliers of construction and maintenance; and (iv) a decrease in trade and other receivables of approximately RMB8.8 million, which was primarily due to payment from our major customers for our construction, maintenance and other services.

For the year ended 31 December 2022, we had net cash generated from operating activities of approximately RMB617.8 million, which was primarily attributable to (i) profit before tax of approximately RMB186.3 million; (ii) amortisation of intangible assets of approximately RMB194.9 million; (iii) profit from construction services under operating concessions of approximately RMB34.5 million; and (iv) cash inflows of approximately RMB295.6 million for working capital adjustments. Our general working capital adjustments

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included (i) an increase in contract liabilities of approximately RMB170.5 million, which was primarily due to an increase in pipeline connection fee resulting from the expansion of our heat service area; (ii) an increase in restricted cash of approximately RMB51.4 million, which was primarily due to an increase in the amount of cash pledged for bank's acceptance notes and bank loan; and (iii) an increase in trade and other payables of approximately RMB127.3 million, which was primarily due to an increase in procurement costs of coal.

Net cash from operating activities increased from approximately RMB442.5 million for the year ended 31 December 2020 to approximately RMB500.0 million for the year ended 31 December 2021, and further increased to approximately RMB617.8 million for the year ended 31 December 2022. Such increases were primarily due to the continuous expansion of our Group's heat services business, as well as the measures adopted by our Group to improve payment collection.

### *Net cash used in investing activities*

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

For the year ended 31 December 2020, our net cash used in investing activities amounted to approximately RMB340.1 million, mainly attributable to (i) cash payment in the purchases of items of property, plant and equipment in 2020 of approximately RMB57.6 million; (ii) purchases of intangible assets of approximately RMB213.0 million; (iii) purchase of financial assets at fair value through profit or loss of approximately RMB743.9 million and disposal of financial assets at fair through profit or loss of approximately RMB748.1 million; and (iv) loans provided to a related party of about RMB150.0 million.

For the year ended 31 December 2021, our net cash used in investing activities amounted to approximately RMB98.7 million, mainly attributable to (i) purchases of intangible assets in 2021 of approximately RMB300.3 million; (ii) purchase of financial assets at fair value through profit or loss of approximately RMB77.0 million; (iii) disposal of financial assets at fair value through profit or loss of approximately RMB71.3 million; and (iv) government grants received in relation to purchase of intangible assets of approximately RMB44.5 million.

For the year ended 31 December 2022, our net cash used in investing activities amounted to approximately RMB117.9 million, mainly attributable to (i) purchases of intangible assets in 2022 of approximately RMB273.7 million; (ii) loans repaid by a related party of approximately RMB40.0 million; (iii) a decrease in restricted cash for deposit of capital expenditure of approximately RMB38.8 million; and (iv) proceeds from financing arrangements with a third party of approximately RMB31.0 million.

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Net cash used in investing activities decreased from approximately RMB340.1 million for the year ended 31 December 2020 to approximately RMB98.7 million for the year ended 31 December 2021, primarily attributable to the repayment of the loans and interest by the related party, as well as government grants received in relation to our purchase of intangible assets. Net cash used in investing activities increased from approximately RMB98.7 million for the year ended 31 December 2021 to approximately RMB117.9 million for the year ended 31 December 2022, primarily due to (i) a change from release of restricted cash for intangible assets to a cash inflow of restricted cash of approximately RMB38.8 million and (ii) an increase in disposal of intangible assets; which was partially offset by a reduction in disposal of financial assets at fair value through profit or loss during the year.

### *Net cash used in financing activities*

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

For the year ended 31 December 2020, our net cash used in financing activities amounted to approximately RMB66.8 million, mainly attributable to (i) repayment of borrowings of approximately RMB889.5 million; (ii) interest paid on borrowings of approximately RMB85.1 million; and (iii) purchase of equipment by instalments of approximately RMB48.0 million, which were partially offset by proceeds from borrowings of approximately RMB995.2 million.

For the year ended 31 December 2021, our net cash used in financing activities amounted to approximately RMB356.9 million, mainly attributable to (i) repayment of borrowings of approximately RMB748.4 million; and (ii) interest paid on borrowings of approximately RMB73.0 million, which was partially offset by proceeds from borrowings of approximately RMB501.0 million.

For the year ended 31 December 2022, our net cash used in financing activities amounted to approximately RMB258.1 million, mainly attributable to (i) proceeds from borrowing of approximately RMB846.0 million; and (ii) repayment of borrowings of approximately RMB976.6 million.

Net cash used in financing activities increased significantly from approximately RMB66.8 million for the year ended 31 December 2020 to RMB356.9 million for the year ended 31 December 2021, primarily attributable to a decrease in our proceeds from borrowings of approximately RMB494.2 million, which was partially offset by a decrease in our repayment of borrowings by approximately RMB141.2 million. Net cash used in financing activities decreased from approximately RMB356.9 million for the year ended 31 December 2021, to approximately RMB258.1 million for the year ended 31 December 2022. The decrease was primarily due to an increase in our repayment of borrowings of approximately RMB976.6 million, which was partially offset by proceeds from borrowings of approximately RMB846.0 million during the year.

## FINANCIAL INFORMATION

### CAPITAL EXPENDITURES

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

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

### CAPITAL COMMITMENTS

During the Track Record Period, we had capital expenditures contracted for but not yet incurred. Our capital commitments were mainly related to intangible assets that we purchased for the construction of heat service facilities in order to expand our existing heat service project and preparing for a new heat service project. The following table sets out our capital commitments as at the dates indicated.

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Intangible assets	68,990	111,294	57,963

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### CONTINGENT LIABILITIES

Our Directors confirmed that we did not have any outstanding loan capital, bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges or loans, or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities or any covenant in connection therewith as of 31 January 2023, being the latest date for the purpose of the indebtedness statement.

### WORKING CAPITAL CONFIRMATION

Our future cash requirements will depend on many factors, including our operating income, changing business conditions and future developments, including any potential investments or acquisitions we may decide to pursue. Heat service is a basic necessity for the livelihood and work conditions of the residents in the regions we are operating. Therefore, we believe that our operating income generated from our business operations will remain stable. Accordingly, we anticipate that net cash generated from operating activities will remain stable going forward.

Our Directors confirm that, taking into account our current cash and cash equivalents, anticipated cash flows from operations, proceeds from the [REDACTED] and banking/credit facilities available to us, as well as the mitigating factors to our net current liabilities as discussed above, we will have available sufficient working capital for our present requirements that is for at least the next 12 months from the date of this document.

### OFF-BALANCE SHEET TRANSACTIONS

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

### RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member of us are also considered as related parties.

## FINANCIAL INFORMATION

During the Track Record Period, we carried out certain transactions with related parties as set out in Note 38 to the accountant’s report as set out in Appendix I to this document.

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Sale of goods and services to</i>			
Shuangliang New Energy Equipment	13,920	–	–
Sinopec New Star	2,825	2,468	3,375
<i>Purchases of plant and equipment from</i>			
Shuangliang Boiler	419	2,205	2,177
Shuangliang New Energy Equipment	11,244	–	–
Shuangliang Eco-Energy	19,029	11,891	13,913
Wuxi Hundun	308	644	268
Shuangliang Eco Engineering	6,201	–	–
Sinopec New Star	–	464	891
<i>Purchases of services from</i>			
Jiangyin Hotel	641	642	1,107
Shuangliang Spandex	–	–	10
<i>Lease arrangements</i>			
Finance lease of plant and equipment to Sinopec New Star	30,786	–	–
Interest income from financing lease to Sinopec New Star	1,320	1,468	1,334
Finance lease from Sinopec New Star	11,031	–	–
Interest expense on finance lease from Sinopec New Star	643	592	538
Lease from Jiangyin Hotel	181	–	–
Interest expense on lease from Jiangyin Hotel	11	6	2
<i>Financing arrangements</i>			
Loans provided to Beijing Zhongchuang	150,000	–	–
Loans repaid by Beijing Zhongchuang	–	110,000	40,000
Interest received from Beijing Zhongchuang	–	11,918	498
Interest income from loan to Beijing Zhongchuang	4,400	7,592	424
Interest paid to Beijing Zhongchuang	46,764	29,405	10,937
Interest expenses to Beijing Zhongchuang	47,233	29,668	10,187
Borrowings from Beijing Zhongchuang	450,000	11,000	–

## FINANCIAL INFORMATION

The following table sets out the outstanding balances as at 31 December 2020, 2021 and 2022 in relation to transactions with related parties as set out in Appendix I to this document.

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Trade nature</i>			
<i>Trade receivables for sale of goods or services</i>			
Shuangliang New Energy Equipment	5,048	2,608	2,608
Shuangliang Eco-Energy	–	7	–
Sinopec New Star	6,395	5,637	7,482
	11,443	8,252	10,090
 <i>Receivable of finance lease of plant and equipment to a related party</i>			
Sinopec New Star	30,786	28,403	25,886
 <i>Prepayments for purchase of goods or services</i>			
Shuangliang Eco-Energy	24	3,379	3,376
Shuangliang Boiler	55	–	75
Wuxi Hundun	–	368	368
	79	3,747	3,819
 <i>Contract liabilities for sales of services</i>			
Sinopec New Star	530	–	–



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	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Trade and other payables for purchase of goods and services</i>			
Shuangliang Eco-Energy	13,741	11,933	3,648
Shuangliang Boiler	73	731	37
Zhejiang Shuangliang Shangda	8	8	8
Jiangyin Hotel	84	140	210
Shuangliang Eco Engineering	20,421	17,526	17,526
Shuangliang New Energy Equipment	13,412	9,705	6,705
Sinopec New Star	1,608	2,130	2,585
Wuxi Hundun	232	322	147
	49,579	42,495	30,866

Payable for finance lease of plant and equipment from a related party			
Sinopec New Star	10,199	9,317	8,380

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

*Non-trade nature*

<i>Amounts due from a related party</i>			
Beijing Zhongchuang	154,400	40,074	–

<i>Amounts advanced from a related party</i>			
Sinopec New Star	700	700	700

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

<i>Other borrowings</i>			
Beijing Zhongchuang	556,518	300,854	–

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**(i) Sale of goods and services**

During the Track Record Period, our sales of good and services to Jiangsu Shuangliang New Energy Equipment and Sinopec New Star mainly represented the sales of heat service related products such as semi-finished skid-mounted heat exchange unit and other equipment for their manufacturing purposes.

**(ii) Purchases of plant and equipment and other assets**

During the Track Record Period, our purchases of plant and equipment and other assets from Shuangliang Boiler, Shuangliang New Energy Equipment, Shuangliang Eco-Energy, Shuangliang Eco Engineering and Sinopec New Star mainly represented the purchases of plant and equipment for our heat service facilities construction.

During the same period, our purchases of other assets from Wuxi Hundun mainly represented a one-off purchase of a IT system and relevant services to support our heat service operation.

**(iii) Purchase of services**

During the Track Record Period, Jiangyin Hotel provided us services of catering and conference organising in the leased premises to us, and Shuangliang Spandex leased a property for office use to us.

**(iv) Lease arrangements**

During the Track Record Period, leases with related parties included (i) leases to and from Sinopec New Star; and (ii) lease arrangement with Jiangyin Hotel. Lease to Sinopec New Star represented leasing of our unused primary distribution pipelines to Sinopec New Star for its heat services; and lease from Sinopec New Star represented leasing of two medium-deep geothermal wells for our Shanxi Demonstration Zone Project.

**(v) Financing arrangements**

During the Track Record Period, we entered into certain financing arrangements with (i) Beijing Zhongchuang and (ii) Shuangliang Technology. Financing arrangements with Beijing Zhongchuang including (i) a one-off short term loan provided to Beijing Zhongchuang; and (ii) sales and leaseback financing arrangements from Beijing Zhongchuang to support our medium to long term capital expenditures to construct our heat service facilities. Advances from Shuangliang Technology was for the purpose of facilitating our normal business development needs.

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## FINANCIAL INFORMATION

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As advised by our PRC Legal Advisers, according to the General Lending Provisions (貸款通則) issued by the PBOC in 1996, only financial institutions may engage in business of extending loans, and loans between companies that are not financial institutions are prohibited. The PBOC may impose penalties on the lender in the amount equivalent to one to five times of the income generated from loan advancing activities. However, based on the fact that our Group had not been subject to penalties for the loans and advances during the Track Record Period and up to the Latest Practicable Date, and having considered the following reasons:

- (a) according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) (the "No. 6 Provisions") promulgated on 6 August 2015, last revised on 29 December 2020 and became effective on 1 January 2021, (a) in terms of a private lending contract concluded between legal persons or unincorporated organisations or between a legal person and an unincorporated organisation for the need of production and operation, except under any of the circumstances as prescribed in Article 13 thereof and in Article 146, Article 153 and Article 154 of the Civil Code of the PRC, relevant people's court shall recognise the validity of the private lending contract; and (b) relevant people's court shall support the claim by the lender for the payment of the interests under the lending contract where the annual interest rate agreed by the parties to the lending contract does not exceed four times of the loan prime rate for one-year loan when the contract is concluded;
- (b) in accordance with the Legislation Law of the People's Republic of China (《中華人民共和國立法法》), National People's Congress and Standing Committee of the National People's Congress enact the laws, while the State Council enacts administrative regulations in accordance with the constitution and the laws of the PRC. The PBOC only enacts the departmental regulations in accordance with the laws and administrative regulations. The General Lending Provisions issued by the PBOC are only departmental regulations but not laws and administrative regulations of the PRC;
- (c) according to (i) our loan agreement entered into with Beijing Zhongchuang and (ii) the written confirmation provided by our Group in relation to the advances from Shuangliang Technology, such loan and advances were made for the purpose of the parties' normal business operation. It did not involve any circumstances as prescribed in Article 13 of the No. 6 Provisions and in Article 146, Article 153 and Article 154 of the Civil Code of the PRC and the annual interest rate of each of the loan and advances is within the scope allowed by the No. 6 Provisions; and
- (d) our PRC Legal Advisers made a consultation with the Jiangyin sub-branch of PBOC, which confirmed that PBOC does not govern ordinary course of lending activities between legal persons for the need of ordinary business operation and it will not impose any penalties on us for such loan and advances;

## FINANCIAL INFORMATION

Our PRC Legal Advisers are of the view that (i) the above loan and advances are legally binding on the parties; (ii) such loan and advances are not in violation of PRC mandatory laws and administrative regulations; (iii) such loan and advances do not constitute a material adverse impact to the Group’s business operation; and (iv) the risk of us being penalised by the PBOC is remote.

As advised by our PRC Legal Advisers, based on the written confirmations issued by Hulunbuir City Housing and Urban-Rural Development Bureau\* (呼倫貝爾市住房和城鄉建設局) (“**Hulunbuir Bureau**”), Shuozhou Gas and Heating Supply Guarantee Centre\* (朔州市供氣供熱保障中心) (“**Shuozhou Centre**”, formerly known as the Shuozhou City Gas and Heating Service Centre\* (朔州市城市供氣供熱服務中心)) Lanzhou Bureau, each of them being a competent authority to provide such confirmation, the provision of loans from Beijing Zhongchuang by way of sales and leaseback financing arrangements does not affect the validity of relevant concession agreements, nor does it have any impact on the legal compliance of our heat services. Based on the above, our PRC Legal Advisers are of the view that the sales and leaseback financing arrangements are in compliance with the relevant PRC laws and regulation.

Our Directors have confirmed that the material related party transactions during the Track Record Period were conducted on arm’s length basis, and in aggregate would not distort our historical results over the Track Record Period or make out historical results over the Track Record Period not reflective of our expectations of our future performance.

### KEY FINANCIAL RATIOS

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

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

*Notes:*

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

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## FINANCIAL INFORMATION

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

### **Current ratio**

Our Group's current ratio was 0.4, 0.5 and 0.7 as at 31 December 2020, 2021 and 2022, respectively. Our Group's current ratio increased from 0.4 as at 31 December 2020 to 0.5 as at 31 December 2021, and further increased to 0.7 as at 31 December 2022, mainly due to a continuing decrease in our current liabilities resulting from a reduction in our short-term borrowings during the Track Record Period and a decrease in our contract liabilities in respect of our provision and distribution of heat as at 31 December 2022.

### **Quick ratio**

Our Group's quick ratio was 0.4, 0.4 and 0.6 as at 31 December 2020, 2021 and 2022, respectively. Our Group's quick ratio remained stable at 0.4 and 0.4 as at 31 December 2020 and 2021, respectively. Our quick ratio increased from 0.4 as at 31 December 2021 to 0.6 as at 31 December 2022, mainly due to the aforementioned decrease in our contract liabilities while our level of quick assets remained stable.

### **Return on total assets**

Our Group's return on total assets was 2.0%, 3.4% and 2.7% for the years ended 31 December 2020, 2021 and 2022, respectively, the changes of which were generally in line with the changes in our net profit during the same years. Our Group's return on total assets increased from 2.0% for the year ended 31 December 2020 to 3.4% for the year ended 31 December 2021, mainly due to the increase in our net profit during the year, and our return on total assets decreased to 2.7% for the year ended 31 December 2022 mainly due to a decrease in net profit during the year.

### **Return on equity**

Our Group's return on equity was 17.4%, 24.5% and 16.5% for the years ended 31 December 2020, 2021 and 2022, respectively. Our Group's return on equity increased from 17.4% for the year ended 31 December 2020 to 24.5% for the year ended 31 December 2021 as the increase in our Group's net profit outpaced the increase in our Group's equity. Our return on equity decreased from 24.5% for the year ended 31 December 2021 to 16.5% for the year ended 31 December 2022, mainly due to a decrease in net profit for the year.

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## FINANCIAL INFORMATION

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### Gearing ratio

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

### Net debt to equity ratio

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

### Interest coverage

Our Group's interest coverage ratio increased from 2.5 times for the year ended 31 December 2020 to 3.5 times for the year ended 31 December 2021, because of the combined effect of (i) the increase in our Group's profit before finance costs and tax; and (ii) the decrease in finance costs as a result of the decrease in overall borrowings. Our Group's interest coverage ratio decreased to 3.2 times for the year ended 31 December 2022 due to the combined effect of (i) a slight increase in finance costs and (ii) a decrease in our Group's profit before finance costs and tax compared to that for the year ended 31 December 2022.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of financial risks, including market risk (including exchange risk, interest rate risk and price risk), credit risk and liquidity risk. See Note 3.1 to the accountant's report as set out in Appendix I to this document. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We did not hedge or consider necessary to hedge any of these risks as at the Latest Practicable Date.

## DIVIDEND AND DIVIDEND POLICY

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

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## FINANCIAL INFORMATION

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also be subject to our Articles of Association, the PRC Company Law, any other applicable PRC laws and regulations. In any event, we will pay dividends out of our profit after tax only after we have made the following allocations:

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

We are a joint stock limited company established in the PRC on 3 September 2010 and the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries of our Group. 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 IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS 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 IFRS, or vice versa. For risks in relation to payment of dividends, see “Risk factors – Risks relating to our business and industry – Payment of dividends is subject to restrictions under PRC laws” in this document.

### DISTRIBUTABLE RESERVES

As at 31 December 2022, our Group had distributable reserves of RMB300.3 million.

### [REDACTED] EXPENSES

The estimated total [REDACTED] expenses, including [REDACTED] commissions, (based on the mid-point of the [REDACTED] range and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately RMB[REDACTED] million (HK\$[REDACTED] million), which represents approximately [REDACTED]% of the gross proceeds from the [REDACTED]. Such estimated total [REDACTED] expenses include (i) [REDACTED] expenses, including [REDACTED] commission, of approximately RMB[REDACTED] million (HK\$[REDACTED] million); (ii) fees and expenses of our legal advisers and reporting accountant of approximately RMB[REDACTED] million (HK\$[REDACTED] million); and (iii) other fees and expenses of approximately RMB[REDACTED] million (HK\$[REDACTED] million). Up to 31 December 2022, [REDACTED] expenses of approximately RMB4.2 million (HK\$4.9 million) were expensed through the statement of profit or loss, while as at 31 December 2022, approximately RMB37.6 million (HK\$44.3 million) was recognised as prepaid [REDACTED] expenses, which is expected to be recognised directly as a deduction from equity upon the [REDACTED]. For the year ending 31 December 2023, an estimated amount of approximately RMB[REDACTED] million (HK\$[REDACTED] million) is expected to be expensed through the statement of profit or loss and an additional amount of approximately RMB[REDACTED] million (HK\$[REDACTED] million) is expected to be recognised directly as a deduction from equity upon the [REDACTED].

## FINANCIAL INFORMATION

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[REDACTED]



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## FINANCIAL INFORMATION

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[REDACTED]

### **NO MATERIAL ADVERSE CHANGE AND RECENT DEVELOPMENTS**

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

### **DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirm that, except as otherwise disclosed in this section, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **PROPERTY INTEREST AND PROPERTY VALUATION**

As at 31 December 2022, certain of our property interests that are for property activities had a carrying amount of above 1% of our total assets. For such properties valued by our property valuer (the “**Valued Properties**”), see the property valuation report as set out in Appendix IV to this document pursuant to Rule 5.01A of the Listing Rules. Save and except for the Valued Properties, our Directors confirmed that as at 31 December 2022, no single property interest of ours for property activities had a carrying amount above 1% of our total assets and the total carrying amount of property interests not valued did not exceed 10% of our total assets.

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## FUTURE PLANS AND [REDACTED]

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### FUTURE PLANS

We strive to optimise our heat service operation and enhance our position as an well-established cross-provincial heat service operator in the PRC through our business strategies. See “Business – Our strategies” in this document for a detailed description of our future plans.

[REDACTED]

We estimate that we will receive [REDACTED] of approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million from the [REDACTED], after deducting the [REDACTED] commissions and other estimated expenses payable by us in connection with the [REDACTED], assuming that the [REDACTED] is not exercised and an [REDACTED] of HK\$[REDACTED] per H Share (being the mid-point of the indicative [REDACTED] range set out on the cover page of this document).

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

- (1) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], will be used for construction of new peak-shaving boiler in our heat source peak-shaving station for our Lanzhou New Area Project (蘭州新區供熱調峰鍋爐建設項目) (the “**Lanzhou Peak-shaving Boiler Construction**”). The construction activities mainly consist of (i) construction of new coal-fired boiler and relevant supporting equipment; (ii) construction of heat source peak-shaving station and supporting infrastructure; and (iii) other ancillary construction activities such as installation of transmission line.

According to the approval from Lanzhou New Area Economy Development Bureau\* (蘭州新區經濟發展局) obtained in March 2020, the new peak-shaving boiler has commenced construction in June 2022 and the construction and construction acceptance check is expected to be completed prior to the commencement of 2023/2024 heat service period. The new heat source peak-shaving boiler will be put into use upon the completion of construction acceptance check to meet the demand for heat services. Therefore, the construction of a heat source peak-shaving boiler can support the increasing demand for heat services along with the steady expansion of our actual heat service area. In February 2021, we applied to Lanzhou Bureau to commence the Lanzhou Peak-shaving Station Construction Project. According to the Frost & Sullivan Report, our Group’s performance in achieving the Emission Limit set out under the Technical Specifications reaches the standard achieved by other major leading players of the heat services industry. For the details related to our heat source peak-shaving boiler, see “Business – Heat sources” in this document. We expect that the Lanzhou Peak-shaving Boiler Construction can meet the growing demand of heat services attributable to the construction activities of public utility

## FUTURE PLANS AND [REDACTED]

infrastructure in Lanzhou New Area (蘭州新區). See “Business – Our strategies – Bolster our business presence in the “Three North” region and enlarge our customer base” in this document for more details related to the urbanisation and economic reform in Lanzhou New Area (蘭州新區) in the following five years. In light of the above and as confirmed by Frost & Sullivan, our Directors consider that the demand for heat services will not be shrunken in the long run and no change in PRC government policies with respect to heat services will be likely to render the implementation plan for the Lanzhou Peak-shaving Boiler Construction not viable as at the Latest Practicable Date.

We expect that the [REDACTED] allocated to the Lanzhou Peak-shaving Boiler Construction will be fully utilised by 2024 with details breakdown of the proceeds to be allocated as below:

Major uses	Amount of [REDACTED] <i>(RMB in millions)</i>	Percentage of total [REDACTED] <i>(%)</i>	Time frame	
			2023	2024
(i) Construction of new coal-fired boiler and relevant supporting equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(ii) Construction of heat source peak-shaving station and supporting infrastructure	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(iii) Others	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

- (2) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], will be used for the construction of primary distribution pipelines and heat service facilities, procurement of relevant equipment and devices for our heat service operation and future expansion of our Xinmi Project (新密供熱準備及擴展項目) (the “**Xinmi Project Preparation and Expansion**”). The Xinmi Project Preparation and Expansion includes (i) construction of primary distribution pipeline networks; (ii) procurement of raw materials for the construction of primary distribution pipeline networks; and (iii) engagement of third-party contractors for construction-related services including design and consultancy services.

In December 2021, we obtained a concession to operate a heat service project in Xinmi of Henan Province which is outside of the “Three North” region. We expect that our heat service operation in Xinmi will commence from the 2023/2024 heat service period in or around November 2023. We expect we can fully utilise our total Concession Area in Xinmi of Henan Province and expand our heat service

## FUTURE PLANS AND [REDACTED]

accordingly in response to the Overall Xinmi City Urban-rural Development (2018-2035) (新密市城鄉總體規劃(2018-2035)), which has designated a target that 90% of the administrative area in Xinmi shall have access to heat services by 2035. For the background of our preparation of the Xinmi Project Preparation and Expansion, see “Business – Our strategies – Expand our national footprint and increase our market share” in this document.

We expect that the [REDACTED] allocated to the Xinmi Project Preparation and Expansion will be fully utilised by 2024 with details breakdown of the proceeds to be allocated as below:

Major uses	Amount of [REDACTED] <i>(RMB in millions)</i>	Percentage of total [REDACTED] <i>(%)</i>	Time frame	
			2023	2024
(i) Construction of primary distribution pipeline networks	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(ii) Procurement of raw materials for the construction of primary distribution pipeline networks	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(iii) Engagement of third-party contractors for construction-related services including design and consultancy services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

According to the Frost & Sullivan Report, to meet the increasing demand for the heat services, which mainly results from the rapid growth in urbanisation rate and the increasing penetration of the heat services in China, total area and pipeline length of the heat services in China rose significantly during the last few years. According to the same report, most of the municipal heating regulations adopted in the cities where the Group operates such as the Administrative Measures for Urban Heat Supply and Use in Lanzhou New Area (《蘭州新區城市供熱用熱管理辦法》) and Hulunbuir Urban Heat Supply Administration Measures (Trial) (《呼倫貝爾市城鎮供熱管理辦法》) specify that companies providing heat services would need to have stable and reliable heating resources ensuring a stable supply of heat services. In addition, the sustainability of China’s heat service business is less likely to be affected due to the risk of stagflation in the world economy and global instabilities and uncertainties. In light of the above and as confirmed by Frost & Sullivan, our Directors consider that the demand for heat services will not be shrunken in the long run and no change in PRC government policies with respect to heat services will be likely to render the implementation plan for the Xinmi Project Preparation and Expansion not viable as at the Latest Practicable Date.

## FUTURE PLANS AND [REDACTED]

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

We expect that the [REDACTED] allocated to the foregoing purposes will be fully utilised by 2024, presuming that there is no significant change of conditions, with details breakdown of the proceeds to be allocated as below:

Major categories	Amount of proceeds	Percentage of total proceeds	Time frame	
			2023	2024
	<i>(RMB in millions)</i>	<i>(%)</i>	<i>(RMB in millions)</i>	
Lanzhou Peak-shaving Boiler Construction	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Xinmi Project Preparation and Expansion	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED] range:

If the [REDACTED] is fixed at HK\$[REDACTED] per H Share, being the high-end of the [REDACTED] range stated in this document and assuming no exercise of the [REDACTED], the [REDACTED] will be increased by approximately HK\$[REDACTED]. If the [REDACTED] is fixed at HK\$[REDACTED] per H Share, being the low-end of the [REDACTED] range stated in this document and assuming no exercise of the [REDACTED], the [REDACTED] will be reduced by approximately HK\$[REDACTED]. If the [REDACTED] is set either above or below the mid-point of the indicative [REDACTED] range, we intend to adjust our allocation of [REDACTED] for the above purposes on a pro rata basis.

The additional [REDACTED] that we would receive if the [REDACTED] is exercised in full would be HK\$[REDACTED] after deducting the [REDACTED] commissions and other estimated expenses payable by us in connection with the [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per H Share, being the mid-point of the [REDACTED] range stated in this document). Additional [REDACTED] received due to the exercise of any [REDACTED] will be utilised according to the allocation of [REDACTED] for the above purposes on a pro rata basis.

To the extent that the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to apply the unused [REDACTED] to short-term interest-bearing deposits with licenced banks or authorised financial institutions only in Hong Kong or the PRC.

If any part of our plans does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the [REDACTED] from the [REDACTED]. We will make an appropriate announcement if there is any change to the above proposed [REDACTED] or if any amount of the proceeds will be used for general corporate purpose.

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**

**[REDACTED]**

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**[REDACTED]**



**[REDACTED]**

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**[REDACTED]**



**[REDACTED]**

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**[REDACTED]**

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

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**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

**STRUCTURE OF THE [REDACTED]**

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[REDACTED]

## HOW TO APPLY FOR [REDACTED]

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[REDACTED]

## HOW TO APPLY FOR [REDACTED]

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## HOW TO APPLY FOR [REDACTED]

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## HOW TO APPLY FOR [REDACTED]

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## HOW TO APPLY FOR [REDACTED]

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[REDACTED]



## HOW TO APPLY FOR [REDACTED]

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## HOW TO APPLY FOR [REDACTED]

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[REDACTED]

## APPENDIX I

## ACCOUNTANT’S REPORT

*The following is the text of a report set out on pages I-1 to I-2, received from the Company’s reporting accountant, [PricewaterhouseCoopers], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

[Draft]

*[Letterhead of PricewaterhouseCoopers]*

### **ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF WISE LIVING TECHNOLOGY COMPANY LIMITED AND GUOTAI JUNAN CAPITAL LIMITED**

#### **Introduction**

We report on the historical financial information of Wise Living Technology Company Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-3 to I-81, which comprises the consolidated statements of financial position as at 31 December 2020, 2021 and 2022, the company statements of financial position as at 31 December 2020, 2021 and 2022, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2020, 2021 and 2022 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-3 to I-81 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the “document”) in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

#### **Directors’ responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

#### **Reporting accountant’s responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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**APPENDIX I****ACCOUNTANT'S REPORT**

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2020, 2021 and 2022, and the consolidated financial position of the Group as at 31 December 2020, 2021 and 2022 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*****Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

***Dividends***

We refer to Note 33 to the Historical Financial Information which states that no dividends have been paid or declared by the Company in respect of the Track Record Period.

**[PricewaterhouseCoopers]**  
*Certified Public Accountants*  
Hong Kong  
[Date]

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**APPENDIX I**

**ACCOUNTANT’S REPORT**

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**I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The financial statements of the Group for the years ended 31 December 2020, 2021 and 2022 (the “Track Record Period”), on which the Historical Financial Information is based, were audited by [PricewaterhouseCoopers] in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand of RMB (“RMB’000”) except when otherwise indicated.

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**ACCOUNTANT’S REPORT**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Note	Year ended 31 December		
		2020	2021	2022
		RMB'000	RMB'000	RMB'000
<b>Revenue</b>	5	1,376,321	1,290,635	1,443,732
Cost of sales	8	(1,084,931)	(976,969)	(1,146,851)
<b>Gross profit</b>		<u>291,390</u>	<u>313,666</u>	<u>296,881</u>
Administrative expenses	8	(124,951)	(141,306)	(139,589)
(Provision)/reversal of impairment losses on financial assets and contract assets	3.1(b)	(13,548)	995	23,118
Other income	6	48,384	73,584	53,742
Other losses – net	7	(157)	(19)	(3,603)
<b>Operating profit</b>		<u>201,118</u>	<u>246,920</u>	<u>230,549</u>
Finance income	10	26,393	29,354	26,314
Finance costs	10	(92,866)	(81,503)	(84,065)
Finance costs – net	10	(66,473)	(52,149)	(57,751)
Share of profit of associates accounted for using the equity method	13	9,282	11,960	13,538
<b>Profit before income tax</b>		143,927	206,731	186,336
Income tax expense	11	(45,611)	(35,671)	(45,961)
<b>Profit and total comprehensive income for the year</b>		<u>98,316</u>	<u>171,060</u>	<u>140,375</u>
<b>Profit and total comprehensive income attributable to:</b>				
– Owners of the Company		66,830	110,696	96,431
– Non-controlling interests		31,486	60,364	43,944
		<u>98,316</u>	<u>171,060</u>	<u>140,375</u>
<b>Earnings per share (expressed in RMB per share)</b>				
– Basic and diluted	12	0.30	0.49	0.43

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**ACCOUNTANT'S REPORT**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<i>Note</i>	<b>As at 31 December</b>		
		<b>2020</b>	<b>2021</b>	<b>2022</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	14	164,800	156,521	155,929
Investment properties	15	274,500	272,500	267,200
Right-of-use assets	16	34,171	29,890	28,381
Intangible assets	17	3,169,936	3,190,673	3,340,965
Investments accounted for using the equity method	13	72,713	84,824	94,966
Trade receivables	19	68,964	81,867	88,158
Prepayments and other receivables	20	304,209	238,119	41,865
Contract assets	5(a)	44,137	58,671	14,610
Deferred income tax assets	32(a)	41,117	49,140	53,674
		<u>4,174,547</u>	<u>4,162,205</u>	<u>4,085,748</u>
<b>Current assets</b>				
Inventories	21	32,900	38,178	48,926
Trade receivables	19	364,744	337,726	477,986
Prepayments and other receivables	20	324,544	215,510	153,127
Financial assets at fair value through profit or loss	22	11,041	17,139	–
Restricted cash	23	34,848	76,688	100,374
Cash and cash equivalents	23	91,826	136,185	378,068
		<u>859,903</u>	<u>821,426</u>	<u>1,158,481</u>
<b>Total assets</b>		<u><u>5,034,450</u></u>	<u><u>4,983,631</u></u>	<u><u>5,244,229</u></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital	24	226,000	226,000	226,000
Other reserves	25	162,739	186,008	200,114
Retained earnings	26	131,767	218,791	301,003
		<u>520,506</u>	<u>630,799</u>	<u>727,117</u>
Non-controlling interests	37	92,179	151,597	195,445
<b>Total equity</b>		<u><u>612,685</u></u>	<u><u>782,396</u></u>	<u><u>922,562</u></u>

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**ACCOUNTANT'S REPORT**

	<i>Note</i>	<b>As at 31 December</b>		
		<b>2020</b>	<b>2021</b>	<b>2022</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	28	371,973	597,762	634,464
Other payables	27	67,004	32,631	7,386
Contract liabilities	29	1,506,471	1,628,637	1,821,454
Lease liabilities	31	22,215	18,387	18,677
Deferred income	30	54,831	85,125	83,459
Deferred income tax liabilities	32(b)	40,322	30,167	20,331
Provision	34	15,382	20,210	25,593
		<u>2,078,198</u>	<u>2,412,919</u>	<u>2,611,364</u>
<b>Current liabilities</b>				
Borrowings	28	936,663	463,515	246,750
Trade and other payables	27	965,506	816,102	976,277
Contract liabilities	29	409,505	462,888	440,546
Lease liabilities	31	1,342	1,588	1,005
Current income tax liabilities		30,551	44,223	45,725
		<u>2,343,567</u>	<u>1,788,316</u>	<u>1,710,303</u>
<b>Total liabilities</b>		<u><u>4,421,765</u></u>	<u><u>4,201,235</u></u>	<u><u>4,321,667</u></u>
<b>Total equity and liabilities</b>		<u><u>5,034,450</u></u>	<u><u>4,983,631</u></u>	<u><u>5,244,229</u></u>



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**ACCOUNTANT'S REPORT**

**STATEMENTS OF FINANCIAL POSITION OF THE COMPANY**

	Note	As at 31 December		
		2020	2021	2022
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment		845	702	376
Intangible assets		106	38	8
Right-of-use assets		121	60	34
Investment in subsidiaries	39(a)	151,000	151,000	151,000
Prepayments and other receivables	39(b)	–	3,728	3,728
Deferred income tax assets		920	2,108	2,108
		<u>152,992</u>	<u>157,636</u>	<u>157,254</u>
<b>Current assets</b>				
Amounts due from subsidiaries	39(c)	482,984	481,466	514,466
Prepayments and other receivables	39(b)	167,837	62,211	39,282
Cash and cash equivalents	39(d)	2,922	12,773	40,402
		<u>653,743</u>	<u>556,450</u>	<u>594,150</u>
<b>Total assets</b>		<u><b>806,735</b></u>	<u><b>714,086</b></u>	<u><b>751,404</b></u>
<b>EQUITY</b>				
Share capital	24	226,000	226,000	226,000
Other reserves	39(e)	5,962	15,563	15,563
Retained earnings	39(f)	4,331	90,739	75,977
		<u>236,293</u>	<u>332,302</u>	<u>317,540</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	39(g)	–	–	58,500
Lease liabilities		67	4	37
		<u>67</u>	<u>4</u>	<u>58,537</u>
<b>Current liabilities</b>				
Borrowings	39(g)	100,000	100,000	111,500
Trade and other payables	39(h)	5,735	9,228	6,340
Amounts due to subsidiaries	39(c)	463,514	271,423	256,818
Current income tax liabilities		1,069	1,069	661
Lease liabilities		57	60	8
		<u>570,375</u>	<u>381,780</u>	<u>375,327</u>
<b>Total liabilities</b>		<u><b>570,442</b></u>	<u><b>381,784</b></u>	<u><b>433,864</b></u>
<b>Total equity and liabilities</b>		<u><b>806,735</b></u>	<u><b>714,086</b></u>	<u><b>751,404</b></u>

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**ACCOUNTANT’S REPORT**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

		Attributable to owners of the Company				Non-	Total
		Share	Other	Retained	Total	controlling	equity
		capital	reserves	earnings		interests	
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 24)	(Note 25)	(Note 26)			
	<b>Balance at 1 January 2020</b>	<u>226,000</u>	<u>146,141</u>	<u>81,481</u>	<u>453,622</u>	<u>60,639</u>	<u>514,261</u>
	<b>Comprehensive income</b>						
	Profit for the year	<u>–</u>	<u>–</u>	<u>66,830</u>	<u>66,830</u>	<u>31,486</u>	<u>98,316</u>
	<b>Total comprehensive income for the year</b>	<u>–</u>	<u>–</u>	<u>66,830</u>	<u>66,830</u>	<u>31,486</u>	<u>98,316</u>
	<b>Transactions with owners</b>						
	Appropriation to statutory reserves	25	–	16,544	(16,544)	–	–
	Deregistration of subsidiaries		–	(1)	–	(1)	(1)
	Others	13	–	55	–	55	109
	<b>Total transactions with owners</b>		<u>–</u>	<u>16,598</u>	<u>(16,544)</u>	<u>54</u>	<u>108</u>
	<b>Balance at 31 December 2020</b>	<u>226,000</u>	<u>162,739</u>	<u>131,767</u>	<u>520,506</u>	<u>92,179</u>	<u>612,685</u>
	<b>Balance at 1 January 2021</b>	<u>226,000</u>	<u>162,739</u>	<u>131,767</u>	<u>520,506</u>	<u>92,179</u>	<u>612,685</u>
	<b>Comprehensive income</b>						
	Profit for the year	<u>–</u>	<u>–</u>	<u>110,696</u>	<u>110,696</u>	<u>60,364</u>	<u>171,060</u>
	<b>Total comprehensive income for the year</b>	<u>–</u>	<u>–</u>	<u>110,696</u>	<u>110,696</u>	<u>60,364</u>	<u>171,060</u>
	<b>Transactions with owners</b>						
	Appropriation to statutory reserves	25	–	23,672	(23,672)	–	–
	Transactions with non-controlling interests		–	(480)	–	(480)	(1,500)
	Others	13	–	77	–	77	151
	<b>Total transactions with owners</b>		<u>–</u>	<u>23,269</u>	<u>(23,672)</u>	<u>(403)</u>	<u>(1,349)</u>
	<b>Balance at 31 December 2021</b>	<u>226,000</u>	<u>186,008</u>	<u>218,791</u>	<u>630,799</u>	<u>151,597</u>	<u>782,396</u>

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		Attributable to owners of the Company				Non-	Total
		Share	Other	Retained	Total	controlling	equity
		capital	reserves	earnings		interests	
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 24)	(Note 25)	(Note 26)			
	<b>Balance at 1 January 2022</b>	226,000	186,008	218,791	630,799	151,597	782,396
	<b>Comprehensive income</b>						
	Profit for the year	–	–	96,431	96,431	43,944	140,375
	<b>Total comprehensive income for the year</b>	–	–	96,431	96,431	43,944	140,375
	<b>Transactions with owners</b>						
	Appropriation to statutory reserves	25	–	14,219	(14,219)	–	–
	Deregistration of subsidiaries		–	(13)	–	(13)	(13)
	Others	13	–	(100)	–	(100)	(196)
	<b>Total transactions with owners</b>		–	14,106	(14,219)	(113)	(209)
	<b>Balance at 31 December 2022</b>	226,000	200,114	301,003	727,117	195,445	922,562

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**ACCOUNTANT'S REPORT**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Note	Year ended 31 December		
		2020	2021	2022
		RMB'000	RMB'000	RMB'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	35(a)	481,403	537,350	677,803
Income tax paid		(38,861)	(37,323)	(59,964)
<b>Net cash generated from operating activities</b>		<b>442,542</b>	<b>500,027</b>	<b>617,839</b>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(57,606)	(4,751)	(15,228)
Disposal of property, plant and equipment		3,765	21	819
Proceeds from finance lease of plant and equipment to a related party		–	4,197	4,197
Purchases of intangible assets		(212,966)	(300,333)	(273,685)
Disposal of intangible assets		–	5,000	15,552
(Increase)/decrease in restricted cash for deposit of capital expenditure		–	(38,826)	38,826
Dividends received from associates	13	3,679	–	3,200
Disposal of right-of-use-assets		35,280	–	–
Proceeds from financing arrangements with a third party (including repayments of principal and interest)		30,984	73,407	30,982
Purchase of financial assets at fair value through profit or loss	3.3(a)	(743,929)	(77,000)	(10,000)
Disposal of financial assets at fair value through profit or loss	3.3(a)	748,138	71,320	27,285
Loans provided to a related party	38(c)	(150,000)	–	–
Loans repaid by a related party	38(c)	–	110,000	40,000
Interest received from a related party	38(c)	–	11,918	498
Government grants received in relation to purchase of intangible assets	30	–	44,500	17,000
Interest received on bank deposits		2,519	1,822	2,696
<b>Net cash used in investing activities</b>		<b>(340,136)</b>	<b>(98,725)</b>	<b>(117,858)</b>
<b>Cash flows from financing activities</b>				
Payments for [REDACTED] expenses		(2,917)	(9,599)	(20,777)
Proceeds from borrowings	35(c)	995,200	501,000	846,014
Repayment of borrowings	35(c)	(889,549)	(748,359)	(976,577)
Installment payment for purchase of equipment	35(c)	(48,000)	–	–
Payments for lease liabilities	31, 35(c)	(5,078)	(4,020)	(3,375)
Installment payment for acquisition of intangible assets	35(c)	(36,752)	(14,408)	(19,067)
Dividends paid	35(c), 37	(13,290)	–	–
Refunds of guarantee deposits for borrowings		23,900	–	–
Restricted cash for guarantee deposits paid for bank borrowings		–	–	(11,100)
Repayment of loans from government	35(c)	–	(2,000)	(6,500)
Interest paid on lease liabilities	31, 35(c)	(1,218)	(1,465)	(1,386)
Interest paid on installment payable for acquisition of intangible assets	35(c)	(2,338)	(5,087)	(3,090)
Interest paid of installment payable for purchase of equipment	35(c)	(1,657)	–	–
Interest paid on borrowings		(85,056)	(73,005)	(62,240)
<b>Net cash used in financing activities</b>		<b>(66,755)</b>	<b>(356,943)</b>	<b>(258,098)</b>
<b>Net increase in cash and cash equivalents</b>		<b>35,651</b>	<b>44,359</b>	<b>241,883</b>
Cash and cash equivalents at beginning of the year		56,175	91,826	136,185
<b>Cash and cash equivalents at end of the year</b>	23	<b>91,826</b>	<b>136,185</b>	<b>378,068</b>

## APPENDIX I

## ACCOUNTANT’S REPORT

### II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

#### 1 GENERAL INFORMATION, HISTORY OF THE GROUP AND DETAILS OF SUBSIDIARIES

##### 1.1 General information

The Company was established in the People’s Republic of China (the “PRC”) on 3 September 2010. The address of its registered office is Room 202, 2/F, No. 15 of Shuangliang Road, Ligang Street, Jiangyin City, Jiangsu Province, the PRC.

The Company is an investment holding company. The Company and its subsidiaries (together, the “Group”) are principally engaged in the heat supply (including provision and distribution of heat and pipeline connection services), engineering construction services, design services and energy management services in the PRC.

The Company is controlled by Jiangsu Shuangliang Technology Company Limited (江蘇雙良科技有限公司) (“Shuangliang Technology”) and Jiangsu Lichuang New Energy Company Limited (江蘇利創新能源有限公司) (“Jiangsu Lichuang”), both of which are held by Mr. Miao Shuangda (繆雙大先生), Mr. Miao Wenbin (繆文彬先生), Mr. Jiang Rongfang (江榮方先生), Mr. Ma Peilin (馬培林先生), Mr. Ma Fulin (馬福林先生), Mr. Miao Zhiqiang (繆志強先生), Mr. Miao Heida (繆黑大先生) and Ms. Miao Shuya (繆舒涯女士), the individual shareholders of the holding companies, as of the date of this Historical Financial Information and during the Track Record Period.

##### 1.2 History of the Group

The Company was established on 3 September 2010 in the PRC as a limited liability company with registered capital of RMB50,000,000 under the name of Jiangsu Shuangliang Energy Management Contract Co., Ltd. (江蘇雙良合同能源管理有限公司) by Shuangliang Eco-Energy System Company Limited (雙良節能系統股份有限公司) (“Shuangliang Eco-Energy”), a company listed in the Shanghai Stock Exchange.

On 1 September 2014, the Company was renamed as Shuangliang Eco-Energy System (Jiangsu) Co., Ltd (雙良節能系統(江蘇)有限公司).

On 16 September 2015, Shuangliang Eco-Energy transferred its entire equity interest in the Company to Shuangliang Technology.

On 17 November 2015, the Company received capital injection of RMB100,000,000 from Shuangliang Technology and RMB76,000,000 from Jiangsu Lichuang and ten individual shareholders (the “Capital Injection”). After the Capital Injection, Shuangliang Technology, Jiangsu Lichuang and the ten individual shareholders held 66.38%, 22.58% and 11.04% equity interests in the Company, respectively.

On 3 December 2015, the Company was renamed as Wise Living Technology Company Limited (慧居科技有限公司), being the current name of the Company.

On 18 December 2015, the Company was converted from a limited liability company into a joint stock company with limited liability with registered capital of RMB226,000,000.

In July 2016, the Company obtained approval from The National Equities Exchange And Quotations Co., Ltd (the “NEEQ”) for its shares to be listed on the NEEQ (stock code: 839023). The Company commenced trading of its shares on the NEEQ on 17 August 2016. The Company voluntarily delisted from the NEEQ in April 2018.

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**ACCOUNTANT’S REPORT**

**1.3 Subsidiaries**

The Company has direct and indirect interests in the following subsidiaries:

Name of companies	Place and date of incorporation	Principal activities and place of operation	Registered and paid up capital	Effective interest held			At the date of this report	Note
				As at 31 December				
				2020	2021	2022		
<b>Directly held by the Company</b>								
Wise Living Energy Technology Company Limited (慧居能源科技有限公司) (“Wise Living Energy”)	PRC, 29 November 2016	Investment holding, the PRC	Registered and paid up capital of RMB150,000,000	100%	100%	100%	100%	(i), (ii)
Wise Living Times (Beijing) Technology Company Limited (慧居時代(北京)技術有限公司)	PRC, 15 December 2016	Technical services, the PRC	Registered and paid up capital of RMB1,000,000	100%	100%	100%	100%	(i), (ii)
<b>Indirectly held by the Company</b>								
Shanxi Shuangliang Renewable Energy Industry Group Company Limited (山西雙良再生能源產業集團有限公司) (“Shanxi Shuangliang Renewable Energy”)	PRC, 15 February 2006	Investment holding, design and maintenance services, the PRC	Registered and paid up capital of RMB30,000,000	51%	51%	51%	51%	(i), (ii)
Taiyuan City Renewable Energy Heat Supply Company Limited (太原市再生能源供熱有限公司) (“Taiyuan Renewable Energy”)	PRC, 22 May 2009	Heat supply, construction services and rental services, the PRC	Registered and paid up capital of RMB200,000,000	51%	51%	51%	51%	(ii), (vi)
Lvliang City Renewable Energy Heat Supply Company Limited (呂梁市再生能源供熱有限公司)	PRC, 23 September 2013	Heat supply, the PRC	Registered and paid up capital of RMB5,000,000	31%	46%	46%	46%	(i), (ii), (x)
Datong City Renewable Energy Heating Company Limited (大同市再生能源供熱有限公司)	PRC, 25 September 2009	Heat supply and construction services, the PRC	Registered and paid up capital of RMB5,000,000	36%	36%	36%	36%	(i), (ii), (xi)
Shanxi Transformation and Comprehensive Reform Demonstration Zone Heat Supply Company Limited (山西轉型綜合改革示範區供熱有限公司) (“Shanxi Demonstration Zone Heat Supply”)	PRC, 19 September 2018	Heat supply, the PRC	Registered and paid up capital of RMB100,000,000	51%	51%	51%	51%	(ii), (vii)
Shanxi Smart Life Property Service Company Limited (山西惠生活物業服務有限公司)	PRC, 9 November 2016	Property management services, the PRC	Registered capital of RMB1,000,000 and paid up capital of nil	51%	51%	51%	51%	(i), (ii)

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Name of companies	Place and date of incorporation	Principal activities and place of operation	Registered and paid up capital	Effective interest held			At the date of this report	Note
				As at 31 December				
				2020	2021	2022		
<b>Indirectly held by the Company</b>								
Shuozhou City Renewable Energy Thermal Company Limited (朔州市再生能源熱力有限公司) (“Shuozhou Renewable Energy”)	PRC, 23 May 2011	Heat supply, the PRC	Registered and paid up capital of RMB150,000,000	51%	51%	51%	51%	(ii), (vii)
Shanxi Shuangliang Carbon Trading Management Company Limited (山西雙良碳交易管理有限公司)	PRC, 6 May 2016	Carbon asset operation and management services, the PRC	Registered capital of RMB10,000,000 and paid up capital of nil	51%	51%	51%	51%	(i), (ii)
Shanxi Shuangliang New Energy Thermoelectric Engineering Design Company Limited (山西雙良新能源熱電工程設計有限公司) (“Shanxi Shuangliang New Energy”)	PRC, 6 June 2016	Design services, the PRC	Registered capital of RMB8,000,000 and paid up capital of nil	51%	51%	51%	51%	(ii), (vi)
Gansu Shuangliang Energy System Investment Company Limited (甘肅雙良能源系統投資有限公司) (“Gansu Shuangliang”)	PRC, 27 February 2013	Investment holding, the PRC	Registered and paid up capital of RMB10,000,000	80%	80%	80%	80%	(i), (ii)
Lanzhou New Area Shuangliang Thermal Power Company Limited (蘭州新區雙良熱力有限公司) (“Lanzhou Shuangliang”)	PRC, 31 July 2013	Heat supply, the PRC	Registered and paid up capital of RMB20,000,000	80%	80%	80%	80%	(ii), (viii)
Gansu Shuangliang Smart Energy Management Company Limited (甘肅雙良智慧能源管理有限公司) (“Gansu Smart Energy”)	PRC, 6 July 2016	Energy management services, the PRC	Registered and paid up capital of RMB10,000,000	80%	80%	80%	80%	(i), (ii)
Lanzhou Wise Living Thermal Engineering Company Limited (蘭州慧居熱力工程有限公司)	PRC, 27 August 2018	Construction and installation services, the PRC	Registered capital of RMB10,000,000 and paid up capital of nil	80%	80%	N/A	N/A	(i), (ii), (iv)
Hulunbuir Shuangliang Energy System Company Limited (呼倫貝爾雙良能源系統有限公司) (“Hulunbuir Shuangliang”)	PRC, 11 March 2013	Heat supply, the PRC	Registered and paid up capital of RMB10,000,000	85%	85%	85%	85%	(ii), (ix)
Zhengzhou Wise Living Thermal Power Company Limited (鄭州慧居熱力有限公司) (“Zhengzhou Wise Living”)	PRC, 17 November 2018	Heat supply, the PRC	Registered capital of RMB30,000,000 and paid up capital of nil	100%	100%	100%	100%	(i), (ii)

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Name of companies	Place and date of incorporation	Principal activities and place of operation	Registered and paid up capital	Effective interest held			At the date of this report	Note
				As at 31 December				
				2020	2021	2022		
<b>Indirectly held by the Company</b>								
Inner Mongolia Wise Living Tianlang Clean Energy Company Limited (內蒙古慧居天朗清潔能源有限公司)	PRC, 28 June 2018	Heat supply, engineering design, construction, installation and maintenance services, the PRC	Registered and paid up capital of RMB10,000,000	67%	78%	78%	78%	(i), (ii), (xii)
Hohhot Wise Living Clean Energy Company Limited (呼和浩特慧居清潔能源有限公司)	PRC, 17 May 2019	Heat supply, the PRC	Registered capital of RMB10,000,000 and paid up capital of nil	85%	N/A	N/A	N/A	(i), (ii), (iii)
Wise Living Energy Technology (Gansu) Limited (慧居能源科技(甘肅)有限公司) (“Wise Living Energy (Gansu)”) )	PRC, 31 December 2020	Energy management services, the PRC	Registered capital of RMB10,000,000 and paid up capital of nil	100%	100%	N/A	N/A	(i), (ii), (v)
Wise Living Energy (Baotou) Limited (慧居能源(包頭)有限公司)	PRC, 26 November 2020	Heat supply, the PRC	Registered capital of RMB10,000,000 and paid up capital of nil	100%	100%	100%	100%	(i), (ii)
Wise Living Tech-Thermal Power (Zhengzhou) Limited (慧居科技熱力(鄭州)有限公司)	PRC, 10 December 2020	Heat supply, the PRC	Registered capital of RMB50,000,000 and paid up capital of RMB40,000,000.	80%	80%	80%	80%	(i), (ii)
Taixin Renewable Energy Heating (Shanxi) Company Limited (太忻再生能源供熱(山西)有限公司)	PRC, 23 March 2022	Heat supply, the PRC	Registered capital of RMB50,000,000 and paid up capital of nil	N/A	N/A	51%	51%	(i), (ii)
Shanxi Xixian Shuangliang Low Carbon Environmental Clean Energy Company Limited (山西省隰縣雙良低碳環保清潔能源有限公司)	PRC, 12 October 2022	Heat supply, the PRC	Registered capital of RMB8,000,000 and paid up capital of nil	N/A	N/A	51%	51%	(i), (ii)

Notes:

- (i) No audited financial statements have been prepared for the subsidiary for the years ended 31 December 2020, 2021 and 2022, as the entity was not subject to any statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.
- (ii) The English names of the subsidiaries represent management’s best effort in translating their Chinese names as they do not have official English names.



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- (iii) This subsidiary was deregistered on 2 August 2021.
- (iv) This subsidiary was deregistered on 27 May 2022.
- (v) This subsidiary was deregistered on 22 June 2022.
- (vi) The entity was audited by Shanxi Ruiming Certified Public Accountants Co., Ltd. in 2020 and 2021.
- (vii) The entity was audited by Shanxi Qianyuan Certified Public Accountants (Co., Ltd.) in 2020, and was audited by Shanxi Ruiming Certified Public Accountants Co., Ltd. in 2021.
- (viii) The entity was audited by Gansu Rongzhi Certified Public Accountants (General Partnership) in 2020 and 2021.
- (ix) The entity was audited by Inner Mongolia Junye Certified Public Accountants (General Partnership) in 2020 and 2021.
- (x) On 2 February 2021, Taiyuan Renewable Energy acquired an additional 30% equity interest in Lvliang City Renewable Energy Heat Supply Company Limited. The entity is 90% owned by Taiyuan Renewable Energy.
- (xi) The entity is 70% owned by Taiyuan Renewable Energy.
- (xii) On 17 March 2021, the Group acquired an additional 10.89% equity interest in Inner Mongolia Wise Living Tianlang Clean Energy Company Limited.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied to all the years presented, unless otherwise stated. The Historical Financial Information is for the Group consisting of the Company and its subsidiaries.

#### 2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and related interpretations issued by the International Accounting Standards Board (the “IASB”).

The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

As at 31 December 2022, the Group had net current liabilities of RMB551,822,000. The net current liabilities included contract liabilities amounted to RMB440,546,000 which represented the advance receipts from customers in relation to heat supply and pipeline connection fees. Such contract liabilities will normally be recognised as revenue in subsequent years and will not involve cash outflow in the future. Meanwhile, the Group’s total borrowings as at 31 December 2022 amounted to RMB881,214,000 of which RMB246,750,000 are classified as current liabilities, while its cash and cash equivalents amounted to RMB378,068,000 as at the same date.

Management closely monitors the Group’s financial performance and liquidity position. The cash inflow generated from the Group’s operating activities for each of the three years ended 31 December 2020, 2021 and 2022 amounted to RMB442,542,000, RMB500,027,000 and RMB617,839,000, respectively. The Group also planned its capital expenditures activities in a conservative manner to avoid an excessively high liquidity risk exposure. In addition, management proactively managed the financing structure of the Group and was able to renew the short-term borrowings and raise new borrowings during the Track Record Period as necessary. Although the Group failed to comply with certain financial covenants of two long-term bank borrowings during the Track Record Period, it successfully obtained waivers from strict compliance with the financial covenants from the relevant banks (Note 28(e)).

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As at 31 December 2022, the Group had unused banking facilities amounting to RMB824 million, of which RMB60 million is available to the Group up to June 2023, RMB125 million is available to the Group up to July 2023 and could be extended to July 2024, RMB489.5 million is available to the Group up to April 2024, and the remaining RMB149.5 million is available to the Group up to December 2030.

The directors of the Company (the “Directors”) have reviewed the Group’s cash flow projections for a period of not less than twelve months from the balance sheet date, made due enquiries with management and considered the bases and assumptions of the projections. The Directors are of the opinion that, taking into account the Group’s projected financial performance and operating cash inflows, the capital expenditures plans, the continuous availability of existing facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in at least the coming twelve months from 31 December 2022. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

### (a) *New standards or amendments not yet adopted*

Up to the date of this Historical Financial Information, the following issued new standards or amendments are not yet effective and have not been early adopted by the Group:

		<b>Effective for the accounting periods beginning on or after</b>
IFRS 17	Insurance contracts	January 1, 2023
IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of accounting policies	January 1, 2023
IAS 8 (Amendments)	Definition of accounting estimates	January 1, 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023
IFRS 16 (Amendments)	Leases liability in a sale and leaseback	January 1, 2024
IAS 1 (Amendments)	Classification of liabilities as current or non-current	January 1, 2024
IAS 1 (Amendments)	Non-current liabilities with covenants	January 1, 2024
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or amended standards. According to the preliminary assessment made by the Directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

## 2.2 Principles of consolidation and equity accounting

### (a) *Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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Intercompany transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of comprehensive income, statements of changes in equity and statements of financial position, respectively.

### *(b) Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

### *(c) Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income ("OCI") of the investee in OCI. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of such entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

### *(d) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in OCI are reclassified to profit or loss where appropriate.

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### 2.3 Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprised the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

#### *Acquisition-related costs are expensed as incurred.*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

### 2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the “CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

### 2.6 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the Historical Financial Information of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Since the assets and operations of the Group are located in the PRC, the Historical Financial Information are presented in RMB, which is the Company’s functional and the Group’s presentation currency.

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### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses are presented in the consolidated statements of comprehensive income on a net basis within other losses – net.

### **2.7 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation, net of accumulated impairment losses, if any. Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

	<u>Useful lives</u>
Buildings	30 years
Pipeline and heating equipment	20 years
Machinery and equipment	5-20 years
Transportation equipment	5 years
Office and electronic equipment	3 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within 'other losses – net' in the consolidated statements of comprehensive income.

Construction in progress represents machinery and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### **2.8 Investment properties**

Investment properties, principally office buildings, are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented in profit or loss as part of other losses – net.

### **2.9 Intangible assets**

#### *(a) Goodwill*

Goodwill is measured as described in Note 2.3. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

### *(b) Software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their estimated useful lives. Costs associated with maintenance of software programmes are recognised as expenses as incurred.

### *(c) Operating concessions*

The detailed accounting policy of operating concessions is depicted in Note 2.10.

### *(d) Amortisation methods and periods*

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

	<u>Useful lives</u>
Operating concessions	25-30 years
Software	2-5 years

In addition, for certain software purchased for the purpose of monitoring the heat supply infrastructure, as such software can be used for the whole concession period without any major updates as expected, the software is amortised over the expected useful life of 30 years, being the concession period of the relevant concession project.

### *(e) Research and development expenditure*

Research expenditures are recognised as expenses as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development cost previously recognised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

### **2.10 Service concession arrangements**

The Group has entered into a number of service concession arrangements with governmental authorities (the "Grantors"). The service concession arrangements consist of build-operate-transfer arrangements under which the Group carries out construction works of the heat supply facilities for the Grantors and receives in return a right to operate the service projects concerned for a specified period of time (the "Operation Period") in accordance with the pre-established conditions set by the Grantors, and the heat supply facilities should be transferred to the Grantors at the end of the Operation Period.

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Under these service concession arrangements:

- the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and
- the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the terms of the arrangements.

**(a) Consideration given by the Grantors**

The Group provides construction services to the Grantors, in exchange for a right to provide heating service in the concession areas. The Group recognises contract assets as an intangible asset during construction period for its accumulated right to charge public users of the heating service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public users use the services. The borrowing costs incurred in financing the construction are capitalised in contract assets classified under intangible assets during the construction period. The intangible asset is amortised on a straight-line basis over the Operation Period when it becomes available for use, that is, at the point in time when the operator exercises its right under the license to charge public users.

Revenue relating to the operating concession is accounted for in accordance with Note 2.27 "Revenue recognition" below. Costs for operating the services are expensed in the period in which they are incurred.

**(b) Construction services**

The fair value of the construction services under the concession arrangement is calculated as the estimated total construction cost plus a profit margin. The profit margins are assessed by the Directors with reference to the report issued by independent valuer, based on the prevailing market rate applicable to similar construction services at the date of the service concession arrangement. Revenue relating to the construction services is accounted for in accordance with Note 2.27 "Revenue recognition" below.

**(c) Contractual obligations to maintain or restore the infrastructure**

The Group has contractual obligations which it must fulfil as a condition of its licenses, that is (i) to maintain the heat supply facilities it operates to a specified level of service quality; and (ii) to restore the heat supply facilities to a specified condition before they are handed over to the Grantors at the end of the Operation Period. These contractual obligations to maintain and restore the heat supply facilities, except for upgrade element, are recognised and measured in accordance with Note 2.26 "Provision" below.

### 2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.12 Financial assets

#### 2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

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The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through OCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

### *2.12.2 Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### *2.12.3 Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

#### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gain/(losses) – net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statements of comprehensive income.
- **Fair value through OCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the consolidated statements of comprehensive income and recognised in 'other gain/(losses) – net'. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains and impairment expenses are presented as separate line item in the consolidated statements of comprehensive income.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or financial assets at fair value through OCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in 'other gain/(losses) – net' in the period in which it arises.

#### *Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in 'other income' when the Group's right to receive payments is established.



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Changes in the fair value of financial assets at fair value through profit or loss are recognised in 'other gain/(losses) – net' as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through OCI are not reported separately from other changes in fair value.

### 2.13 Impairment of financial assets

The Group has the following types of financial assets subject to expected credit loss model:

- trade receivables;
- contract assets;
- other receivables and deposits; and
- cash and cash equivalents and restricted cash.

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other receivables and deposits, impairment is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, impairment is measured as lifetime expected credit losses.

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

### 2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the assets and settle the liabilities simultaneously.

### 2.15 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

Revenue arising from the provision and distribution of heat is recognised on a straight-line basis over the scheduled period and cash received in advance were recognised as contract liabilities.

Revenue arising from pipeline connection fees is recognised on a straight-line basis over the Operation Period and cash received in advance were recognised as contract liabilities.

### 2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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### 2.17 Trade and other receivables

Trade receivables are amounts due from customers for services provided in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less allowance for impairment.

### 2.18 Cash and cash equivalents

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

### 2.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

When there is a benefit of a government loan that is granted at a below-market interest rate, the benefit is treated as a government grant.

### 2.21 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. Trade payables and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting date. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.22 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loans to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fees are deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fees are capitalised as a prepayment for liquidity services and amortised over the period of the facilities to which they relate.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the reporting period.

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### 2.23 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment relating to specific borrowings pending their expenditures on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

### 2.24 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

#### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction neither accounting profit or loss nor taxable ones are affected. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The deferred income tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and when the deferred income tax balances related to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

### 2.25 Employee benefits

#### (a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulated sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statements of financial position.

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### *(b) Employment obligations*

#### *Pension obligations*

The Group only operates defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans and other employee social security plans, including pension, medical, other welfare benefits, organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

#### *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

#### *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

### **2.26 Provision**

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

The operator of an operating concession normally has contractual obligations it must fulfil as a condition of its license (i) to maintain the infrastructure to a specified level of service quality; and (ii) to restore the infrastructure to a specified condition before it is handed over to the Grantor at the end of the service arrangement. These contractual obligations to maintain or restore the infrastructure, except for any upgrade element, shall be recognised in the consolidated statements of financial position and measured in accordance with IAS 37 at the best estimate of the expenditures that will be required to settle the contractual obligations.

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### 2.27 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer. This may be at a point in time or over time.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- when the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- when the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- when the Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.

If none of the above conditions are met, the Group recognises revenue at a point in time at which the performance obligation is satisfied for the sale of that good or service when control has been passed.

If control of the product or service is transferred over time, revenue is recognised over the period of the contract by measuring the progress towards complete satisfaction of that performance obligation.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in the separate financing transaction between the Group and the customer at contract inception.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer. The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer.

When the Group acts as a principal, it recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred. When the Group acts as an agent, it recognises revenue in the amount of any fees or commission to which it expects to be entitled in the exchange for arranging for the specified goods or services to be provided by the other party.

#### *(a) Provision and distribution of heat (including price subsidies from government)*

Revenue from the provision and distribution of heat is recognised on a straight-line basis over the period when heat is provided to customers because the customers simultaneously receive and consume the benefits provided by the Group. The revenue is measured by reference to the proportion of the number of days of provision of heat to the total number of days of the scheduled period as regulated by the local government.

In certain region, the Group provides heat and charges users at prices substantially lower than those in certain nearby regions and the local government of that region gives price subsidies to the Group. The Group has assessed that such price subsidies, as determined by the relevant concession agreement and a specific formula pursuant to a notice issued to the Group by the local government, are in substance compensations for the Group's revenue due to the lower heat rates and the Group has contractual rights to receive such price subsidies in a recurring rather than an incidental manner. Therefore, the price subsidies receivable from the local government of that region are recognised as revenue over the scheduled period where there is a reasonable assurance that the price subsidies will be received.

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### *(b) Engineering construction services*

Revenue from engineering construction services is recognised over time by measuring the progress towards complete satisfaction of the services. The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligations, by reference to the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

### *(c) Pipeline connection fees*

The Group receives pipeline connection fees from customers for building the main heat pipelines and connect with the customers' residential households. The pipeline connection fees received from customers is non-refundable and is to facilitate the future service of provision of heat. Revenue from pipeline connection fees is recognised on a straight-line basis over the applicable Operation Period.

### *(d) Heat transmission services*

Revenue from the provision of the heat transmission service is recognised at the point in time when control of heat is transferred to the customers.

### *(e) Sale of goods*

The Group sells heat exchange facilities, meters and other heat supply related equipment to its customers. Revenue from sale of goods is recognised at the point in time when the control of the product is transferred to the customer which generally coincides with delivery and acceptance of the goods sold.

### *(f) Energy management services*

The Group provides energy management services to a corporate customer by helping it to save energy for its heat supply facilities. Revenue from energy management services is recognised over the period when the service is rendered.

### *(g) Designing services*

Revenue from designing services rendered, including designing, consulting and feasibility studies with respect to the heat supply projects, is recognised at the point in time when the customers are satisfied with the designing results delivered by the Group.

## 2.28 Earnings per share

### *(a) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares, (if any).

### *(b) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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### 2.29 Interest income

Interest income from financial assets at fair value through profit or loss is included in the gains on these assets, see Note 7 below.

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss as finance income, see Note 10 below.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 2.30 Leases

#### *The Group as the lessee*

The Group leases various land and properties for its operations. Rental contracts are typically made for fixed periods of 1 to 15 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### *The Group as the lessor*

Rental income from operating leases where the Group is a lessor is recognised in other income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statements of financial position based on their nature.

Finance leases, which effectively transfer to the lessee substantially all the risks and rewards of ownership of the asset, are recognised at the inception of the lease term at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease receipts are apportioned between the finance income and reduction of the leased asset so as to achieve a constant rate of interest on the remaining balance of the asset. Finance income is charged directly to profit or loss.

### **2.31 Dividend**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### **2.32 Financial guarantee contracts**

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under IFRS 9, 'Financial Instruments', and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

## **3 FINANCIAL RISK MANAGEMENT**

### **3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior management of the Group.

#### *(a) Market risk*

##### *(i) Foreign exchange risk*

The principal activities of the Group are operated in the PRC. The exposure to foreign exchange risk is insignificant given the business activities of the Group are all denominated in RMB.

##### *(ii) Cash flow and fair value interest rate risk*

The Group's interest rate risk primarily arises from interest-bearing cash and cash equivalents, restricted cash, borrowings and lease liabilities. Cash and cash equivalents and borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings and lease liabilities issued at fixed rates expose the Group to fair value interest-rate risk.



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The Group closely monitors the trend of interest rate and its impact on the Group’s interest rate risk exposure. The Group currently has not used any interest rate swap arrangements for managing the interest rate risk.

As at 31 December 2020, 2021 and 2022, borrowings of the Group which were bearing at floating rates amounted to RMB286,118,000, RMB271,923,000 and RMB437,575,000, respectively. As at 31 December 2020, 2021 and 2022, should the interest rate be increased/decreased by 50 basis points with all other factors remain unchanged, the finance costs of the Group would increase/decrease by approximately RMB1,431,000, RMB1,360,000 and RMB2,188,000, respectively.

*(b) Credit risk*

The Group is exposed to credit risk in relation to its cash and cash equivalents, restricted cash, wealth management products, trade receivables (including lease receivables), contract assets and other receivables.

*(i) Risk management*

For cash and cash equivalents, restricted cash and wealth management products, management manages the credit risk by placing deposits or investments in state-owned financial institutions in the PRC, or reputable banks and financial institutions in the PRC having high credit quality.

The customers of the Group include individual customers, government customers and corporate customers. For individual customers, the Group has no significant concentrations of credit risk. For government customers, the Group assessed that the related credit risk is low. For corporate customers, the Group assessed the credit quality of the counterparties by taking into account their financial position, repayment history and other factors. The Group also has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables to ensure that appropriate impairment losses are recognised for those irrecoverable amounts.

The carrying amounts of trade receivables, other receivables and deposits, restricted cash, cash and cash equivalents and wealth management products represent the Group’s maximum exposure to credit risk in relation to financial assets.

The maximum exposure arising from the provision of financial guarantee to the borrowing of an associate amounted to approximately RMB7,200,000 and RMB7,200,000 as at 31 December 2020 and 2021, respectively. Such borrowing had not been overdue or underperforming. Based on the results of management’s credit risk assessment, the corresponding expected credit loss provision was not material and therefore no financial guarantee liability had been recognised in the Group’s consolidated statements of financial position. Such borrowing was fully repaid by the associate in the year ended 31 December 2022.

*(ii) Impairment of financial assets*

While cash and cash equivalents, restricted cash, notes receivable and wealth management products are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was immaterial as management considers that the counter-parties are reputable banks and financial institutions with high credit ratings. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future. Therefore, expected credit loss rate is assessed to be close to zero and no provision was made.

The Group also has the following three types of financial assets that are subject to the expected credit loss model:

- Trade receivables (excluding notes receivable)
- Contract assets
- Other receivables

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Trade receivables (excluding notes receivable) and contract assets

The Group applies the IFRS 9 simplified approach to measure the expected credit losses (“ECL”), which uses a lifetime expected loss provision for all trade receivables and contract assets. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Consumer Price Index, Producer Price Index and the unemployment rate of China where the Group operates to be the most relevant factors, and accordingly adjusts the historical loss rates based on the expected changes in these factors.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and aging. The Group also made individual assessment on the recoverability of its receivables for certain customer based on historical settlement record.

Set out below is the information about credit risk exposure on the Group’s trade receivables (excluding notes receivable) and contract assets using provision matrix:

*Non-government customers (excluding energy management services)-assessed based on grouping*

	<b>Within 1 year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>Over 3 years</b>	<b>Total</b>
<b>Trade receivables</b>					
At 31 December 2020					
Expected loss rate	2.80%	10.34%	24.22%	82.16%	
Gross carrying amount (RMB’000)	159,928	52,753	6,094	6,620	225,395
Loss allowance provision (RMB’000)	4,478	5,457	1,476	5,439	16,850
At 31 December 2021					
Expected loss rate	3.26%	11.05%	36.72%	96.52%	
Gross carrying amount (RMB’000)	162,056	57,024	12,341	10,261	241,682
Loss allowance provision (RMB’000)	5,279	6,299	4,531	9,904	26,013
At 31 December 2022					
Expected loss rate	3.92%	13.02%	36.77%	97.62%	
Gross carrying amount (RMB’000)	276,160	51,665	15,359	14,718	357,902
Loss allowance provision (RMB’000)	10,835	6,729	5,647	14,368	37,579

*Non-government customers (excluding energy management services)-assessed individually*

<b>Trade receivables</b>					
At 31 December 2022					
Expected loss rate					100.00%
Gross carrying amount (RMB’000)					9,838
Loss allowance provision (RMB’000)					9,838

The Group individually assessed the recoverability of the balance with certain non-government customers as at 31 December 2022 as significant increase in credit risk were identified.

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*Government customer in relation to price subsidy*

**Trade receivables**

At 31 December 2020	
Expected loss rate	0.18%
Gross carrying amount (RMB’000)	156,476
Loss allowance provision (RMB’000)	276
At 31 December 2021	
Expected loss rate	0.17%
Gross carrying amount (RMB’000)	122,260
Loss allowance provision (RMB’000)	203
At 31 December 2022	
Expected loss rate	0.15%
Gross carrying amount (RMB’000)	156,228
Loss allowance provision (RMB’000)	228

*Energy management services customer*

The Group assesses the relevant trade receivables individually.

**Trade receivables**

At 31 December 2020	
Expected loss rate	58.78%
Gross carrying amount – trade receivables (RMB’000)	15,184
Gross carrying amount – lease receivables (RMB’000)	152,106
Loss allowance provision (RMB’000)	98,327
At 31 December 2021	
Expected loss rate	51.74%
Gross carrying amount – trade receivables (RMB’000)	17,793
Gross carrying amount – lease receivables (RMB’000)	151,843
Loss allowance provision (RMB’000)	87,769
At 31 December 2022	
Expected loss rate	32.35%
Gross carrying amount – trade receivables (RMB’000)	1,612
Gross carrying amount – lease receivables (RMB’000)	131,095
Loss allowance provision (RMB’000)	42,936

*Government customer in relation to construction services*

**Contract assets**

At 31 December 2020	
Expected loss rate	0.41%
Gross carrying amount (RMB’000)	44,319
Loss allowance provision (RMB’000)	182
At 31 December 2021	
Expected loss rate	0.55%
Gross carrying amount (RMB’000)	58,994
Loss allowance provision (RMB’000)	323
At 31 December 2022	
Expected loss rate	0.44%
Gross carrying amount (RMB’000)	14,674
Loss allowance provision (RMB’000)	64

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The loss allowance provision for trade receivables and contract assets as at 31 December 2020, 2021 and 2022 reconciles to the opening loss allowance as follows:

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At the beginning of the year	102,229	115,635	114,308
Provision/(reversal) of loss allowance recognised in profit or loss	13,406	(1,327)	(23,663)
At the end of the year	<u>115,635</u>	<u>114,308</u>	<u>90,645</u>

During the Track Record Period, the provision/reversal of loss allowances were recognised in profit or loss in “Provision/reversal of impairment losses on financial assets and contract assets” in relation to the impaired trade receivables and contract assets.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery, amongst others, include the failure of a debtor to engage in a repayment plan with the Group.

Other receivables

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated.

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor’s ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor;
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of the debtors.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

The nature of other receivables and deposits (excluding prepayments) are set out in Note 20. Management considered these receivables and deposits to be of low credit risk and thus the loss allowance provision recognised was limited to 12 months expected losses.

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The loss allowance provision for other receivables and deposits (excluding prepayments) as at 31 December 2020, 2021 and 2022 reconciles to the opening loss allowance for that provision as follows:

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	4,000	4,142	4,474
Provision for loss allowance recognised in profit or loss	142	332	545
At the end of the year	<u>4,142</u>	<u>4,474</u>	<u>5,019</u>

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due.

Management monitors rolling forecasts of the Group’s liquidity reserve and cash and cash equivalents on the basis of expected cash flows. The Group expects to fund the future cash flow needs through internally generated cash flows from operations and available banking facilities.

The table below analyses the Group’s financial liabilities into relevant maturity grouping based on the remaining period at the reporting date to the earliest date the lenders can demand for repayment. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<b>Less than 1 year or on demand</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2020</b>					
Lease liabilities	2,795	5,056	9,175	13,775	30,801
Borrowings	969,663	26,769	177,651	177,436	1,351,519
Trade and other payables excluding non-financial liabilities	916,417	37,462	29,243	5,900	989,022
Guarantee ( <i>Note 38 (g)</i> )	7,200	–	–	–	7,200
<b>Total</b>	<u>1,896,075</u>	<u>69,287</u>	<u>216,069</u>	<u>197,111</u>	<u>2,378,542</u>
<b>As at 31 December 2021</b>					
Lease liabilities	2,818	3,442	8,582	10,925	25,767
Borrowings	497,228	350,610	188,272	111,534	1,147,644
Trade and other payables excluding non-financial liabilities	765,589	26,293	4,425	4,425	800,732
Guarantee ( <i>Note 38 (g)</i> )	7,200	–	–	–	7,200
<b>Total</b>	<u>1,272,835</u>	<u>380,345</u>	<u>201,279</u>	<u>126,884</u>	<u>1,981,343</u>
<b>As at 31 December 2022</b>					
Lease liabilities	2,212	3,358	9,777	9,895	25,242
Borrowings	283,829	82,573	468,003	193,182	1,027,587
Trade and other payables excluding non-financial liabilities	912,562	1,475	4,425	2,950	921,412
<b>Total</b>	<u>1,198,603</u>	<u>87,406</u>	<u>482,205</u>	<u>206,027</u>	<u>1,974,241</u>

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The table above includes a term loan amounting to RMB193,000,000, RMB179,000,000, and nil as at 31 December 2020, 2021 and 2022 which is classified as repayable on demand because of the breach of certain covenants or financial undertakings stipulated in the relevant loan agreement. The table below summarises the maturity analysis of such term loan based on the original scheduled repayment dates set out in the loan agreement. The amounts in the table below include interest payments computed using implicit interest rate. In March 2022, the Group obtained from the lending bank a letter of waiver from strict compliance with the relevant financial covenants. Taking into account the Group’s financial position, the Directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The Directors believe that such term loan will be repaid in accordance with the original scheduled repayment dates set out in the loan agreement.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>As at 31 December 2020</b>					
Bank borrowings	23,305	22,610	77,941	120,575	244,431
<b>As at 31 December 2021</b>					
Bank borrowings	22,610	24,396	82,427	91,693	221,126
<b>As at 31 December 2022</b>					
Bank borrowings	N/A	N/A	N/A	N/A	N/A

### 3.2 Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt or draw down more borrowings as and when necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debts less cash and cash equivalents. Total capital is calculated as ‘equity’ as shown in the consolidated statements of financial position.

The gearing ratio as at 31 December 2020, 2021 and 2022 were as follows:

	As at 31 December		
	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Borrowings	1,308,636	1,061,277	881,214
Lease liabilities	23,557	19,975	19,682
Loans from government	28,724	28,067	22,498
Amounts advanced from a related party	700	700	700
Less: Cash and cash equivalents	(91,826)	(136,185)	(378,068)
Net debt	1,269,791	973,834	546,026
Total equity	612,685	782,396	922,562
Gearing ratio	207%	124%	59%

The gearing ratio decreased from 207% in 2020 to 59% in 2022 because of the Group’s strong operating cash inflows during the Track Record Period which were utilised to repay the Group’s borrowings, as well as the gradual increase in owners’ equity resulted from the Group’s profitable operations during the Track Record Period.

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**3.3 Fair value estimation**

*(a) Financial assets*

The Group made judgements and estimates in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group’s policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As at 31 December 2020, 2021 and 2022, the Group had no level 1 and level 2 financial instruments.

There were no transfers among levels 1, 2 and 3 for recurring fair value measurements of the financial instruments during the Track Record Period.

The following table presents the changes in level 3 financial instruments during the Track Record Period.

	<b>Financial assets at fair value through profit or loss</b>		
	<b>Wealth management products</b>		
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
At beginning of the year	14,043	11,041	17,139
Additions	743,929	77,000	10,000
Gains recognised in profit or loss	1,207	418	146
Disposals	(748,138)	(71,320)	(27,285)
At end of the year	<u>11,041</u>	<u>17,139</u>	<u>–</u>
Includes unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	<u>41</u>	<u>100</u>	<u>–</u>

The Group adopts various techniques to determine the fair value of the Group’s level 3 financial instruments.

The unobservable inputs are expected return rates. The higher the expected return rates, the higher the fair value. The expected annual return rates of the investments in wealth management products with floating rates range from 2.10% to 3.88% per annum during the Track Record Period. As at 31 December 2020, 2021 and 2022, if the expected annual return rates had been 50 basis points higher/lower with all other variables were held constant, the fair value of the investments in wealth management products would have been approximately RMB55,000, RMB86,000 and nil higher/lower, respectively. The impact from discounted rate was immaterial due to the reason that the maturity of the wealth management products was short.

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The carrying amounts of the Group's financial assets and liabilities, including cash and cash equivalents, restricted cash, trade receivables and other receivables and deposits (excluding prepayments), borrowings, trade and other payables (excluding non-financial liabilities) and lease liabilities approximated their fair values due to their short maturities or their interest rates are considered as close to the current market rates.

### **(b) Non-financial assets**

Please refer to Note 15 for the fair value estimation of the investment properties of the Group.

## **4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### **(a) Service concession arrangements**

In determining whether the heat supply facilities fall into the scope of International Financial Reporting Interpretations Committee 12 (the "IFRIC 12") "Service Concession Arrangements", the Group applied judgements, including (i) whether the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price; (ii) whether the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure asset at the end of the terms of the arrangements.

According to the relevant service concession agreements, competitive modes, such as public biddings, are adopted at the expiry of the service concession arrangements to re-select the concession grantee and the Group has preferential rights to renew its concession rights if the Group provides to the Grantors the same offer as other potential competitors. In the opinion of the Directors, the Group is not able to control the renewal of the concession agreements as an open tender is required by law and the result of such open tender is uncertain. Thus, the Directors exercise significant judgement and account for the Group's infrastructure under IFRIC12 "Service Concession Arrangements" rather than under IAS 16 "Property, Plant and Equipment".

The fair value of the construction service under the concession arrangements is calculated as the estimated total construction cost plus a profit margin which ranged from 14.60% to 16.35% during the Track Record Period. The profit margin was determined by the management with reference to the report issued by independent valuer, based on the prevailing market rates applicable to similar construction services. Revenue relating to construction services is accounted for in accordance with the accounting policy in Note 2.27.

### **(b) Impairment assessment of intangible assets**

The carrying value of intangible assets are reviewed for impairment annually or when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in Note 2.11 above. The recoverable amount for impairment assessment is the higher of its fair value less costs of disposal and value-in-use. The determination of recoverable amount involves significant estimates. Estimating the value-in-use requires the Group to make estimates for future cash flows and to determine appropriate discount rates and other assumptions as disclosed in Note 17. A change in such estimates will result in an adjustment to the estimated impairment provision.

### **(c) Useful lives of the property, plant and equipment**

The Group depreciates the property, plant and equipment in accordance with the accounting policies as set out in Note 2.7. The estimated useful lives reflect the Director's estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

### **(d) Expected credit loss for receivables**

The Group makes allowances on receivables based on assumptions about risk of default and expected loss rates. The Group used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.



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Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables, and the impairment losses in the periods in which such estimate has been changed. For details of the key assumptions and inputs used, see Note 3.1(b) above.

### (e) Current tax and deferred income tax

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the applicable tax rate is different from the original expectation.

Deferred income tax assets relating to temporary differences and tax losses are recognised when management expects it is probable that future taxable profits will be available to offset against the temporary differences and tax losses. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets in the period in which such estimates have been changed.

### (f) Revenue recognition of price subsidies from local government

The Group recognises price subsidies from local government as revenue for the provision of heat over the scheduled period as described in Note 2.27(a).

Significant judgments are required in management's estimation of the amount of price subsidies receivable from local government at each reporting date during the relevant heat service period from October to April. These include but not limited to the estimation of total eligible costs and total heat service area, which are variables used in determining the amount of price subsidies, based on the latest information available to management and the results of historical assessments conducted by the relevant government authorities to determine the final price subsidies.

Management regularly reviews and revises the estimated amount of price subsidies when circumstances change. The final amount of price subsidies confirmed by local government may differ from management's estimation. Any increases or decreases in the estimated amount of price subsidies may result in adjustments to revenue recognised in the period in which the circumstances that give rise to the revision becomes known to management.

## 5 REVENUE AND SEGMENT INFORMATION

### (a) Revenue from contract with customers

	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Revenue from contract with customers:			
– Provision and distribution of heat	907,848	960,942	1,015,218
– Consideration from customers	739,940	778,442	853,542
– Price subsidies from local government	167,908	182,500	161,676
– Engineering construction services	362,050	229,147	301,567
– Pipeline connection fees	65,429	74,211	83,725
– Heat transmission services	16,961	14,533	5,521
– Sale of goods	16,344	5,756	23,581

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	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– Energy management services	4,157	3,972	3,002
– Designing services	1,658	518	6,585
– Others	1,874	1,556	4,533
	<u>1,376,321</u>	<u>1,290,635</u>	<u>1,443,732</u>
Timing of revenue recognition:			
– At a point in time	36,837	22,363	38,570
– Over time	1,339,484	1,268,272	1,405,162
	<u>1,376,321</u>	<u>1,290,635</u>	<u>1,443,732</u>

Management has determined the operating segments based on the reports reviewed by the CODM.

The Group is principally engaged in the heat supply and related services in the PRC. The CODM reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM regards that there is only one segment and review the consolidated financial information accordingly.

The major operating entities of the Group are domiciled in the PRC. All of the Group’s revenue are derived in the PRC.

As at 31 December 2020, 2021 and 2022, all of the non-current assets were located in the PRC or arisen from transaction as conducted in the PRC.

Revenue from customers contributing over 10% of the Group’s total revenue is as follows:

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer 1	399,864	201,099	206,491

**(b) Assets related to contracts with customers**

**(i) Unsatisfied long-term service contract**

The following table shows unsatisfied performance obligations resulting from fixed-price long-term energy management services contracts:

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aggregate amount of the transaction price allocated to long-term energy management services contracts that are partially or fully unsatisfied			
– within one year	3,972	3,488	2,480
– over one year	31,774	28,286	26,292
	<u>35,746</u>	<u>31,774</u>	<u>28,772</u>

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(ii) *Contract assets*

The Group has recognised the following assets related to contracts with a government customer:

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets recognised for costs incurred to fulfil contracts	44,319	58,994	14,674
Loss allowance	(182)	(323)	(64)
	<u>44,137</u>	<u>58,671</u>	<u>14,610</u>

Contract assets were recognised as the Group provided engineering construction services during the Track Record Period, which were pending certification by the related government customer. When certification has been completed and the Group obtains the right to receive the unconditional consideration, the contract assets will be recognised as account receivables.

**6 OTHER INCOME**

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants (a)	32,518	58,722	37,472
Rental income	15,866	14,862	16,270
	<u>48,384</u>	<u>73,584</u>	<u>53,742</u>

*Note:*

(a) There are no unfulfilled conditions or other contingencies attaching to these government grants.

**7 OTHER LOSSES – NET**

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fair value losses of investment properties ( <i>Note 15</i> )	(6,300)	(2,000)	(5,300)
Gains on disposal and deregistration of subsidiaries	72	4	39
Gains on investments in wealth management products, net	1,207	418	146
Gains/(losses) on disposal of property, plant and equipment, net	3,443	(119)	242
Gains on disposal of intangible assets	–	462	1,086
Others	1,421	1,216	184
	<u>(157)</u>	<u>(19)</u>	<u>(3,603)</u>

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### 8 EXPENSES BY NATURE

Expenses included in cost of sales and administrative expenses are analysed below:

	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Costs for purchases of heat	380,312	376,447	400,948
Construction costs of engineering construction services	315,481	198,908	261,767
Amortisation of intangible assets (Note 17)	166,050	184,282	194,934
Materials consumed	79,657	90,423	129,994
Employee benefit expenses (Note 9)	77,424	89,962	91,617
Utility costs	72,361	74,920	71,142
Maintenance expenses	16,488	13,246	19,229
Depreciation of property, plant and equipment (Note 14)	11,510	12,763	15,230
Cost of goods sold	13,294	1,944	12,555
Entertainment expenses	11,012	12,497	10,672
Impairment of Intangible assets (Note 17)	–	–	9,398
Other taxes and surcharges	7,298	5,901	6,468
Travelling expenses	7,920	6,652	5,795
Depreciation of right-of-use assets (Note 16)	3,113	4,780	4,615
[REDACTED] expenses	–	299	3,597
Consulting and professional service fees	4,366	6,466	2,848
Short-term lease expenses (Note 31)	1,209	2,022	2,220
Office expenses	1,988	1,730	1,640
Auditors’ remuneration	891	1,320	858
Others	39,508	33,713	40,913
	<u>1,209,882</u>	<u>1,118,275</u>	<u>1,286,440</u>

### 9 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS’ EMOLUMENTS)

	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Wages and bonuses	68,587	72,935	73,060
Pension costs – defined contribution plans	696	6,081	6,889
Other post-employment benefits	4,949	5,915	5,689
Other social security costs	3,192	5,031	5,979
	<u>77,424</u>	<u>89,962</u>	<u>91,617</u>

#### (a) Pensions – defined contribution plans

No forfeited contributions were available and utilised by the Group to reduce its future pension contributions for the years ended 31 December 2020, 2021 and 2022.

According to the policies issued by the Ministry of Human Resources and Social Security and local municipal departments of the PRC, social security contributions relief policies were implemented by the local authorities in response to the adverse financial impact to the society caused by the Corona-virus Disease 2019. As such, the social security related expenses were partially reduced or exempted during the year ended 31 December 2020.

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**(b) Five highest paid individuals**

For the years ended 31 December 2020, 2021 and 2022, the five individuals whose emoluments were the highest in the Group included 3 directors, 3 directors and 1 supervisor, 4 directors respectively, whose emoluments are reflected in the analysis shown in Note 9(c), while the emoluments payable to the remaining 2, 1 and 1 highest paid individuals respectively are as follows:

	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	576	–	–
Contribution to pension scheme	3	–	–
Discretionary bonuses	1,037	2,200	950
	<u>1,616</u>	<u>2,200</u>	<u>950</u>

The emoluments fell within the following bands:

	Year ended 31 December		
	2020	2021	2022
Emolument bands (HKD)			
Nil – 1,000,000	1	–	–
1,000,001 – 2,000,000	1	–	1
2,000,001 – 3,000,000	–	1	–

**(c) Directors’ emoluments**

Year ended 31 December 2020	Fees	Salary	Discretionary bonuses	Allowance and benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Li Baoshan (李寶山)	–	514	1,750	15	2,279
Geng Ming (耿鳴) (note (i))	–	580	1,750	39	2,369
Luo Wei (羅偉)	–	170	600	37	807
<b>Non-executive directors</b>					
Miao Wenbin (繆文彬) (note (iv))	–	–	–	–	–
Ma Fulin (馬福林) (note (iv))	–	–	–	–	–
<b>Supervisors</b>					
Ma Pelin (馬培林)	–	–	–	–	–
Liu Zhigang (劉志剛)	–	156	380	10	546
Chen Zhen (陳振) (note (iii))	–	–	–	–	–
	<u>–</u>	<u>1,420</u>	<u>4,480</u>	<u>101</u>	<u>6,001</u>

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Year ended 31 December 2021	Fees	Salary	Discretionary bonuses	Allowance and benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Li Baoshan (李寶山)	–	502	2,700	36	3,238
Geng Ming (耿鳴)	–	577	2,200	77	2,854
Luo Wei (羅偉)	–	169	600	74	843
Hu Xirong (胡錫榮) (note (v))	–	44	43	5	92
<b>Non-executive directors</b>					
Miao Wenbin (繆文彬)	–	–	–	–	–
Ma Fulin (馬福林)	–	–	–	–	–
<b>Supervisors</b>					
Ma Pelin (馬培林)	–	–	–	–	–
Liu Zhigang (劉志剛)	–	156	716	72	944
Chen Zhen (陳振)	–	–	–	–	–
	–	1,448	6,259	264	7,971
<b>Year ended 31 December 2022</b>					
Year ended 31 December 2022	Fees	Salary	Discretionary bonuses	Allowance and benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Li Baoshan (李寶山)	–	514	2,162	38	2,714
Geng Ming (耿鳴)	–	584	1,660	97	2,341
Luo Wei (羅偉)	–	177	600	96	873
Hu Xirong (胡錫榮)	–	341	312	30	683
<b>Non-executive directors</b>					
Miao Wenbin (繆文彬)	–	–	–	–	–
Ma Fulin (馬福林)	–	–	–	–	–
<b>Supervisors</b>					
Ma Pelin (馬培林)	–	–	–	–	–
Liu Zhigang (劉志剛)	–	252	240	76	568
Chen Zhen (陳振)	–	–	–	–	–
	–	1,868	4,974	337	7,179

- (i) Mr. Geng Ming (耿鳴) is the chairman of the board and the chief executive officer of the Company during the Track Record Period.
- (ii) No directors waived any emoluments and no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as a compensation for loss of office during the Track Record Period.
- (iii) Mr. Chen Zhen (陳振) were appointed as a supervisor in April 2020.
- (iv) Mr. Miao Wenbin (繆文彬) and Mr. Ma Fulin (馬福林) were appointed as non-executive directors in April 2020.
- (v) Mr. Hu Xirong (胡錫榮) was appointed as an executive director in November 2021.
- (vi) Independent non-executive directors have not been appointed during the Track Record Period.

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**(d) Directors' retirement benefits**

No retirement benefits were paid to or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertakings during the Track Record Period.

**(e) Directors' termination benefits**

No termination benefits were paid to the directors as compensation for the early termination of appointment during the Track Record Period.

**(f) Consideration provided to or receivable by third parties for making available directors' services**

No consideration was provided to or receivable by any third party for making available directors' services during the Track Record Period.

**(g) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors**

No loans, quasi-loans or other dealings were entered into by the Company in favour of any directors, controlled bodies corporate by and connected entities with such directors during the Track Record Period.

**(h) Directors' material interests in transactions, arrangements or contracts**

Save as disclosed in Note 38, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Track Record Period or at any time during the Track Record Period.

**10 FINANCE INCOME AND COSTS**

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Finance income:</b>			
Interest income derived from bank deposits	2,519	1,822	2,696
Interest income from financing arrangements <i>(Note 20(a))</i>	17,462	13,659	10,877
Interest income from finance lease to a related party <i>(Note 38(c))</i>	1,320	1,468	1,334
Interest income from lease receivables	692	4,813	10,983
Interest income from loans to a related party <i>(Note 38(c))</i>	4,400	7,592	424
	<u>26,393</u>	<u>29,354</u>	<u>26,314</u>
<b>Finance costs:</b>			
Interest expenses on borrowings	(85,659)	(72,686)	(62,858)
Interest expenses on lease liabilities	(1,218)	(1,465)	(1,386)
Interest expenses on installment payable for acquisition of intangible assets	(2,338)	(5,087)	(3,090)
Interest expenses on installment payable for purchase of equipment	(1,657)	–	–
Interest expenses on loans from government	(1,342)	(1,343)	(931)
Unwinding of provision	(652)	(922)	(1,156)
	<u>–</u>	<u>–</u>	<u>(14,644)</u>
Loss from modification of lease receivables <i>(a)</i>	–	–	(14,644)
	<u>(92,866)</u>	<u>(81,503)</u>	<u>(84,065)</u>
<b>Finance costs – net</b>	<u>(66,473)</u>	<u>(52,149)</u>	<u>(57,751)</u>

(a) In February 2022, the Group signed an addendum to a supplemental agreement containing payment schedule with its energy management services customer to modify the contract terms including extension of the payment terms from 10 years to 14 years and also change the calculation method for the annual repayment amount, resulting a modification loss of RMB14,644,000 recognised immediately.

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**11 INCOME TAX EXPENSE**

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax			
– PRC corporate income tax	47,095	53,858	60,337
Deferred income tax (Note 32)	(1,484)	(18,187)	(14,376)
	<u>45,611</u>	<u>35,671</u>	<u>45,961</u>

Tax on the Group’s profit differs from the theoretical amount that would arise using the standard tax rate applicable to the profit of the Group as follows:

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	143,927	206,731	186,336
Tax calculated at 25%	35,982	51,683	46,584
Tax effects of:			
– Preferential income tax rates applicable to certain subsidiaries	(18,966)	(23,211)	(25,434)
– Share of profit of associates accounted for using the equity method	(1,284)	(1,726)	(2,124)
– Super deduction for research and development expenditures	(510)	(786)	(1,309)
– Expenses not deductible for taxation purposes	3,954	2,972	2,063
– Temporary differences not recognised for deferred income tax	(182)	(108)	(147)
– Tax losses not recognised for deferred income tax	26,630	6,858	26,614
– Utilisation of previously unrecognised tax losses	–	(10)	(276)
– Income not subject to tax	(13)	(1)	(10)
	<u>45,611</u>	<u>35,671</u>	<u>45,961</u>

**(a) PRC corporate income tax (“CIT”)**

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowance. The general PRC CIT rate is 25% during the Track Record Period.

Taiyuan Renewable Energy was approved as a high and new technology enterprise in 2018 and was subject to a preferential CIT rate of 15% from 2018 to 2020 according to the relevant CIT laws. In December 2021, Taiyuan Renewable Energy was approved for the renewal as a high and new technology enterprise for three years from 2021 to 2023, and a preferential CIT rate of 15% has been applied. In September 2019, Shanxi Shuangliang New Energy was qualified as a high and new technology enterprise and entitled to enjoy a preferential CIT rate of 15% from 2019 to 2021 and was approved for the renewal as a high and new technology enterprise in 2022. The applicable income tax rate is 15% for the years from 2022 to 2024. In December 2020, Shanxi Demonstration Zone Heat Supply was qualified as a high and new technology enterprise and entitled to enjoy a preferential CIT rate of 15% from 2020 to 2022.



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Lanzhou Shuangliang and Hulunbuir Shuangliang were subjected to a preferential CIT rate of 15% from 2020 to 2021 according to the relevant CIT laws since they are enterprises established and operated in the western region of the PRC. In October 2022 and December 2022, Lanzhou Shuangliang and Hulunbuir Shuangliang were approved as high and new technology enterprises respectively and were subjected to preferential CIT rate of 15% from 2022 to 2024 according to the relevant CIT laws.

In addition, according to the relevant tax circulars issued by the PRC tax authorities, Gansu Smart Energy is entitled to other tax concessions and is exempt from CIT for three years, followed by a 50% reduction of the applicable tax rates for the next three years, commencing from the year of the first revenue obtained from the energy management services since 2017. Gansu Smart Energy was exempt from CIT in 2017, 2018 and 2019 and entitled to a preferential CIT rate of 12.5% in 2020, 2021 and 2022.

### 12 EARNINGS PER SHARE

#### (a) Basic

The basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

	Year ended 31 December		
	2020	2021	2022
Profit attributable to the owners of the Company (RMB'000)	66,830	110,696	96,431
Weighted average number of ordinary shares in issue (thousands)	226,000	226,000	226,000
Basic earnings per share (RMB per share)	0.30	0.49	0.43

#### (b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding as at 31 December 2020, 2021 and 2022, respectively.

### 13 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year	67,001	72,713	84,824
Dividends	(3,679)	–	(3,200)
Share of net profit	9,282	11,960	13,538
Share of other comprehensive income/(loss)	109	151	(196)
Balance at the end of the year	72,713	84,824	94,966

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Set out below is a list of the associates of the Group as at 31 December 2020, 2021 and 2022. The investments in associates only consist of ordinary shares. Their countries of incorporation are also their principal place of business, and the Group’s proportion of ownership interest is the same as the proportion of voting rights held by the Group. Other than a financial guarantee amounting to RMB7,200,000 provided by the Group to Sinopec New Star (as defined below) as at 31 December 2020 and 2021 in respect of its bank borrowings, there were no commitments and contingent liabilities relating to the Group’s interests in the associates as at 31 December 2020, 2021 and 2022.

Name	Place of incorporation	Percentage of ownership interest attributable to the Group			Principal activities	Date of incorporation
		As at 31 December				
		2020	2021	2022		
Sinopec New Star Shuangliang Geothermal Thermal Power Company Limited (中石化新星雙良地熱能熱電有限公司) (“Sinopec New Star”) (a)	Shanxi Province, the PRC	40%	40%	40%	Heat supply	17 September 2014
Shaanxi Gas Group New Energy Development Company Limited (陝西燃氣集團新能源發展有限公司) (b)	Shaanxi Province, the PRC	10%	10%	10%	Heat supply	21 March 2013

- (a) In 2014, the Group invested 40% equity interest in Sinopec New Star for a cash consideration of RMB24,000,000 and obtained significant influence through its board representatives.
- (b) In 2018, the Group invested 10% equity interest in Shaanxi Gas Group New Energy Development Company Limited at a cash consideration of RMB34,041,000 and obtained significant influence through its board representatives.

The Group has interests in the above two individually immaterial associates which are accounted for using the equity method.

	As at and for the year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	72,713	84,824	94,966
Aggregate amounts of the Group’s share of:			
Profit from continuing operations	9,282	11,960	13,538
Dividends	3,679	–	3,200
Other comprehensive income/(loss)	109	151	(196)

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14 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Pipeline and heating equipment	Machinery and equipment	Transportation equipment	Office and electronic equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2020</b>								
Cost	105,779	34,886	38,087	26,268	12,366	402	15,865	233,653
Accumulated depreciation	(11,313)	(8,232)	(8,891)	(19,448)	(9,237)	(92)	-	(57,213)
Net book amount	94,466	26,654	29,196	6,820	3,129	310	15,865	176,440
<b>Year ended 31 December 2020</b>								
Opening net book amount	94,466	26,654	29,196	6,820	3,129	310	15,865	176,440
Additions	7,175	-	3,465	1,110	2,758	890	11,034	26,432
Disposals	-	(26,240)	(218)	(75)	(29)	-	-	(26,562)
Depreciation	(4,436)	(414)	(2,878)	(1,905)	(1,721)	(156)	-	(11,510)
Closing net book amount	97,205	-	29,565	5,950	4,137	1,044	26,899	164,800
<b>At 31 December 2020</b>								
Cost	112,954	-	40,895	26,712	14,874	1,291	26,899	223,625
Accumulated depreciation	(15,749)	-	(11,330)	(20,762)	(10,737)	(247)	-	(58,825)
Net book amount	97,205	-	29,565	5,950	4,137	1,044	26,899	164,800
<b>Year ended 31 December 2021</b>								
Opening net book amount	97,205	-	29,565	5,950	4,137	1,044	26,899	164,800
Transfer	-	-	26,899	-	-	-	(26,899)	-
Additions	-	-	1,539	1,018	1,590	477	-	4,624
Disposals	-	-	(3)	(136)	(1)	-	-	(140)
Depreciation	(4,638)	-	(3,989)	(1,824)	(1,872)	(440)	-	(12,763)
Closing net book amount	92,567	-	54,011	5,008	3,854	1,081	-	156,521
<b>At 31 December 2021</b>								
Cost	112,954	-	69,267	25,834	16,437	1,768	-	226,260
Accumulated depreciation	(20,387)	-	(15,256)	(20,826)	(12,583)	(687)	-	(69,739)
Net book amount	92,567	-	54,011	5,008	3,854	1,081	-	156,521
<b>Year ended 31 December 2022</b>								
Opening net book amount	92,567	-	54,011	5,008	3,854	1,081	-	156,521
Additions	-	-	11,694	2,155	995	371	-	15,215
Disposals	-	-	(467)	(110)	-	-	-	(577)
Depreciation	(4,639)	-	(6,777)	(1,504)	(1,727)	(583)	-	(15,230)
Closing net book amount	87,928	-	58,461	5,549	3,122	869	-	155,929
<b>At 31 December 2022</b>								
Cost	112,954	-	79,531	26,830	17,432	2,140	-	238,887
Accumulated depreciation	(25,026)	-	(21,070)	(21,281)	(14,310)	(1,271)	-	(82,958)
Net book amount	87,928	-	58,461	5,549	3,122	869	-	155,929

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Depreciation charge was expensed in the consolidated statements of comprehensive income as follows:

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	2,254	1,958	2,837
Administrative expenses	9,256	10,805	12,393
	<u>11,510</u>	<u>12,763</u>	<u>15,230</u>

As at 31 December 2020, 2021 and 2022, the net book value of the buildings of which the property ownership certificates had not been obtained or property ownership transfer procedures had not been completed were RMB28,108,000, RMB26,455,000 and RMB24,802,000, respectively.

The Directors are of the view that the Group is entitled to the lawful and valid occupancy and uses of these buildings and the related ownership certificates will be obtained in due course. The Directors are also of the opinion that the uses of these buildings without the ownership certificates for the Group’s business operations for the time being will not expose the Group to any significant penalties or unfavourable consequences.

**15 INVESTMENT PROPERTIES**

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at beginning of the year	280,800	274,500	272,500
Net losses from fair value adjustment	(6,300)	(2,000)	(5,300)
Balance at the end of the year	<u>274,500</u>	<u>272,500</u>	<u>267,200</u>

Amounts recognised in profit or loss for investment properties

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income from operating leases	15,866	14,862	15,149
Fair value losses	(6,300)	(2,000)	(5,300)

- (a) The Group had no contractual obligations for future repairs and maintenance as at 31 December 2020, 2021 and 2022.
- (b) As at 31 December 2020, 2021 and 2022, the Group had not obtained the ownership certificates of certain investment properties with a total net book value of RMB79,000,000, RMB77,000,000 and RMB74,000,000, respectively.

The Directors are of the view that the Group is entitled to the lawful and valid occupancy and uses of these investment properties and the related ownership certificates will be obtained in due course. The Directors are also of the opinion that the uses of these investment properties without the ownership certificates for the Group’s business operations for the time being will not expose the Group to any significant penalties or unfavourable consequences.

**(c) Fair value hierarchy**

The investment properties of the Group are measured at fair value and are classified as level 3 under the prescribed accounting standards. There were no transfers among levels 1, 2 and 3 for recurring fair value measurements during the Track Record Period.

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**(d) Valuation process**

With the assistance of valuation performed by a third-party independent valuer by using income approach, the Directors assessed the fair value of the investment properties as at 31 December 2020, 2021 and 2022.

**(e) Valuation techniques**

Income approach took into account the current rents of the property interests and the reversionary potentials of the tenancies. Term yield and reversionary yield are then applied respectively to derive the market value of the investment properties.

Direct market comparison made reference to unit rates as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the different factors such as location and building age.

**(f) Information about fair value measurements using significant unobservable inputs (level 3)**

Description	Unobservable inputs	Range of unobservable inputs As at 31 December		
		2020	2021	2022
Investment properties – the PRC	The rate of return/ capitalisation rate	5.5% to 6.75%	5.5% to 6.75%	5.5% to 6.75%
	Monthly rental (RMB/sq.m./month)	32.31 to 101.59	32.04 to 99.16	32.49 to 96.24

Relationship of unobservable inputs to fair value:

- The higher the rate of return/capitalisation rate, the lower the fair value;
- The higher the monthly rental, the higher the fair value.

**16 RIGHT-OF-USE ASSETS**

	Office premises	Land use rights	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At 1 January 2020</b>			
Cost	5,154	10,876	16,030
Accumulated depreciation	(1,786)	(2,093)	(3,879)
Net book amount	<u>3,368</u>	<u>8,783</u>	<u>12,151</u>
<b>Year ended 31 December 2020</b>			
Opening net book amount	3,368	8,783	12,151
Acquisition of new lease contracts	25,133	-	25,133
Depreciation	(2,889)	(224)	(3,113)
Closing net book amount	<u>25,612</u>	<u>8,559</u>	<u>34,171</u>
<b>At 31 December 2020</b>			
Cost	29,451	10,876	40,327
Accumulated depreciation	(3,839)	(2,317)	(6,156)
Net book amount	<u>25,612</u>	<u>8,559</u>	<u>34,171</u>

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	<b>Office premises</b>	<b>Land use rights</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Year ended 31 December 2021</b>			
Opening net book amount	25,612	8,559	34,171
Acquisition of new lease contracts	1,180	–	1,180
Early termination of lease contracts	(681)	–	(681)
Depreciation	(4,556)	(224)	(4,780)
Closing net book amount	<u>21,555</u>	<u>8,335</u>	<u>29,890</u>
<b>At 31 December 2021</b>			
Cost	28,487	10,876	39,363
Accumulated depreciation	(6,932)	(2,541)	(9,473)
Net book amount	<u>21,555</u>	<u>8,335</u>	<u>29,890</u>
<b>Year ended 31 December 2022</b>			
Opening net book amount	21,555	8,335	29,890
Acquisition of new lease contracts	3,322	–	3,322
Early termination of lease contracts	(216)	–	(216)
Depreciation	(4,391)	(224)	(4,615)
Closing net book amount	<u>20,270</u>	<u>8,111</u>	<u>28,381</u>
<b>At 31 December 2022</b>			
Cost	27,207	10,876	38,083
Accumulated depreciation	(6,937)	(2,765)	(9,702)
Net book amount	<u>20,270</u>	<u>8,111</u>	<u>28,381</u>

Depreciation charge was expensed in the consolidated statements of comprehensive income as follows:

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	172	172	–
Administrative expenses	2,941	4,608	4,615
	<u>3,113</u>	<u>4,780</u>	<u>4,615</u>

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**17 INTANGIBLE ASSETS**

	<b>Goodwill</b>	<b>Operating concessions</b>	<b>Software</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At 1 January 2020</b>				
Cost	9,047	3,744,350	18,548	3,771,945
Accumulated amortisation	–	(781,021)	(3,608)	(784,629)
Accumulated impairment	–	(111,113)	–	(111,113)
Net book amount	<u>9,047</u>	<u>2,852,216</u>	<u>14,940</u>	<u>2,876,203</u>
<b>Year ended 31 December 2020</b>				
Opening net book amount	9,047	2,852,216	14,940	2,876,203
Additions	–	458,969	814	459,783
Amortisation	–	(164,396)	(1,654)	(166,050)
Closing net book amount	<u>9,047</u>	<u>3,146,789</u>	<u>14,100</u>	<u>3,169,936</u>
<b>At 31 December 2020</b>				
Cost	9,047	4,203,319	19,362	4,231,728
Accumulated amortisation	–	(945,417)	(5,262)	(950,679)
Accumulated impairment	–	(111,113)	–	(111,113)
Net book amount	<u>9,047</u>	<u>3,146,789</u>	<u>14,100</u>	<u>3,169,936</u>
<b>Year ended 31 December 2021</b>				
Opening net book amount	9,047	3,146,789	14,100	3,169,936
Additions	–	208,132	1,235	209,367
Disposals	–	(4,348)	–	(4,348)
Amortisation	–	(183,008)	(1,274)	(184,282)
Closing net book amount	<u>9,047</u>	<u>3,167,565</u>	<u>14,061</u>	<u>3,190,673</u>
<b>At 31 December 2021</b>				
Cost	9,047	4,407,103	20,597	4,436,747
Accumulated amortisation	–	(1,128,425)	(6,536)	(1,134,961)
Accumulated impairment	–	(111,113)	–	(111,113)
Net book amount	<u>9,047</u>	<u>3,167,565</u>	<u>14,061</u>	<u>3,190,673</u>
<b>Year ended 31 December 2022</b>				
Opening net book amount	9,047	3,167,565	14,061	3,190,673
Additions	–	359,084	180	359,264
Disposals	–	(4,640)	–	(4,640)
Amortisation	–	(193,770)	(1,164)	(194,934)
Impairment	–	(9,398)	–	(9,398)
Closing net book amount	<u>9,047</u>	<u>3,318,841</u>	<u>13,077</u>	<u>3,340,965</u>
<b>At 31 December 2022</b>				
Cost	9,047	4,758,772	20,777	4,788,596
Accumulated amortisation	–	(1,319,420)	(7,700)	(1,327,120)
Accumulated impairment	–	(120,511)	–	(120,511)
Net book amount	<u>9,047</u>	<u>3,318,841</u>	<u>13,077</u>	<u>3,340,965</u>

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(a) In 2012, Taiyuan Renewable Energy, a subsidiary of the Group, entered into a concession arrangement with Taiyuan local government (the “Grantor”) to provide heat supply and related services to an area in Taiyuan City (the “Taiyuan Concession Area”). In 2016, the Grantor planned to build more underground pipes and set up additional backup systems in relation to the heat supply services in certain area within the Taiyuan Concession Area (the “Subject Area”) which required Taiyuan Renewable Energy to incur substantial capital expenditures for such development. After due consideration and taking into account the impact of the aforesaid incurrence of substantial capital expenditures on its profitability, Taiyuan Renewable Energy decided not to make such further investment and applied to the Grantor for an early exit from servicing the Subject Area. The application of early exit was approved by the Grantor in 2017 and in the same year, all the heat supply facilities built on the Subject Area were operated by a third party (the “New Operator”) since August 2017 at the Grantor’s instructions. At the end of August 2017, the carrying value of the related operating concession amounted to approximately RMB71,437,000 (with original cost and accumulated amortisation of RMB81,903,000 and RMB10,466,000, respectively). Considering the Group can no longer generate any future economic benefits from the related operating concession, the Group had accelerated the amortisation for the related operating concession and the carrying value of which became zero after such accelerated amortisation took place.

Taiyuan Renewable Energy has been negotiating with the Grantor for a formal transfer of all the heat supply facilities built on the Subject Area and its consideration thereto. Up to the date of this Historical Financial Information, however, no agreement has been reached between Taiyuan Renewable Energy and the Grantor or the New Operator and the amount of consideration, if any, that may be recovered by Taiyuan Renewable Energy is uncertain. In addition, the legal rights and obligations associated with the heat supply facilities under the concession arrangement still remain with Taiyuan Renewable Energy considering the fact that there is no legally binding agreement in place which governs the formal transfer of the related heat supply facilities.

**(b) Impairment tests for goodwill related to Taiyuan Renewable Energy**

Goodwill acquired in a business combination is allocated to the CGU that is expected to benefit from that business combination. Taiyuan Renewable Energy’s business was transferred to and undertaken by the Group since 10 October 2010. The Directors consider Taiyuan Renewable Energy as a separate CGU and the goodwill is allocated to this CGU.

The recoverable amount of the CGU related to Taiyuan Renewable Energy is determined based on value-in-use calculations. The calculation uses pre-tax cash flow projections based on financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year periods are extrapolated using the estimated growth rates stated below.

The following table sets out the key assumptions for the CGU that have goodwill allocated to it:

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Net profit margin (%)	26.40%	26.50%	27.10%
Revenue growth rate (%)	6%-10%	6%-10%	3%-4%
Terminal growth rate (%)	3.00%	3.00%	3.00%
Discount rate (%)	11.93%	11.93%	11.80%
Pre-tax discount rate (%)	13.52%	13.50%	13.36%

The Directors of the Company consider that no impairment charge during the Track Record Period was required after performing the impairment assessment for the Track Record Period.

Based on the result of the goodwill impairment test performed by the Directors, the estimated recoverable amount exceeded the carrying amount by RMB130,719,000, RMB142,544,000 and RMB149,291,000 as at 31 December 2020, 2021 and 2022, respectively. Accordingly, no impairment provision was required to be made during the Track Record Period. The Directors have performed a sensitivity analysis on the key assumptions used in impairment test of goodwill. Any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.



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**(c) Impairment tests for intangible assets related to Shuozhou Renewable Energy**

With assistance of an independent valuer, the Directors assessed the impairment of the operating concession assets of Shuozhou Renewable Energy and recognised an impairment provision of RMB111,113,000 before the Track Record Period and recognised a further impairment provision of RMB9,398,000 during the year ended 31 December 2022 (years ended 31 December 2020 and 2021:Nil).

The recoverable amount of the CGU related to Shuozhou Renewable Energy is determined based on value-in-use calculations. The calculation uses pre-tax cash flow projections based on financial forecasts prepared by management covering the entire service concession period of 20 years.

The following table sets out the key assumptions for the impairment assessment:

	As at 31 December		
	2020	2021	2022
Net profit margin (%)	-3.1%-17.4%	-1.7%-22.1%	-7.2%-17.3%
Revenue growth rate (%)	2%-3%	2%-3%	2%-3%
Discount rate (%)	12.47%	12.05%	11.89%
Pre-tax discount rate (%)	14.35%	13.99%	13.63%

The Directors of the Company consider that no further impairment charge in 2020 and 2021 was required after performing the impairment assessment. As at 31 December 2020 and 2021, the recoverable amount of the CGU related to Shuozhou Renewable Energy approximated its carrying amount.

If the net profit margin used in the value-in-use calculation had decreased by 5% from management’s estimate as at 31 December 2020, 2021 and 2022, the Group would have had to recognise a further impairment against the carrying amount of intangible assets of approximately RMB5,822,000, RMB8,023,000 and RMB16,726,000, respectively.

If the revenue growth rate used in the value-in-use calculation had decreased by 5% from management’s estimate as at 31 December 2020, 2021 and 2022, the Group would have had to recognise a further impairment against the carrying amount of intangible assets of approximately RMB7,381,000, RMB8,891,000 and RMB5,059,000, respectively.

If the discount rate used in the value-in-use calculation had increased by 2% from management’s estimate as at 31 December 2020, 2021 and 2022, the Group would have had to recognise a further impairment against the carrying amount of intangible assets of approximately RMB4,109,000, RMB1,555,000 and RMB9,575,000, respectively.

**(d) Amortisation charge was expensed in the consolidated statements of comprehensive income as follows:**

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	164,862	183,484	194,283
Administrative expenses	1,188	798	651
	<u>166,050</u>	<u>184,282</u>	<u>194,934</u>

**(e)** As at 31 December 2020, 2021 and 2022, intangible assets with carrying amount of approximately RMB103,281,000, RMB98,657,000 and RMB771,097,000, respectively, were pledged as collateral for the bank and other borrowings of the Group (Notes 28(a) and 28(c)).

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**18 FINANCIAL INSTRUMENTS BY CATEGORY**

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets</b>			
Financial assets at fair value through profit or loss	11,041	17,139	–
Financial assets at amortised cost			
Cash and cash equivalents	91,826	136,185	378,068
Restricted cash	34,848	76,688	100,374
Trade receivables	433,708	419,593	566,144
Other receivables and deposits	372,342	194,131	101,232
	<u>932,724</u>	<u>826,597</u>	<u>1,145,818</u>
	<u>943,765</u>	<u>843,736</u>	<u>1,145,818</u>
<b>Financial liabilities</b>			
Liabilities at amortised cost:			
Borrowings	1,308,636	1,061,277	881,214
Lease liabilities	23,557	19,975	19,682
Trade and other payables excluding non-financial liabilities	978,336	795,131	918,900
	<u>2,310,529</u>	<u>1,876,383</u>	<u>1,819,796</u>

**19 TRADE RECEIVABLES**

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in current assets</b>			
Trade receivables (a)			
– Related parties (Note 38(d))	11,443	8,252	10,090
– Third parties	385,612	373,483	515,490
	397,055	381,735	525,580
Notes receivables	–	–	50
Lease receivables	24,251	35,106	21,346
Less: allowance for impairment of trade receivables and lease receivables	(56,562)	(79,115)	(68,990)
	<u>364,744</u>	<u>337,726</u>	<u>477,986</u>
<b>Included in non-current assets</b>			
Lease receivables	127,855	116,737	109,749
Less: allowance for impairment of lease receivables	(58,891)	(34,870)	(21,591)
	<u>68,964</u>	<u>81,867</u>	<u>88,158</u>
Total trade receivables	<u>433,708</u>	<u>419,593</u>	<u>566,144</u>

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- (a) The Group normally provides no credit period to its customers. The following is an aging analysis of trade receivables (excluding notes receivables and lease receivables) from the date of sales:

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Within 1 year	318,786	288,269	434,000
1 to 2 years	59,186	60,780	52,158
2 to 3 years	11,044	17,381	24,704
Over 3 years	8,039	15,305	14,718
	<u>397,055</u>	<u>381,735</u>	<u>525,580</u>

- (b) The Group’s trade receivables, notes receivables and lease receivables were denominated in RMB.
- (c) The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9. Information about the impairment of trade receivables and lease receivables and the Group’s exposure to credit risk can be found in Note 3.1(b).
- (d) As at 31 December 2020, 2021 and 2022, trade receivables with carrying amount of approximately RMB109,539,000, RMB111,592,000 and RMB121,028,000, respectively, were pledged as collaterals for the bank borrowings of the Group (Note 28(a)).

### 20 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
<b>Included in current assets</b>			
Other receivables and deposits			
– Amounts due from a related party (Note 38(e))	154,400	40,074	–
– Deposits	11,610	8,542	8,798
– Consideration receivable from disposal of intangible assets	10,564	10,564	1,482
– Receivable of financing arrangements with a third party (a)	52,412	54,724	59,072
– Others	9,732	10,091	11,013
	<u>238,718</u>	<u>123,995</u>	<u>80,365</u>
Less: allowance for impairment of other receivables and deposits	<u>(3,500)</u>	<u>(4,085)</u>	<u>(4,754)</u>
	<u>235,218</u>	<u>119,910</u>	<u>75,611</u>
Deductible value-added tax	54,946	53,070	19,736
Prepayments to suppliers	16,028	18,292	16,304
Prepayments for income tax	5,590	2,727	3,856
Prepaid [REDACTED] expenses	12,762	21,511	37,620
	<u>89,326</u>	<u>95,600</u>	<u>77,516</u>
	<u>324,544</u>	<u>215,510</u>	<u>153,127</u>

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	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in non-current assets</b>			
Receivable of financing arrangements with a third party (a)	106,980	46,207	–
Receivable of finance lease of plant and equipment to a related party (Note 38 (d))	30,786	28,403	25,886
Less: allowance for impairment of other receivables and deposits	(642)	(389)	(265)
	<u>137,124</u>	<u>74,221</u>	<u>25,621</u>
Prepayments to related parties (Note 38(d))	79	3,747	3,819
Deductible value-added tax	155,639	145,315	–
Prepayments for intangible assets	11,367	14,836	12,425
	<u>167,085</u>	<u>163,898</u>	<u>16,244</u>
	<u>304,209</u>	<u>238,119</u>	<u>41,865</u>
Total prepayments and other receivables	<u>628,753</u>	<u>453,629</u>	<u>194,992</u>

- (a) On 4 December 2018, the Group entered into a series of arrangements with a third party, pursuant to which the third party undertook sales and buyback arrangements with the Group for certain heat supply infrastructure. The total consideration payable to the third party by the Group for the sales and buyback arrangements was RMB176,000,000, of which RMB120,000,000 was paid in 2018 and RMB56,000,000 was paid in 2019. The third party agreed to purchase back the infrastructure at a total consideration of RMB244,100,000 over five years. According to the payment schedule, RMB48,820,000 will be paid each year during a five-year operating period. The repurchase price included the effect of the time value of money which is more than the original sale price of the heat supply infrastructure. Therefore, the arrangement is accounted for as a financing arrangement as provided by the Group to the third party. During the years ended 31 December 2020, 2021 and 2022, the Group recognised finance income from the aforesaid receivables of RMB17,462,000, RMB13,659,000 and RMB10,877,000, respectively (Note 10).
- (b) Movements in the provision for impairment of other receivables and deposits during the Track Record Period are disclosed in Note 3.1(b).
- (c) The Group’s other receivables and deposits were denominated in RMB.

**21 INVENTORIES**

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost:			
Raw materials and consumables	32,851	38,178	48,926
Work in progress	49	–	–
	<u>32,900</u>	<u>38,178</u>	<u>48,926</u>

The costs of inventories recognised in profit or loss for the years ended 31 December 2020, 2021 and 2022 were RMB92,951,000, RMB92,367,000 and RMB142,549,000 respectively.

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### 22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Wealth management products	11,041	17,139	–

As at 31 December 2020 and 2021, financial assets at fair value through profit or loss represented the investments in wealth management products issued by banks in the PRC with expected investment return rates ranged from 2.10% to 3.88% per annum. The financial assets at fair value through profit or loss were all denominated in RMB. For the fair value estimation, please refer to Note 3.3 for details.

As at 31 December 2020 and 2021, all wealth management products were maturing within one year.

As at 31 December 2020, 2021 and 2022, the Group’s financial assets at fair value through profit or loss of RMB11,000,000, RMB17,000,000 and nil were pledged for notes payables (Note 27(b)).

### 23 CASH AND CASH EQUIVALENTS

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Cash at banks	126,502	212,786	478,421
Cash on hand	172	87	21
Less: restricted cash (a)	(34,848)	(76,688)	(100,374)
Cash and cash equivalents	91,826	136,185	378,068

(a) The Group’s restricted cash were deposits placed with the banks for the issuance of bank acceptance notes and as deposits of capital expenditures and borrowings. As at 31 December 2020, 2021 and 2022, restricted cash for the issuance of bank’s acceptance notes amounted to approximately RMB34,848,000, RMB37,862,000 and RMB89,274,000, respectively. As at 31 December 2021, restricted cash for deposit of capital expenditures amounted to approximately RMB38,826,000. As at 31 December 2022, restricted cash as guarantee deposits of bank borrowings amounted to RMB11,100,000.

(b) The Group’s cash and cash equivalents and restricted cash were denominated in RMB.

### 24 SHARE CAPITAL

The Company	Number of ordinary shares	Total
		RMB'000
As at 1 January 2020, 31 December 2020, 2021 and 2022	226,000,000	226,000

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25 OTHER RESERVES

	Capital reserves	Statutory reserves (Note (a))	Revaluation surplus	Other reserves	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at</b>					
<b>1 January 2020</b>	5,726	122,069	18,562	(216)	146,141
Appropriation to statutory reserves	–	16,544	–	–	16,544
Others	–	–	–	54	54
	<u>–</u>	<u>–</u>	<u>–</u>	<u>54</u>	<u>54</u>
<b>Balance at</b>					
<b>31 December 2020</b>	<u>5,726</u>	<u>138,613</u>	<u>18,562</u>	<u>(162)</u>	<u>162,739</u>
<b>Balance at</b>					
<b>1 January 2021</b>	5,726	138,613	18,562	(162)	162,739
Appropriation to statutory reserves	–	23,672	–	–	23,672
Transactions with non-controlling interests	–	–	–	(480)	(480)
Others	–	–	–	77	77
	<u>–</u>	<u>–</u>	<u>–</u>	<u>77</u>	<u>77</u>
<b>Balance at</b>					
<b>31 December 2021</b>	<u>5,726</u>	<u>162,285</u>	<u>18,562</u>	<u>(565)</u>	<u>186,008</u>
<b>Balance at</b>					
<b>1 January 2022</b>	5,726	162,285	18,562	(565)	186,008
Appropriation to statutory reserves	–	14,219	–	–	14,219
Deregistration of subsidiaries	–	(13)	–	–	(13)
Others	–	–	–	(100)	(100)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(100)</u>	<u>(100)</u>
<b>Balance at</b>					
<b>31 December 2022</b>	<u>5,726</u>	<u>176,491</u>	<u>18,562</u>	<u>(665)</u>	<u>200,114</u>

- (a) In accordance with the relevant laws and regulations of the PRC, the Company and the PRC subsidiaries of the Group should make appropriation of not less than 10% of its net income after taxes to legal reserve. Further appropriation is optional when the accumulated statutory reserve is 50% or more of its registered capital. Upon approval from the respective board of directors of the group entities, the statutory reserves can be used to offset accumulated losses of the Company and the PRC subsidiaries of the Group.

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**26 RETAINED EARNINGS**

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At the beginning of the year</b>	81,481	131,767	218,791
Profit for the year	66,830	110,696	96,431
Appropriation to statutory reserves	(16,544)	(23,672)	(14,219)
<b>At the end of the year</b>	<u>131,767</u>	<u>218,791</u>	<u>301,003</u>

**27 TRADE AND OTHER PAYABLES**

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in current liabilities</b>			
Trade payables			
– Third parties	261,666	259,455	333,259
Notes payables ( <i>b</i> )	73,241	57,802	109,738
Amounts due to related parties ( <i>Notes 38(d) and 38(e)(ii)</i> )	50,279	43,195	31,566
Payables for acquisition of intangible assets	407,349	270,678	299,269
Payables for acquisition of property, plant and equipment	4,357	4,230	4,217
Employee benefits payables	24,804	28,286	25,218
Other taxes payables	28,527	24,599	37,080
Interest payables	808	489	1,107
Employee reimbursement payables	843	717	2,465
Dividends payables to non-controlling interests	40,778	40,778	40,778
Loans from government ( <i>d</i> )	28,724	28,067	22,498
Refundable pipeline connection fees	17,811	14,175	2,941
Installment payable for acquisition of intangible assets	14,408	34,373	40,551
Others	11,911	9,258	25,590
	<u>965,506</u>	<u>816,102</u>	<u>976,277</u>
<b>Included in non-current liabilities</b>			
Other payables			
– A third party (installment payable for acquisition of intangible assets)	67,004	32,631	7,386
<b>Total trade and other payables</b>	<u>1,032,510</u>	<u>848,733</u>	<u>983,663</u>

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(a) The following is an aging analysis of trade payables presented based on the goods/services receipt dates:

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	203,639	183,213	224,470
1 to 2 years	28,750	22,777	34,074
2 to 3 years	12,555	25,687	22,761
Over 3 years	16,722	27,778	51,954
	<u>261,666</u>	<u>259,455</u>	<u>333,259</u>

(b) As at 31 December 2020 and 2021, the Group’s notes payables of RMB73,241,000 and RMB57,802,000 were secured by restricted cash (Note 23(a)) and financial assets at fair value through profit or loss (Note 22). As at 31 December 2022, the Group’s notes payables of RMB89,274,000 were secured by restricted cash (Note 23(a)).

(c) The Group’s trade and other payables were denominated in RMB.

(d) In August 2012 and July 2013, the Group entered into agreements with Shanxi Provincial Government Investment Asset Management Centre (“Shanxi Government Investment Centre”). According to the agreements, Shanxi Government Investment Centre provided to the Group interest free loans amounted to RMB27,500,000 with a term of seven years to support its construction of heating projects in Shanxi province. Such advances of RMB23,000,000 enjoyed interest-free period from 2012 to 2019 and advances of RMB4,500,000 enjoyed interest-free period from 2013 to 2020. Subsequent to the interest-free periods, interest would be calculated at 4.9% per annum according to the benchmark loan interest rate.

**28 BORROWINGS**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in non-current liabilities:</b>			
Other borrowings			
– secured and unguaranteed (c)	53,000	49,500	–
– unsecured (Note 38(f))	556,518	300,854	–
Bank borrowings			
– secured and guaranteed (a)	–	–	408,139
– unsecured	–	–	59,500
– unsecured and guaranteed (b)	286,118	271,923	203,075
	<u>895,636</u>	<u>622,277</u>	<u>670,714</u>
Less: current portion of non-current liabilities	(523,663)	(24,515)	(36,250)
	<u>371,973</u>	<u>597,762</u>	<u>634,464</u>
<b>Included in current liabilities:</b>			
Bank borrowings			
– secured and guaranteed (a)	223,000	209,000	100,000
– unsecured and guaranteed (b)	190,000	230,000	100,000
– secured and unguaranteed (c)	–	–	10,500
Current portion of non-current liabilities	523,663	24,515	36,250
	<u>936,663</u>	<u>463,515</u>	<u>246,750</u>
Total borrowings	<u>1,308,636</u>	<u>1,061,277</u>	<u>881,214</u>



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As at 31 December 2020, 2021 and 2022, the Group’s borrowings were repayable as follows:

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year or on demand	936,663	463,515	246,750
Between 1 and 2 years	22,582	326,857	50,564
Between 2 and 5 years	174,269	168,957	408,011
Over 5 years	175,122	101,948	175,889
	<u>1,308,636</u>	<u>1,061,277</u>	<u>881,214</u>

- (a) As at 31 December 2020, 2021 and 2022, the bank borrowings of Taiyuan Renewable Energy amounting to RMB30,000,000, RMB30,000,000 and nil, respectively, were guaranteed by Shanxi Shuangliang and secured by Taiyuan Renewable Energy’s concession right. In addition, the bank borrowings of Hulunbuir Shuangliang amounting to RMB193,000,000, RMB179,000,000 and RMB158,000,000, respectively, were guaranteed by the Company and secured by certain trade receivables (Note 19(d)).

As at 31 December 2022, the bank borrowing of Lanzhou Shuangliang amounting to RMB174,625,000 was guaranteed by the Company and Gansu Shuangliang and secured by certain intangible assets (Note 17(e)). In addition, the bank borrowings of Shuo Zhou Renewable Energy amounting to RMB175,000,000 was guaranteed by Taiyuan Renewable Energy, the Company, Shuangliang Group Company Limited (“Shuangliang Group Co.”) and Mr. Miao Wenbin and secured by price subsidy receivables and certain intangible assets (Note 17(e)).

Furthermore, the bank borrowings of Wise Living Tech-Thermal Power (Zhengzhou) Limited amounting to RMB514,000 were guaranteed by the Company and secured by certain trade receivables (Note 19(d)).

- (b) As at 31 December 2020, bank borrowings amounting to RMB100,000,000, RMB286,118,000 and RMB90,000,000 were guaranteed by Jiangyin Hengchuang Technology Company Limited, Shuangliang Group Co. and Shuangliang Technology, respectively.

As at 31 December 2021, bank borrowings amounting to RMB100,000,000, RMB271,923,000 and RMB130,000,000 were guaranteed by Jiangyin Hengchuang Technology Company Limited, Shuangliang Group Co. and Shuangliang Technology, respectively.

As at 31 December 2022, bank borrowings amounting to RMB203,075,000 and RMB100,000,000 were guaranteed by Shuangliang Group Co. and Gansu Shuangliang, respectively.

- (c) As at 31 December 2020, 2021 and 2022, the other borrowing of Lanzhou Shuangliang amounting to RMB53,000,000, RMB49,500,000 and nil, respectively, were secured by certain intangible assets (Note 17(e)). In June 2022, the Group has entered into an agreement with the lender and the lender’s related party, pursuant to which the Group has settled the borrowings of RMB49,500,000 through the offset with the Group’s accounts receivable due from the lender’s related party of the same amount (Note 35(b)).

As at 31 December 2022, the bank borrowings of the Company amounting to RMB10,500,000 were secured by restricted cash of Zhengzhou Wise Living of RMB11,100,000 (Note 23(a)).

- (d) As at 31 December 2020, 2021 and 2022, the Group had aggregate credit facilities of approximately RMB752,118,000, RMB760,423,000 and RMB1,707,520,000, respectively. Unused facilities as at the same date amounted to nil, nil and RMB823,986,000, respectively.

- (e) Certain of the Group’s bank borrowings are subject to the fulfilment of covenants relating to certain debt servicing financial indicators. As at 31 December 2019, certain bank loan was classified as current liability in the consolidated statements of financial position as the Group did not comply with certain financial covenants. In March 2020, the Group obtained from the lending bank a letter of waiver from

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strict compliance with the relevant financial covenants and was applied during the Track Record Period. Accordingly, the Group reclassified the loan amounting to RMB286,118,000, RMB271,923,000, RMB203,075,000 as at 31 December 2020, 2021 and 2022 respectively as non-current liability according to its original payment schedule as set out in the loan contract.

As at 31 December 2020 and 2021, certain bank loan amounting to RMB193,000,000 and RMB179,000,000 was classified as current liability in the consolidated statements of financial position as the Group did not comply with certain financial covenants. In March 2022, the Group obtained from the lending bank a letter of waiver from strict compliance with the relevant financial covenants and the Group was comply with the certain financial covenants during the Track Record Period. Accordingly, the Group reclassified the loan amounting to RMB158,000,000 as at 31 December 2022 as non-current liability according to its original payment schedule as set out in the loan contract.

Maturity analysis of the above two term loans based on original scheduled repayment dates is set out in Note 3.1(c).

- (f) The annual weighted average effective interest rates of borrowings for the years ended 31 December 2020, 2021 and 2022 were as follows:

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Borrowings	5.97%	5.35%	5.54%

The carrying amounts of the borrowings approximated their fair values as their interest rates are considered as close to the current market rates.

The Group’s borrowings were denominated in RMB.

**29 CONTRACT LIABILITIES**

The Group recognised the following revenue-related contract liabilities:

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in current liabilities</b>			
Provision and distribution of heat	334,067	381,208	345,139
Pipeline connection fees	73,863	80,159	95,032
Sale of goods	350	420	348
Others	1,225	1,101	27
	<u>409,505</u>	<u>462,888</u>	<u>440,546</u>
<b>Included in non-current liabilities</b>			
Pipeline connection fees	1,506,471	1,628,637	1,821,454
	<u>1,915,976</u>	<u>2,091,525</u>	<u>2,262,000</u>

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### (a) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the Track Record Period relating to carried-forward contract liabilities.

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year			
Provision and distribution of heat	293,822	334,067	381,208
Pipeline connection fees	63,468	73,863	80,159
Sale of goods	350	350	420
Others	831	1,225	1,101
	<u>358,471</u>	<u>409,505</u>	<u>462,888</u>

### (b) Unsatisfied performance obligations

The Group has elected the expedient of not disclosing the remaining performance obligations for the provision and distribution of heat and sale of goods, which the performance obligation is part of a contract that has an original expected duration of one year or less.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) excluding the performance obligation which is part of a contract that has an original expected duration of one year or less as at 31 December 2020, 2021 and 2022, relating to the pipeline connection fees, is set out below:

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	73,863	80,159	95,032
Over 1 year	1,506,471	1,628,637	1,821,454
	<u>1,580,334</u>	<u>1,708,796</u>	<u>1,916,486</u>

## 30 DEFERRED INCOME

The Group’s deferred income represents government grants received from governmental authorities. The movement of deferred income is set out below:

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	68,765	54,831	85,125
Additions	–	44,500	17,000
Recognised in profit or loss	(13,934)	(14,206)	(18,666)
At the end of the year	<u>54,831</u>	<u>85,125</u>	<u>83,459</u>

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**31 LEASE LIABILITIES**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	1,342	1,588	1,005
Non-current	22,215	18,387	18,677
	<u>23,557</u>	<u>19,975</u>	<u>19,682</u>
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense (included in finance costs-net)	<u>1,218</u>	<u>1,465</u>	<u>1,386</u>
Expense relating to short-term leases	1,209	2,022	2,220
Cash outflow for short-term leases	1,209	2,022	2,220
Cash outflow for lease payments (including interests)	<u>6,296</u>	<u>5,485</u>	<u>4,761</u>
Cash outflow for short-term leases and lease payments	<u>7,505</u>	<u>7,507</u>	<u>6,981</u>

The Group leases pipeline, heat supply equipment and office premises and these lease liabilities were measured at net present value of the minimum lease payments during the lease terms that are not yet paid. There was no extension option clause in the lease agreements.

**32 DEFERRED INCOME TAX**

**(a) Deferred income tax assets**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
To be recovered within 12 months	2,968	3,836	3,108
To be recovered after more than 12 months	140,526	162,372	176,755
Total deferred income tax assets	<u>143,494</u>	<u>166,208</u>	<u>179,863</u>
Offsetting against deferred income tax liabilities	<u>(102,377)</u>	<u>(117,068)</u>	<u>(126,189)</u>
Net deferred income tax assets	<u>41,117</u>	<u>49,140</u>	<u>53,674</u>

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The movement in deferred income tax assets is as follows:

	Loss allowance of financial assets	Deferred income	Tax losses	Temporary differences relating to depreciation of property, plant and equipment and amortisation of intangible assets	Temporary differences relating to recognition of pipeline connection fees	Lease liabilities	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020	15,577	14,037	29,974	211	64,345	590	2,817	127,551
Credited/(charged) to profit or loss	1,922	(3,024)	12	84	16,527	(282)	704	15,943
As at 31 December 2020	17,499	11,013	29,986	295	80,872	308	3,521	143,494
As at 1 January 2021	17,499	11,013	29,986	295	80,872	308	3,521	143,494
Credited/(charged) to profit or loss	56	5,569	(4,644)	71	19,255	474	1,942	22,723
Early termination of lease contracts	-	-	-	-	-	(9)	-	(9)
As at 31 December 2021	17,555	16,582	25,342	366	100,127	773	5,463	166,208
As at 1 January 2022	17,555	16,582	25,342	366	100,127	773	5,463	166,208
(Charged)/credited to profit or loss	(3,216)	(1,384)	(960)	89	18,398	(38)	772	13,661
Early termination of lease contracts	-	-	-	-	-	(6)	-	(6)
As at 31 December 2022	14,339	15,198	24,382	455	118,525	729	6,235	179,863

For the years ended 31 December 2020, 2021 and 2022, the Group did not recognise deferred income tax assets of approximately RMB26,630,000, RMB6,858,000 and RMB26,614,000 in respect of losses amounting to approximately RMB105,190,000, RMB27,433,000 and RMB106,458,000 that can be carried forward against future taxable income. Tax losses of group companies operated in the PRC could be carried forward for a maximum of five years. These tax losses will expire up from 2024 to 2027. As at 31 December 2020, 2021 and 2022, no deferred tax asset had been recognised in respect of the unused tax losses amounting to RMB264,689,000, RMB269,884,000 and RMB362,120,000 respectively, due to the unpredictability of future profit streams of the relevant subsidiaries of the Company. The tax losses of certain PRC group entities that had not been recognised as deferred income tax assets can be carried forward against future taxable income will expire in the following years:

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
2021	22,197	-	-
2022	13,113	13,113	-
2023	54,547	54,547	54,547
2024	69,642	69,642	69,639
2025	105,190	105,149	105,146
2026	-	27,433	26,330
2027	-	-	106,458
	264,689	269,884	362,120

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**(b) Deferred income tax liabilities**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
To be settled within 12 months	4,346	4,346	4,346
To be settled after more than 12 months	138,353	142,889	142,174
<b>Total deferred income tax liabilities</b>	<b>142,699</b>	<b>147,235</b>	<b>146,520</b>
Offsetting against deferred income tax assets	(102,377)	(117,068)	(126,189)
<b>Net deferred income tax liabilities</b>	<b>40,322</b>	<b>30,167</b>	<b>20,331</b>

The movement in deferred income tax liabilities is as follows:

	<b>Fair value losses of investment properties</b>	<b>Temporary differences on assets recognised under IFRIC 12</b>	<b>Temporary differences relating to energy management services</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 1 January 2020</b>	10,863	110,608	6,356	413	128,240
(Credited)/charged to profit or loss	(945)	13,825	1,662	(83)	14,459
<b>As at 31 December 2020</b>	<b>9,918</b>	<b>124,433</b>	<b>8,018</b>	<b>330</b>	<b>142,699</b>
<b>As at 1 January 2021</b>	9,918	124,433	8,018	330	142,699
(Credited)/charged to profit or loss	(300)	2,811	1,554	471	4,536
<b>As at 31 December 2021</b>	<b>9,618</b>	<b>127,244</b>	<b>9,572</b>	<b>801</b>	<b>147,235</b>
<b>As at 1 January 2022</b>	9,618	127,244	9,572	801	147,235
(Credited)/charged to profit or loss	(795)	1,300	(419)	(801)	(715)
<b>As at 31 December 2022</b>	<b>8,823</b>	<b>128,544</b>	<b>9,153</b>	<b>–</b>	<b>146,520</b>

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### 33 DIVIDENDS

No dividend has been paid or declared by the Company during the Track Record Period.

### 34 PROVISION

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Provision for maintenance of service concession facilities	15,382	20,210	25,593

Pursuant to the service concession agreements entered into by the Group, the Group has the contractual obligations to maintain the facilities it operates to specified level of service quality and/or to restore the plants to specified conditions before the facilities are handed over to the Grantors at the end of the service concession periods. These contractual obligations to maintain or restore the facilities, except for any upgrade elements, are recognised and measured at the best estimate of the expenditures that would be required to settle the present obligations at each of the reporting dates.

### 35 CASH FLOW INFORMATION

#### (a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Profit before income tax	143,927	206,731	186,336
Adjustments for:			
Interest income (Note 10)	(26,393)	(29,354)	(26,314)
Interest expense (Note 10)	92,866	81,503	84,065
Gains on investments on wealth management products (Note 7)	(1,207)	(418)	(146)
Fair value losses of investment properties (Note 7)	6,300	2,000	5,300
Depreciation of property, plant and equipment (Note 14)	11,510	12,763	15,230
Depreciation of right-of-use assets (Note 16)	3,113	4,780	4,615
Amortisation of intangible assets (Note 17)	166,050	184,282	194,934
Share of net profit of associates accounted for using the equity method (Note 13)	(9,282)	(11,960)	(13,538)
(Gains)/losses on disposal of property, plant and equipment (Note 7)	(3,443)	119	(242)
Gains on early termination of certain lease contracts	–	(733)	(19)
Gains on disposal of intangible assets (Note 7)	–	(462)	(1,086)
Provision/(reversal) of impairment losses on financial assets and contract assets	13,548	(995)	(23,118)
Impairment of intangible assets (Note 17)	–	–	9,398
Gains on disposal and deregistration of subsidiaries (Note 7)	(72)	(4)	(39)
Amortisation of government grants related to assets (Note 30)	(13,934)	(14,206)	(18,666)
Profit from operating concessions construction services	(46,569)	(29,248)	(34,527)
Operating cash flows before changes in working capital	336,414	404,798	382,183

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	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Changes in working capital:			
Restricted cash for issuance of bank’s acceptance notes	54,699	(3,014)	(51,412)
Inventories	11,275	(5,278)	(10,748)
Contract assets	(10,278)	(14,534)	44,061
Trade and other receivables	(28,709)	(8,795)	15,907
Trade and other payables	(44,769)	(11,376)	127,337
Contract liabilities	162,771	175,549	170,475
	<u>481,403</u>	<u>537,350</u>	<u>677,803</u>

**(b) Non-cash transactions**

	Year ended 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Acquisition of new lease contracts	25,133	1,180	3,322
Revenue from operating concessions construction services	349,356	208,133	271,010
Offset accounts receivable with borrowings (Note 28(c))	–	–	49,500
Offset accounts receivable with payable for acquisition of intangible assets	–	23,848	17,089
Disposal of property, plant and equipment through finance lease	26,240	–	–
Accounts receivable settled through property, plant and equipment	7,175	–	–
Modification of lease receivable	–	–	14,644

**(c) Net liabilities from financing activities reconciliation**

This section sets out an analysis of net liabilities from financing activities and the movements in the liabilities from financing activities for each of the periods presented.

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	91,826	136,185	378,068
Lease liabilities	(23,557)	(19,975)	(19,682)
Dividend payable	(40,778)	(40,778)	(40,778)
Installment payable for acquisition of intangible assets	(81,412)	(67,004)	(47,937)
Borrowings	(1,308,636)	(1,061,277)	(881,214)
Amounts advanced from a related party	(700)	(700)	(700)
Loans from government	(28,724)	(28,067)	(22,498)
	<u>(1,391,981)</u>	<u>(1,081,616)</u>	<u>(634,741)</u>
Net liabilities from financing activities	<u>(1,391,981)</u>	<u>(1,081,616)</u>	<u>(634,741)</u>
Cash and cash equivalents	91,826	136,185	378,068
Gross debt – fixed interest rates	(1,197,689)	(945,878)	(575,234)
Gross debt – variable interest rates	(286,118)	(271,923)	(437,575)
	<u>(1,391,981)</u>	<u>(1,081,616)</u>	<u>(634,741)</u>
Net liabilities from financing activities	<u>(1,391,981)</u>	<u>(1,081,616)</u>	<u>(634,741)</u>



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	Liabilities from financing activities							Total
	Cash and cash equivalents	Lease liabilities	Dividend payable	Other payables	Borrowings	Amounts advanced from a related party	Loans from government	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Net liabilities as at 1 January 2020</b>	56,175	(3,502)	(54,068)	(58,700)	(1,202,985)	(700)	(27,382)	(1,291,162)
Cash flows	35,651	6,296	13,290	88,747	(105,651)	-	-	38,333
Acquisition of new lease contracts	-	(25,133)	-	-	-	-	-	(25,133)
Acquisition of intangible assets	-	-	-	(109,612)	-	-	-	(109,612)
Early payment for equipments	-	-	-	491	-	-	-	491
Interest expenses	-	(1,218)	-	(2,338)	-	-	(1,342)	(4,898)
<b>Net liabilities as at 31 December 2020</b>	<b>91,826</b>	<b>(23,557)</b>	<b>(40,778)</b>	<b>(81,412)</b>	<b>(1,308,636)</b>	<b>(700)</b>	<b>(28,724)</b>	<b>(1,391,981)</b>
<b>Net liabilities as at 1 January 2021</b>	91,826	(23,557)	(40,778)	(81,412)	(1,308,636)	(700)	(28,724)	(1,391,981)
Cash flows	44,359	5,485	-	19,495	247,359	-	2,000	318,698
Acquisition of new lease contracts	-	(1,180)	-	-	-	-	-	(1,180)
Early termination of lease contracts	-	742	-	-	-	-	-	742
Interest expenses	-	(1,465)	-	(5,087)	-	-	(1,343)	(7,895)
<b>Net liabilities as at 31 December 2021</b>	<b>136,185</b>	<b>(19,975)</b>	<b>(40,778)</b>	<b>(67,004)</b>	<b>(1,061,277)</b>	<b>(700)</b>	<b>(28,067)</b>	<b>(1,081,616)</b>
<b>Net liabilities as at 1 January 2022</b>	136,185	(19,975)	(40,778)	(67,004)	(1,061,277)	(700)	(28,067)	(1,081,616)
Cash flows	241,883	4,761	-	22,157	130,563	-	6,500	405,864
Acquisition of new lease contracts	-	(3,322)	-	-	-	-	-	(3,322)
Accounts receivable settled through borrowings	-	-	-	-	49,500	-	-	49,500
Early termination of lease contracts	-	240	-	-	-	-	-	240
Interest expenses	-	(1,386)	-	(3,090)	-	-	(931)	(5,407)
<b>Net liabilities as at 31 December 2022</b>	<b>378,068</b>	<b>(19,682)</b>	<b>(40,778)</b>	<b>(47,937)</b>	<b>(881,214)</b>	<b>(700)</b>	<b>(22,498)</b>	<b>(634,741)</b>

36 COMMITMENTS

(a) Commitments relating to short-term leases

The future aggregate minimum lease payments under non-cancellable short-term leases contracted for but not recognised as liabilities at each reporting date are as follows:

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
No later than 1 year	94	955	177

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**(b) Capital commitments**

The Group’s capital expenditures contracted for but not yet incurred at each reporting date is as follows:

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Intangible assets	68,990	111,294	57,963

**37 NON-CONTROLLING INTERESTS**

Set out below is summarised financial information for each subsidiary that has non-controlling interests (“NCI”) which are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	<b>Shanxi Shuangliang Renewable Energy</b>		
	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Summarised statement of financial position</b>			
Current assets	369,458	415,124	907,683
Current liabilities	(1,265,636)	(1,155,530)	(1,515,260)
<b>Net current liabilities</b>	(896,178)	(740,406)	(607,577)
Non-current assets	2,135,683	2,137,923	2,019,690
Non-current liabilities	(1,099,232)	(1,158,731)	(1,109,504)
<b>Net non-current assets</b>	1,036,451	979,192	910,186
<b>Net assets</b>	140,273	238,786	302,609
Accumulated NCI	68,065	117,041	148,302

	<b>Gansu Shuangliang</b>		
	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Summarised statement of financial position</b>			
Current assets	120,644	196,264	237,918
Current liabilities	(587,151)	(661,606)	(745,565)
<b>Net current liabilities</b>	(466,507)	(465,342)	(507,647)
Non-current assets	1,108,906	1,162,849	1,236,147
Non-current liabilities	(692,172)	(735,479)	(746,314)
<b>Net non-current assets</b>	416,734	427,370	489,833
<b>Net liabilities</b>	(49,773)	(37,972)	(17,814)
Accumulated NCI	(9,955)	(7,594)	(3,560)

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**ACCOUNTANT’S REPORT**

	<b>Hulunbuir Shuangliang</b>		
	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Summarised statement of financial position</b>			
Current assets	473,562	291,451	361,195
Current liabilities	(141,320)	(160,312)	(131,952)
<b>Net current assets</b>	<u>332,242</u>	<u>131,139</u>	<u>229,243</u>
Non-current assets	759,569	733,927	696,362
Non-current liabilities	(888,398)	(596,675)	(591,822)
<b>Net non-current liabilities/(assets)</b>	<u>(128,829)</u>	<u>137,252</u>	<u>104,540</u>
<b>Net assets</b>	<u>203,413</u>	<u>268,391</u>	<u>333,783</u>
Accumulated NCI	<u>30,512</u>	<u>40,259</u>	<u>50,067</u>

	<b>Shanxi Shuangliang Renewable Energy</b>		
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Summarised statement of comprehensive income</b>			
Revenue	887,958	782,677	838,113
<b>Total comprehensive income</b>	<u>46,748</u>	<u>99,797</u>	<u>63,994</u>
Profit allocated to NCI	22,906	48,901	31,357
Dividends paid to NCI	<u>1,290</u>	<u>–</u>	<u>–</u>
Dividends declared to NCI	<u>–</u>	<u>–</u>	<u>–</u>

	<b>Gansu Shuangliang</b>		
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Summarised statement of comprehensive income</b>			
Revenue	240,647	265,135	347,339
<b>Total comprehensive income</b>	<u>7,548</u>	<u>11,801</u>	<u>20,170</u>
Profit allocated to NCI	1,510	2,360	4,034
Dividends paid to NCI	<u>–</u>	<u>–</u>	<u>–</u>
Dividends declared to NCI	<u>–</u>	<u>–</u>	<u>–</u>

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**ACCOUNTANT’S REPORT**

	<b>Hulunbuir Shuangliang</b>		
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Summarised statement of comprehensive income</b>			
Revenue	247,716	239,825	247,993
<b>Total comprehensive income</b>	<b>48,427</b>	<b>64,978</b>	<b>65,393</b>
Profit allocated to NCI	7,264	9,747	9,809
Dividends paid to NCI	12,000	–	–
Dividends declared to NCI	–	–	–
<b>Shanxi Shuangliang Renewable Energy</b>			
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Summarised cash flows</b>			
Cash flows from operating activities	261,535	214,546	402,511
Cash flows used in investing activities	(176,728)	(185,653)	(95,843)
Cash flows used in financing activities	(63,653)	(18,407)	(146,782)
<b>Net increase in cash and cash equivalents</b>	<b>21,154</b>	<b>10,486</b>	<b>159,886</b>
<b>Gansu Shuangliang</b>			
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Summarised cash flows</b>			
Cash flows from operating activities	86,421	123,529	208,005
Cash flows used in investing activities	(24,441)	(71,826)	(92,158)
Cash flows used in financing activities	(64,917)	(17,390)	(52,239)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,937)</b>	<b>34,313</b>	<b>63,608</b>

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**ACCOUNTANT’S REPORT**

	<b>Hulunbuir Shuangliang</b>		
	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Summarised cash flows</b>			
Cash flows from operating activities	76,573	122,282	41,466
Cash flows (used in)/generated from investing activities	(23,309)	(13,177)	10,515
Cash flows used in financing activities	(39,749)	(119,182)	(8,966)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>13,515</b>	<b>(10,077)</b>	<b>43,015</b>

**38 RELATED PARTY TRANSACTIONS**

**(a) Names and relationships with related parties**

Below is the summary of the Group’s key related parties during the Track Record Period:

<b>Name of the related party</b>	<b>Relationship with the Group</b>
Mr. Miao Shuangda	Significant shareholder
Shuangliang Group Co.	Controlled by the significant shareholder
Shuangliang Technology	Parent company
Sinopec New Star	Associate
Beijing Zhongchuang Financial Leasing Company Limited (“Beijing Zhongchuang”)	An associate of parent company
Shuangliang Eco-Energy	Controlled by the significant shareholder
Jiangyin International Grand Hotel Company Limited (“Jiangyin Hotel”)	Controlled by the significant shareholder
Jiangsu Shuangliang Boiler Company Limited (“Shuangliang Boiler”)	Under the common control of parent company
Jiangsu Shuangliang Spandex Company Limited (“Shuangliang Spandex”)	Under the common control of parent company
Jiangsu Shuangliang New Energy Equipment Company Limited (“Shuangliang New Energy Equipment”)	Controlled by the significant shareholder
Zhejiang Shuangliang Shangda environmental protection Company Limited (“Zhejiang Shuangliang Shangda”)	Controlled by the significant shareholder
Jiangsu Shuangliang Energy-Saving Eco Engineering Technique Company Limited (“Shuangliang Eco Engineering”)	Controlled by the significant shareholder
Wuxi Hundun Energy Technology Co., Ltd. (“Wuxi Hundun”)	Controlled by the significant shareholder

**(b) Key management compensation**

The key management of the Group are the directors of the Company. The compensation paid or payable to key management is disclosed in Note 9.

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**(c) Transactions with related parties**

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Sales of goods or services to</i>			
Shuangliang New Energy Equipment	13,920	–	–
Sinopec New Star	2,825	2,468	3,375
<i>Purchases of plant and equipment from</i>			
Shuangliang Boiler	419	2,205	2,177
Shuangliang New Energy Equipment	11,244	–	–
Shuangliang Eco-Energy	19,029	11,891	13,913
Wuxi Hundun	308	644	268
Shuangliang Eco Engineering	6,201	–	–
Sinopec New Star	–	464	891
<i>Purchases of services from</i>			
Jiangyin Hotel	641	642	1,107
Shuangliang Spandex	–	–	10
<i>Leasing arrangements</i>			
Finance lease of plant and equipment to Sinopec New Star	30,786	–	–
Interest income from finance lease to Sinopec New Star	1,320	1,468	1,334
Finance lease from Sinopec New Star	11,031	–	–
Interest expense on finance lease from Sinopec New Star	643	592	538
Lease from Jiangyin Hotel	181	–	–
Interest expense on lease from Jiangyin Hotel	11	6	2
<i>Financing arrangements</i>			
Loans provided to Beijing Zhongchuang	150,000	–	–
Loans repaid by Beijing Zhongchuang	–	110,000	40,000
Interest received from Beijing Zhongchuang	–	11,918	498
Interest income from loans to Beijing Zhongchuang	4,400	7,592	424
Interest paid to Beijing Zhongchuang	46,746	29,405	10,937
Interest expenses to Beijing Zhongchuang	47,233	29,668	10,187
Borrowings from Beijing Zhongchuang	450,000	11,000	–

**(d) Outstanding balances arising from sales/purchases of goods and services – trade**

The following balances are outstanding as at 31 December 2020, 2021 and 2022 in relation to transactions with related parties:

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Trade receivables for sales of goods or services</i>			
Shuangliang New Energy Equipment	5,048	2,608	2,608
Shuangliang Eco-Energy	–	7	–
Sinopec New Star	6,395	5,637	7,482
	<u>11,443</u>	<u>8,252</u>	<u>10,090</u>
<i>Receivable of finance lease of plant and equipment to a related party</i>			
Sinopec New Star	<u>30,786</u>	<u>28,403</u>	<u>25,886</u>

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	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Prepayments for purchase of goods or services</i>			
Shuangliang Eco-Energy	24	3,379	3,376
Shuangliang Boiler	55	–	75
Wuxi Hundun	–	368	368
	<u>79</u>	<u>3,747</u>	<u>3,819</u>

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Contract liabilities for services</i>			
Sinopec New Star	530	–	–
	<u>530</u>	<u>–</u>	<u>–</u>

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Trade and other payables for purchase of goods or services</i>			
Shuangliang Eco-Energy	13,741	11,933	3,648
Shuangliang Boiler	73	731	37
Zhejiang Shuangliang Shangda	8	8	8
Jiangyin Hotel	84	140	210
Shuangliang Eco Engineering	20,421	17,526	17,526
Shuangliang New Energy Equipment	13,412	9,705	6,705
Sinopec New Star	1,608	2,130	2,585
Wuxi Hundun	232	322	147
	<u>49,579</u>	<u>42,495</u>	<u>30,866</u>

Payable for finance lease of plant and equipment from a related party			
Sinopec New Star	10,199	9,317	8,380
	<u>10,199</u>	<u>9,317</u>	<u>8,380</u>

The balances of receivables and payables with trade nature are all denominated in RMB, unsecured, interest free and settled in accordance with agreed terms with related parties.

**(e) Amounts due from/advance from related parties – non-trade**

*(i) Amounts due from a related party*

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Amounts due from a related party</i>			
Beijing Zhongchuang	154,400	40,074	–
	<u>154,400</u>	<u>40,074</u>	<u>–</u>

As at 31 December 2020 and 2021, the balance with borrowing nature was unsecured and bore interest at a rate of 6% per annum.

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(ii) Amounts advanced from a related party

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
<i>Amounts advanced from a related party</i>			
Sinopec New Star	700	700	700

Amounts advanced from a related party are denominated in RMB, unsecured, interest free and repayable on demand.

(f) Borrowings

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
<i>Other borrowings</i>			
Beijing Zhongchuang	556,518	300,854	–

The Group obtained financing from Beijing Zhongchuang which matured in December 2022, and bore interests at fixed rate of 6.3% to 6.9% per annum.

(g) Guarantees

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
<i>Guarantees provided by related parties in respect of the borrowings of the Group</i>			
Shuangliang Group Co.	286,118	271,923	378,075
Shuangliang Technology	90,000	130,000	–
Mr. Miao Wenbin	–	–	175,000
	376,118	401,923	553,075

	As at 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
<i>Guarantee provided to a related party in respect of the borrowings of an associate</i>			
Sinopec New Star	7,200	7,200	–



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**39 NOTES TO THE STATEMENTS OF FINANCIAL POSITION OF THE COMPANY**

**(a) Investments in subsidiaries**

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Equity investments, at cost</b>			
Wise Living Epoch (Beijing) Technology Company Limited	1,000	1,000	1,000
Wise Living Energy	150,000	150,000	150,000
	<u>151,000</u>	<u>151,000</u>	<u>151,000</u>

**(b) Prepayments and other receivables**

	As at 31 December		
	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in current assets</b>			
Other receivables and deposits			
– Amounts due from a related party	154,400	40,074	–
– Deposits	57	57	57
– Others	149	193	171
	<u>154,606</u>	<u>40,324</u>	<u>228</u>
Less: allowance for impairment of other receivables and deposits	(223)	(59)	(2)
	<u>154,383</u>	<u>40,265</u>	<u>226</u>
Deductible value-added tax	692	435	1,406
Prepayments to suppliers	–	–	30
Prepaid [REDACTED] expenses	12,762	21,511	37,620
	<u>13,454</u>	<u>21,946</u>	<u>39,056</u>
	<u>167,837</u>	<u>62,211</u>	<u>39,282</u>
<b>Included in non-current assets</b>			
Prepayments to related parties	–	3,728	3,728
Total prepayments and other receivables	<u>167,837</u>	<u>65,939</u>	<u>43,010</u>

**(c) Amounts due from/to subsidiaries**

All amounts due from and due to subsidiaries are denominated in RMB, unsecured, interest free and repayable on demand.

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(d) **Cash and cash equivalents**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	2,922	12,773	40,402

(e) **Other reserves**

	<b>Capital reserves</b>	<b>Statutory reserves</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 1 January 2020 and 31 December 2020</b>	5,726	236	5,962
<b>Balance at 1 January 2021</b>	5,726	236	5,962
Appropriation to statutory reserves	–	9,601	9,601
<b>Balance at 31 December 2021 and 2022</b>	5,726	9,837	15,563

(f) **Retained earnings**

	<b>Year ended 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At the beginning of the year</b>	7,710	4,331	90,739
(Loss)/profit for the year	(3,379)	96,009	(14,762)
Appropriation to statutory reserves	–	(9,601)	–
<b>At the end of the year</b>	4,331	90,739	75,977

(g) **Borrowings**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Included in non-current liabilities:			
Bank borrowings			
– unsecured	–	–	59,500
Less: current portion of non-current liabilities	–	–	(1,000)
	–	–	58,500

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**ACCOUNTANT’S REPORT**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Included in current liabilities:			
Bank borrowings			
– unsecured and guaranteed (Note 28(b))	100,000	100,000	100,000
– secured and unguaranteed (Note 28(c))	–	–	10,500
Current portion of non-current liabilities	–	–	1,000
	<u>100,000</u>	<u>100,000</u>	<u>111,500</u>
Total borrowings	<u>100,000</u>	<u>100,000</u>	<u>170,000</u>

**(h) Trade and other payables**

	<b>As at 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to related parties	157	151	247
Employee benefits payables	4,462	7,645	5,400
Other taxes payables	1,035	1,277	111
Others	81	155	582
	<u>5,735</u>	<u>9,228</u>	<u>6,340</u>

**40 CONTINGENCIES**

The Group did not have any material contingent liabilities as at 31 December 2020, 2021 and 2022.

**41 SUBSEQUENT EVENTS**

The Group does not have any significant subsequent events after 31 December 2022 and up to the date of this report which may result in adjustment or addition disclosure in this Historical Financial Information.

**III. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2022 and up to the date of this report.

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**APPENDIX II**

**[REDACTED]**

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**[REDACTED]**

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**APPENDIX II**

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**APPENDIX II**

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**APPENDIX II**

**[REDACTED]**

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**[REDACTED]**



## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### PRC TAXATION

#### Dividend Tax

##### *Individual Investors*

In accordance with the *Individual Income Tax Law of the People's Republic of China* which was last amended on 31 August 2018 and implemented on 1 January 2019, and the *Regulations on the Implementation of the Individual Income Tax Law of the People's Republic of China* which was last amended on 18 December 2018 and implemented on 1 January 2019, dividends paid by Chinese companies to individuals are subject to individual income tax at a rate of 20%.

In accordance with the *Notice of the Ministry of Finance and the State Taxation Administration on Certain Policy Issues Concerning Individual Income Tax*, dividends and bonuses received by foreign individuals from foreign-invested enterprises are temporarily exempted from individual income tax. In accordance with the *Notice of the State Council Forwarded to the National Development and Reform Commission and Other Departments Concerning Several Opinions on Intensifying Reform of the Income Distribution System*, exempting dividend income received by foreign individuals from foreign-invested enterprises from individual income tax and other tax incentives are removed. In practice, in accordance with the *Notice on Issues Concerning the Collection and Administration of Individual Income Tax upon the Abolition of Guoshuifa [1993] Document No. 045* promulgated and implemented by the State Taxation Administration on 28th June 2011, dividends paid by H-share issuers to individual non-China-domiciled H-share holders shall be subject to the Chinese individual income tax at a rate determined by applicable tax treaties or tax arrangements between China and the jurisdiction in which the shareholder resides. These rates range from 5% to 20% and are generally withheld at a 10% rate, and that no application is needed. In the case where the dividend withholding tax rate of 10% does not apply, it shall be handled according to the following provisions: (1) Where an individual who receives dividends and bonuses is a resident of a treaty country with a tax rate lower than 10%, the withholding agent may refund the excess amount of tax withheld in accordance with the provisions of the *Measures for the Administration of Tax Convention Treatment for Non-resident Taxpayers*. (2) Where an individual who receives dividends and bonuses is a resident of a treaty country with a tax rate higher than 10% but lower than 20%, the withholding agent shall withhold individual income tax according to the actual rate as agreed when paying the dividends and bonuses, and that no application is needed. (3) Where an individual who receives dividends and bonuses is a resident of a country that does not have a tax treaty with China, the withholding agent shall withhold individual income tax at a rate of 20% when paying the dividends and bonuses.

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### *Corporate Investors*

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* which was last amended on 29 December 2018 and implemented on the same day, and the *Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* which came into effect on 23 April 2019, where a non-resident enterprise that does not have any establishment or place of business within China or that has an establishment or place of business in China but whose China-sourced income is not effectively connected with such establishment or place of business, it is generally required to pay a 10% enterprise income tax for the China-sourced income (including dividends and bonuses received by Chinese resident enterprises from shares issued in Hong Kong). Where the aforementioned income tax is payable by non-resident enterprises, it shall be withheld at the source, and with the payer as the withholding agent. The tax shall be deducted from the sum to be paid or due by the withholding agent at the time when each payment is made or due.

It has further been clarified in the *Notice on Issues Concerning Withholding Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H-share Holders which are Overseas Non-resident Enterprises* (Guoshuihan No. [2008] 897) promulgated by the State Taxation Administration on 6 November 2008 that, when paying dividends for 2008 and beyond, Chinese resident enterprises must withhold enterprise income tax at a rate of 10% on dividends paid to H-share holders which are overseas non-resident enterprises. Non-resident corporate shareholders entitled to a reduction in tax rate under a tax treaty or arrangement may apply to the competent tax authorities to recover the excess amount of tax withheld. The *Reply on Issues Concerning the Collection of Enterprise Income Tax on B Shares and Other Stock Dividends Received by Non-resident Enterprises* (Guoshuihan [2009] No. 394) promulgated by the State Taxation Administration on 24 July 2009 has further pointed out that Chinese resident enterprises publicly offering or listing shares (A shares, B shares and overseas stocks) in China and abroad shall, when paying dividends for 2008 and beyond to non-resident corporate shareholders, withhold and pay enterprise income tax at a unified rate of 10% on their behalf. Non-resident corporate shareholders entitled to tax convention treatment shall comply with relevant provisions of the tax agreement. In accordance with the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on income and the Prevention of Tax Dodging and Tax Evasion* signed by the Chinese government and Hong Kong on 21 August 2006, the Chinese government may levy taxes on dividends payable by Chinese companies to Hong Kong residents. If the beneficiary is one that directly owns at least 25% of the shares of the company that is paying the dividends, it shall be 5% of the total dividends; in any other cases, it shall be 10% of the total dividends.

In addition, in accordance with the *Notice of the State Taxation Administration on Issues Concerning the Implementation of Dividend Clauses in Tax Treaties* which was promulgated and came into force on 20 February 2009, when a Chinese resident company pays dividends to tax residents of a counterparty to the tax treaty, such tax residents of the counterparty may pay taxes on the dividends received according to the rate under the tax treaty and shall meet the following conditions: (1) the tax resident who receives the dividends shall be a company under the tax treaty; (2) the owner's equity and voting rights of the Chinese resident company directly owned by the tax resident shall reach the stipulated percentage; and (3) at any time during the 12 months prior to payment of the dividends, equity of the Chinese resident company directly owned by the tax resident shall reach the proportion stipulated in the tax treaty.

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

In addition, in accordance with the *Administrative Measures on Preferential Treatment Entitled by Non-residents Taxpayers* which was promulgated by the State Taxation Administration on 14 October 2019 and came into force on 1 January 2020, non-resident taxpayers who are eligible for any preferential treatment under any agreement are entitled to automatically enjoy such preferential treatment at the time of making the tax declaration, or enjoy preferential treatment on their own through the withholding agent at the time of making the withholding declaration, and shall be subject to subsequent management by the competent tax authorities. As for non-resident enterprises that receive dividends from a Chinese resident enterprise (as defined by the Chinese tax law), they shall submit relevant reports and information relating to their first tax return, or relevant reports and information of their first withholding declaration for the corresponding tax year through the withholding agent. In the event that all the conditions for preferential treatment are met and the information reported remains unchanged, non-resident taxpayers shall be entitled to exemption from the re-submission of relevant information to the same competent tax authorities with respect to the same preferential treatment within three calendar years from the year when the reports and information are submitted.

### Capital Gains Tax

#### *Individual Investors*

In accordance with the *Notice on Continuing the Temporary Exemption of Individual Income Tax on Individuals' Income from the Transfer of Shares* promulgated by the Ministry of Finance and the State Taxation Administration on 20 March 1998, starting from 1 January 1997, temporary exemption of individual income tax on individuals' income from the transfer of shares of listed companies will be continued. In the newly-amended *Individual Income Tax Law* and its implementation regulations, it has not been clearly stipulated by the State Taxation Administration whether individuals' income from the transfer of shares of listed companies will continue to be exempted from taxation or not.

On 31 December 2009, the Ministry of Finance, the State Taxation Administration and the China Securities Regulatory Commission jointly issued the *Notice on Issues Concerning the Levy of Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies*, stipulating that individuals' income from the transfer of shares of listed companies that are obtained from the public issuance of listed companies and the transfer market on relevant domestic stock exchanges will continue to be exempted from individual income tax. However, starting from 1 January 2010, individuals' income from the transfer of restricted shares will be subject to individual income tax as "income from the transfer of property" and a 20% proportional tax rate shall apply. Up to now, it has not been clearly provided for in relevant regulations whether individual income tax will be levied with respect to the transfer of shares of Chinese resident enterprises listed on overseas stock exchanges by non-Chinese-resident individuals. As far as the Company is aware, in practice, the Chinese tax authorities have not yet imposed income tax on the transfer of shares of Chinese resident enterprises listed on overseas stock exchanges by non-Chinese resident individuals.

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### *Corporate Investors*

In accordance with the *Enterprise Income Tax Law* and its implementation regulations, where a non-resident enterprise that does not have any establishment or place of business within China or that has an establishment or place of business in China but whose China-sourced income is not effectively connected with such establishment or place of business, it is generally required to pay a 10% enterprise income tax for the China-sourced income (including proceeds from the sale of equity in Chinese resident companies). Where the aforementioned income tax is payable by non-resident enterprises, it shall be withheld at the source, and with the payer as the withholding agent. The tax shall be deducted from the sum to be paid or due by the withholding agent at the time when each payment is made or due.

### **Inheritance Tax**

In accordance with the Chinese laws, as of now, no inheritance tax has been levied in China.

### **Enterprise Income Tax**

In accordance with the *Enterprise Income Tax Law of the People's Republic of China* which was last amended on 29 December 2018 and implemented on the same day, and the *Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* which came into effect on 23 April 2019, enterprises that are set up according to law inside China or in accordance with laws of foreign countries (regions) but with actual management institutions inside China are resident enterprises. Resident enterprises shall pay enterprise income tax on their income derived from China and abroad. The enterprise income tax rate is 25%. Preferential treatments in respect of enterprise income tax shall be granted to industries and projects that are specifically supported and encouraged by the State. Eligible small-scale enterprises with low profitability are subject to enterprise income tax at a reduced rate of 20%. High and new technology enterprises that are specifically supported by the State are subject to enterprise income tax at a reduced rate of 15%. In accordance with the *Administrative Measures for the Accreditation of High and New Technology Enterprises* which was promulgated on 29 January 2016 and came into force on 1 January 2016, high and new technology enterprises may apply for preferential tax treatments in accordance with the *Enterprise Income Tax Law*, the *Tax Collection Administration Law of the People's Republic of China* which came into effect on 24 April 2015 and the *Regulations for the Implementation of the Tax Collection Administration Law of the People's Republic of China* which came into effect on 6 February 2016.

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## TAXATION AND FOREIGN EXCHANGE

### Value-added Tax

In accordance with the *Provisional Regulations of the People's Republic of China on Value-added Tax* promulgated by the State Council on 13 December 1993 and last amended on 19 November 2017 (hereinafter referred to as the "VAT Regulations"), and the *Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax* promulgated by the Ministry of Finance on 25 December 1993 and last amended on 28 October 2011, companies engaging in the sale of goods or provision of processing, repair, maintenance and other labour services, the sale of services, intangible assets and immovable properties and the import of goods in China are value-added tax payers who shall pay value-added tax. Except as otherwise provided in the *VAT Regulations*, the value-added tax rate for the sale of goods, provision of labour services, leasing of tangible movable properties or import of goods is 17%.

In accordance with the *Notice on the Overall Implementation of the Pilot Programme of Replacing Business Tax with Value-added Tax* jointly promulgated by the Ministry of Finance and the State Taxation Administration on 23 March 2016, starting from 1 May 2016, the trial programme of replacing business tax with value-added tax will be fully promoted nationwide. According to measures for the implementation of the trial programme and other specific normative documents, taxpayers who have taxable behaviours must pay value-added tax at varying rates of 17%, 11%, 6% to 0%.

In accordance with the *Announcement on Policies Relating to the Intensification of Value-added Tax Reform* which was promulgated by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on 20 March 2019 and came into effect on 1 April 2019, where general value-added tax payers are engaging in value-added taxable sales or imported goods and that the value-added tax was originally levied at a 16% rate, the tax rate is adjusted to 13%; where the value-added tax was originally levied at a 10% rate, the tax rate is adjusted to 9%.

In accordance with the *Provisional Regulations of the People's Republic of China on Value-Added Tax* rolled out by the State Council in 2017, the *Notice Concerning the Continuation of Preferential Policies on Value-added Tax, Real Estate Tax and Urban Land Use Tax for Heat Service Enterprises* issued by the Ministry of Finance and the State Taxation Administration in 2019 and *Announcement on Extension of the Implementation Period of Certain Preferential Tax Policies* issued by the Ministry of Finance and the State Taxation Administration in 2021, heating fee income collected from individual residents by heat service enterprises in Northeast China, North China and Northwest China is exempted from value-added tax, the preferential tax policy shall be extended to the end of the heating period in 2023. The NDRC, the Ministry of Finance and other departments issued the *Opinions on Further Encouraging and Guiding the Entry of Private Capital into the Urban Water Supply, Gas, Heat Supply, Sewage and Waste Treatment Industries* in 2016 which has also highlighted the continued implementation of tax reduction and exemption policies for heat service enterprises.

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### Land Use Tax

In accordance with the *Provisional Regulations of the People's Republic of China on Urban Land Use Tax* promulgated by the State Council on 27 September 1988 and amended on 2 March 2019, companies and individuals using land within the boundary of cities, county towns, established townships, and industrial and mining areas are urban land use tax payers who shall pay land use tax. The annual amount of land use tax per square metre is as follows: (1) from RMB1.5 to RMB30 for large cities; (2) from RMB1.2 to RMB24 for medium-sized cities; (3) from RMB0.9 to RMB18 for small cities; (4) from RMB0.6 to RMB12 for county towns, established townships and industrial and mining areas.

### Tax Treaties

Non-Chinese-resident investors who reside in a country that have already signed a double taxation agreement with China or who reside in Hong Kong or Macau may enjoy withholding tax concessions on dividends received from Chinese companies. Currently, China has signed agreements or arrangements to avoid double taxation with a number of countries and regions, including Hong Kong, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-Chinese-resident companies that are entitled to preferential tax rates in accordance with relevant agreements or arrangements are required to apply to the Chinese tax authorities for the refund of withholding tax paid in excess of the agreed tax rate, and that the repayments are subject to approval by the Chinese tax authorities.

## HONG KONG TAXATION

### Tax on dividends

Under the current practices of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

### Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sales of H Shares. However, trading gains from the sales of H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Trading gains from sales of H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

### Stamp duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.13% on the higher of the consideration for, or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H Shares (in other words, a total of 0.26% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

### Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable, and no estate duty clearance papers are needed for the application of a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

### FOREIGN EXCHANGE CONTROLS OF THE PRC

Renminbi, the legal tender of China, is currently subject to foreign exchange controls and cannot be fully convertible into foreign currencies. Authorised by the People's Bank of China, the State Administration of Foreign Exchange ("SAFE") has the power to perform the function of managing all matters relating to foreign exchange, including the implementation of regulations governing foreign exchange control.

On 29 January 1996, the State Council promulgated the *Regulations of the People's Republic of China on the Administration of Foreign Exchange* (hereinafter referred to as the "Foreign Exchange Control Regulations") which came into effect on 1 April 1996. In the *Foreign Exchange Control Regulations*, all international payments and transfers were classified into current account and capital account. Most items under the current account were not required to be approved by the SAFE, whereas those under the capital account were still subject to the approval of the SAFE. The *Foreign Exchange Control Regulations* were subsequently amended on 14 January 1997 and 5 August 2008. It is stipulated in the newly-amended *Foreign Exchange Control Regulations* that the State would not impose any restriction on international payments and transfers under the current account.

On 20 June 1996, the People's Bank of China promulgated the *Administrative Regulations on the Settlement and Sale of and Payment in Foreign Exchange* which came into effect on 1 July 1996. The foregoing abolished the remaining restrictions on foreign exchange for current accounts, but still retained restrictions on foreign exchange transactions for capital accounts.

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

In accordance with *Announcement on Improving Reform of the Renminbi Exchange Rate Forming Mechanism* which was issued by the People's Bank of China on 21 July 2005 and came into effect on the same day, starting from 21 July 2005, China began to implement a floating exchange rate system which is being adjusted and managed with reference to a basket of currencies on the basis of market supply and demand. The renminbi exchange rates were no longer pegged to the US dollar alone. After the market closes on each working day, the People's Bank of China announced the closing price of the exchange rate of the US dollar and other trading currencies against the renminbi in the interbank foreign exchange market for the current day as the central parity of the currency against the renminbi for the next working day.

Starting from 4 January 2006, with the aim of improving the formation of the central parity rate of renminbi, the People's Bank of China introduced inquiry transactions in the interbank spot foreign exchange market while retaining the matching approach. In addition, a market maker system was introduced by the People's Bank of China in the interbank foreign exchange market to provide liquidity to the foreign exchange market. On 1 July 2014, the People's Bank of China further improved the marketised renminbi exchange rate forming mechanism. The China Foreign Exchange Trading Centre was authorised by the People's Bank of China to make price inquiries to market makers in the interbank foreign exchange market before the opening of the inter-bank foreign exchange market on each day, and calculate the central parity of renminbi against the US dollar using the quoted prices of market makers as samples. After removing the highest and lowest quotes, the remaining quotes were weighted and averaged to obtain the central parity of renminbi against the US dollar for the current day, and a public announcement on the central parity of renminbi against the US dollar and other trading currencies for the current day would be made at 9:15 am on each working day. On 11 August 2015, the People's Bank of China announced that it would improve quotation for the central parity of renminbi against the US dollar. Before the opening of the interbank foreign exchange market on each day, quoted prices were provided by market makers to the China Central Foreign Exchange Trading Centre with reference to the closing exchange rates in the interbank foreign exchange market on the previous day, taking into comprehensive consideration of foreign exchange supply and demand as well as changes in the international exchange rate of major currencies.

On 5 August 2008, the State Council promulgated the amended *Foreign Exchange Management Regulations* which has made major changes to the foreign exchange regulatory system in China. First of all, it adopted a balanced treatment of inflows and outflows of foreign exchange funds, whereby overseas foreign exchange receipts may be transferred back to China or deposited outside the country, and that foreign exchanges and foreign exchange settlement funds under capital accounts may only be used for purposes approved by relevant competent authorities and foreign exchange administrations. Second, it improved the renminbi exchange rate forming mechanism that is based on market supply and demand. Third, it strengthened the monitoring of cross-border foreign exchange capital flows. The State may, in the event of the occurrence or likelihood of a series imbalance in the incomes and expenditures relating to cross-border transactions, or in the event of the occurrence or likelihood of a serious crisis, take necessary safeguards or control measures. Fourth, it strengthened the supervision and management of foreign exchange transactions and granted extensive powers to the SAFE to enhance its supervision and management capabilities.



## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

In accordance with relevant Chinese laws and regulations, when Chinese enterprises (including foreign-invested enterprises) are in need of foreign exchange in conducting current account transactions, payments may be made through a foreign exchange account in the designated foreign exchange bank without the approval of the SAFE, but valid transaction receipts and vouchers must be provided. Foreign-invested enterprises that need to distribute profits to shareholders in foreign exchange as well as Chinese enterprises (such as the Company) that need to pay dividends to shareholders in foreign exchange in accordance with relevant regulations may, according to the resolution of their board of directors or general meetings of shareholders on profit distribution, make payments from a foreign exchange account in the designated foreign exchange bank, or make exchanges and payments at the designated foreign exchange bank.

On 23 October 2014, the State Council promulgated the *Decision of the State Council on Cancelling and Adjusting a Batch of Projects for Administrative Review and Approval and Other Matters* (Guofa [2014] No. 50). It was decided that the review and approval of the SAFE and its branch offices on the transfer-in and settlement of proceeds raised overseas under overseas listed foreign shares would be cancelled.

On 26 December 2014, the SAFE issued the *Notice of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Administration of Overseas Listings*. According to the notice, a domestic company shall, within 15 working days from the end of the overseas listing and issuance, handle the overseas listing registration with a branch of the SAFE in the place where it is registered. Proceeds from the overseas listing may be transferred back to corresponding special domestic accounts or deposited into special overseas accounts, and the use of funds shall be consistent with relevant contents contained in the document and other publicly disclosed documents.

On 13 February 2015, the SAFE issued the *Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies on the Foreign Exchange Administration of Direct Investment* (Huifa [2015] No. 13) which came into effect on 1 June 2015, cancelling confirmation of foreign exchange registration under domestic direct investment and confirmation of foreign exchange registration under overseas direct investment. Instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its branch offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

In accordance with the *Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Administrative Policies for the Settlement of Capital Accounts* issued by the SAFE on 9 June 2016, the settlement of foreign exchange receipts under the capital account (including funds recovered from overseas listing) that are subject to discretionary settlement as already specified by relevant policies may be handled at banks according to the actual business needs of domestic institutions. The proportion of discretionary settlement of foreign exchange receipts under the capital account for domestic institutions is temporarily determined as 100%. The SAFE may, based on the balance of payments, make adjustment to the aforesaid proportion when appropriate.

## APPENDIX III

## TAXATION AND FOREIGN EXCHANGE

On 26 January 2017, the SAFE promulgated the *Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance* (Huifa [2017] No. 3), further expanding the settlement scope of domestic foreign exchange loans to allow settlement of domestic foreign exchange loans for exports under trade in goods; allowing funds under onshore guarantees for offshore indebtedness to be transferred back and used domestically; allowing overseas institutions in pilot free trade zones to have their foreign exchange settled through domestic foreign exchange accounts; and implementing a full-calibre management of domestic and foreign currencies for the overseas lending business. In the overseas lending business of a domestic institution, the sum of the balance of overseas loans denominated in domestic currency and the balance of overseas loans denominated in foreign currencies shall not exceed 30% of its owner's equity in the audited financial statements for the previous year.

On 23 October 2019, the SAFE promulgated the *Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment* (Huifa [2019] No. 28), on the basis that investment-oriented foreign-invested enterprises may carry out domestic equity investment with capital funds in accordance with laws and regulations, allowing foreign-invested enterprises which is not investment-oriented to carry out domestic equity investment with capital funds in accordance with laws, under the premise of not violating the current *Special Administrative Measures (Negative List) for the Access of Foreign Investment* and the authenticity and compliance of the invested project.

## APPENDIX IV

## PROPERTY VALUATION REPORT

*The following is the text of a letter, a valuation summary and valuation certificates prepared for the purpose of incorporation in this document received from Vincorn Consulting and Appraisal Limited, an independent valuer, in connection with its valuation of the property interests with property activities held by our Group. Terms defined in this appendix applies to this appendix only.*

### **Vincorn Consulting and Appraisal Limited**

Units 1602-4, 16/F  
FWD Financial Centre  
No. 308 Des Voeux Road Central  
Hong Kong



### **The Board of Directors**

Wise Living Technology Co., Ltd  
Level 7  
Jiangyin International Hotel  
299 Chengjiang West Road  
Jiangyin, Wuxi  
Jiangsu Province  
The PRC

[●]

Dear Sirs,

### **INSTRUCTION AND VALUATION DATE**

We refer to your instructions for us to assess the Market Values of the property interests with property activities located in The People's Republic of China ("The PRC") held by Wise Living Technology Co., Ltd (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") for the purposes of public disclosure. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary in order to provide you with our opinion of the Market Values of the property interests as at [31 December 2022] (the "Valuation Date").

### **VALUATION STANDARDS**

The valuation has been prepared in accordance with the HKIS Valuation Standards 2020 published by The Hong Kong Institute of Surveyors effective from 31 December 2020 with reference to the International Valuation Standards published by the International Valuation Standards Council effective from 31 January 2022; and the requirements set out in the Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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## **APPENDIX IV**

## **PROPERTY VALUATION REPORT**

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### **VALUATION BASIS**

Our valuation has been undertaken on the basis of Market Value. Market Value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

### **VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that 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.

No allowances have been made 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. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect the values of the property interests.

As the property interests are held under long term land use rights, we have assumed that the owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term of the land use rights.

### **VALUATION METHODOLOGY**

When valuing the property interests, we have adopted Market Approach and Income Capitalization Approach.

Market Approach is universally considered as the most accepted valuation approach for valuing most forms of property. This involves the analysis of recent market evidence of similar properties to compare with the subject under valuation. Each comparable is analysed on the basis of its unit rate; each attribute of the comparables is then compared with the subject and where there are any differences, the unit rate is adjusted in order to arrive at the appropriate unit rate for the subject. This is done by making percentage adjustments to the unit rate for various factors, such as time, location, building age, building quality and so on.

Income Capitalization Approach is a valuation approach commonly adopted for income producing properties such as offices, shops and arcades. It estimates the capital value of a property by capitalising rental income on a fully leased basis having regard to the current passing rental income from existing tenancy and the potential reversionary rental income at market level.

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## APPENDIX IV

## PROPERTY VALUATION REPORT

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### LAND TENURE AND TITLE INVESTIGATION

We have been provided with copies of documents in relation to the titles of the property interests. However, we have not scrutinised the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied to a considerable extent on information provided by the Group.

We have relied on the advices given by The PRC legal adviser of the Group, LLinks Law Offices, regarding the titles of the property interests in The PRC. We do not accept liability for any interpretation that we have placed on such information, which is more properly placed within the sphere of the legal adviser.

All legal documents disclosed in this letter, the valuation summary and the valuation certificates are for reference only. No responsibility is assumed for any legal matters concerning the legal titles to the property interests set out in this letter, the valuation summary and the valuation certificates.

### INFORMATION SOURCES

We have relied to a considerable extent on information provided by the Group and the legal adviser, in respect of the titles of the property interests in The PRC. We have also accepted advice given to us on matters such as identification of the properties, particulars of occupancy, areas and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by the Group that no material factors or information have been omitted or withheld from information supplied and consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuation are reasonable and have had no reason to doubt the truth and accuracy of information provided to us by the Group which is material to the valuation.

### INSPECTION AND INVESTIGATIONS

The properties were inspected externally and internally. Although not all areas were accessible for viewing at the time of inspection, we have endeavoured to inspect all areas of the properties. Investigations were carried out as necessary. Our investigations have been conducted independently and without influence from any third party in any manner.

We have not tested any services of the properties and are therefore unable to report on their present conditions. We have not undertaken any structural surveys of the properties and are therefore unable to comment on the structural conditions. We have not carried out any investigations on site to determine the suitability of the ground conditions for any future developments. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be required.

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**APPENDIX IV**

**PROPERTY VALUATION REPORT**

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We have not carried out any on-site measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the documents or deduced from the plans are correct. All documents and plans have been used as reference only and all dimensions, measurements and areas are therefore approximations.

**CURRENCY**

Unless otherwise stated, all monetary figures stated in this report are in Renminbi ("RMB").

The valuation summary and the valuation certificates are attached hereto.

Yours faithfully,  
For and on behalf of  
**Vincorn Consulting and Appraisal Limited**

**Vincent Cheung**  
*BSc(Hons) MBA FRICS MHKIS RPS(GP)*  
*MCIREA MHKSI MISCM MHIREA FHKIoD*  
*RICS Registered Valuer*  
*Registered Real Estate Appraiser & Agent PRC*  
*Managing Director*

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*Note:* Vincent Cheung is a fellow of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) under the Surveyors Registration Ordinance (Cap. 417) in Hong Kong, a member of China Institute of Real Estate Appraisers and Agents, a member of Hong Kong Securities and Investment Institute, a member of Institute of Shopping Centre Management, a member of Hong Kong Institute of Real Estate Administrators, a fellow of the Hong Kong Institute of Directors, a Registered Valuer of the Royal Institution of Chartered Surveyors and a Registered Real Estate Appraiser and Agent People's Republic of China. He is suitably qualified to carry out the valuation and has over 25 years of experience in the valuation of fixed and intangible assets of this magnitude and nature in the subject region.

**APPENDIX IV**

**PROPERTY VALUATION REPORT**

**VALUATION SUMMARY**

**Property Interests Held by the Group for Investment in The PRC**

<b>No.</b>	<b>Property</b>	<b>Market Value as at [31 December 2022]</b>	<b>Interest Attributable to the Group</b>	<b>Market Value as at [31 December 2022] Attributable to the Group</b>
1	Level 4 to Level 7, Ao'lin Central Square Block A (Also known as Shantou Complex) Located at south to Beizhang Village, north to Jinyang Street, west to Tiyu Road and east to Hangxiao Area, Xiaodian District, Taiyuan, Shanxi Province, The PRC	[No Commercial Value]	[51%]	[No Commercial Value]
2	A Production Workshop and Portion of a R&D Building Located at No. 168 Wuchengnan Road, Tanghuaiyuan Area, Taiyuan Comprehensive Reform Demonstration Zone, Xiaodian District, Taiyuan, Shanxi Province, The PRC	RMB[193,200,000]	[51%]	RMB[98,532,000]
Total:		<u>RMB[193,200,000]</u>		<u>RMB[98,532,000]</u>

**APPENDIX IV**

**PROPERTY VALUATION REPORT**

**VALUATION CERTIFICATE**

**Property Interests Held by the Group for Investment in The PRC**

No.	Property	Description and Tenure	Occupancy Particulars	Market Value as at [31 December 2022]
1	Level 4 to Level 7, Ao'lin Central Square Block A (Also known as Shantou Complex) Located at south to Beizhang Village, north to Jinyang Street, west to Tiyu Road and east to Hangxiao Area, Xiaodian District, Taiyuan, Shanxi Province, The PRC	<p>The property comprises four office levels of a 20-storey office building plus two basement floors, namely Ao'lin Central Square Block A. It was completed in about 2012.</p> <p>As per the information provided by the Group, the property has a total gross floor area ("GFA") of approximately 4,405.86 square metres ("sq.m."). The GFA breakdown of the property is listed as below:–</p>	<p>As per the information provided by the Group, a portion of the property with a total GFA of approximately 3,291.25 sq.m. was subject to tenancies for various terms with the latest expiry on 14 September 2024 at a total monthly rent of approximately RMB287,220, exclusive of management fees and other outgoings, while the remaining portion was vacant.</p>	<p>[No Commercial Value]</p> <p>[51%] Interest Attributable to the Group:</p> <p>[No Commercial Value]</p>

Portion	GFA (sq.m.)
Level 4	1,082.64
Level 5	1,114.61
Level 6 & Level 7	2,208.61
	<u>4,405.86</u>

The land use rights of the property were granted for a term expiring on 6 July 2050 for commercial and finance uses.

*Notes:*

- The property was inspected by Ines Wang *MSc Real Estate* on 20 January 2023.
- The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS MHKIS RPS(GP) MCIREA MHKSI MISC MHIAREA FHKIoD RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIREA MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
- Pursuant to a State-owned Land Use Rights Certificate, Bing Zheng Di Guo Yong (2010) Di No. 00272 dated 12 October 2010 and issued by the People's Government of Taiyuan, the land use rights of the subject site with a site area of 15,044.20 sq.m. were granted to 山西澳林百和房地產開發有限公司 for a term expiring on 6 July 2050 for commercial and finance uses.
- Pursuant to a Construction Land Use Planning Permit, Bing Gui Gao Xin Xu Zi [2011] Di No. 0004 dated 20 June 2011 and issued by Urban and Rural Planning Bureau of High-tech Industrial Development Zone, Taiyuan, the proposed land use of the subject site was approved.



## APPENDIX IV

## PROPERTY VALUATION REPORT

5. Pursuant to a Construction Project Planning Permit, Bing Gui Gao Xin Jian Zi [2011] Di No. 0061 dated 17 October 2011 and issued by Urban and Rural Planning Bureau of High-tech Industrial Development Zone, the proposed development of the subject building was approved.
6. Pursuant to a Construction Project Work Commencement Permit, Bing Gao Xin Jian Shi Zi [2011] Di No. 253 dated 18 January 2012 and issued by Urban and Rural Planning Bureau of High-tech Industrial Development Zone, the commencement of the construction of the subject building was approved.
7. Pursuant to a Sale and Purchase Agreement, SXSL-QT-027 dated 19 March 2014 and entered into between 山西龍泰投資集團有限公司 and 太原市再生能源供熱有限公司, the property was sold to 太原市再生能源供熱有限公司 at a consideration of RMB66,616,603.20.
8. The general description and market information of the property are summarised below:
  - Location : The property is located at south to Beizhang Village, north to Jinyang Street, west to Tiyu Road and east to Hangxiao Area, Xiaodian District, Taiyuan, Shanxi Province, The PRC.
  - Transportation : Taiyuan Wusu International Airport, Taiyuan South Railway Station and Jinyang Street Station of Taiyuan Metro Line No. 2 are located approximately 9.6 kilometres, 4.6 kilometres and 0.8 kilometres away from the property respectively.
  - Nature of Surrounding Area : The subject area is a predominately commercial area in Xiaodian District.
9. As advised by the Group, the property is yet to be granted with a proper title certificate of building ownership rights. In the course of our valuation, we have attributed no commercial value to the property. The reference value of the property, assuming that it has been granted with a proper title certificate of building ownership rights and it can be freely transferred, as at the Valuation Date was circa RMB[74,000,000].
10. We have been provided with a legal opinion regarding the property by Llinks Law Offices, which contains, inter alia, the following:
  - (a) There are no major dispute and dissension in relation to the real estate title of the property and 太原市再生能源供熱有限公司 can use and voluntarily handle the property; and
  - (b) When the developer has obtained the proper title certificate for the building ownership rights of the whole development, there is no material legal impediment for 太原市再生能源供熱有限公司 to obtain a proper title certificate for the building ownership rights of the property.

APPENDIX IV

PROPERTY VALUATION REPORT

VALUATION CERTIFICATE

Property Interests Held by the Group for Investment in The PRC

No.	Property	Description and Tenure	Occupancy Particulars	Market Value as at [31 December 2022]								
2	A Production Workshop and Portion of a R&D Building Located at No. 168 Wuchengnan Road, Tanghuaiyuan Area, Taiyuan Comprehensive Reform Demonstration Zone, Xiaodian District, Taiyuan, Shanxi Province, The PRC	<p>The property comprises a land parcel with a site area of approximately 20,877.73 sq.m., a portion of Level 1, Level 6, Level 8, Level 9, Level 10 and the whole of Level 3, Level 5 and Level 11 of a 12-storey R&amp;D building, excluding a basement floor, and a 6-storey production workshop, excluding a basement floor. It was completed in about 2016.</p> <p>As per the information provided by the Group, the property has a total GFA of approximately 34,367.74 sq.m.. The GFA breakdown of the property is listed as below: –</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Uses</th> <th>GFA (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>R&amp;D Building</td> <td>9,295.96</td> </tr> <tr> <td>Production Workshop</td> <td>25,071.78</td> </tr> <tr> <td></td> <td><u>34,367.74</u></td> </tr> </tbody> </table>	Uses	GFA (sq.m.)	R&D Building	9,295.96	Production Workshop	25,071.78		<u>34,367.74</u>	<p>As per the information provided by the Group, a portion of the property with a total GFA of approximately 26,548.83 sq.m. was subject to tenancies for various terms with the latest expiry on 15 April 2031 at a total monthly rent of approximately RMB954,234, exclusive of management fees and other outgoings, while the remaining portion was vacant.</p>	<p>RMB[193,200,000] (RENMINBI [ONE HUNDRED NINETY THREE MILLION AND TWO HUNDRED THOUSAND])</p> <p>[51%] Interest Attributable to the Group:</p> <p>RMB[98,532,000] (RENMINBI [NINETY EIGHT MILLION FIVE HUNDRED AND THIRTY TWO THOUSAND])</p>
Uses	GFA (sq.m.)											
R&D Building	9,295.96											
Production Workshop	25,071.78											
	<u>34,367.74</u>											
		<p>The land use rights of the property were granted for a term expiring on 8 September 2060 for industrial uses.</p>										

Notes:

- The property was inspected by Ines Wang *MSc Real Estate* on 20 January 2023.
- The valuation and this certificate were prepared by Vincent Cheung *BSc(Hons) MBA FRICS MHKIS RPS(GP) MCIREA MHKSI MISC MHIAREA FHKIoD RICS Registered Valuer Registered Real Estate Appraiser & Agent PRC* and Kit Cheung *BSc(Hons) MRICS MHKIS RPS(GP) MHIREA MCIREA RICS Registered Valuer Registered Real Estate Appraiser PRC*.
- Pursuant to a Real Estate Title Certificate, Jin (2020) Tai Yuan Shi Bu Dong Chan Quan Di No. 0158294, dated 4 December 2020 and issued by Taiyuan Natural Resources and Planning Bureau, the land use rights of the property with a site area of 20,877.73 sq.m. and building ownership rights of the whole of Level 1 to Level 12 of the R&D Building of the property with a total GFA of 19,178.56 sq.m. were granted to 太原市再生能源供熱有限公司 for a term expiring on 8 September 2060 for industrial uses.

## APPENDIX IV

## PROPERTY VALUATION REPORT

4. Pursuant to a Real Estate Title Certificate, Jin (2020) Tai Yuan Shi Bu Dong Chan Quan Di No. 0158290, dated 4 December 2020 and issued by Taiyuan Natural Resources and Planning Bureau, the land use rights of the property with a site area of 20,877.73 sq.m. and building ownership rights of the whole of Level 1 to Level 6 of the Production Workshop of the property with a GFA of 25,071.78 sq.m. were granted to 太原市再生能源供熱有限公司 for a term expiring on 8 September 2060 for industrial uses.

5. The general description and market information of the property are summarised below:

Location : The property is located at No. 168 Wuchengnan Road, Tanghuaiyuan Area, Taiyuan Comprehensive Reform Demonstration Zone, Xiaodian District, Taiyuan, Shanxi Province, The PRC.

Transportation : Taiyuan Wusu International Airport, Taiyuan South Railway Station and Dianzi West Street Station of Taiyuan Metro Line No. 2 are located approximately 6.0 kilometres, 9.0 kilometres and 2.8 kilometres away from the property respectively.

Nature of Surrounding Area : The subject area is a newly developed urban area in Taiyuan Comprehensive Reform Demonstration Zone, Xiaodian District. The neighbourhood of the property is dominated by various newly built industrial, commercial and high-tech R&D developments.

6. We have been provided with a legal opinion regarding the property by Llinks Law Offices, which contains, inter alia, the following:

太原市再生能源供熱有限公司 has obtained the state-owned land use rights and building ownership rights of the property in accordance with laws and is the legal holder of the state-owned land use rights and building ownership rights of the whole development, which the property situated in.

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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This Appendix contains a summary of laws and regulations on companies and securities in the PRC, certain major differences between the PRC Company Law and Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance as well as the additional regulatory provisions of the Stock Exchange on joint stock limited companies of the PRC. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which may be important to the potential investors. For discussion of laws and regulations specifically governing the business of our Company, see "Regulatory overview" in this document.

### THE PRC LEGAL SYSTEM

#### China's Legal System

China's legal system is based on the Constitution of the People's Republic of China (hereinafter referred to as the "Constitution"), comprising written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules of departments under the State Council, regulations of local governments as well as international treaties with the Chinese government as a signatory. A court precedent does not constitute a binding precedent, but may be used as a judicial reference and guidance.

In accordance with the *Constitution of the People's Republic of China* and the *Legislative Law of the People's Republic of China*, the National People's Congress (NPC) and the Standing Committee of the NPC (hereinafter referred to as the "Standing Committee") are authorised to enact and amend basic laws governing the State organs, civil affairs, criminal offences and other matters. The Standing Committee enacts and amends laws (other than the ones to be enacted by the NPC), and when the NPC is not in session, partially supplements and amends laws enacted by the NPC, but not in contradiction to the basic principles of such laws. The Standing Committee is authorised to interpret, enact and amend laws other than the ones to be enacted by the NPC.

The State Council is the highest administrative organ in China and has the power to formulate administrative regulations in accordance with the Constitution and laws.

The people's congresses and their respective standing committees of the provinces, autonomous regions and municipalities may, in light of the specific conditions and actual needs of their respective administrative areas, formulate local regulations, provided that such regulations do not contradict with the Constitution, the laws and the administrative regulations. The people's congresses and their respective standing committees of the comparatively larger cities may, in light of the specific local conditions and actual needs, formulate local regulations, and they shall submit the regulations to the standing committees of the people's congresses of the provinces or autonomous regions for approval before implementation. The standing committees of the people's congresses of the provinces or autonomous regions shall examine the legality of such local regulations which are submitted for approval, and shall

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## APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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approve them within four months if they do not contradict the Constitution, the laws, the administrative regulations, and the local regulations of their respective provinces or autonomous regions. When the standing committee of the people's congress of a province or autonomous region examines the local regulations of a comparatively larger city submitted for approval, it shall make a decision to deal with the matter if it finds that the said regulations contradict the rules of the people's government of the province or autonomous region. A "comparatively larger city" herein refers to a city where the provincial or autonomous regional people's governments are located, a city where special economic zones are located, or a city approved as such by the State Council.

The ministries and commissions of the State Council, the People's Bank of China, the National Audit Office as well as the organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate departmental rules. Matters governed by the rules of departments shall be those for the enforcement of the laws or the administrative regulations, decisions and orders of the State Council. The people's governments of the provinces, autonomous regions and municipalities and the comparatively larger cities may, in accordance with relevant laws and administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities, formulate rules.

In accordance with the Constitution, the power to interpret the law is vested in the Standing Committee. In accordance with the resolution of the Standing Committee of the NPC on strengthening legal interpretation work adopted on 10 June 1981, the Supreme People's Court has the power to interpret issues involving the specific application of laws and decrees in trials. The State Council and its ministries and commissions also have the power to interpret the administrative regulations and departmental rules that are promulgated by them. At the regional level, the power to interpret local laws, regulations and administrative rules is vested in the local legislative and administrative bodies that have promulgated such laws, regulations and rules.

### **China's Judicial System**

In accordance with the Chinese Constitution and the *Organic Law of the People's Courts of the People's Republic of China*, China's judicial system consists of the Supreme People's Court, local people's courts at all levels, and specialised people's courts. Local people's courts at all levels are divided into grassroots-level people's courts, intermediate-level people's courts, and higher-level people's courts. Grassroots-level people's courts are further divided into civil, criminal and administrative trial courts. The classification of intermediate-level people's courts is similar to that of grassroots-level people's courts, and is further divided into other special departments, such as intellectual property trial courts.

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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People's courts at lower levels are subject to the supervision of people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over civil proceedings in the people's courts at the same level and below. The Supreme People's Court is the highest judicial body in China, supervising all actions of the people's courts. A system of the court of second instance being the court of last instance is adopted at the people's courts. The parties concerned may appeal the judgement or ruling of the people's court of the first instance to the people's court at the next higher level. The second-instance judgement or ruling made by the people's court at the next higher level is the final judgement or ruling and is legally binding. The first-instance judgement or ruling of the Supreme People's Court is also the final judgement or ruling. If the Supreme People's Court or the people's court at a higher level finds that any judgement or ruling made by the people's court at a lower level is wrong, or the president of the people's court finds that the judgement or ruling is wrong, the case may be retried according to the trial supervision procedures.

The *Civil Procedure Law of the People's Republic of China* (hereinafter referred to as the "Civil Procedure Law"), which was promulgated on 9 April 1991 and came into effect on 1 January 2022 after the last amendment was made on 24 December 2021, has stipulated the conditions for filing a civil lawsuit, the jurisdiction of a people's court, the procedures to be followed in civil proceedings, and the enforcement procedures for civil judgements or rulings. All parties involved in civil proceedings in China must abide by the Civil Procedure Law. Usually, a civil proceeding is heard by the people's court where the defendant's residence is located. Parties to a contract or other disputes over property rights may choose the jurisdiction in which the civil lawsuit is filed through written agreements, provided that the selected jurisdiction must be the place of residence of the plaintiff or the defendant, the place where the contract is signed, the place where the contract is performed, the place of the litigation, or the place where the subject matter of the litigation is actually connected with the dispute, and that the provisions of the Civil Procedure Law on subject matter jurisdiction and exclusive jurisdiction must not be violated.

Foreigners or foreign enterprises generally have the same litigation rights and obligations as Chinese citizens or legal persons. If the judicial system of a foreign country imposes restrictions on the litigation rights of any Chinese citizen and enterprise, the Chinese courts may impose reciprocal restrictions on the citizens and enterprises of that foreign country in China. If any party to a civil lawsuit refuses to abide by a judgement or ruling made by the people's court, or a decision made by an arbitral tribunal in China, the aggrieved party may apply to the people's court for the enforcement of the relevant judgement, ruling or decision. The right to apply for enforcement has a time limit of two years. If a person fails to execute a court decision within the specified time limit, the court may enforce the judgement at the request of the counterparty concerned.

If a party applies to the people's court for the enforcement of an effective judgement or ruling of the people's court against a party that is not in China or whose property is not in China, the party may apply to the court of a foreign country with appropriate jurisdiction for recognition and enforcement of the judgement or ruling. If China concludes or accedes to any

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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international treaty with that foreign country on mutual recognition and implementation, or if the judgement or ruling of the people’s court is in accordance with the results of the court’s review that is conducted based on the principle of reciprocity, the foreign judgement or ruling may also be recognised and enforced by the people’s court in accordance with the Chinese implementation procedures, unless the people’s court deems that the recognition or enforcement of that judgement or ruling would result in a violation of China’s basic legal principles, sovereignty or security, or an inconsistency with social and public interests.

### **Company Law, Special Regulations and Mandatory Clauses**

The *Company Law of the People’s Republic of China* (hereinafter referred to as the “Company Law”) was adopted by the Fifth Session of the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and entered into force on 1 July 1994. The Company Law was last amended on 26 October 2018 and became effective on the same day.

The *Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies* (hereinafter referred to as “Special Regulations”) was adopted by the 22nd Session of the Standing Committee of the State Council on 4 August 1994. The Special Regulations were formulated in accordance with the provisions of Articles 85 and 155 of the Company Law, applicable to matters concerning the overseas offering and listing of shares by joint stock limited companies.

The *Mandatory Clauses for Articles of Association of Companies Listed Overseas* (hereinafter referred to as the “Mandatory Clauses”) was promulgated by the former Securities Commission of the State Council and State Commission for the Restructuring of the Economic System on 27 August 1994, specifying the clauses that must be contained in the articles of association of joint stock limited companies listed overseas. Therefore, the Mandatory Clauses have been incorporated into the articles of association.

*The Trial Measures for the Administration on Overseas Securities Offering and Listing by Domestic Companies (the Announcement of China Securities Regulatory Commission [2023] No. 43)* (《境內企業境外發行證券和上市管理試行辦法》(中國證券監督管理委員會公告[2023]43號)) promulgated by the CSRC on February 17, 2023 incorporated, directly and indirectly, all overseas offering and listing activities by domestic companies into the regulatory scope, and formulated a negative list to clarify forbidden circumstances when domestic companies launching an offering and listing overseas. The Measures shifted the method to governing the overseas offering and listing by domestic companies from permission management to filing management, and further stipulated the scope, contents, and procedures of the filing. *The Trial Measures for the Administration on Overseas Securities Offering and Listing by Domestic Companies* will take effect from March 31, 2023 and the *Special Regulations* and the *Mandatory Clauses* will be lapsed on the same date.

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## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### **General Provisions**

A "joint stock limited company" (hereinafter referred to as "company") is a corporate legal person incorporated under the Company Law, and its registered capital is divided into shares of equal face value. The liability of a shareholder is limited to the extent of the value of shares the shareholder holds, and the liability of a company is limited to the extent of the total amount of assets the company owns.

A company must abide by laws and professional ethics in conducting business activities. A company may invest in other limited companies and joint stock limited liability companies. The liability of a company to an enterprise so invested in is limited to the extent of the amount of investment made. Unless otherwise provided for in any law, a company shall not become a capital contributor which shall be jointly and severally liable for the indebtedness of such enterprise.

### **Incorporation**

A company may be established by way of sponsorship or public offering. The incorporation of a company may be initiated by two to 200 sponsors, but at least half of the sponsors are required to have a residence in China. A company established by way of sponsorship refers to a company whose registered capital is all subscribed for by the sponsors. If a company is established by way of public offering, unless otherwise specified, the number of shares subscribed for by the sponsors must not be less than 35% of the total number of shares of the company, and the remaining shares may be offered to members of the public or to certain persons.

The Company Law stipulates that, for a company established by way of sponsorship, the registered capital of which shall be the total amount of share capital subscribed for by all its sponsors as registered with the registration authority. No shares shall be offered to any other person until the sponsors have fully paid up the shares subscribed for. Where laws, administrative regulations and the decisions of the State Council stipulate the actual paid registered capital and another amount on the minimum registered capital of joint stock limited company, such stipulations shall prevail.

Sponsors shall convene the inaugural general meeting within 30 days after the subscription monies for the share issue are fully paid, and must make a notice to all the subscribers or a public announcement of the date of the meeting 15 days in advance. The meeting may only be held when attended by shareholders holding more than 50% of the total issued shares of the company. Matters to be dealt with at the meeting include the adoption of the draft articles of association proposed by the sponsors and the election of members of the company's board of directors and supervisory board. Any resolution of the general meeting must be approved by more than half of the voting rights held by subscribers present at the meeting.



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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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The board of directors must apply to the registration authority for registration of the company within 30 days after the conclusion of the inaugural general meeting. Upon the approval of the administration for industry and commerce and the issuance of a business licence, the company is formally established and a legal personality is obtained.

Sponsors of a joint stock limited company shall be liable for the following: (1) jointly and severally liable for payment of all expenses and debts incurred by the establishment of the company in case of the failure of establishment; (2) jointly and severally liable for the repayment of the subscription monies to the subscribers together with interests calculated based on the banking deposit rates for the same period in case of the failure of establishment; (3) compensation to the company in case of any damage to the company arising from the default of the sponsors during the establishment; and (4) repayment liability for any unpaid capital after the establishment.

According to the *Provisional Regulations on the Administration of Stock Issuance and Trading* promulgated by the State Council on 22 April 1993 (only applicable to stock issuance and trading and the related activities carried out within the territory of the People's Republic of China), if a company is established by way of public offering, sponsors of the company shall be jointly and severally liable for the accuracy of the contents of the document and shall ensure that the document does not contain any misleading statements or omit any material information.

### Share Capital

If a joint stock limited company is established by way of sponsorship, the sponsors shall fully subscribe for the shares in writing and pay the corresponding share capital in accordance with the articles of association. If the capital is contributed by any means other than cash, the sponsors shall undergo relevant formalities for the transfer of property rights according to law. Chinese companies have not imposed any restrictions on the percentage of shareholding in the company for individual shareholders. If a sponsor makes a capital contribution in any form other than cash, such contribution must be valued and verified and converted into shares.

A company may issue registered shares or unregistered shares. However, shares issued to sponsors or legal persons must be shares that are registered to the names of the sponsors or legal persons concerned. Such shares shall not be registered in other names or names of their representatives.

The Special Regulations and Mandatory Clauses stipulate that overseas-listed shares issued to foreign investors must be in the form of registered shares and must be denominated in Renminbi but subscribed for in foreign currency.

In accordance with the Special Regulations and Mandatory Clauses, overseas-listed shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan are called overseas-listed foreign capital shares, whereas shares issued to investors in China (other than the above regions) are called domestic capital shares. Eligible overseas institutional investors as approved by the China Securities Regulatory Commission ("CSRC") may hold listed domestic capital shares.

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## APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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Upon approval by the securities administrative department of the State Council, a company may publicly issue shares overseas. The specific measures shall be formulated by the State Council in accordance with the Special Regulations. According to the Special Regulations, upon approval by the CSRC, a company may agree to retain not more than 15% of the total amount of underwritten shares in the underwriting agreement for the issuance of overseas-listed foreign capital shares. The offer price of the shares may be equal to or higher than the par value of the shares, but not lower than the nominal value of the shares. The transfer of shares by shareholders shall be conducted at a stock exchange established according to law or in other manner as stipulated by the State Council. The transfer of unregistered shares shall be conducted by delivery of the H shares to the transferee.

No registration of changes in the register of shareholders shall be made within 20 days of the convening of a general meeting of shareholders or within five days prior to the date set for the allocation of share dividends.

### **Increase of Share Capital**

In accordance with the Company Law, if a company intends to increase capital by issuing new shares, it must be approved at the general meeting of shareholders. In addition to the aforementioned conditions that are stipulated in the Company Law and are subject to the approval of the general meeting of shareholders, the securities law has provided for the following conditions for a company to issue new shares publicly: (1) having a sound and well-functioning organisational structure; (2) having sustainable operation ability; (3) non-qualified audit reports issued by the auditor for the company's financial accounting documents for the last three years; (4) the issuer and its controlling shareholders, de facto controller do not have criminal record during the past three years for corruption, bribery, encroachment of assets, misappropriation of assets or disruption of socialist market economy order; (5) any other conditions stipulated by the securities regulatory and administrative authority of the State Council with the approval of the State Council. The issuance of new shares by a listed company is subject to the conditions stipulated by the securities regulatory and administrative authority of the State Council with the approval of the State Council. After the issued new shares have been fully paid up, a company must register the change with the relevant administration for industry and commerce and make a corresponding announcement.

### **Reduction of Share Capital**

Subject to the minimum registered capital requirement, a company may reduce its registered capital in accordance with the following procedures stipulated by the PRC Company Law:

- The company must prepare a balance sheet and an inventory list of assets;
- any reduction of registered capital must be approved by shareholders at the general meeting;

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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- once the resolution approving the reduction of capital has been passed, the company must notify its creditors of the reduction of capital within ten days of the date of the resolution, and publish an announcement on the matter in a newspaper within 30 days of the date of such resolution;
- creditors of the company may require the company to repay its debts or provide a guarantee for such debts within the statutory time limit; and
- the company must apply to the relevant administration for industry and commerce for registration of the reduction of registered capital.

### Repurchase of Shares

A company may not repurchase its own shares except in any of the following circumstances:

- reducing its registered capital;
- awarding the shares to its employees as incentives;
- for the purpose of maintaining corporate value and shareholders' equity;
- merging with another company that holds shares in the company;
- use of shares for conversion of convertible corporate bonds issued by listed companies;
- any shareholder requesting the company to repurchase his/her shares due to his/her objection to any resolution in respect of the merge or division of the company adopted at the general meeting of shareholders; or
- any other circumstances permitted by the laws and administrative regulations.

The amount of shares of a company repurchased for awarding to employees shall not exceed 10% of the total number of shares in issue. Funds used for repurchase such shares shall be paid out of the after-tax profits of the company, and the shares so repurchased shall be transferred to the employees of the company within three year. The Mandatory Clauses stipulate that, after obtaining the approval of the relevant supervisory authority in accordance with the articles of association, the company may, for the aforesaid purposes, repurchase its issued shares by issuing a general offer to its shareholders or buying on a stock exchange or on an off-exchange contract basis.

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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### Transfer of Shares

Shares may be transferred in accordance with relevant laws and regulations. The transfer of shares by shareholders shall be conducted at a stock exchange established according to law or in other ways as stipulated by the State Council. Registered shares may be transferred by endorsement or by other means as required by applicable laws and regulations.

Sponsors of a company shall not transfer their shares within one year from the date of incorporation of the company. Shares issued by a company prior to the public offering shall not be transferred within one year from the date of listing of the company's shares on the stock exchange. Directors, supervisors and senior executives of a company shall not annually transfer more than 25% of the total shares of the company they hold during their tenure, and shall not transfer any of their respective shares of the company within one year from the date of listing.

### Shareholders

In accordance with the Company Law and the Mandatory Clauses, the rights of shareholders include:

- the right to transfer their shares in accordance with applicable laws and administrative regulations and the articles of association;
- the right to attend or appoint a proxy to attend general meetings of shareholders and to vote thereat in respect of the number of shares held;
- the right to inspect the articles of association, register of shareholders, short-term bond records, minutes of general meetings of shareholders, resolutions of the board of directors, resolutions of the supervisory board as well as financial and accounting reports of the company, and to make recommendations or queries about the business operations of the company;
- in the event that a resolution approved by the general meeting of shareholders or the board of directors violates any laws or regulations, or infringes on the legitimate rights and interests of shareholders, the right to file a lawsuit with the people's court to stop the illegal infringement activities;
- in the event of the termination of the company, the right to obtain the surplus assets of the company in accordance with the number of shares held; the right to require other shareholders who abuse their shareholders' rights to make damages;
- the right to receive dividends in proportion to the number of shares held; and
- any other shareholders' rights as stipulated in the articles of association.

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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The obligations of shareholders include:

- to comply with the articles of association;
- to pay subscription monies for the shares subscribed for;
- to be liable for the company's debts and liabilities to the extent of the subscription monies that they agree to pay for the shares subscribed for;
- not to abuse the shareholders' rights to impair the interests of the company or other shareholders of the company; not to abuse the company's independent status as a legal person and limited liability company to impair the interests of creditors of the company; and
- any other obligations as stipulated in the articles of association.

### *General Meetings of Shareholders*

The general meeting of shareholders is the organ of authority that a company exercises its functions and powers in accordance with the Company Law. The general meeting of shareholders exercises the following powers:

- to decide on the company's operational policies and investment plans;
- to elect and replace directors and supervisors who are not employee representatives;
- to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the supervisory board and supervisors;
- to examine and approve the company's profit distribution plans and loss recovery plans;
- to decide on the increase or reduction of the company's registered capital;
- to decide on the issuance of debentures by the company;
- to decide on the merger, division, dissolution, liquidation and other matters of the company;
- to amend the articles of association; and
- any other functions and powers as stipulated in the articles of association.

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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The general meeting must be held once a year. An extraordinary general meeting shall be held within two months of the occurrence of any one of the following events:

- where the number of directors is less than the number stipulated in the Company Law or two-thirds of the number specified by the articles of association;
- where the unrecovered losses of the company amount to one-third of the total amount of its paid-in share capital;
- where shareholder(s), individually or in aggregate, holding 10% or more of the company's shares so request(s);
- wherever the board of directors deems necessary;
- wherever the supervisory board so requests;
- any other matters as stipulated in the articles of association.

The general meeting of shareholders shall be convened by the board of directors and presided over by the chairman. In accordance with the Company Law, when convening a general meeting of shareholders, a notice of the time, place and agenda of the meeting shall be made to shareholders 20 days before the meeting; in the case of convening an extraordinary general meeting, a notice shall be made to shareholders 15 days before the meeting. In case of issuing bearer shares, the time, place and agenda of the meeting shall be announced 30 days before the meeting.

Shareholder(s), individually or in aggregate, holding more than 3% of a company's shares, may make a provisional proposal and submit it to the board of directors in writing 10 days before the general meeting; the board of directors shall notify the other shareholders within two days after receiving the proposal, and submit the provisional proposal to shareholders for consideration at the general meeting. The content of the provisional proposal shall fall within the scope of the general meeting of shareholders, and shall contain explicit subjects for discussion and specific matters for resolution.

Motions proposed at the general meeting of shareholders shall be passed by more than half of the voting rights held by shareholders (including their proxies) present at the meeting, but motions with respect to the merger, division, reduction of registered capital, issuance of debentures or short-term bonds, change of corporate form or amendment of the articles of association by the company shall be passed by more than two-thirds of the voting rights held by shareholders (including their proxies) attending the general meeting. Shareholders may appoint proxies to attend the general meeting. The proxies shall submit to the company a power of attorney issued by the shareholders and exercise the right to vote within the scope of the authorisation. The Mandatory Clauses stipulate that, in the event of the occurrence of any change or abolition of the rights of class shareholders, a general meeting of class shareholders shall be held.

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In this regard, holders of domestic capital shares and overseas-listed foreign capital shares are deemed as shareholders of different classes.

### Directors

A company shall have a board of directors comprising 5 to 19 members. The term of office of directors shall be stipulated in the articles of association, but each term shall not exceed three years. Directors shall be eligible for re-election.

The board of directors shall convene a meeting at least twice a year. The notice of the meeting shall be sent to all directors and supervisors at least ten days before the meeting.

The board of directors exercises the following functions and powers in accordance with the Company Law:

- to convene general meetings of shareholders and report on its work to shareholders in the meetings;
- to implement resolutions passed by shareholders in general meetings;
- to determine the company's business plans and investment proposals;
- to formulate the company's preliminary and final annual budgets;
- to formulate the company's profit distribution plans and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and for the issuance of the company's debentures or other securities and listing; to formulate plans for the merger, division or dissolution of the company;
- to determine the company's internal management structure;
- to appoint or remove the company's general manager and, based on the recommendations of the general manager, to appoint or remove the company's vice president and financial director and to decide on their remuneration;
- to formulate the company's basic management system; and
- any other functions and powers as stipulated in the articles of association.

In addition, the Mandatory Clauses stipulate that the board of directors is also responsible for drawing up proposals on the amendment of the articles of association.

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Meetings of the board of directors may only be held when more than half of the directors are present. Resolutions of the board of directors must be approved by more than half of the directors. If any director is unable to attend a board meeting, he/she may appoint another director to attend the meeting on his/her behalf by a power of attorney which specifies the scope of authorisation.

If a resolution of the board of directors violates any laws or administrative regulations, or the articles of association, thereby causing the company to incur serious losses, the directors that took part in such resolution shall be liable to the company for compensation. However, if a director is proved to have expressed his/her objection to the resolution at the time of voting and the objection is recorded in the minutes of the meeting, such director may be released from such liability.

In accordance with the Company Law, the following persons may not be allowed to serve as directors of a company:

- a person who has no or limited capacity for civil conduct;
- a person who was sentenced to criminal punishment for embezzlement, bribery, seizure of property or misappropriation of property or for sabotage of the socialist market economic order, where less than five years have elapsed after the expiration of the period of execution; or a person who was deprived of his political rights for the commission of a crime, where less than five years have elapsed after the expiration of the period of execution;
- a person who, being a director or the head or manager of a company or enterprise that went into bankruptcy and liquidation, was personally liable for the bankruptcy of the said company or enterprise, where less than three years have elapsed from the day when the winding-up and liquidation of the company or enterprise is completed;
- a person who, being the legal representative of a company or an enterprise whose business licence was revoked or was ordered to be closed down due to violation of law, was personally liable for the above, where less than three years have elapsed from the day when the business licence of the company or enterprise is revoked; or
- a person who fails to liquidate a relatively large amount of personal debts when they are due; or any other circumstances in which a person is not eligible to serve as directors of a company as stated in the Mandatory Clauses.



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The board of directors shall appoint one chairman whose appointment shall be approved by more than half of the directors. The chairman shall exercise the following duties and powers (including but not limited to):

- to preside over general meetings of shareholders;
- to inspect the implementation of resolutions of the board of directors.

In accordance with the articles of association, the legal representative of a company may be the chairman, executive director or manager. In accordance with the Special Regulations, the directors, supervisors, managers and other senior staff of a company are subject to the duty of fiduciary care and diligence. These individuals must faithfully perform their duties, protect the interests of the company, and never use their position to seek personal gain. Further elaboration of such duties is contained in the Mandatory Clauses.

### **Supervisors**

A joint stock limited company shall have a supervisory board, which shall be composed of not less than three members. The supervisory board shall include representatives of shareholders, and representatives of the staff and workers of the company in an appropriate proportion. The proportion shall be specified in the articles of association, but in no case shall be less than one-third of the supervisors appointed. The representatives of the staff and workers on the supervisory board shall be democratically elected through the conference of the representatives of the staff and workers, or the general meeting of the staff and workers, or through other forms.

Directors and senior executives of a company shall not concurrently serve as supervisors.

The supervisory board shall exercise the following functions and powers:

- to examine the financial affairs of the company;
- to supervise the performance of duties by directors and senior executives and to recommend the removal of directors and senior executives that are found to have violated the laws, administrative regulations, articles of association or any of the resolutions of the general meeting; to demand directors or senior executives to rectify any of their acts that is found to have impaired the interests of the company;
- to propose the convening of extraordinary general meetings of shareholders and, to convene and preside over the general meeting when the board of directors fails to perform such duties;

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- to make motions to the general meeting of shareholders;
- to file lawsuits against directors or senior executives; and
- any other functions and powers as stipulated in the articles of association.

The aforementioned circumstances in which a person is not eligible to serve as directors shall also be applicable to supervisors after necessary modifications have been made.

### **Managers and Senior Executives**

A company shall have a manager who shall be appointed or removed by the board of directors. The manager shall be accountable to the board of directors and shall exercise the following functions and powers:

- to preside over the production, operation and management work of the company, and organise the implementation of resolutions of the board of directors;
- to organise and implement the company's annual business and investment plans;
- to develop proposals for establishing the internal management structure of the company;
- to formulate the company's basic management system;
- to formulate the company's internal rules;
- to appoint and remove the deputy manager and any financial controller, and to appoint or remove other executives (other than those that shall be appointed or removed by the board of directors);
- to attend meetings of the board of directors as non-voting attendees; and
- any other powers conferred by the board of directors or the articles of association.

In accordance with the Company Law, other senior executives of a company shall include financial controller, secretary to the board of directors and other executive staff as stipulated in the articles of association. The aforementioned circumstances in which a person is not eligible to serve as directors shall also be applicable to managers and senior staff after necessary modifications have been made. The articles of association of a company are binding on the shareholders, directors, supervisors, managers and other senior executives of the company. These individuals have the right to exercise their rights, apply for arbitration and institute proceedings in accordance with the articles of association.

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### **Duties and Responsibilities of Directors, Supervisors, Managers and Senior Executives**

In accordance with the Company Law, directors, supervisors, managers and other senior executives of a company shall abide by relevant laws, regulations and the company's articles of association, faithfully perform their duties and safeguard the interests of the company. Directors, supervisors, managers and senior executives of a company shall also assume the duty of confidentiality to the company and shall not disclose any secret information of the company, unless it is permitted by relevant laws and regulations or shareholders.

Any director, supervisor, manager and other senior staff members shall be personally liable to the company for any losses incurred due to the violation of any laws, regulations or articles of association of the company in the course of performing their duties.

The Special Regulations and Mandatory Clauses stipulate that directors, supervisors, managers and other senior staff members of a company shall abide by fiduciary duties to the company, faithfully perform their duties, and safeguard the interests of the company, and must not use their position in the company for their own personal gains.

Directors and senior executives may not:

- misappropriate company funds;
- divert company funds into an account held in their own names or in the name of any other individual;
- loan company funds to other people or give company assets as security for the debt of any other individual without the approval of the general meeting of shareholders or the board of directors in violation of the articles of association;
- execute any contract or engage in any transaction with the company in violation of the articles of association or without the approval of the general meeting of shareholders;
- use the conveniences of his/her position to seek business opportunities that shall belong to the company for himself/herself or for other people and engage in the same business as the company in which he serves either for his own account or for any other person's account without the approval of the general meeting of shareholders;
- accept and possess the commissions paid by others for transactions conducted with the company;
- disclose the company's confidential information without authorisation; or
- engage in other activities in violation of his/her fiduciary duties. Any income of directors and senior executives that has been earned from the violation of provisions of the preceding paragraph shall be owned by the company.

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### **Financial and Accounting Affairs**

A company shall establish a financial and accounting system in accordance with the laws, administrative regulations and provisions of the department in charge of financial affairs under the State Council. The company shall prepare financial reports at the end of each fiscal year and the reports shall be audited by accountants according to law.

A company shall provide financial statements at least 20 days prior to the annual general meeting for inspection by shareholders. Companies established by way of public offerings must publish their financial statements.

When a company distributes its annual after-tax profits, it shall allocate 10% of its after-tax profits into the company's statutory common reserve fund (unless in the case when the amount of the common reserve fund reaches 50% of the company's registered capital). After making its allocation to the statutory common reserve fund from the company's after-tax profits, the company may, with the approval of the general meeting of shareholders by resolution, make allocations to the discretionary common reserve fund from its after-tax profits again. Where the statutory surplus common reserve fund is insufficient to make up the company's losses in the previous fiscal year, the company shall apply its annual profits to making up its losses prior to allocating such profits to the statutory surplus common reserve fund in accordance with the provisions of the preceding paragraph.

Unless otherwise stipulated in the articles of association, after making up its losses and making allocations to the statutory surplus common reserve fund, a joint stock limited company shall distribute the remaining profits to its shareholders according to the proportion of the shares held by each shareholder.

The capital common reserve fund of a joint stock limited company shall consist of the premium of shares (that is, the nominal value of the company's share issuance) and other income that should be included in the capital common reserve fund as according to the provisions of the department in charge of financial affairs under the State Council.

The common reserve fund of a company should be used to make up the company's losses in previous years so as to enhance the company's productivity, expand its business and increase its registered capital, but the capital common reserve fund shall not be used to make up the company's losses. When the statutory common reserve fund is converted into its capital, the remaining amount of the statutory common reserve fund shall not be less than 25% of the registered capital of the company before the conversion.

### **Appointment and Removal of Accounting Firms**

In accordance with the Special Regulations, the company shall appoint an independent qualified accounting firm to conduct an audit of its annual report and to review and verify other financial reports of the company.

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In appointing or removing an accounting firm that acts as its auditing company, the company must, in accordance with the provisions of the articles of association, obtain the approval of the general meeting of shareholders or the board of directors by resolution.

When the general meeting of shareholders or the board of directors of a company takes a vote on the removal of an accounting firm that acts as the company's auditing firm, the accounting firm shall be allowed to state its opinions.

The company shall provide accurate and complete accounting books and records, financial and accounting reports, and other accounting documents to the accounting firm engaged by the company, and may not withhold or conceal any such accounting records from the accounting firm or make any of their misrepresentation to the accounting firm.

### **Profit Distribution**

In accordance with the Special Regulations, dividends and other distributions payable to holders of overseas-listed foreign capital shares shall be declared and calculated in Renminbi and paid in foreign currencies. In accordance with the Mandatory Clauses, such payments paid in foreign currencies shall be made to shareholders through a receiving agent.

### **Amendments to the Articles of Association**

Any amendments to the articles of association of a company must be conducted in accordance with the procedures set out in the articles of association. Any amendments to the articles of association relating to the provisions of the Mandatory Clauses may only come into effect upon the approval of the department in charge of companies review and approval authorised by the State Council and the CSRC. For matters involving the company's registration, changes of registration shall be filed with the company registration authority.

### **Dissolution and Liquidation**

Shareholders holding 10% or more of all shareholder voting rights may petition the people's court to dissolve the company if serious difficulties arise in the operation and management of a company and its continued existence would cause a material loss to the interests of the shareholders, and the difficulties cannot be resolved through other means.

In accordance with the Company Law, a company may be dissolved under any of the following circumstances:

- (1) the term of operation as stipulated by the articles of association of the company expires or other reasons for dissolution as stipulated by the articles of association occur;
- (2) the general meeting of shareholders resolves to dissolve the company;

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- (3) dissolution is necessary as a result of the merger or division of the company;
- (4) the business licence is revoked or the company is ordered to be closed down or revoked according to law;
- (5) shareholders holding more than 10% of all shareholder voting rights may petition the people's court to dissolve the company if serious difficulties arise in the operation and management of a company and its continued existence would cause a material loss to the interests of the shareholders, and the difficulties cannot be resolved through other means, and such petition is approved by the people's court.

Where a company is dissolved under the circumstances of items (1), (2), (4) and (5) as referred to above, a liquidation team shall be formed within 15 days from the date of dissolution. The members of the liquidation team shall be composed of directors or members determined by the general meeting of shareholders.

If a liquidation team has not been established within the specified time limit, creditors of the company may apply to the people's court for such establishment. The liquidation team shall inform creditors of the company of its establishment within ten days from the date of its establishment, and make an announcement in newspaper within 60 days from the aforesaid date. The creditors shall file a claim with the liquidation team in respect of the company's unpaid debts due within 30 days from the date of receipt of the notice or within 45 days from the date of the announcement for those who have not received the notice.

During liquidation, the liquidation team shall exercise the following functions and powers:

- to check up on the company's assets, and separately formulate a balance sheet and an inventory of assets;
- to notify creditors by notice or announcement;
- to dispose of and liquidate the company's unfinished business;
- to pay off outstanding taxes and the taxes that arise in the course of liquidation;
- to clear up claims and debts;
- to dispose of, after paying off the debts of the company, its remaining property; and
- to participate in civil proceedings on behalf of the company.

The remaining assets of a company, after paying off the liquidation expenses, the wages, labour insurance premiums, and statutory compensation for the staff and workers, the outstanding taxes and the company's debts, shall be distributed in proportion to the shares held.

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A company may not engage in business activities not relating to liquidation. Where the liquidation team finds that assets of the company are insufficient to pay off the company's debts, it must immediately apply to the people's court for declaration of bankruptcy according to law. After the people's court has ruled to declare the company bankrupt, the liquidation team shall turn all liquidation-related matters over to the court.

After the completion of liquidation, the liquidation team shall formulate a liquidation report and submit the report to the general meeting of shareholders or to the relevant regulatory department for confirmation. Thereafter, it shall submit the liquidation report to the company registration authority to deregister the company and make an announcement of the matter.

Members of the liquidation team shall be devoted to their duties and comply with relevant laws.

Any member of the liquidation team who has caused any losses to the company or its creditors, by reason of any intentional or gross negligence, shall be liable for compensation.

### **Overseas Listing**

Shares of a company may only be listed overseas after obtaining the approval of the CSRC, and the listing must be arranged in accordance with the procedures stipulated by the State Council.

### **Loss of H-Share Share Certificates**

If a registered H-share share certificate is stolen or lost, holder of the share may apply to the people's court to declare the share invalid in accordance with relevant provisions of the civil procedure law. After the declaration is made, the shareholder may apply to the company for reissue of the share.

The Mandatory Clauses provide for other treatment procedures for the loss of H-share share certificates.

### **Merger and Division**

A company may undergo a merger by way of absorption, or formation of a new entity. If a merger by absorption is adopted, the company to be absorbed must be dissolved; if the merger takes the form of creating a new company, parties to the merger shall be dissolved.

### **Securities Laws and Regulations and Regulatory Systems**

China has promulgated a number of regulations concerning the issuance and trading of shares and the disclosure of information. In October 1992, the State Council established the Securities Commission and the CSRC. The Securities Commission was responsible for

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coordinating the drafting of securities regulations, formulating securities-related policies, planning securities market developments, guiding, coordinating and supervising all securities-related institutions in China, and managing the CSRC. The CSRC was the regulatory arm of the Securities Commission, responsible for drafting regulatory requirements for the securities market, supervising securities companies, regulating the public offering of securities by Chinese companies at home and abroad, overseeing the trading of securities, compiling securities-related statistical data, and conducting relevant research and analysis. In April 1998, the State Council combined two departments, thereby reforming the CSRC.

On 25 December 1995, the State Council promulgated and implemented the *Regulations of the State Council on Domestically-Listed Foreign Capital Shares of Joint Stock Limited Companies*. The regulations were mainly related to issues on issuance, subscription, trading, declaration of dividends and other distributions for domestically-listed foreign capital shares, issues concerning the disclosure of information on domestically-listed foreign capital shares by joint stock limited companies and so forth.

The *Securities Law* came into effect on 1 July 1999 and was amended on 28 August 2004, 27 October 2005, 29 June 2013, 31 August 2014 and 28 December 2019, respectively. The *Securities Law* was the first national securities law in China, which is divided into 14 chapters and 226 articles, governing matters including the issuance and trading of securities, the acquisition of listed companies as well as the obligations and responsibilities of stock exchanges, securities firms and the securities regulatory authority under the State Council. The *Securities Law* comprehensively regulates activities of the Chinese securities market. Article 224 of the *Securities Law* stipulates that any direct or indirect issuance of securities overseas or any listing of securities overseas for trading by domestic enterprises shall comply with the relevant provisions of the State Council. At present, the issuance and trading of shares issued overseas (including H shares) are mainly regulated by the rules and regulations promulgated by the State Council and the CSRC.

### **Arbitration and Enforcement of Arbitral Awards**

On 31 August 1994, the Standing Committee passed the *Arbitration Law of the People’s Republic of China* (“Arbitration Law”), which came into force on 1 September 1995 and was amended on 27 August 2009 and 1 September 2017. In accordance with the *Arbitration Law*, arbitration commissions may formulate provisional arbitration rules according to the *Arbitration Law* and the *Civil Procedure Law of the People’s Republic of China* prior to the promulgation of arbitration regulations by China Arbitration Association. If the parties concerned use arbitration as a means of resolving a dispute through an agreement, the people’s court will decline to accept the case unless the arbitration agreement is deemed null and void.

The Mandatory Clauses require the articles of association of an issuer to include arbitration clauses, and disputes or claims between the following parties shall be submitted to arbitration for settlement: (i) between the holder of H shares and the issuer; (ii) between the holder of H shares and the director, supervisor or manager or other senior executive of the



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issuer; and (iii) between the holder of H shares and the holder of domestic capital shares. Matters to be settled by arbitration include any dispute or claim of rights in connection with the affairs of the issuer or for the reason of any rights or obligations arising from the issuer's articles of association, the Company Law or other relevant laws and administrative regulations.

If the dispute or claim of rights stated in the preceding paragraph is submitted to arbitration, the entire dispute or claim of rights must be submitted to arbitration, and all persons who have a cause of action based on the same facts that caused the dispute or claim, or those who are required to participate in the dispute or claim to resolve the rights, are subject to arbitration. Disputes regarding the definition of shareholders and disputes concerning the issuer's register of shareholders may be resolved without arbitration.

Applicants for arbitration may choose to arbitrate at the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with its arbitration rules, or they may choose to arbitrate at the Hong Kong International Arbitration Centre ("HKIAC") in accordance with its securities arbitration rules. After the applicant has submitted a dispute or claim of rights to arbitration, the counterparty is required to arbitrate at the arbitration institution selected by the applicant. If the applicant chooses to arbitrate at the HKIAC, either party may apply for arbitration in Shenzhen according to the securities arbitration rules of the HKIAC.

In accordance with the *Arbitration Law* and the *Civil Procedure Law*, an arbitral award is final and binding on both parties to the arbitration. If a party to the arbitration fails to perform the arbitral award, the other party may apply to the people's court for enforcement. If any procedure stipulated by law is improper, or the arbitral tribunal is not properly constituted, or the arbitral award exceeds the scope of the arbitration agreement or the jurisdiction of the arbitration commission, the people's court may decline to enforce the arbitral award made by the arbitration commission.

A party seeking to enforce an arbitral award made by a Chinese arbitral tribunal against a party who is not in China or whose property is not in China may apply to a foreign court that has jurisdiction over the case. Similarly, arbitral awards made by foreign arbitration institutions may also be recognised and enforced by Chinese courts in accordance with the principle of reciprocity or international treaties signed or recognised by China. China ratified the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (the "*New York Convention*") which was adopted on 10 June 1958, in accordance with the resolution passed by the Standing Committee on 2 December 1986. The *New York Convention* stipulates that all arbitral awards made by members of the *New York Convention* must be recognised and enforced by all other members of the *New York Convention*, but in some cases, member states have the right to refuse enforcement, including enforcement of an arbitral award that is deemed to conflict with the public policy of the country in which the application for enforcement of the arbitration is filed. The Standing Committee also made a declaration when China ratified the *New York Convention*: (i) China applies the convention only on the basis of reciprocity to the recognition and enforcement of arbitral awards made in the territory of another contracting state, and (ii) China only applies the convention on the disputes arising from contractual and non-contractual commercial legal relationship identified by the law of China.

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Hong Kong and the Supreme People's Court of China have reached an arrangement on the mutual enforcement of arbitral awards. On 9 November 2020, the Supreme People's Court of China passed the *Supplementary Arrangements of Supreme People's Court on Reciprocal Enforcement of Arbitration Awards between the Mainland and the Hong Kong Special Administrative Region*, and the arrangement entered into force on 27 November 2020. Under the arrangement, awards made pursuant to the *Arbitration Law* by the arbitral authorities in China may be enforced in Hong Kong. Hong Kong arbitral awards may also be enforced in China.

### Shanghai-Hong Kong Stock Connect

On 10 April 2014, CSRC and Hong Kong Securities and Futures Commission ("HKSF") issued the Joint Announcement of China Securities Regulatory Commission and Hong Kong Securities and Futures Commission – Principles that Should be Followed when the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong is Expected to be Implemented and approved in principle the launch of the pilot programme that links the stock markets in Shanghai and Hong Kong ("Shanghai-Hong Kong Stock Connect") by the Shanghai Stock Exchange ("SSE"), the Stock Exchange, China Securities Depository and Clearing Co., Ltd. ("CSDC") and HKSCC. Shanghai-Hong Kong Stock Connect comprises the two portions of Northbound Trading Link and Southbound Trading Link. Southbound Trading Link refers to the entrustment of China securities houses by China investors to trade stocks listed on the Stock Exchange within a stipulated range via filing by the securities trading service company established by the SSE with the Stock Exchange. During the initial period of the pilot programme, the stocks of Southbound Trading Link consist of constituent stocks of the Stock Exchange Hang Seng Composite Large Cap Index and the Hang Seng Composite MidCap Index as well as stocks of A+H stock companies concurrently listed on the Stock Exchange and the SSE. The total limit of Southbound Trading Link is RMB250 billion and the daily limit is RMB10.5 billion. During the initial period of the pilot programme, it is required by HKSF that China investors participating in Southbound Trading Link are only limited to institutional investors and individual investors with a securities account and capital account balance of not less than RMB500,000. On 10 November 2014, CSRC and HKSF issued a Joint Announcement, approving the official launch of Shanghai-Hong Kong Stock Connect by SSE, the Stock Exchange, CSDCC and HKSCC. Pursuant to the Joint Announcement, trading of stocks under Shanghai-Hong Kong Stock Connect will commence on 17 November 2014. On 30 September 2016, CSRC issued the Filing Provision on the Placement of Shares by Hong Kong Listed Companies with Domestic Original Shareholders under Southbound Trading Link which came into effect on the same day. The act of the placement of shares by Hong Kong listed companies with domestic original shareholders under Southbound Trading Link shall be filed with CSRC. Hong Kong listed companies shall file the application materials and approved documents with CSRC after obtaining approval from the Stock Exchange for their share placement applications. CSRC will carry out supervision based on the approved opinion and conclusion of the Hong Kong side.

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### **SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW**

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Stock Exchange, we are governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

#### **Corporate Existence**

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

#### **Share Capital**

The Hong Kong company law does not provide for authorised share capital. The share capital of a Hong Kong company would be its issued share capital. The full proceeds of a share issue will be credited to share capital and becomes a company's share capital. The directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The Company Law does not provide for authorised share capital, either. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and file with the relevant PRC governmental and regulatory authorities.

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Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or undervaluation of the assets. There is no such restriction on a Hong Kong company under Hong Kong Law.

### **Restrictions on Shareholding and Transfer of Shares**

Generally, overseas listed shares, which are denominated in RMB and subscribed for in a currency other than RMB, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors as allowed under Tentative Regulatory Measures for Qualified Domestic Institutional Investors Investing in Overseas Securities (《合格境內機構投資者境外證券投資管理試行辦法》). If the H shares are eligible securities under the Southbound Trading Link, they are also subscribed for and traded by PRC investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect.

Under the Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares, as illustrated by the undertakings given by our Company and our controlling shareholder to the Stock Exchange.

### **Financial Assistance for Acquisition of Shares**

The Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Clauses contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

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## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### **Variation of Class Rights**

The Company Law has no special provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Clauses contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except:

- (i) If there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions;
- (ii) If there are not relevant provisions in the articles of associations, then (1) with the consent in writing of at least three fourths of the total voting rights of holders of the shares in the class in question, or (2) with the approval of a special resolution of the holders of the relevant class at a separate meeting.

### **Directors, Senior Management and Supervisors**

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respects of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Clauses, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

### **Board of Supervisors**

Under the Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisors committee. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Clauses provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### **Derivative Action by Minority Shareholders**

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Clauses provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

### **Protection of Minorities**

Under Hong Kong law, the company may be wound up by the court if the court considers that it is just and equitable to do so, in addition, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to make an appropriate order regulating the affairs of the company. Furthermore, under certain circumstances, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards.

The Mandatory Clauses, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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### Notice of Shareholders' Meetings

Under the Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. According to the Official Reply of the State Council on Adjusting the Provisions Governing Matters Including the Application of the Notice Period for the Convening of Shareholders' General Meetings by Companies Listed Overseas (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》) promulgated by the State Council on 17 October 2019, the notice period for a shareholders' meeting, the shareholder proposal right, and the procedures for convening a shareholders' meeting, for those joint stock companies established within the territory of China but listed outside the territory of China, should be governed by the PRC Company Law. For a company incorporated in Hong Kong, the notice period for an annual general meeting is at least 21 days and in any other case, at least 14 days for a limited company and at least 7 days for an unlimited company.

### Quorum for Shareholders' Meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Clauses provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

### Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

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## APPENDIX V SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

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### **Financial Assistance**

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Clauses require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

### **Information on Directors and Shareholders**

The Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

### **Receiving Agent**

Under the Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years now and would be extended to three years according to PRC Civil Code (《中華人民共和國民法典》), promulgated on 28 May 2020 and to become effective on 1 January 2021. The Mandatory Clauses require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.



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## **APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### **Corporate Reorganisation**

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Section 674 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

### **Dispute Arbitration**

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Clauses provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

### **Mandatory Deductions**

Under the Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

### **Remedies of the Company**

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles of association to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

### **Dividends**

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years now or three years beginning from 1 January 2021. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

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**APPENDIX V      SUMMARY OF PRINCIPAL PRC AND HONG KONG  
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**Fiduciary Duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Special Regulations, directors, supervisors are not permitted to engage in any activities which compete with or damage the interests of their company

**Closure of Register of Shareholders**

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Company Law and the Mandatory Clauses, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

## **APPENDIX VI**

## **SUMMARY OF ARTICLES OF ASSOCIATION**

This appendix contains a summary of the principal provisions of the Articles of Association, which was adopted by our Shareholders in the general meeting held on 26 May 2022. The principal objective of this appendix is to provide an overview of the Articles of Association. As the information contained below is a summary form, it does not contain all the data that may be important.

### **DIRECTORS AND OTHER SENIOR EXECUTIVE OFFICERS**

#### **Power to Allot and Issue Shares**

There is no provision in the Articles of Association empowering the Board of Directors to allot or issue shares.

In order to allot or issue Shares, the Board of Directors is responsible for formulating a proposal for approval by Shareholders in a general meeting by way of a special resolution. Any such allotment or issuance shall be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations.

#### **Power to Dispose of the Company's or Any of its Subsidiaries' Assets**

Before the Board of Directors disposes of fixed assets, the Board of Directors shall not, without the approval of Shareholders in a general meeting, dispose or agree to dispose of fixed assets where the aggregate of the expected value of the fixed assets contemplated to be disposed of and the realised value of fixed assets that have been disposed of within four months immediately preceding the proposed disposition exceeds 33% of the value of fixed assets as shown in the latest balance sheet placed before Shareholders in a general meeting.

"Disposal of fixed assets" referred to in the Articles of Association shall include the transfer of certain interests in assets, but exclude provision of security with fixed assets.

The validity of a transaction for the disposition of fixed assets by the Company shall not be affected by a breach of the above-mentioned restriction contained in the Articles of Association.

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### Compensation or Payments for Loss of Office

The Company shall, with the prior approval of Shareholders at a general meeting, enter into a contract in writing with each Director, supervisor of the Company. The aforesaid emoluments shall include:

- (i) remuneration with respect to his/her service as a Director, supervisor or member of senior management of the Company;
- (ii) remuneration with respect to his/her service as a Director, supervisor or member of senior management of any subsidiary(ies) of the Company;
- (iii) remuneration with respect to the provision of other services in connection with the management of the Company and any of its subsidiaries; and
- (vi) any payment as compensation for, or in connection with loss of office or retirement from office of such Director or supervisor.

Except under the aforesaid contract, no proceedings may be brought by a Director or supervisor against the Company for any benefit due to him/her in respect of the aforesaid matters.

Contracts entered into by the Company with a Director, supervisor of the Company in connection with emoluments, shall provide that such Director, supervisor of the Company, in the event of a takeover of the Company and subject to the prior approval of Shareholders in a general meeting, has the right to receive compensation or other payments for loss of his/her office or retirement from office.

A takeover of the Company refers to either of the following circumstances:

- (i) a takeover offer is made by anyone to all Shareholders; or
- (ii) a takeover offer is made by anyone such that the offeror will become a Controlling Shareholder as defined in the Articles of Association.

In the event that the relevant Director, supervisor does not comply with this requirement, any payment so received by him/her shall belong to those persons who have sold their Shares as a result of accepting the aforesaid offer. The expenses incurred in distributing such payment pro rata among such persons shall be borne by the Director, supervisor and shall not be deducted from such payment.

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### Loans to Directors, Supervisors and Other Officers

The Company shall not, directly or indirectly, make a loan to or provide a loan guarantee to any Director, supervisor and members of senior management of the Company and of the Company's parent company or any of the Relevant Persons of the foregoing.

The preceding provision shall not apply to the following circumstances:

- (i) the provision by the Company of a loan or loan guarantee to its subsidiaries;
- (ii) the provision by the Company of a loan or loan guarantee or any other funds available to any of its Directors, supervisors and members of senior management to meet expenditures incurred or to be incurred by him for the purpose of the Company or for the purpose of enabling him to perform his duties in accordance with the employment contract approved by the general meeting; and
- (iii) if the ordinary course of the business of the Company includes the provision of a loan or loan guarantee, the Company may provide a loan or loan guarantee to the relevant Directors, supervisors and members of senior management and the Relevant Persons thereof, provided that they are on normal commercial terms.

Any person who receives funds from a loan which has been made by the Company acting in breach of the preceding article shall, irrespective of the terms of the loan, forthwith repay such funds to the Company.

The loan guarantee which has been provided by the Company in breach of the foregoing provisions shall not be enforceable against the Company, save in respect of the following circumstances:

- (i) the guarantee was provided in connection with a loan which was made to a Relevant Person of any of the Directors, supervisors and members of senior management of the Company or the Company's parent company and the lender of such funds did not know of the relevant circumstances at the time of the loan;
- (ii) the collateral which has been provided by the Company has already been lawfully disposed of by the lender to a bona fide purchaser.

For the purpose of the foregoing provisions, the term "guarantee" shall include the undertaking of liability or the provision of property by the guarantor to secure the obligator's performance of his obligations.

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When a director, supervisor and member of senior management of the Company breaches the duties which he owes to the Company, in addition to any rights and remedies provided by laws, administrative regulations and the listing rules of the place where the Shares of the Company are listed, the Company shall be entitled:

- (i) to demand relevant Director, supervisor and member of senior management to compensate for the losses sustained by it as a result of such breach of duty;
- (ii) to rescind any contract or transaction entered into between the Company and relevant Director, supervisor and member of senior management and between the Company and a third party (where such party knew or should have known that such Director, supervisor and member of senior management representing the Company has been in breach of his duty owed to the Company);
- (iii) to demand relevant Director, supervisor and member of senior management to deliver the proceeds as result of the breach of his duty;
- (iv) to recover any money which shall have been received by the Company but were received by relevant Director, supervisor and member senior management instead, including (without limitation) any commissions;
- (v) to demand repayment of any interests earned or which may have been earned by relevant Director, supervisor and member of senior management on moneys which shall have been received by the Company.

### **Provision of Financial Assistance for the Purchase of the Shares of the Company or any of Subsidiaries**

The Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance to a person who acquires or intends to acquire Shares of the Company. The said acquirer of Shares of the Company includes a person who directly or indirectly assumes any obligations due to the acquisition of Shares of the Company.

The Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer for the purpose of reducing or discharging the obligations assumed by that person.

The following transactions are not subject to such restriction:

- (i) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interest of the Company, and the principal purpose of giving the financial assistance is not for the acquisition of Shares of the Company, or the giving of the financial assistance is an incidental part of a master plan of the Company;
- (ii) the lawful distribution of the Company's assets by way of dividend;

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- (iii) the allotment of bonus Shares as dividends;
- (iv) a reduction in registered capital, repurchase of Shares or reorganisation of the share capital structure of the Company effected in accordance with the Articles of Association;
- (v) the lending of money by the Company within its scope of business and in the ordinary course of its business (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company); and
- (vi) the provision of money by the Company for contributions to employees' share schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company).

The "financial assistance" referred above, but not limited to the following means:

- (i) gift;
- (ii) guarantee (including the assumption of liability or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than compensation in respect of the Company's own default), release or waive of any rights;
- (iii) provision of loan or entering into contract under which the obligations of the Company are to be fulfilled before the obligations of other parties, or change in the parties to, or the assignment of rights arising under such loan or agreement; and
- (iv) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.

The expression assuming an obligation referred above includes the assuming of obligations by the changing of the obligor's financial position by way of contract or the making of an arrangement (whether enforceable or not, and whether assumes on its own account or with any other persons), or by any other means.

### **Disclosure of Interests in Contracts with the Company or any of Its Subsidiaries**

A director, supervisor and member of senior management of the Company who directly or indirectly has material interests in any contracts, transactions, or arrangements that are being planned or have already been concluded by the Company (except for the employment contracts between the Directors, supervisors and members of senior management and the Company), shall, as soon as possible, disclose to the Board of Directors the nature and extent of his interests, regardless of whether or not the relevant matters require the approval of the Board of Directors under normal circumstances.

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Any Director who has related party relationship with the enterprise involved by the matters subject to resolution at the meeting of the Board of Directors shall not exercise the voting right on such resolution, nor exercise the voting right on behalf of another director and shall withdraw from voting. Such meeting of the Board of Directors may be held only if a simple majority of the Directors without related party relationship are present at the meeting, and the resolutions of the meeting of the Board of Directors shall be approved by a simple majority of the Directors without related party relationship. If the number of the Directors without related party relationship present at the meeting is less than three, such matters shall be submitted to the general meeting of the Company for consideration.

Subject to the exceptions under Note 1 to Appendix 3 to the Hong Kong Listing Rules or as approved by the Stock Exchange, no Director shall vote for any resolutions of the Board of Directors regarding any contracts, transactions or arrangements in which he or any of his close associates (as defined by the applicable listing rules effective from time to time) is approved to have significant interests or regarding any other relevant suggestions, and shall not be counted towards the quorum of the meeting. If any contract, transaction, arrangement or suggestion relates to any related party transaction as provided by the Hong Kong Listing Rules, the "close associates" as mentioned in this paragraph shall be changed to "associates" (as defined by the applicable Hong Kong Listing Rules effective from time to time).

Unless the interested Directors, supervisors and members of senior management of the Company have made such disclosure to the Board of Directors as required by the first paragraph of this Article, and the relevant matter has been approved by the Board of Directors at the meeting of the Board of Directors where such Directors, supervisors or members of senior management have not been counted as part of the quorum and voted thereat, the Company shall be entitled to cancel such contracts, transactions, or arrangements, except for any other party which is a bona fide party without knowledge of the violation of duties on the part of such Directors, supervisors and members of senior management.

Where the Relevant Persons or associates of the Directors, supervisors and members of senior management of the Company have interests in certain contracts, transactions or arrangements, such Directors, supervisors and members of senior management shall also be deemed to be interested.

If, prior to the Company's initial consideration of relevant contracts, transactions, or arrangements, a director, supervisor and member of senior management of the Company has delivered a written notice to the Board of Directors, which contains the statement that he has interests in the contracts, transactions, or arrangements to be entered into by the Company in the future due to the contents specified in the notice, such Director, supervisor and member of senior management shall be deemed to have made the disclosure stipulated by the preceding article in respect of the statement contained in the notice.



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### Remuneration

The remuneration of Directors shall be approved by the Shareholders in the general meeting. See "Directors and other senior executive officers – Compensation or payments for loss of office" above.

### Retirement, Appointment and Removal

No one shall be a director, supervisor, general manager or other member of senior management of the Company if falling under any of the following circumstances:

- (i) being without civil capacity or having limited civil capacity;
- (ii) having been penalised or sentenced due to an offence of corruption, bribery, encroachment on property, misappropriation of property or disruption of the socialist market economy order, or having been deprived of political rights due to the committing of any crime, and in each case, five years not having elapsed since the completion of the relevant penalty, sentence or deprivation;
- (iii) having been a director, factory director or manager of a company or enterprise which had been bankrupt and liquidated due to improper operation and management whereby such person was personally liable for the bankruptcy of such company or enterprise, and three years not having elapsed since the date of completion of the liquidation of the company or enterprise;
- (iv) having been the legal representative of a company or enterprise whose business licence was revoked due to violation of laws whereby such person was personally liable, and three years not having elapsed since the date of revocation of the business licence of the company or enterprise;
- (v) being a debtor personally liable for a relatively large debt which has not been paid as it fell due;
- (vi) having been subject to an investigation by judicial authorities for criminal offences, and such investigation not having come to an end;
- (vii) being banned from being a leader of an enterprise by laws and regulations;
- (viii) being a non-natural person;
- (ix) having been adjudged by the relevant competent authorities of violations of relevant securities laws which involves fraud or dishonesty, and five years not having elapsed since the date of the judgement;
- (x) the circumstances specified by the laws, administrative regulations, the listing rules of the place where the Shares of the Company are listed or relevant laws and regulations of the place where the Shares of the Company are listed.

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Any election, appointment or employment by the Company of any Directors, supervisors or members of senior management in violation of the preceding paragraph shall be invalid.

Any Director, supervisor or member of senior management who falls under the circumstances as set out in clause (i) of this Article shall be removed from office by the Company.

The validity of an act carried out by a director and member of senior management of the Company on its behalf, against a bona fide third party, shall not be affected by any non-compliance in his office, election or qualification. The Company shall have a board of directors, consisting of 9 Directors, and shall have one chairman. The independent non-executive Directors shall account for at least one-third of the number of independent non-executive Directors, and at least one of them shall be a Certified Professional Accountant.

Directors shall be elected at the general meeting and a director's term of office shall be three years. The term of office of a Director may be renewed upon re-election when it expires. The chairman of Board of Directors shall be elected and removed by a simple majority of all Directors, and term of office thereof shall be three years, and may be renewed upon re-election when it expires. It is unnecessary for Directors to hold Shares of the Company.

The Articles of Association do not contain any provision in relation to the retirement age of Directors.

Generally, a proposal for candidates for Directors will be submitted by the Board of Directors at the general meeting. The Shareholders and the board of supervisors of the Company may nominate candidates for Directors in accordance with the Articles of Association. The notice period for delivery of the written notice to nominate a person as Director and a written notice by that person of his willingness to be nominated shall be at least seven days, which shall commence from the next date after issuance by the Company of the meeting notice in respect of the election, and end no later than seven days prior to the date when the meeting is held.

### **Borrowing Powers**

The Articles of Association do not contain any special provisions in respect of the manner in which borrowing powers may be exercised by the Directors nor contain any special provisions in respect of the manner in which such power may be raised, other than: (a) provisions giving the Directors the power to formulate proposals for the issuance of debentures by the Company; and (b) provisions providing that the issuance of debentures must be approved by the Shareholders of the Company in a general meeting by special resolutions.

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## SUMMARY OF ARTICLES OF ASSOCIATION

### Duties

In addition to the obligations imposed by laws, administrative regulations or the listing rules of the place where the Shares of the Company are listed, each of the Company's Directors, supervisors and members of senior management shall have the following obligations to each Shareholder, in the exercise their powers conferred by the Company:

- (i) not to cause the Company to exceed the scope of business stipulated in its business licence;
- (ii) to act honestly in the best interests of the Company;
- (iii) not to expropriate the Company's property in any way, including (without limitation) usurpation of opportunities which benefit the Company;
- (iv) not to expropriate the individual rights of Shareholders, including (without limitation) rights to distribution and voting rights, save and except pursuant to a restructuring of the Company which has been submitted to the general meeting for approval in accordance with the Articles of Association.

Each of the Company's Directors, supervisors and members of senior management shall be obligated, in the exercise of his powers or performance of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise under similar circumstances.

Each of the Company's Directors, supervisors and members of senior management shall perform his duties in accordance with fiduciary principles; and shall not put himself in a position where his duty and his interest may conflict. These principles include (without limitation):

- (i) to act honestly in the best interests of the Company;
- (ii) to act within the scope of its powers and not to exceed such powers;
- (iii) to exercise his discretionary power in person without being subject to the manipulations of other persons, and not to transfer such power to other persons unless permitted by laws, administrative regulations or the listing rules of the place where the Shares of the Company are listed or approved by the general meeting with full knowledge;
- (iv) to treat Shareholders of the same class with equality, and Shareholders of different classes with fairness;
- (v) not to enter into any contracts or transactions or arrangements with the Company unless otherwise required by the Articles of Association or the listing rules of the place where the Shares of the Company are listed or approved by the general meeting with full knowledge;

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- (vi) not to employ the Company's assets in any way so as to pursue interests for himself unless approved by the general meeting with full knowledge;
- (vii) not to accept any bribery or other illegal income by using his powers and position, nor seize the assets of the Company in any manner, including (but not limited to) opportunities beneficial to the Company;
- (viii) not to accept commissions relating to the transactions of the Company, without the approval of the general meeting with full knowledge;
- (ix) to obey the Articles of Association, perform his duties honestly and faithfully, protect the Company's interests, and not to pursue his personal gain by taking advantage of his powers and positions in the Company;
- (x) not to compete with the Company in any way unless approved by the general meeting with full knowledge;
- (xi) not to misappropriate the funds of the Company or loan the funds of the Company to other persons, open accounts in his own name or another individual's name for deposit of the Company's assets, or use Company's assets as security for the debts of the Shareholders of the Company or other individuals; and
- (xii) not to divulge the confidential information relating to the Company received during his term of office, unless approved by the general meeting with full knowledge; and not to use such information unless for the purpose of the Company's interests; however, to be allowed to disclose such information to a court or other governmental authorities under the following circumstances:
  - 1. as prescribed by law;
  - 2. as required for the purpose of public interest;
  - 3. as required for the purpose of such Director's, supervisor's and other senior management members' own interests.

Directors, supervisors and members of senior management of the Company shall not direct the following persons or organisations ("Relevant Persons") to engage in activities prohibited for Directors, supervisors and members of senior management of the Company:

- (i) spouses or underage children of Directors, supervisors and members of senior management of the Company;
- (ii) trustors of Directors, supervisors and members of senior management of the Company or of such persons as described in clause (i) of this Article;
- (iii) partners of Directors, supervisors and members of senior management of the Company or of such persons as described in clauses (i) or (ii) of this Article;

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- (iv) company over which a director, supervisor and member of senior management of the Company has de facto single control or joint control with such persons as described in clauses (i), (ii) or (iii) above or other Directors, supervisors and members of senior management of the Company; and
- (v) Directors, supervisors and members of senior management of the controlled company referred to in clause (iv) above.

The fiduciary duty of a director, supervisor and member of senior management of the Company may not necessarily cease upon the conclusion of his term of office, their obligations to keep confidential the business secrets of the Company shall survive since the conclusion of his term of office. The duration of the other obligations and duties shall be determined in accordance with the principle of fairness, depending upon the time of length between the occurrence of the relevant event and the time when he leaves the office, and the circumstances and terms under which his relationship with the Company is ended.

The general meeting with full knowledge of the relevant circumstances may relieve the liability of a director, supervisor and member of senior management of the Company as a result of his violation of any specific duty, subject to the circumstances otherwise stated in the Articles of Association.

### **ALTERATIONS TO CONSTITUTIONAL DOCUMENTS**

Any amendment of the Articles of Association shall, if involving the contents in the Mandatory Clauses, become effective upon approval by the Company's approval authority authorised by the State Council and the securities regulatory authority under the State Council; if there is any change relating to the registered particulars of the Company, the procedures for registration of the changes shall be handled in accordance with the laws.

### **VARIATIONS OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES**

Shareholders holding different class of Shares are class Shareholders.

Class Shareholders shall enjoy rights and assume obligations in accordance with laws, administrative regulations and the Articles of Association. Under the circumstances as appropriate, the Company will ensure that the preference Shareholders will have adequate voting rights.

If the share capital of the Company includes the Shares without voting rights, such Shares shall be titled the wording "without voting rights". If the share capital includes the Shares carrying different voting rights, the Shares of each class (except for the Shares carrying the most favourable voting rights) shall be titled the wording "restricted voting rights" or "restrictive voting rights".

Rights granted on any class of Shareholders may not be varied or abrogated save as adoption of a special resolution at the general meeting, and by the Shareholders of the affected class at the general meeting convened respectively in accordance with provisions of the Articles of Association.

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**APPENDIX VI** **SUMMARY OF ARTICLES OF ASSOCIATION**

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The following circumstances shall be deemed to be variation or abrogation of the rights of a certain class of Shareholders:

- (i) to increase or decrease the number of Shares of that class, or to increase or decrease the number of Shares of a class having voting or rights to distribution or privileges equal or superior to those of Shares of that class;
- (ii) to exchange all or part of the Shares of that class for Shares of another class or to exchange or to grant a right to exchange all or part of the Shares of another class for Shares of that class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of that class;
- (iv) to reduce or remove preferential rights attached to Shares of that class to receive dividends or to the distribution of assets in the event that the Company is liquidated;
- (v) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to Shares of that class;
- (vi) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of that class;
- (vii) to create a new class of Shares having voting rights or rights to distribution or other privileges equal or superior to those of the Shares of that class;
- (viii) to restrict the transfer or ownership of Shares of that class or to increase the types of restrictions attaching thereto;
- (ix) to issue rights to subscribe for, or to convert the existing Shares into, Shares in the Company of that class or another class;
- (x) to increase the rights and privileges of Shares of another class;
- (xi) to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of Shareholders; and
- (xii) to vary or abrogate the provisions of this Chapter.

Shareholders of the affected class, whether or not otherwise having the right to vote at general meeting, shall have the right to vote at class meetings in respect of matters concerning clause (ii) to (viii), (xi) to (xii) above, but interested Shareholder(s) shall not be entitled to vote at such class meetings.

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The term "interested shareholders" as used in the preceding paragraph means:

- (i) in the case of a repurchase of Shares by way of a general offer to all Shareholders of the Company on a pro rata basis or by way of public dealing on a stock exchange pursuant to provisions of the Article of Association, an "interested shareholder" shall mean the Controlling Shareholder as defined in the Articles of Association;
- (ii) in the case of a repurchase of Shares by an off-market agreement pursuant to the provisions of the Articles of Association, an "interested shareholder" shall mean a holder of the Shares to which the said agreement relates; or
- (iii) in the case of a restructuring of the Company, an "interested shareholder" shall mean a shareholder who assumes a relatively lower proportion of obligation than the obligations imposed on other Shareholders of that class or who has an interest in the proposed restructuring different from those of the other Shareholders of that class.

Resolutions of a class of Shareholders shall be passed by affirmative votes representing more than two-third of the voting rights of Shareholders of that class present at the relevant meeting who, according to the provisions of the Articles of Association, are entitled to vote thereat.

Written notice of a class meeting shall be given to all Shareholders who are registered as holders of that class in the register of Shareholders twenty days before the date of that annual general meeting and fifteen days before the date of the extraordinary general meeting, specifying the matters to be considered at such meeting and the date and place of the meeting.

Notice of class meetings need only be served on Shareholders entitled to vote thereat.

Save as provided otherwise in the Articles of Association, class meetings shall be conducted in a manner which is as similar as possible to that of general meeting. The provisions of the Articles of Association relating to the manner for the holding of general meeting are also applicable to class meetings.

Apart from the Shareholders of other classes of Shares, the holders of domestic Shares and the holders of overseas-listed foreign Shares shall be deemed to be holders of different classes of Shares.

The special procedures for voting by a class of Shareholders shall not apply under the following circumstances:

- (i) where the Company issues, upon the approval by special resolution of its Shareholders at the general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued and outstanding domestic Shares and overseas-listed foreign Shares;
- (ii) where the Company's plan to issue domestic Shares and overseas-listed foreign Shares at the time of its establishment is carried out within fifteen months from the date of approval of the securities regulatory authority under the State Council; or
- (iii) where a holder of domestic Shares converts them into overseas-listed foreign Shares with approval of the securities regulatory authority under the State Council and such Shares are listed in an overseas stock exchange.

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### **QUORUM FOR MEETINGS AND CLASS MEETINGS**

No quorum is required to be present at any general meetings and class meetings of the Company.

### **SPECIAL RESOLUTIONS – MAJORITY REQUIRED**

Resolutions of the general meeting shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution must be passed by votes representing a simple majority of the voting rights represented by the Shareholders (including proxies) present at the meeting.

A special resolution must be passed by votes representing more than two-third of the voting rights represented by the Shareholders (including proxies) present at the meeting.

### **VOTING RIGHTS OF THE PROXIES OF THE SHAREHOLDER (GENERAL RIGHT ON A POLL AND RIGHT TO DEMAND A POLL)**

A shareholder (including proxy) when voting at a general meeting may exercise voting rights in accordance with the number of Shares carrying the right to vote. Each Share shall have one voting right.

On a poll taken at a meeting, a shareholder (including a proxy) entitled to two or more votes is not required to cast all his votes for or against any proposal on all his votes.

In the event of an equality of the number of votes for and against a resolution, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to one additional vote.

### **REQUIREMENTS FOR ANNUAL GENERAL MEETINGS**

General meetings include annual general meetings and extraordinary general meetings. The general meeting shall be convened by the Board of Directors. The annual general meeting shall be held once every year within six months after the end of the previous accounting year.

### **ACCOUNTS AND AUDIT**

#### **Financial and Accounting System**

The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and the Accounting Standards of China formulated by the competent authorities of finance under the State Council. The Board of Directors of the Company shall present to the Shareholders, at every annual general meeting, such financial reports as are required to be prepared by the Company in accordance with the relevant laws, administrative regulations, regulatory documents promulgated by local government and competent governmental authorities and the listing rules of the place where the Shares of the Company are listed.



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The Company's financial reports shall be maintained at the Company for Shareholders' inspection twenty days before the date of the annual general meeting. Each Shareholder shall be entitled to obtain a copy of the financial reports referred to in the Articles of Association. Unless otherwise specified herein, the Company shall, at least 21 days before the date of the annual general meeting, deliver to each holder of overseas-listed foreign Shares by prepaid mail at the address registered in the register of Shareholders, the aforesaid reports, together with reports of the Board of Directors and the balance sheet (including each document required to be attached to the balance sheet as provided by laws), the income statement or the statement of revenues and expenditures or the financial summary report. Subject to the laws, administrative regulations, departmental rules, regulatory documents and the relevant requirements of the securities regulatory authority at the place where the Shares of the Company are listed, the Company may do by way of announcement (including publication on the website of the Company and/or on newspapers).

The financial statements of the Company shall, in addition to being prepared in accordance with accounting standards and regulations of China, be prepared in accordance with either international accounting standards, or those of the place outside the PRC where the Shares of the Company are listed. If there is any material discrepancy between the financial statements prepared in accordance with the two accounting standards, such discrepancy shall be stated in the notes to financial statements. In distributing its after-tax profits for relevant accounting year, the lower of the after-tax profits presented in the aforesaid two financial statements shall prevail. Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with accounting standards and regulations of China, as well as either international accounting standards, or those of the place outside the PRC where the Shares of the Company are listed.

The Company shall publish the financial reports twice every accounting year, that is, the interim financial report within 60 days after the end of the first six months of an accounting year, and the annual financial report within 120 days after the end of the accounting year. The regulations of the securities regulatory authority at the place where the Shares of the Company are listed or the listing rules of the place where the Shares of the Company are listed shall apply if it is otherwise specified therein.

The Company shall not establish accounting book other than those required by law. No assets of the Company shall be deposited in any account opened in the name of any individual.

### **Appointment and Removal of Accountants**

The Company shall appoint an independent accounting firm which is qualified under the relevant regulations of the State to audit the Company's annual reports and review the Company's other financial reports. The term of the accounting firm engaged by the Company shall commence from the conclusion of the annual general meeting and expire at the conclusion of the next annual general meeting; the accounting firm may be re-engaged upon expiration of the term.

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If there is a vacancy in the position of accounting firm of the Company, the Board of Directors may engage an accounting firm to fill such vacancy before the convening of the general meeting. Any other accounting firm which has been engaged by the Company may continue to act during the period during which a vacancy exists.

The general meeting may by ordinary resolution remove any accounting firm before the expiration of its term of office, irrespective of the provisions in the contract between the Company and the accounting firm. However, the accounting firm's right to claim for damages which arise from its removal shall not be affected thereby.

The remuneration of an accounting firm or the manner in which such firm is to be remunerated shall be determined by the general meeting. The remuneration of the accounting firm engaged by the Board of Directors shall be determined by the Board of Directors.

The Company's engagement, removal or discontinuance of engagement of an accounting firm shall be resolved by the general meeting. Such resolution shall be filed with the securities regulatory authority under the State Council.

Where a resolution is adopted at the general meeting to appoint an accounting firm other than an incumbent accounting firm, to fill any vacancy in the office of the accounting firm, or reappoint an accounting firm which is appointed by the Board of Directors to fill the vacancy or to remove an accounting firm before the expiration of its term of office, the following provisions shall apply:

- (i) a copy of the appointment or removal proposal shall be sent (before notice of the general meeting is given) to the accounting firm proposed to be appointed or proposing to leave its post or the accounting firm which has left its post in the relevant accounting year.

The term "leaving" includes being removed, resignation and retirement.

- (ii) if the accounting firm which is to leave its post makes representations in writing and requests the Company to give the Shareholders notice of such representation, the Company shall (unless the representations have been received too late) take the following measures:
  - 1. In any notice of the resolution given to the Shareholders, state the fact of the representations having been made by the accounting firm which is to leave its post; and
  - 2. Attach a copy of the representations to the notice and deliver it to all Shareholders who are entitled to receive the notice of the general meeting in the manner stipulated in the Articles of Association.
- (iii) If the Company fails to send out the accounting firm's representations in the manner set out in clause (ii) above, the respective accounting firm may require that the representations be read out at the general meeting and may make further complaint.

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(iv) An accounting firm leaving its post shall be entitled to attend the following meetings:

1. the general meeting at which its term of office would otherwise have expired;
2. the general meeting at which it is proposed to fill the vacancy caused by its removal; and
3. the general meeting which is convened as a result of its resignation.

The accounting firm leaving its post shall have the right to receive all notices of, or other information relating to, any such meeting, to speak at any such meeting on any part of the business of the meeting which concerns it as the former accounting firm of the Company.

When the Company intends to remove or do not renew the engagement of an accounting firm, it shall notify the said firm thirty days in advance. The accounting firm shall have the right to state its opinions to the general meeting. Where the accounting firm proposes for resignation, it shall state to the general meeting whether or not there is anything improper in the Company.

The accounting firm may resign by placing its written notice of resignation at the legal address of the Company. The said notice shall come into effect on the day when it is placed at the legal address of the Company or the date indicated therein, whichever is later. Such notice shall include the following representations:

- (i) representation stating that it deems that its resignation does not involve any situation necessary to be explained to the Shareholders or creditors of the Company; or
- (ii) representation regarding any issues to be explained.

The Company shall, within fourteen days upon receipt of the written notice prescribed in the foregoing paragraph, send copies of such notice to the competent authority. If the said notice contains representations mentioned in clause (ii) of the preceding paragraph, the Company shall keep copies of such representations in the Company for inspection by Shareholders. The Company shall also deliver copies thereof to each Shareholder who is entitled to receive reports on financial position of the Company at the address registered in the register of Shareholders.

If the resignation notice of the accounting firm contains a representation mentioned in clause (ii) of paragraph 2 of this Article, the accounting firm may request the Board of Directors to convene an extraordinary general meeting to hear its explanations on issues relating to its resignation.

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### NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

General meetings include annual general meetings and extraordinary general meetings. The general meeting shall be convened by the Board of Directors. The annual general meeting shall be held once every year within six months after the end of the previous accounting year. The Board of Directors shall hold an extraordinary general meeting within two months under any of the following circumstances:

- (i) the number of Directors is less than that prescribed by the Company Law or less than the two-third of the amount required by the Articles of Association;
- (ii) the uncovered losses are in excess of one-third of the Company's total paid-in share capital;
- (iii) Shareholders individually or together holding more than 10% of the Company's issued voting Shares request in writing to hold an extraordinary general meeting;
- (iv) the Board of Directors considers it necessary or the board of supervisors proposes to hold such a meeting;
- (v) such other circumstances as provided for by laws, regulations, the listing rules of place where the Shares of the Company are listed and the Articles of Association.

When convening an annual general meeting, a notice of the time, place and agenda of the meeting shall be made to the Shareholders 20 days before the meeting (excluding the date on which the notice is issued and the meeting is held). In case of convening an extraordinary general meeting, a notice shall be made to the Shareholders 15 days before the meeting. The notice of meeting in connection with the issuance of bearer's shares stating the time, place and agenda of the meeting shall be announced 30 days before the meeting.

When the Company convenes the general meeting, the Board of Directors, the board of supervisors and the Shareholders, individually or in aggregate, holding more than 3% of Shares of the Company shall have the right to propose proposals. The contents of the proposal shall fall within the terms of reference of the general meeting and have specified subjects and specific resolutions, in further compliance with the laws and regulations and the Articles of Association.

The general meeting shall not vote and adopt a resolution on any proposal that is not listed in the notice of the general meeting or that is inconsistent with this Article.

The notice of the general meeting shall meet the following requirements:

- (i) be in writing;
- (ii) specify the place, date and duration of the meeting;

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- (iii) state the matters to be discussed at the meeting;
- (iv) provide such information and explanation as are necessary for the Shareholders to make a wise decision on the matters to be discussed, including (without limitation) provision of the specific conditions and contracts (if any) for the transactions contemplated and careful explanation of the causes and consequences thereof when the Company proposes merger, share repurchase, reorganisation of share capital or other restructuring;
- (v) contain disclosure of the nature and extent, if any, of the material interests of any Director, supervisor and members of senior management in the matters to be discussed; and explanation of the difference if the effect which the matters to be discussed will have on such Director, supervisor and members of senior management in their capacity as Shareholders in so far as it is different from the effect on the Shareholders of the same class;
- (vi) contain the full text of any special resolution to be proposed and adopted at the meeting;
- (vii) contain a conspicuous statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one or more proxies to attend and vote at such meeting on his behalf and that a proxy does not need not be a shareholder of the Company;
- (viii) specify the date of registration of equity entitlements for Shareholders entitled to attend the general meeting;
- (ix) specify the time and place for lodging proxy forms for the relevant meeting.

The notice of the general meeting shall be delivered to the Shareholders (with or without voting rights at the general meeting) personally or by prepaid mail at the address of the recipient subject to those recorded in the register of Shareholders, or subject to compliance with the applicable laws and regulations and the listing rules of the place where the Shares of the Company are listed, be published at the Company's website and the website designated by the Stock Exchange. If an announcement shall be made to the Shareholders of overseas-listed foreign Shares pursuant to the Articles of Association, the relevant announcement shall be published in the manner required by the Hong Kong Listing Rules. The notice of the general meeting to the holders of domestic Shares may also be made by way of announcement.

The term "announcement" referred to in the preceding paragraph shall be published in one or more national newspapers designated by securities regulatory authority under the State Council. After the publication of such announcement, all holders of domestic Shares shall be deemed to have received the relevant notice of the general meeting.

If the persons entitled to receive the notice are not notified due to negligence, or such persons have not received the notice for the meeting, the meeting and resolutions made at the meeting will not be invalidated.

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Where the Shareholders holding, individually or together, more than 10% of the Shares of the Company request the convening of an extraordinary general meeting or class meeting of Shareholders, the following procedures shall be followed:

- (i) the Shareholders holding, individually or together, more than 10% of the voting Shares of the Company may sign one or more copies of written requests in the same form requesting the Board of Directors to convene an extraordinary general meeting or class meeting of Shareholders, and stating the matters to be considered at the meeting. The Board of Directors shall within ten days of receipt of the said written request give the written feedback opinion on approval or disapproval for convening an extraordinary general meeting or class meeting of Shareholders. The aforesaid number of Shares held shall be calculated as of the date when the Shareholders make the written request.
- (ii) If the Board of Directors approves convening an extraordinary general meeting or class meeting of Shareholders, it will within five days of adopting the resolution of the Board of Directors issue the notice of convening the meeting, and any changes in the original request in the notice shall be subject to the consent of relevant Shareholders.
- (iii) If the Board of Directors disagrees to convene an extraordinary general meeting or class meeting of Shareholders, or does not give feedback within 10 days upon receipt of the request, Shareholders individually or together holding more than 10% of the Shares of the Company are entitled to request the board of supervisors in writing to convene the meeting.
- (iv) If the board of supervisors agrees to convene an extraordinary general meeting or class meeting of Shareholders, it shall issue a notice convening the meeting within 5 days upon receipt of the request, and any changes in the original request in the notice shall be subject to the consent of relevant Shareholders.
- (v) If the board of supervisors does not issue the notice of meeting within the prescribed period, it shall be deemed as the board of supervisors not convening and not holding the general meeting. Shareholders individually or together holding more than 10% of the Shares of the Company for more than 90 consecutive days may themselves convene such a meeting in a manner as similar as possible to the manner in which general meeting are convened by the Board of Directors within four months of receipt of the request by the Board of Directors.

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## APPENDIX VI SUMMARY OF ARTICLES OF ASSOCIATION

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The following matters shall be resolved by an ordinary resolution at a general meeting:

- (i) work reports of the Board of Directors and the board of supervisors;
- (ii) profit distribution plans and plans to cover losses to be formulated by the Board of Directors;
- (iii) election, removal of members of Board of Directors and non-employee representative supervisors, their remuneration and manner of payment;
- (iv) annual budgets and final accounts, balance sheet, income statement, and other financial statements of the Company; and
- (v) other matters other than those which are required by laws, administrative regulations, the listing rules of the place where the Shares of the Company are listed or the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by special resolutions at the general meeting:

- (i) the increase or reduction in share capital and the issue of Shares of any class, warrants and other similar securities by the Company;
- (ii) the issue of debentures of the Company;
- (iii) the division, merger, dissolution, liquidation or change in the form of the Company;
- (iv) the amendments to the Articles of Association;
- (v) other matters that are passed by ordinary resolutions at the general meeting to be of material effect on the Company, which are required to be passed by special resolutions;
- (vi) other matters required to be passed by a special resolution in accordance with the laws, administrative regulations, Articles of Association and listing rules of the place where the Shares of the Company are listed.

### TRANSFER OF SHARES

Unless otherwise provided by laws, administrative regulations and listing rules of the place where the Shares of the Company are listed, the Company's fully paid-up Shares are not subject to any restrictions on the transfer rights and are freely transferable without any liens. Any transfer of overseas-listed foreign Shares listed in Hong Kong must be registered with the Hong Kong local stock registration authority authorised by the Company.

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All H Shares that are fully paid up shall be freely transferable under the Articles of Association; however, unless the following conditions are satisfied, the Board of Directors may refuse to recognise any transfer documents and shall not be required to state any reasons:

- (i) any transfer documents and other documents relating to the ownership of any Shares or which may affect the ownership of the Shares must be registered and must be paid to the Company in accordance with the fee standards prescribed by the Hong Kong Listing Rules, but such fees shall not exceed the maximum amount stipulated by Stock Exchange in the Hong Kong Listing Rules from time to time;
- (ii) the transfer documents only relate to H Shares that are listed in Hong Kong;
- (iii) the stamp duty payable in respect of the transfer documents as required by the Hong Kong laws have been paid;
- (iv) the relevant share certificates and such other evidences as are reasonably requested by the Board of Directors to prove the right of the transferor to transfer the Shares have been submitted;
- (v) if the Shares are intended to be transferred to joint holders, the number of Shareholders registered jointly may not exceed four;
- (vi) there are no Company liens on the Relevant Shares.

### POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

Subject to the relevant laws and regulations, the Company may, repurchase its outstanding Shares according to the legal procedures, following the adoption of a resolution in accordance with the procedures provided for herein, and submission to and approval by the relevant state authorities under the following circumstances:

- (i) reducing the registered capital of the Company;
- (ii) merging with another company that holds Shares in the Company;
- (iii) using the Shares in the employee stock ownership plan or as share incentive;
- (iv) requested by Shareholders who vote against any resolution proposed at any general meeting on the merger or division of the Company to purchase their Shares;
- (v) using the Shares to satisfy the conversion of corporate bonds convertible into Shares issued by the listed company;
- (vi) safeguarding corporate value and Shareholders' rights as deems necessary; or
- (vii) other circumstances as permitted by laws and administrative regulations.



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Where the Shares of the Company are acquired due to the reasons stated in clauses (i) and (ii) above, the resolution proposed by the Company shall be approved by the general meeting. Where the Shares are acquired due to the reasons stated in clauses (iii), (v) and (vi) above, the resolutions shall be implemented upon approval by two-third of the Directors attending the Board meeting. Upon acquisition of the Shares of the Company according to the rules above, such Shares shall be cancelled within 10 days from the date of acquisition in the circumstance set out in clause (i); and shall be transferred or cancelled within six months in the circumstances set out in clauses (ii) and (iv). The aggregate number of Shares of the Company held by the Company shall not exceed ten percent of the total issued Shares of the Company, and shall be transferred or cancelled within three years in the circumstances of clauses (iii), (v) and (vi).

The Company with the approval of the relevant competent authorities of the PRC may repurchase Shares in one of the following ways:

- (i) making an offer to all the Shareholders for repurchase of Shares proportional to Shares they own;
- (ii) repurchasing Shares by means of public trading on the stock exchange;
- (iii) repurchasing Shares by means of agreements outside the stock exchange; or
- (iv) other circumstances as permitted by the laws, administrative regulations, listing rules of the place where the Shares of the Company are listed and relevant competent authorities.

Unless the Company is in liquidation, it must comply with the following provisions in relation to repurchase of its outstanding Shares:

- (i) where the Company repurchases Shares at nominal value, payment shall be made out of the book balance of the distributable profits of the Company or out of the proceeds from a new issue of Shares made for that purpose;
- (ii) where the Company repurchases its Shares of the Company at a premium, payment up to the nominal value may be made out of the book balance of the distributable profits of the Company or out of the proceeds from the issue of new Shares made for that purpose. Payment of the premium shall be effected as follows:
  - 1. if the Shares being repurchased were issued at nominal value, payment shall be made out of the book balance of the distributable profits of the Company;
  - 2. if the Shares being repurchased were issued at a premium, payment shall be made out of the book balance of the distributable profits of the Company or out of the proceeds from the issue of new Shares made for that purpose, provided that the amount paid out of the proceeds from issue of new Shares shall not

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exceed the total premium received by the Company on the issue of the repurchased Shares nor shall it exceed the book value of the Company's premium account (or capital reserve account) (including any premium on the new issue) at the time of the repurchase;

(iii) the Company shall make any payment for the following purposes out of the Company's distributable profits:

1. acquisition of the right to repurchase its own Shares;
2. variation of any contract for the repurchase of its Shares;
3. release of the Company's obligation(s) under any contract for the repurchase of Shares;

(iv) after the Company's registered capital has been reduced by the aggregate nominal value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the nominal value of Shares which have been repurchased shall be recorded in the Company's premium account (or capital reserve account).

### **POWER OF ANY SUBSIDIARIES OF THE COMPANY TO OWN SHARES IN ITS PARENT COMPANY**

The Articles of Association contains no restrictions preventing any subsidiaries of the Company from holding the Shares.

### **DIVIDENDS AND OTHER METHODS OF DISTRIBUTION**

The Company will give full consideration to the interests of Shareholders and make the implementation of a reasonable profit distribution policy each year according to operating conditions and market environment. The Company may distribute dividends in cash or by way of Shares. Where the statutory reserve fund of the Company is not sufficient to cover the Company's loss for the previous year, the profits for the current year shall be used to cover such loss before allocation is made to the statutory reserve fund pursuant to the previous paragraph. After allocation to the statutory reserve fund has been made from the after-tax profits of the Company, allocation may be made to discretionary reserve fund if a resolution is adopted at the general meeting. If the general meeting or the Board of Directors, in violation of the previous paragraph, distributes profits to Shareholders before covering losses of the Company and making allocation to the Company's statutory reserve fund, the profits so distributed must be returned by the Shareholders to the Company.

The Shares of the Company held by the Company may not be applied to profit distribution.

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The Company shall appoint one or more receiving agents for the Shareholders of the overseas-listed foreign Shares. Such receiving agents shall on behalf of such Shareholders receive dividends distributed by the Company in respect of the overseas-listed foreign Shares and all other amounts payable, hold in custody such amounts on behalf of such Shareholders of overseas-listed foreign Shares, to be paid to such holders. The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the place or the relevant requirements of the stock exchange at the place where the Shares of the Company are listed. The receiving agents appointed for the Shareholders of overseas-listed foreign Shares that are listed on the Stock Exchange shall each be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

### PROXIES

Any Shareholder who is entitled to attend and vote at a general meeting shall be entitled to appoint one or more persons (whether such person is a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall be entitled to exercise the following rights according to the authorizations from that Shareholder:

- (i) the Shareholder's right to speak at the meeting;
- (ii) the right to demand or join in demand for a poll; and
- (iii) unless otherwise prescribed by applicable listing rules or other securities laws and regulations, the right to vote by hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

If the Shareholder is a recognised clearing house (or its proxy), it may, as it thinks fit, appoint one or more persons as its proxies to attend and vote at any general meeting or class meeting. However, if more than one person is appointed, the instrument of proxy shall specify the number and class of the Shares relating to each such proxy. The proxy may be signed by the authorised person of the recognised clearing house. Such person so appointed may attend the meeting and exercise the rights on behalf of the recognised clearing house (or its proxy) (not requiring presence of the shareholding voucher, notarised authorisation and/or further evidences to prove the duly authorisation) as if such person is an individual shareholder of the Company.

If the Shareholder shall appoint his proxy in writing, such instrument appointing the proxy shall be signed by the appointing Shareholder or the proxy who is authorised in writing, or if the appointing Shareholder is a legal entity, either affixed with legal person seal or signed by a Director, or the duly authorised proxy.

Proxy forms shall be lodged at the domicile of the Company or other places specified in the notice of meeting 24 hours before the relevant meeting for voting according to the proxy form, or 24 hours before the designated time of voting. Where the proxy form is signed by a person under a proxy statement on behalf of the appointer, the proxy statement or other

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authorisation documents authorised to be signed shall be notarised. The notarised proxy statement or other authorisation documents shall, together with the proxy form, be maintained at the domicile of the Company or other places specified in the notice of meeting. Where the appointer is a legal person, its legal representative or such person as is authorised by resolution of the Board of Directors or other governing body may attend general meetings of the Company as a representative of the appointer.

Any form issued to a Shareholder by the Board of Directors for appointing a proxy of the Shareholder shall allow the Shareholder to freely instruct the proxy to cast vote in favour of or against, and instruct separately about each resolution dealing with the businesses to be considered at the meeting. Such proxy statement shall contain a statement that in absence of instructions by the Shareholders, his proxy may vote as he thinks fit. A vote given by a proxy in accordance with the terms of the proxy statement shall be valid, notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or the authority under which the proxy statement was executed, or the transfer of the Shares in respect of which the proxy is given, provided that the Company did not receive any written notice in respect of any such matters prior to the commencement of the relevant meeting.

### **CALLS ON SHARES AND FORFEITURE OF SHARES**

Interests may accrue on any Shares that have been already paid before the call is made, but the holder of such Shares shall have no right to participate in the distribution of the dividends made thereafter with respect to the prepaid Shares.

### **INSPECTION OF REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS**

The Company shall maintain a register of Shareholders. The Company may, in accordance with an understanding and agreement between the securities regulatory authority under the State Council and overseas securities regulatory authority, keep outside the PRC the original register of Shareholders of overseas-listed foreign Shares and appoint overseas agent(s) for management. The Company shall keep in Hong Kong the original register of Shareholders of the holders of the Shares listed and traded on Stock Exchange in register of Shareholders of overseas-listed foreign Shares, and maintain the duplicate thereof at the Company's domicile; the appointed overseas agent(s) shall ensure at all times the consistency between the original and the duplicate of the register of Shareholders of overseas-listed foreign Shares.

If there is any inconsistency between the original and the duplicate of the register of Shareholders of overseas-listed foreign Shares, the original version shall prevail.

If laws and regulations in the PRC and the securities supervision rules of the place where the shares of the Company are listed provides for the period of closure of register of Shareholders prior to the general meetings or the reference date for the Company to distribute dividends, such provisions shall prevail.

No registration of changes resulting from share transfers may be made to the register of Shareholders within 30 days prior to the general meeting or 5 days prior to the reference date determined by the Company for the purpose distribution of dividends.

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When the Company intends to convene a general meeting, distribute dividends, liquidate and engage in other activities that involve the determination of shareholdings, the Board of Directors shall decide on the date for the determination of shareholdings. Shareholders whose names appear on the register of members at the end of such date are deemed to be Shareholders of the Company.

Any person who objects to the register of Shareholders and requests to have his name entered in or removed from the register of Shareholders may apply to a competent court for corrections of the register.

### **RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION**

In addition to obligations imposed by laws, administrative regulations or required by the listing rules of the place where Shares of the Company are listed, the Controlling Shareholder when exercising his authorities as a shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of all or some of the Shareholders:

- (i) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of other person(s)), in any manner, of the Company's assets, including (without limitation) any opportunities beneficial to the Company;
- (iii) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of other person(s)) of the individual rights of other Shareholders, including (without limitation) rights to distributions and voting rights save for a restructuring of the Company submitted to the general meeting for approval in accordance with the Articles of Association.

### **PROCEDURE ON LIQUIDATION**

The Company may be dissolved and go into liquidation in accordance with the laws in any of the following circumstances:

- (i) where the operation period provided herein expires or where any cause for dissolution provided herein occurs;
- (ii) where the general meeting has adopted a resolution for dissolution;
- (iii) where dissolution is required due to merger or division of the Company;
- (iv) where the Company is declared bankrupt in accordance with the law due to its inability to pay the debts that are due;

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- (v) where the business licence of the Company is revoked, or the Company is ordered to close down or cancelled in accordance with the laws;
- (vi) where the Company suffers from significant difficulties in operation and management, its continuous existence may cause material losses to Shareholders' interests, and such difficulties cannot be dealt with in other ways, the Shareholders holding 10% or more of votes of all Shareholders of the Company may file an application to the People's Court to dissolve the Company.

In the circumstance as set out in the clause (i) of the preceding article, the Company may continue to exist by amending the Articles of Association. Where the Company is dissolved pursuant to the clauses (i), (ii), (v) and (vi) of the preceding article, a liquidation team shall be established within 15 days, and members thereof shall be determined by the general meeting by ordinary resolution.

Where the Company is dissolved pursuant to the clause (iv) of the preceding article, the People's Court shall, according to provisions of relevant laws, organise the Shareholders, the relevant authorities and related professionals to form a liquidation team to carry out liquidation.

In case no liquidation team is established within the specified period to carry out liquidation, the creditors may file an application to the People's Court to designate relevant persons to form a liquidation team to carry out liquidation. The People's Court shall accept such application, and timely organise the liquidation team to carry out liquidation.

Where the Board of Directors proposes to liquidate the Company (for any reason other than the Company's declaration of its insolvency), the Board of Directors shall include a statement in its notice convening the general meeting for such purpose, after making full investigation over the conditions of the Company, in the opinion of the Board of Directors, the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the adoption of the resolution for the liquidation of the Company by the general meeting, all powers of the Board of Directors shall cease immediately.

The liquidation team shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the liquidation team's incomes and expenses, the business of the Company and the progress of the liquidation, and present a final report to the general meeting upon completion of the liquidation.

The liquidation team shall notify the creditors within 10 days of, and make announcements in the newspapers within 60 days, of the date of its establishment. A creditor shall, within 30 days of receipt of the notice, or in the case of failure to receive the notice, within 45 days of the date of the announcement, claim its rights to the liquidation team.

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During the liquidation period, the liquidation team shall exercise the following functions and powers;

- (i) to liquidate the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (ii) to notify or make announcement to the creditors;
- (iii) to deal with and liquidate any outstanding businesses of the Company;
- (iv) to pay all outstanding taxes and taxes arising from the liquidation;
- (v) to settle creditor's rights and debts;
- (vi) to deal with the remaining assets after the Company's debts have been paid;
- (vii) to represent the Company in any civil proceedings.

After it has liquidated the Company's assets and prepared the balance sheet and an inventory of assets, the liquidation team shall formulate a liquidation plan and present it to the general meeting or to the competent authority for confirmation. If, liquidation occurs due to dissolution of the Company, and after liquidation of the Company's assets and preparation of a balance sheet and an inventory of assets, the liquidation team discovers that the Company's assets are insufficient to pay the Company's debts in full, the liquidation team shall immediately file an application to the People's Court for declaration of bankruptcy. After the Company is declared bankrupt pursuant to the adjudication of the People's Court, the liquidation team shall transfer all matters relating to the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation team shall prepare a liquidation report, a statement of incomes and expenses for the liquidation period and financial books, which shall, after verified by a certified public accountant of China, be submitted to the general meeting or competent authority for confirmation. The liquidation team shall, within 30 days after confirmation by the general meeting or competent authority, submit the foregoing documents to the company registration authority and apply for cancellation of registration of the Company, and make announcement relating to the termination of the Company.

### **OTHER PROVISIONS MATERIAL TO THE COMPANY OR ITS SHAREHOLDERS**

#### **General Provisions**

The Company is a joint stock limited company of perpetual existence.

The Company may invest in other limited liability companies and joint stock limited companies and undertake liabilities for the invested company as limited to the capital contribution made by it. Unless otherwise provided by laws and administrative regulations, the Company shall not become an investor that is jointly and severally liable for the liabilities owed by the invested company.

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From the date on which the Articles of Association come into effect, they shall constitute a legally binding document regulating the Company's organisation and activities, and the rights and obligations as between the Company and its Shareholders and among the Shareholders and are binding on the Company, Shareholders, Directors, supervisors and members of senior management.

The Articles of Association are binding on the Company and its Shareholders, Directors, supervisors and members of senior management, and the above-mentioned persons shall be entitled to make claims on matters relating to the Company in accordance with the Articles of Association. Pursuant to the Articles of Association, a shareholder can sue the Company, the Company can sue its Shareholders, a shareholder can sue another Shareholder or other Shareholders, and a shareholder can sue Directors, supervisors and members of senior management of the Company. The term "sue" as mentioned in the preceding paragraph shall include the initiation of proceedings in a court or application to an arbitration organisation for arbitration.

### *Shares and Transfers*

The Company may increase its capital by the following methods:

- (i) Issuing new Shares to unspecified investors;
- (ii) Placing new Shares with existing Shareholders;
- (iii) Distributing new Shares to existing Shareholders;
- (iv) Other means permitted by laws and administrative regulations and approved by the competent administrative department.

The Company's increase of capital by issuing new Shares shall be carried out in accordance with the procedures specified in relevant PRC laws and administrative regulations and listing rules of the place where the Company is listed, after having been approved in accordance with the Articles of Association.

The Company may reduce its registered capital. In doing so, it shall act according to the Company Law, listing rules of the place where the Shares of the Company are listed, other relevant regulations and the Articles of Association. Where the Company is to reduce its registered capital, it must prepare a balance sheet and an inventory of assets. The reduced registered capital of the Company may not be less than the statutory minimum limit.

Unless otherwise provided by laws, administrative regulations and listing rules of the place where the Shares of the Company are listed, the Company's fully paid-up Shares are not subject to any restrictions on the transfer rights and are freely transferable without any liens. Any transfer of overseas-listed foreign Shares listed in Hong Kong must be registered with the Hong Kong local stock registration authority authorised by the Company.



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### Shareholders

A shareholder of the Company is a person who lawfully holds Shares of the Company and whose name is entered in the register of Shareholders.

A shareholder shall enjoy the relevant rights and assume the relevant obligations in accordance with the class and number of Shares held. Shareholders holding the same class of Shares shall be entitled to the same rights and assume the same obligations. Shareholders of each class of Shares of the Company shall have the same rights in any distributions made in dividends or other forms.

The ordinary shareholders of the Company shall have the following rights:

- (i) to be entitled to dividends and other forms of distribution in proportion to the number of Shares held;
- (ii) to propose, convene and preside over, to attend or appoint a proxy to attend general meetings and to exercise the corresponding voting rights in accordance with laws;
- (iii) to supervise and manage the business activities of the Company and to put forward proposals or raise inquiries;
- (iv) to transfer, donate, or pledge Shares held by them in accordance with the laws, administrative regulations, relevant regulations of the securities regulatory authority of the place where the Shares of the Company are listed and provisions of the Articles of Association;
- (v) to obtain relevant information in accordance with the provisions of the Articles of Association, including:
  1. to obtain a copy of the Articles of Association after payment of cost thereof;
  2. to inspect and copy after payment of a reasonable cost:
    - (1) copies of the register of all shareholders;
    - (2) personal particulars of each of the Company's Directors, supervisors and members of senior management including:
      - a) present and former name and alias;
      - b) principal address (domicile);
      - c) nationality;
      - d) full-time and all other part-time occupations and positions;
      - e) identification certificate document and its number.

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- (3) report on the state of the issued share capital of the Company;
- (4) reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by the Company since the last accounting year and the aggregate costs paid by the Company for this purpose (breakdown by domestic Shares and foreign Shares (and H Shares, if applicable));
- (5) meeting minutes of the general meeting (for inspection by Shareholders only) and copies of special resolutions of the Company and resolutions at meetings of the Board of Directors and board of supervisors;
- (6) the latest audited financial statements, reports of the Board of Directors, certified public accounting firms and board of supervisors of the Company;
- (7) duplicate of the latest annual report (if applicable) that has been filed with the administration for industry and commerce of China or any other competent authorities;

The Company shall maintain the documents set out in clauses (1) through (7) other than clause (2) described above and any other applicable documents at the address of the Company in Hong Kong in accordance with the requirements of the Hong Kong Listing Rules, for free inspection by the public and Shareholders (except for the meeting minutes of the general meeting for inspection by Shareholders only). The Shareholders of the Company may also inspect the resolutions of meetings of the Board of Directors and board of supervisors of the Company. Shareholders demanding inspection of the relevant information or requesting materials mentioned in the preceding provision shall provide to the Company written documents evidencing the class and number of Shares of the Company held by them. The Company shall, upon verification of the Shareholder's identity, provide such information at the Shareholder's request.

- (vi) upon termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the number of Shares held;
- (vii) with respect to Shareholders who vote against any resolution adopted at the general meeting on the merger or division of the Company, to require the Company to acquire the Shares held by them;
- (viii) other rights conferred by laws, administrative regulations, departmental rules, the listing rules of the place where the Shares of the Company are listed and the Articles of Association.

The Company shall not, merely as a result of failure by any direct or indirect interested persons to disclose to the Company of its interests, exercise any power to freeze or otherwise damage any of their rights attached to the Shares held by them.

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The share certificates shall be signed by the chairman of the Board of Directors. Where the signatures of other relevant members of senior management of the Company are required by the stock exchange on which the Shares of the Company are listed, the share certificates shall also be signed by such other relevant members of senior management. The share certificates shall take effect after the Company seal is affixed thereto or printed thereon. The share certificates shall only be affixed with the Company's seal under the authorisation of the Board of Directors. The signatures of the chairman of the Board of Directors of the Company or other relevant members of senior management on the share certificates may also be in printed form. Under the condition that the Shares of the Company are issued and traded without paper, the applicable provisions of the securities regulatory authority and stock exchanges where the Company's Shares are listed shall apply separately.

Any Shareholder who is registered in, or any person who requests to have his name entered in, the register of Shareholders may (if his share certificate (the "original share certificate") is lost) apply to the Company for replacement of the share certificate in respect of such Shares (the "Relevant Shares"). If a holder of the domestic Shares loses his share certificate and applies for replacement, it shall be dealt with in accordance with relevant provisions of the Company Law. If a holder of overseas-listed foreign Shares loses his share certificate and applies for replacement, it may be dealt with in accordance with the relevant laws, the rules of the stock exchange or other relevant regulations of the place where the original register of Shareholders of overseas-listed foreign Shares is maintained. Any replacement of share certificates to any Shareholders of overseas-listed foreign Shares to be listed in Hong Kong who have lost their share certificates and applied for replacement shall comply with the following requirements:

- (i) The applicant shall submit an application to the Company in prescribed form accompanied by a notarial certificate or statutory declaration, containing the grounds upon which the application is made and the circumstances and evidence of the loss of the share certificates as well as statement that no other person shall be entitled to request to be registered as the Shareholder in respect of the Relevant Shares.
- (ii) No statement has been received by the Company from a person other than the applicant for having his name registered as a holder of the Relevant Shares before the Company decides to reissue a new share certificate.
- (iii) The Company shall, if it decides to issue a replacement share certificate to the applicant, make an announcement of its intention to issue the replacement share certificate in such newspapers designated by the Board of Directors. The announcement shall be made at least once every thirty days in a period of ninety days.

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- (iv) The Company shall have, prior to the publication of its announcement of intention to issue a replacement certificate, delivered to the stock exchange on which its Shares are listed a copy of the announcement to be published. The Company may publish the announcement upon receiving a confirmation from such stock exchange that the announcement has been exhibited at the premises of the stock exchange. The announcement shall be exhibited at the premises of the stock exchange for a period of ninety days.

In case an application to issue a replacement certificate has been made without the consent of the registered Shareholder of the Relevant Shares, the Company shall send by post to such registered Shareholder a copy of the announcement to be published.

- (v) If, upon expiration of the 90-day period referred to in clauses (iii) and (iv) of this Article, the Company has not received from any person any objection to such application, the Company may issue a replacement share certificate to the applicant according to his application.
- (vi) Where the Company issues a replacement certificate under this Article, it shall forthwith cancel the original share certificate and enter the cancellation and replacement in the register of Shareholders accordingly.
- (vii) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate by the Company shall be borne by the applicant. The Company may refuse to take any action until a reasonable guarantee is provided by the applicant for such expenses.

### UNTRACEABLE MEMBERS

The Company shall have the right to terminate the serving of dividend warrant to a shareholder of the overseas-listed foreign Shares in the form of mailing, but it may exercise such power only if the dividend warrant has not been withdrawn for twice consecutively. However, if the dividend warrant has not been served to the addressee at the first time and is returned, the Company may then exercise such power. Subject to the applicable laws and regulations, the Company shall have the right to sell the Shares of the Shareholders of overseas-listed foreign Shares that cannot be contacted in such a manner as the Board of Directors deems appropriate, subject to the following conditions:

- (i) dividends on the Relevant Shares have been distributed for at least three times within twelve years and were not claimed during the period; and
- (ii) after the expiration of the twelve-year period, the Company has published an announcement in one or more newspapers at the place of listing of the Company, stating its intention to sell the Shares, and notifying such intention to the stock exchanges where such Shares are listed.

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### The Board of Directors

The Board of Directors shall be accountable to the general meeting, and shall exercise the following powers:

- (i) to convene the general meeting and to report on its work to the general meeting;
- (ii) to implement the resolutions adopted by the general meeting;
- (iii) to determine the Company's business plans and investment plans;
- (iv) to formulate the Company's plans for annual financial budgets and final accounts;
- (v) to formulate the Company's profit distribution plans and plans to cover losses;
- (vi) to formulate the plans for the increase or reduction of the Company's registered capital and the plans for the issuance of the Company's bonds;
- (vii) to draft the plans for merger, division, dissolution or change of the corporate form of the Company;
- (viii) to decide on the establishment of the Company's internal management organisations;
- (ix) to appoint or remove the Company's general manager, and, according to the nomination of the general manager, to appoint or remove the Company's deputy general manager, chief financial officer and other members of senior management, and decide on their remuneration;
- (x) to formulate the Company's basic management system;
- (xi) to formulate the plans for the amendment to the Articles of Association;
- (xii) to exercise any other powers granted by the laws, regulations, the listing rules of the place where the Shares of the Company are listed, the general meeting and the Articles of Association.

Other than the Board of Directors' resolutions in respect of the matters specified in clauses (vi), (vii) and (xi) of this Article which shall be passed by the affirmative votes of more than two-third of all Directors, the Board of Directors' resolutions in respect of all other matters may be passed by the affirmative votes of a simple majority of all the Directors. The Board of Directors shall perform duties in accordance with the laws, administrative regulations, the listing rules of the place where the Shares of the company are listed, the Articles of Association and the resolutions of the general meeting. Matters beyond the scope of authorisation of the general meeting shall be submitted to the general meeting for consideration.

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Resolutions made by the Board of Directors on the related party transactions of the Company must be signed by independent non-executive Directors before they become effective.

Meetings of the Board of Directors are divided into regular meetings and interim meetings. Regular meetings shall be held at least four times each year, and convened by the chairman of the Board of Directors. A notice shall be given no less than 14 days in the case of regular meetings, or no less than 5 days in the case of interim meetings, before the proposed date of the meeting; with the consent of all Directors of the Company, the above-mentioned notice period may be waived. If an interim meeting of the Board of Directors is required to be held as soon as possible under emergencies, a meeting notice may be given at any time by telephone or other oral means, however, the convener shall make explanations at the meeting.

Meetings of the Board of Directors shall be held only if more than half of the Directors (including the Directors appointed to attend the meeting on behalf pursuant to the provisions of the Articles of Association) are present. The Directors shall attend in person the meetings of the Board of Directors. Where any Director is unable to attend the meeting for reason, he/she may, by issuing a written proxy statement, entrust another Director to attend the meeting on his/her behalf, with the scope of authorisation to be stated therein. The Directors who attend the meeting on behalf shall exercise the rights as Directors within the scope of authorisation. Failure by a director to attend a meeting of the Board of Directors or to authorise a representative to attend the meeting on his/her behalf shall be deemed waiver of the voting right at such meeting. Each Director shall have one vote. Any resolutions of the Board of Directors must be subject to adoption by a simple majority of all Directors unless otherwise specified herein. Where there is an equality of votes both for and against a resolution, the chairman of the Board of Directors shall have another casting vote.

### **Independent Non-executive Directors**

Independent non-executive Directors mean such Directors as serve no other positions in the Company other than Directors, members of special committee of the Board of Directors or chairman and have no relationship with the Company and Substantial Shareholders which may affect their independent and objective judgement. Independent non-executive Directors shall account for at least one-third of the number of members of the Board of Directors, and be no less than three. At least one of the independent non-executive Directors of the Company shall have suitable professional qualification or have suitable accounting or relevant financial management expertise, and there shall be at least one independent non-executive Director who generally resides in Hong Kong.

### **Secretary to the Board of Directors**

The Company shall have a secretary to the Board of Directors. The secretary to the Board of Directors shall be a member of senior management of the Company. The secretary to the Board of Directors shall be a natural person who has essential expertise and experience, to be employed or dismissed by the Board of Directors.

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### Board of supervisors

The Company shall have a board of supervisors.

The board of supervisors shall consist of 3 supervisors, and one of whom shall act as the chairman of the board of supervisors. Each supervisor shall serve for a term of three years, renewable upon re-election.

The appointment or removal of the chairman of the board of supervisors requires approval by votes by two-third or more of the members of the board of supervisors. The Directors and members of senior management of the Company shall not act concurrently as supervisors.

The board of supervisors shall be accountable to the general meeting, and shall exercise the following powers in accordance with the law:

- (i) to review the Company's financial affairs;
- (ii) to supervise the acts of the Directors and members of senior management in performing duties of the Company, propose for removal of any Director or member of senior management in violation of any laws, administrative regulations, listing rules of the place where the Shares of the Company are listed, the Articles of Association or the resolutions of the general meeting;
- (iii) to demand any Director and member of senior management who acts in a manner which is harmful to the Company's interests to rectify such behaviour;
- (iv) to check the financial information, such as the financial reports, reports of operations and profit distribution plans to be submitted by the Board of Directors to the general meeting, and to authorise in the Company's name, public certified accountants and licenced auditors to assist in the re-examination of such information, should any doubt arise in respect thereof;
- (v) to propose to convene an extraordinary general meeting, and to convene and preside over the general meeting where the Board of Directors fails to perform his duty to do so;
- (vi) to submit proposals to the general meeting;
- (vii) to conduct investigation if they find the operation of the Company unusual; and may engage professionals such as accountants and lawyers to assist if necessary. The Company shall bear the expenses incurred;
- (viii) to represent the Company and its Directors in negotiation with or in instituting legal proceedings against its Directors and members of senior management in accordance with the laws and the Article of Association; and
- (ix) such other powers as provided by the laws and regulations as well as the Articles of Association.

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### **General Manager of the Company**

The Company shall have one general manager, who shall be appointed or dismissed by the Board of Directors. The general manager of the Company shall be accountable to the Board of Directors and shall exercise the following powers:

- (i) to be in charge of the Company's operation and management, organise the implementation of the resolutions of the Board meeting and report its work to the Board of Directors;
- (ii) to organise the implementation of the Company's annual operation plans and investment plans;
- (iii) to draft plans for the establishment of the Company's internal management organisations;
- (iv) to draft the Company's basic management system;
- (v) to formulate the basic rules and regulations of the Company;
- (vi) to determine to appoint or dismiss the senior deputy general manager, deputy general manager and chief financial officer of the Company;
- (vii) to determine to appoint or dismiss the management officers other than those required to be appointed or dismissed by the Board of Directors;
- (viii) other powers granted by the Articles of Association and the Board of Directors.

### **Common Reserve Fund**

The common reserve fund of the Company shall be used to cover Company's losses, expand its production and operation, or be converted to the Company's increased capital. The common reserve fund of the Company shall be used to:

- (i) cover losses, and the capital reserve fund shall not be used to cover losses.
- (ii) be converted into the increased capital. Where the statutory reserve fund is to be converted into capital by capitalisation, the retained reserve fund may not fall below 25% of the registered capital of the Company before such conversion.
- (iii) expand production and operation of the Company.



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### Dispute Resolution

The Company shall abide by the following principles for settlement of disputes:

- (i) Any disputes or claims in connection with the affairs of the Company arising between the Company and its Directors, supervisors or members of senior management, between the holders of the overseas-listed foreign Shares and the Company, between the holders of the overseas-listed foreign Shares and the Company's Directors, supervisors or members of senior management, between the holders of the overseas-listed foreign Shares and holders of domestic Shares, in respect of any rights or obligations under the contracts concluded in accordance with the Articles of Association, the contracts entered into hereof and as prescribed by the Company Law and any other relevant laws and administrative regulations shall be referred by the parties concerned to the arbitration body for arbitration.

When a dispute or claim referred to in the preceding paragraph is submitted for arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is the Company, or the Shareholders, Directors, supervisors, or members of senior management of the Company, submit to the arbitration.

Dispute in respect of the definition of Shareholders and dispute in relation to the register of Shareholders need not be resolved by arbitration.

- (ii) A claimant may elect for arbitration to be carried out at China International Economic and Trade Arbitration Commission in accordance with the arbitration rules thereof or Hong Kong International Arbitration Centre in accordance with the Securities Arbitration Rules thereof. Once a claimant submits a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for arbitration to take place in Shenzhen in accordance with the Securities Arbitration Rules of Hong Kong International Arbitration Centre.

- (iii) If any disputes or claims are settled by way of arbitration in accordance with clause (i), the laws of the People's Republic of China shall govern, save as otherwise provided in the laws and administrative regulations.
- (iv) The award rendered by an arbitral body shall be final and binding on all parties.

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**APPENDIX VI** **SUMMARY OF ARTICLES OF ASSOCIATION**

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- (v) The arbitration agreement is entered into by and between the Directors or members of senior management and the Company. The Company represents both itself and each Shareholder.
  
- (vi) Any submitted arbitration shall be deemed to authorise the arbitral tribunal to conduct a public hearing and announce its award.

## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

### FURTHER INFORMATION ABOUT OUR COMPANY

#### Incorporation

Our Company was established in the PRC as a company with limited liability on 3 September 2010 under the name of Jiangsu Shuangliang Contract Energy Management Company Limited\* (江蘇雙良合同能源管理有限公司). On 25 August 2014, the then sole shareholder resolved, among other things, that our Company shall be renamed as Shuangliang Energy Saving System (Jiangsu) Company Limited\* (雙良節能系統(江蘇)有限公司), which became effective on 1 September 2014. Subsequently, on 17 November 2015, the then sole shareholder resolved that our Company be renamed as Wise Living Technology Co., Ltd\* (慧居科技有限公司), which became effective on 3 December 2015.

On 18 December 2015, it was resolved that our Company shall be converted from a company with limited liability into a joint stock company with limited liability and be renamed as Wise Living Technology Co., Ltd\* (慧居科技股份有限公司), which is the current name of our Company. Upon registration of relevant government authorities in the PRC, the conversion was legally completed on 29 December 2015. The registered office and headquarter in the PRC is Room 202, 2/F, No. 15 Shuangliang Road, Ligang Street, Jiangyin, Jiangsu Province, the PRC.

On 20 May 2022, our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance, and has established a place of business in Hong Kong at Unit B, 17/F, United Centre, 95 Queensway, Admiralty, Hong Kong. Mr. Tso Ping Cheong Brian (曹炳昌先生) has been appointed as the authorised representatives of our Company under the Companies Ordinance for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong as set out above.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix VI to this document. A summary of certain relevant aspects of the laws and regulations of the PRC are set out in Appendix V to this document.

#### Changes in Share Capital

At our establishment, our initial registered capital was RMB50 million and Shuangliang Eco-Energy was the sole shareholder of our Company. On 16 September 2015, Shuangliang Eco-Energy entered into a share transfer agreement with Shuangliang Technology in which it was agreed that the then entire registered capital of our Company would be transferred to Shuangliang Technology. Such transfer was completed and settled on 22 October 2015.

On 17 November 2015, Shuangliang Technology resolved, amongst others, to increase the registered capital of our Company from RMB50 million to RMB226 million, with additional amount of RMB100 million contributed by Shuangliang Technology and the remaining RMB76 million subscribed by Jiangsu Lichuang and ten individual shareholders. For details, see "History, development and corporate structure – Corporate history of our Company" in this document.

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## APPENDIX VII STATUTORY AND GENERAL INFORMATION

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Immediately upon completion of the [REDACTED], the registered capital of our Company is expected to increase to RMB[REDACTED] consisting of 226,000,000 Domestic Shares and [REDACTED] H Shares with nominal value of RMB1.0 each, without taking into account any H Shares which may be issued pursuant to the [REDACTED].

Save as disclosed in “History, development and corporate structure – Corporate history of our Company” in this document, there has been no alterations in our share capital within two years immediately preceding the date of this document.

### **Subsidiaries of our Company**

The list of subsidiaries of our Company as at 31 December 2022 is set out in the accountant’s report as set out in Appendix I to this document. Save for the subsidiaries mentioned in the accountant’s report as set out in Appendix I to this document, our Company has no other subsidiaries. There has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this document.

### **Resolutions of our Shareholders**

Pursuant to the Shareholders’ resolutions passed on 26 May 2022, our Shareholders resolved that, among other things:

- (a) The [REDACTED], the [REDACTED] and the [REDACTED] have been approved and the number of H shares in issue shall represent not less than [REDACTED]% of the total share capital after the [REDACTED] (assuming the [REDACTED] is not exercised). The final issuance size for this issuance will be determined by our Board as authorised by the general meeting of our Company or persons as authorised by our Board in accordance with the legal requirements, regulatory approval and market situation;
- (b) After the completion of the [REDACTED], the Articles of Association with effect on the [REDACTED] will be adopted; and
- (c) Our Board and its authorised persons will be authorised to deal with matters in relation to the [REDACTED] and the [REDACTED].

### **Restriction on Share Repurchase**

For details, see “Summary of Articles of Association – Power of the Company to purchase its own Shares” as set out in Appendix VI to this document.

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

### FURTHER INFORMATION ABOUT OUR BUSINESS

#### Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the date of this document that are or may be material:

- (a) Deed of Indemnity; and
- (b) [REDACTED].

#### Intellectual Property Rights

As at the Latest Practicable Date, we have registered the following intellectual property rights which are, in our Directors' opinion, material to our Group's business.

#### Trademarks

As at the Latest Practicable Date, we have registered the following trademarks, which are material to our business:

No.	Trademark	Place of registration	Registered owner	Class	Registration number	Effective period
1.		PRC	Our Company	35	19004329	28 February 2017 to 27 February 2027
2.		PRC	Our Company	16	40862594	28 June 2020 to 27 June 2030
3.		PRC	Our Company	9	40855235	28 June 2020 to 27 June 2030
4.		PRC	Our Company	42	40845457	21 June 2020 to 20 June 2030
5.		PRC	Our Company	16	40851882	21 April 2020 to 20 April 2030
6.		PRC	Shanxi Shuangliang Renewable Energy	11	7439909	14 January 2021 to 13 January 2031

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Trademark	Place of registration	Registered owner	Class	Registration number	Effective period
7.		Hong Kong	Our Company	16	305057974	17 September 2019 to 16 September 2029
8.		Hong Kong	Our Company	16	305057992	17 September 2019 to 16 September 2029

**Patents**

As at the Latest Practicable Date, we had registered the following patents in the PRC that are material to our business:

No.	Patent	Patent holder	Patent number	Patent type	Effective period
1.	A solar photothermal continuous heating system without auxiliary heat* (一種太陽能光熱無輔熱連續供熱系統)	Our Company	ZL202022765405.8	Utility model	10 years from 26 November 2020
2.	An inlet and outlet structure of underground heat exchange station* (一種地下換熱站進出口結構)	Hulunbair Shuangliang	ZL202123178572.3	Utility model	10 years from 16 December 2021
3.	A heat exchange station pumpless dosing system* (一種換熱站無泵加藥系統)	Hulunbair Shuangliang	ZL202121072780.2	Utility model	10 years from 18 May 2021
4.	A heat exchange station adjustable drainage ditch debris filter device* (一種換熱站可調節排水溝渠雜物過濾裝置)	Hulunbair Shuangliang	ZL202121072966.8	Utility model	10 years from 18 May 2021
5.	A heat exchange station power cabinet control terminal* (一種換熱站動力櫃控制終端)	Hulunbair Shuangliang	ZL202121072967.2	Utility model	10 years from 18 May 2021
6.	Pipeline comprehensive emergency drill simulator* (管道綜合應急演練模擬器)	Hulunbair Shuangliang	ZL202121073048.7	Utility model	10 years from 18 May 2021

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
7.	Multifunctional replenishment tank for heat exchange station* (換熱站多功能補水箱)	Hulunbuir Shuangliang	ZL202120397725.4	Utility model	10 years from 23 February 2021
8.	Double power supply water immersion visual alarm device for heat exchange station* (換熱站雙電源浸水可視化報警裝置)	Hulunbuir Shuangliang	ZL202120350509.4	Utility model	10 years from 8 February 2021
9.	Uninterruptible power supply system for control cabinet of heat exchange station* (換熱站控制櫃不間斷供電系統)	Hulunbuir Shuangliang	ZL202120350510.7	Utility model	10 years from 8 February 2021
10.	An energy-saving central heating control device* (一種節能集中供熱控制裝置)	Lanzhou Shuangliang	ZL202120509495.6	Utility model	10 years from 10 March 2021
11.	A kind of thermal insulation pipeline for central heating* (一種集中供熱用保溫管道)	Lanzhou Shuangliang	ZL202120509533.8	Utility model	10 years from 10 March 2021
12.	A central heating device that can utilise waste heat* (一種可餘熱利用的集中供熱裝置)	Lanzhou Shuangliang	ZL202120510433.7	Utility model	10 years from 10 March 2021
13.	A kind of equipment for comprehensive utilisation of waste heat of coal slag* (一種煤渣餘熱綜合利用設備)	Lanzhou Shuangliang	ZL202120510734.X	Utility model	10 years from 10 March 2021
14.	A waste heat utilisation device for flue gas pipeline* (一種煙氣管道的餘熱利用裝置)	Lanzhou Shuangliang	ZL202120510766.X	Utility model	10 years from 10 March 2021

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
15.	A heating device for central heating* (一種用於集中供熱的取暖裝置)	Lanzhou Shuangliang	ZL202120530012.0	Utility model	10 years from 12 March 2021
16.	A distillation device for waste heat utilization* (一種餘熱利用的蒸餾裝置)	Lanzhou Shuangliang	ZL202120527592.8	Utility model	10 years from 12 March 2021
17.	An energy-saving and environmentally friendly central heating device* (一種節能環保的集中供熱裝置)	Lanzhou Shuangliang	ZL202120528433.X	Utility model	10 years from 12 March 2021
18.	an industrial heat exchanger* (一種工業用換熱器)	Lanzhou Shuangliang	ZL202120509480.X	Utility model	10 years from 10 March 2021
19.	A regenerative industrial waste heat recovery equipment* (一種蓄熱式工業餘熱回收設備)	Lanzhou Shuangliang	ZL202120509380.7	Utility model	10 years from 10 March 2021
20.	A central heating desulfurization and dust removal device* (一種集中供熱脫硫除塵裝置)	Lanzhou Shuangliang	ZL202120509792.0	Utility model	10 years from 10 March 2021
21.	A multi-module assembly heat extraction device* (一種多模塊組裝取熱設備)	Lanzhou Shuangliang	ZL202120826930.8	Utility model	10 years from 21 April 2021
22.	Low temperature flue gas waste heat recovery and utilization technology* (低溫煙氣餘熱回收利用技術)	Lanzhou Shuangliang	ZL202120831040.6	Utility model	10 years from 21 April 2021
23.	A starting pole piece processing and positioning device* (一種始極片加工定位裝置)	Lanzhou Shuangliang	ZL202120831360.1	Utility model	10 years from 22 April 2021



**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
24.	Fully sealed free expansion high temperature pellet conveying device* (全密封自由伸縮高溫粒料輸送裝置)	Lanzhou Shuangliang	ZL202120838465.X	Utility model	10 years from 22 April 2021
25.	Compound heat supply system utilising condensed waste heat recovered from main and auxiliary machines of thermal power plant* (熱電廠回收主、輔機冷凝廢熱複合式供熱系統)	Taiyuan Renewable Energy	ZL201110211919.1	Invention	20 years from 27 July 2011
26.	Steam water heat supply system utilising condensed waste heat recovered from main and auxiliary machines of thermal power plant* (熱電廠回收主、輔機冷凝廢熱汽水式供熱系統)	Taiyuan Renewable Energy	ZL201110211920.4	Invention	20 years from 27 July 2011
27.	Heat supply system utilising water with residual heat recovered from absorption heat pumps of thermal power plant* (熱電廠回收吸收式熱泵餘熱水水式供熱系統)	Taiyuan Renewable Energy	ZL201110211962.8	Invention	20 years from 27 July 2011
28.	Heat supply system utilising series circulating water of thermal power plant* (熱電廠循環水串聯式供熱系統)	Taiyuan Renewable Energy	ZL201110198908.4	Invention	20 years from 16 July 2011

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
29.	Dual water heat supply system utilising condensed waste heat recovered from auxiliary machines of thermal power plant* (熱電廠回收輔機冷凝廢熱的雙水水式供熱系統)	Taiyuan Renewable Energy	ZL201110198911.6	Invention	20 years from 16 July 2011
30.	A shared heat metering management system* (一種共享熱計量管理系統)	Taiyuan Renewable Energy	ZL201820237104.8	Utility Model	10 years from 10 February 2018
31.	An automated and unattended heat exchange station control system* (一種全自動無人值守換熱站控制系統)	Taiyuan Renewable Energy	ZL201820224646.1	Utility Model	10 years from 8 February 2018
32.	A water supply system utilising temperature-modulated and pressure-modulated spring water* (一種恒溫恒壓溫泉水供水系統)	Taiyuan Renewable Energy	ZL201820126808.8	Utility Model	10 years from 25 January 2018
33.	An unattended containerised gas boiler unit* (一種無人值守的集裝箱式燃氣鍋爐機組)	Taiyuan Renewable Energy	ZL201820120621.7	Utility model	10 years from 24 January 2018
34.	An unattended heat exchange station* (一種無人值守換熱站)	Taiyuan Renewable Energy	ZL201820109259.3	Utility model	10 years from 23 January 2018
35.	An intelligent skid-mounted heat exchange unit* (一種撬裝式智能換熱機組)	Taiyuan Renewable Energy	ZL201820109276.7	Utility model	10 years from 23 January 2018
36.	An intelligent water replenishment unit* (一種智能補水機組)	Taiyuan Renewable Energy	ZL201820109676.8	Utility model	10 years from 23 January 2018

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
37.	A dust collecting equipment for factory building* (一種廠房除塵設備)	Taiyuan Renewable Energy	ZL201920254471.3	Utility model	10 years from 28 February 2019
38.	Integrated automatic constant pressure water supply unit* (集成式自動定壓補水機組)	Shanxi Shuangliang New Energy	ZL202121737500.5	Utility model	10 years from 29 July 2021
39.	A comprehensive utilisation system of mid-deep geothermal heat and solar energy* (一種中深層地熱能、太陽能綜合利用系統)	Shanxi Shuangliang New Energy	ZL202121737569.8	Utility model	10 years from 29 July 2021
40.	An intelligent energy storage electrode boiler hot water heating system* (一種智能蓄能式電極鍋爐熱水供熱系統)	Shanxi Shuangliang New Energy	ZL202121737681.1	Utility model	10 years from 29 July 2021
41.	A novel well bore structure and well completion method for geothermal well* (一種地熱採灌井井口檢測控制裝置)	Shanxi Shuangliang New Energy	ZL201920423145.0	Utility model	10 years from 1 April 2019
42.	A split type skid-mounted heat exchange unit* (一種分體式撬裝式換熱機組)	Shanxi Shuangliang New Energy	ZL201920423161.X	Utility model	10 years from 1 April 2019
43.	Central heating pipe network return water pressurisation unit* (集中供熱管網回水加壓機組)	Shanxi Shuangliang New Energy	ZL201920272153.X	Utility model	10 years from 5 March 2019
44.	A skid-mounted mixed water heating unit* (一種撬裝式混水供熱機組)	Shanxi Shuangliang New Energy	ZL201920272164.8	Utility model	10 years from 5 March 2019
45.	Combined heating system of geothermal and central heating* (地熱和集中供熱聯合供熱系統)	Shanxi Shuangliang New Energy	ZL201920270286.3	Utility model	10 years from 4 March 2019

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
46.	An integrated skid-mounted heat exchange unit* (一種集成式撬裝式換熱機組)	Shanxi Shuangliang New Energy	ZL201920423157.3	Utility model	10 years from 1 April 2019
47.	An integrated system for recycling cooling water waste heat without improving back pressure of million-level generator* (一種不提高百萬級發電機背壓回收冷卻水餘熱的集成系統)	Zhengzhou Wise Living	ZL201920578918.2	Utility model	10 years from 26 April 2019
48.	A new type of heating device that reduces energy consumption* (一種新型降低能耗供熱裝置)	Shanxi Demonstration Zone Heat Supply	ZL202121623342.0	Utility model	10 years from 16 July 2021
49.	Multi-IoT triple heat exchange station* (多物聯網三聯供換熱站)	Shanxi Demonstration Zone Heat Supply	ZL202121623345.4	Utility model	10 years from 16 July 2021
50.	A heat storage and heat release integrated automatic control system* (一種蓄熱放熱一體式自動控制系統)	Shanxi Demonstration Zone Heat Supply	ZL202121623901.8	Utility model	10 years from 16 July 2021
51.	An infrared radiation heating system for a large-space workshop* (一種大空間廠房紅外輻射供暖系統)	Shanxi Demonstration Zone Heat Supply	ZL202121623902.2	Utility model	10 years from 16 July 2021
52.	A diversion device for dust collector cloth bag* (一種除塵器布袋用導流裝置)	Shanxi Demonstration Zone Heat Supply	ZL202022118432.6	Utility model	10 years from 24 September 2020

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
53.	An arrangement structure of thermodynamic unit with maintenance support* (一種帶維修支架的熱力機組佈置結構)	Shanxi Demonstration Zone Heat Supply	ZL202022294620.4	Utility model	10 years from 15 October 2020
54.	A horizontal water pump base* (一種臥式水泵底座)	Shanxi Demonstration Zone Heat Supply	ZL202022118417.1	Utility model	10 years from 24 September 2020
55.	Wellhead monitoring and control device for single-well circulation geothermal well* (單井循環地熱井井口監測控制裝置)	Shanxi Demonstration Zone Heat Supply	ZL202020789711.2	Utility model	10 years from 13 May 2020
56.	Medium-deep geothermal single-well circulating heating system* (中深層地熱單井循環供熱系統)	Shanxi Demonstration Zone Heat Supply	ZL202020789694.2	Utility model	10 years from 13 May 2020
57.	Medium deep geothermal single well circulating heating unit* (中深層地熱單井循環供熱機組)	Shanxi Demonstration Zone Heat Supply	ZL202020791107.3	Utility model	10 years from 13 May 2020
58.	Single well circulation geothermal heating system* (單井循環地熱供熱系統)	Shanxi Demonstration Zone Heat Supply	ZL201920269475.9	Utility model	10 years from 4 March 2019
59.	A heating system for cascade utilisation of geothermal heat* (一種地熱梯級利用供熱系統)	Shanxi Demonstration Zone Heat Supply	ZL201920254952.4	Utility model	10 years from 28 February 2019
60.	A heat storage and supply device for greenhouses* (一種用於溫室大棚的儲供熱裝置)	Taiyuan Renewable Energy	ZL202221034979.0	Utility model	10 years from 30 April 2022

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
61.	An indoor constant temperature variable flow system* (一種室內恆溫變流量供熱系統)	Taiyuan Renewable Energy	ZL202221057157.4	Utility model	10 years from 5 May 2022
62.	A combined solar and geothermal energy heating supplementary heating system* (一種太陽能和地熱能聯合供熱補熱系統)	Taiyuan Renewable Energy	ZL202221353385.6	Utility model	10 years from 31 May 2022
63.	A combined industrial waste and geothermal heating system* (一種工業餘熱和地熱聯合供熱系統)	Taiyuan Renewable Energy	ZL202221719334.0	Utility model	10 years from 4 July 2022
64.	A geothermal heating system* (一種地熱供熱系統)	Taiyuan Renewable Energy	ZL202222023443.5	Utility model	10 years from 1 August 2022
65.	An ammonia supplementing device for heat supply and exchange* (一種供熱換熱器用補氨裝置)	Shanxi Shuangliang New Energy	ZL202221516004.1	Utility model	10 years from 15 June 2022
66.	A carbon dioxide heat pump heating system* (一種二氧化碳熱泵供熱系統)	Shanxi Shuangliang New Energy	ZL202221353393.0	Utility model	10 years from 31 May 2022
67.	A biomass gas steam cycle power generation and heating system* (一種生物質燃氣蒸汽循環發電供熱系統)	Shanxi Shuangliang New Energy	ZL202221052917.2	Utility model	10 years from 5 May 2022
68.	A heating system based on geothermal and electric storage heating* (一種基於地熱和電儲熱的供熱系統)	Shanxi Demonstration Zone Heat Supply	ZL202221034978.6	Utility model	10 years from 30 April 2022

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Patent holder	Patent number	Patent type	Effective period
69.	A new type of crushing drill with double-row tapered teeth* (一種新型雙排錐形齒的破碎齒鑽頭)	Shanxi Demonstration Zone Heat Supply	ZL2022213737957	Utility model	10 years from 2 June 2022
70.	An underground well wall cleaning device* (一種地下井壁清洗用清洗裝置)	Shanxi Demonstration Zone Heat Supply	ZL202221490987.6	Utility model	10 years from 14 June 2022
71.	An ultra-long gravity heat pipe heating device* (一種超長重力熱管供熱裝置)	Shanxi Demonstration Zone Heat Supply	ZL202221506896.7	Utility model	10 years from 15 June 2022
72.	A waste-to-energy device based on the operation of geothermal new energy* (一種基於地熱新能源運轉的垃圾發電裝置)	Shanxi Demonstration Zone Heat Supply	ZL202221737705.8	Utility model	10 years from 5 July 2022

As at the Latest Practicable Date, our Group had applied for registration of the following patents, which are material to the business operation of our Group:

No.	Patent	Name of applicant	Patent type	Application number	Application date
1.	Underwater alarm device with visualisation function powered by double power sources for heat exchange stations* (換熱站雙電源浸水可視化報警裝置)	Hulunbuir Shuangliang	Invention	2021101832024	8 February 2021
2.	Comprehensive emergency drill simulator for pipelines* (管道綜合應急演練模擬器)	Hulunbuir Shuangliang	Invention	2021105416795	18 May 2021
3.	A storage and heating device for greenhouses* (一種用於溫室大棚的儲供熱裝置)	Taiyuan Renewable Energy	Utility model	2022210349790	30 April 2022

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Patent	Name of applicant	Patent type	Application number	Application date
4.	An indoor heating system of constant temperature and variable heat flow* (一種室內恆溫變流量供熱系統)	Taiyuan Renewable Energy	Utility model	2022210571574	5 May 2022
5.	A low boiling point working medium recovery and replenishment device* (一種低沸點工質回收及儲補裝置)	Shanxi Shuangliang New Energy	Utility model	2022114021281	9 November 2022

**Software copyrights**

As at the Latest Practicable Date, we had registered the following software copyrights in the PRC which are material to our business:

No.	Name of copyright	Owner	Registration number	Publication date
1.	Renewable energy pressure-modulated water supply system control software V1.0* (再生能源恆壓供水系統控制軟體V1.0)	Taiyuan Renewable Energy	2018SR220859	25 September 2016
2.	Renewable energy intelligent frequency conversion water replenishment control system V1.0* (再生能源智能變頻補水控制系統V1.0)	Taiyuan Renewable Energy	2018SR220709	20 November 2016
3.	Geothermal station geothermal cascade utilisation control system V1.0* (地熱站地熱梯級利用控制系統V1.0)	Shanxi Shuangliang New Energy	2019SR0326970	12 February 2019



**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

<b>No.</b>	<b>Name of copyright</b>	<b>Owner</b>	<b>Registration number</b>	<b>Publication date</b>
4.	Unattended heat exchange station control system V.10* (無人值守換熱站控制系統V1.0)	Shanxi Shuangliang New Energy	2019SR0323492	12 February 2019
5.	Single-well circulating geothermal heat supply control system V1.0* (單井循環地熱供熱控制系統V1.0)	Shanxi Shuangliang New Energy	2019SR0323245	12 February 2019
6.	Geothermal well wellhead monitoring system V1.0* (地熱井井口監控系統V1.0)	Shanxi Shuangliang New Energy	2019SR0323560	12 February 2019
7.	Temperature-modulated and pressure-modulated spring water control system V1.0* (恒溫恒壓溫泉水供水控制系統V1.0)	Shanxi Shuangliang New Energy	2019SR0323495	12 February 2019
8.	Heat station dual network time and district partition energy-saving control system V1.0* (熱力站二網分時分區節能控制系統V1.0)	Shanxi Shuangliang New Energy	2018SR185908	1 December 2017
9.	Shuangliang intelligent heating digital platform V1.0* (雙良智能供熱數字平台V1.0)	Lanzhou Shuangliang	2020SR1852011	14 October 2019
10.	Shuangliang smart heating production monitoring software V1.0* (雙良智慧供熱生產監控軟件V1.0)	Lanzhou Shuangliang	2020SR1852012	2 June 2019

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

No.	Name of copyright	Owner	Registration number	Publication date
11.	Shuangliang smart heating simulation analysis system V1.0* (雙良智慧供熱仿真分析系統V1.0)	Lanzhou Shuangliang	2020SR1852014	23 August 2019
12.	Shuangliang smart heating pipe network GIS software V1.0* (雙良智慧供熱管網GIS軟件V1.0)	Lanzhou Shuangliang	2020SR1852015	22 August 2019
13.	Shuangliang smart heating APP V1.0* (雙良智慧供熱APP V1.0)	Lanzhou Shuangliang	2020SR1852013	12 September 2019
14.	Shuangliang intelligent heating customer service platform V1.0* (雙良智能供熱客服平台V1.0)	Lanzhou Shuangliang	2020SR1847398	22 October 2019
15.	Shuangliang smart heating command and dispatch software V1.0* (雙良智慧供熱指揮調度軟件V1.0)	Lanzhou Shuangliang	2020SR1847397	25 March 2019
16.	Shuangliang smart heating client monitoring system V1.0* (雙良智慧供熱戶端監控系統V1.0)	Lanzhou Shuangliang	2020SR1847378	3 September 2019
17.	Shuangliang smart heating cloud platform software V1.0* (雙良智慧供熱雲平台軟件V1.0)	Lanzhou Shuangliang	2020SR1847379	20 March 2019
18.	Solar photothermal continuous heating control system without auxiliary heat V1.0* (太陽能光熱無輔熱連續供熱控制系統V1.0)	Shanxi Demonstration Zone Heat Supply	2020SR0325781	20 February 2019

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

<b>No.</b>	<b>Name of copyright</b>	<b>Owner</b>	<b>Registration number</b>	<b>Publication date</b>
19.	Single-well heat exchange and energy storage control system for medium and deep geothermal heat V1.0* (中深層地熱能單井換熱儲能控制系統V1.0)	Shanxi Demonstration Zone Heat Supply	2020SR0321737	12 June 2019
20.	Geothermal station cold and heat dual supply control system V1.0* (地熱站冷熱雙供控制系統V1.0)	Shanxi Demonstration Zone Heat Supply	2020SR0321781	15 December 2019
21.	Ground source heat pump chain control energy-saving system V1.0* (地源熱泵連鎖控制節能系統V1.0)	Shanxi Demonstration Zone Heat Supply	2020SR0321733	23 April 2019
22.	Single-well heat exchange unit control system for mid-deep geothermal heat V1.0* (中深層地熱能單井換熱機組控制系統V1.0)	Shanxi Demonstration Zone Heat Supply	2020SR0321773	30 October 2019
23.	Mid-deep geothermal heat energy-saving heating control system V1.0* (中深層地熱能節能供熱控制系統V1.0)	Shanxi Demonstration Zone Heat Supply	2020SR0321741	30 July 2019
24.	Mid-deep geothermal heating control system V1.0* (中深層地熱補熱控制系統V1.0)	Shanxi Demonstration Zone Heat Supply	2020SR0321777	5 November 2019
25.	Geothermal station automatic control system V1.0* (地熱站全自動控制系統V1.0)	Shanxi Demonstration Zone Heat Supply	2022SR0530552	2 March 2022

## APPENDIX VII STATUTORY AND GENERAL INFORMATION

### *Domain names*

As at the Latest Practicable Date, we had registered the following Internet domain names in the PRC:

No.	Domain name	Registrant	Date of registration	Expiry date
1.	hjkj.cn	Our Company	12 February 2012	12 February 2024
2.	hjkj.net	Our Company	23 March 2021	23 March 2024
3.	huijukeji.com	Our Company	17 March 2021	17 March 2024
4.	huijukeji.com.cn	Our Company	4 April 2021	4 April 2024
5.	wiseliving.com.cn	Our Company	13 June 2022	13 June 2024
6.	huijukeji.cn	Shanxi Shuangliang Renewable Energy	2 November 2015	2 November 2024
7.	sxsleyjt.cn	Shanxi Shuangliang Renewable Energy	20 July 2012	20 July 2026
8.	hlbesl.cn	Hulunbair Shuangliang	6 April 2022	6 April 2023

### FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS, STAFF, MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

#### Interests and short positions of our Directors, supervisors and the chief executive in the shares, underlying shares or debentures of our Company and our associated corporations

Immediately following the completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], the interests or short positions of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered into in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of listed issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, will be as follows:

Name of Director/supervisor/ chief executive	Long/short position	Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company	Approximate percentage of shareholding in the Domestic Shares of our Company
Mr. Geng Ming (耿鳴先生)	Long	Beneficial	[REDACTED]	[REDACTED]%	[REDACTED]%
Mr. Li Baoshan (李寶山先生)	Long	Beneficial	[REDACTED]	[REDACTED]%	[REDACTED]%

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

Further, our non-executive Directors, namely Mr. Miao Wenbin (繆文彬先生) and Mr. Ma Fulin (馬福林先生), and our supervisor, namely Mr. Ma Peilin (馬培林先生), together with other five individuals, are the respective legal and beneficial owners of the entire issued share capital of Shuangliang Technology and Jiangsu Lichuang, which in turn jointly hold [REDACTED] domestic Shares, representing approximately [REDACTED]% of the issued share capital of our Company upon the completion of the [REDACTED] (taking no account of any shares which may be allocated and issued pursuant to the exercise of [REDACTED]) within the meaning of Part XV of the SFO.

Save as disclosed herein and in “History, development and corporate structure” and “Directors, supervisors and senior management” in this document and Note 9 to the accountant’s report as set out in Appendix I to this document, none of our Directors, supervisors or their associates was engaged in any dealings with our Group during the two years preceding the date of this document. Up to the Latest Practicable Date, none of our Directors or supervisors or their respective spouses and children under 18 years of age had been granted by our Company or had exercised any rights to subscribe for shares or debentures of our Company or any of its associated corporations.

**Disclosure of interests of substantial Shareholders**

For information on the persons who will, immediately following the completion of the [REDACTED], have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, see “Substantial Shareholders” in this document.

*Interests of substantial shareholders in non wholly-owned subsidiaries of our Company*

<u>Our subsidiary</u>	<u>Registered capital</u>	<u>Party with 10% or more equity interest (other than members of the Group)</u>	<u>Approximate percentage of shareholding</u>
			(%)
Gansu Shuangliang	RMB10 million	<ul style="list-style-type: none"> <li>• Lanzhou Haohai Trading Company Limited* (蘭州瀚海商貿有限公司)</li> </ul>	• 20%
Hulunbuir Shuangliang	RMB10 million	<ul style="list-style-type: none"> <li>• Hulunbuir Dongsheng Energy Investment Company Limited* (呼倫貝爾市東升能源投資有限公司)</li> </ul>	• 15%

**APPENDIX VII STATUTORY AND GENERAL INFORMATION**

<b>Our subsidiary</b>	<b>Registered capital</b>	<b>Party with 10% or more equity interest (other than members of the Group)</b>	<b>Approximate percentage of shareholding</b> (%)
Shanxi Shuangliang Renewable Energy	RMB30 million	<ul style="list-style-type: none"> <li>• Shanxi Zhenye New Energy Company Limited* (山西真頁新能源有限公司)</li> </ul>	<ul style="list-style-type: none"> <li>• 25.22%</li> </ul>
Inner Mongolia Wise Living	RMB10 million	<ul style="list-style-type: none"> <li>• Inner Mongolia Environmental Governance Construction Company Limited* (內蒙古環境治理工程有限公司)</li> </ul>	<ul style="list-style-type: none"> <li>• 22.11%</li> </ul>
Lvliang Renewable Energy	RMB5 million	<ul style="list-style-type: none"> <li>• Mr. Xue Ming (薛銘先生)</li> </ul>	<ul style="list-style-type: none"> <li>• 10%</li> </ul>
Datong Renewable Energy	RMB5 million	<ul style="list-style-type: none"> <li>• Mr. Zhang Quan (張權先生)</li> <li>• Mr. Li Wen (李文先生)</li> </ul>	<ul style="list-style-type: none"> <li>• 15%</li> <li>• 10%</li> </ul>
Tech-Thermal (Zhengzhou)	RMB50 million	<ul style="list-style-type: none"> <li>• Zhengzhou Qindu Thermal Power Limited* (鄭州溱都熱力有限責任有限公司)</li> </ul>	<ul style="list-style-type: none"> <li>• 20%</li> </ul>

**Service contracts**

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and supervisors in respect of, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or supervisors in their respective capacities as Directors/supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

### Directors’ and supervisors’ remuneration

Save as disclosed in “Directors, supervisors and senior management – Remuneration policy and emolument of our Directors, supervisors and senior management” in this document and Note 9 to the accountant’s report as set out in Appendix I to this document, no Director or supervisor received other remuneration or benefits in kind from our Company in respect of each of the three financial years ended 31 December 2022.

### Disclaimers

- (a) Save as disclosed in “History, development and corporate structure” in this document, none of our Directors or supervisors and any of the parties listed in the paragraph headed “Qualification of experts” of this Appendix is interested in our promotion, or in any assets which, within the two years immediately preceding the date of this document, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;
- (b) none of our Directors or supervisors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;
- (c) save as disclosed in “Directors, supervisors and senior management” and “Substantial Shareholders” in this document, none of our Directors or supervisors is a director or employee that has an interest or short position in the shares and underlying shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO; and
- (d) none of the equity and debt securities (if any) of our Company is listed or dealt with on any other stock exchange or any other authorised trading facility such as the Securities Trading Automated Quotation System (證券交易自動報價系統) in the PRC, nor is any listing or permission to deal being or proposed to be sought.

### OTHER INFORMATION

#### Deed of Indemnity

Our Controlling Shareholders [have entered into] the Deed of Indemnity with and in favour of our Company (for itself and on behalf of its subsidiaries) (being the contract referred to in paragraph (a) of “Further information about our business – Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation or taxation claims resulting from income, profits or gains earned, accrued or received as well as any property claim or estate duty to which any member of our Group may be subject on or before the [REDACTED] and any expenses, costs, fines, penalties or other liabilities which any member of our Group may suffer.

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## APPENDIX VII STATUTORY AND GENERAL INFORMATION

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In addition, our Controlling Shareholders [have also given] indemnities to our Company against all fines, penalties, claims costs, charges, liabilities, damages, expenses and losses (to the extent that provision, reserve or allowance has not been made for such fines, penalties, claims, costs, charges, liabilities, damages, expenses or losses in the accounts of our Group) as may be suffered by any member of our Group as a result of any compliance incidents during the Track Record Period as required by applicable laws and regulations in the PRC.

### **Estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

### **Litigation**

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in "Business – Litigation" in this document, our Company was not involved in any litigation, arbitration, administrative proceedings of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration, administrative proceedings of material importance is pending or threatened against us.

### **Sole Sponsor**

The Sole Sponsor has made an application on our behalf to the Listing Committee for the [REDACTED] of, and [REDACTED], our H Shares. All necessary arrangements have been made to enable the securities to be admitted into [REDACTED].

The Sole Sponsor is independent from our Company under Rule 3A.07 of the Listing Rules.

A fee of HK\$9,060,000 is payable by our Company to the Sole Sponsor to act as a sponsor to our Company in connection with the [REDACTED].

### **Preliminary expenses**

We have not incurred any material preliminary expense.



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## APPENDIX VII STATUTORY AND GENERAL INFORMATION

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### Qualification of experts

The qualifications of the experts who have given opinions in this document are as follows:

<u>Name</u>	<u>Qualification</u>
Guotai Junan Capital Limited	Licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
PricewaterhouseCoopers	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Accounting and Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Llinks Law Offices	Legal advisers as to PRC law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Vincorn Consulting and Appraisal Limited	Property valuer

### Consents of experts

Each of the experts referred to “Qualification of experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their reports and/or opinions and/or the references to their names included herein in the form and context in which they are respectively included.

### Interests of experts in our Company

None of the experts referred to “Qualification of experts” in this Appendix has any equity interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

### Compliance adviser

Our Company has appointed Guotai Junan Capital Limited to act as our compliance adviser upon [REDACTED] in compliance with Rule 3A.19 of the Listing Rules.

## APPENDIX VII

## STATUTORY AND GENERAL INFORMATION

### Taxation of holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is HK\$1.3 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For more details, see “Taxation and foreign exchange – Hong Kong taxation” as set out in Appendix III to this document.

### No material adverse change

Save as disclosed in “Summary – Recent developments and no material adverse change” and “Financial information – No material adverse change and recent developments” in this document, our Directors have confirmed, after performing all the due diligence work which our Directors consider appropriate, that, as at the date of this document, there has been no other material adverse change in our financial position or prospects since 31 December 2022 and there has been no other event since 31 December 2022 which would have material adverse effect on the information presented in the accountant’s report as set out in Appendix I to this document.

### Binding effect

This document shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

### Miscellaneous

- (a) Save as disclosed in “Share capital” and “Structure of the [REDACTED]” in this document,
- (i) within the two years preceding the date of this document: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash; and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any capital of our Group;
  - (ii) no share or loan capital of our Group is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) our Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;
  - (iv) there are no arrangements under which future dividends are waived or agreed to be waived;

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## APPENDIX VII STATUTORY AND GENERAL INFORMATION

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- (v) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights; and
- (vi) our Company has no outstanding convertible debt securities or debentures;
- (b) save as disclosed in "Financial information – Contingent liabilities" in this document, there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;
- (c) our Directors confirm that there have been no interruptions in our business which may have or have had a significant effect on our financial position in the 12 months preceding the date of this document;
- (d) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;
- (e) no part of the equity or debt securities of our Company, if any, is currently listed on or traded on any stock exchange or trading system, and no such [REDACTED] or [REDACTED] on any stock exchange other than the Stock Exchange is currently being or agreed to be sought; and
- (f) our Company currently does not intend to apply for the status of a Sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures.

Our Company has adopted a code of conduct regarding Directors' and supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules with effect from the [REDACTED].

### **Bilingual document**

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

### **Promoters**

The promoters of our Company are all of the then 12 shareholders of our Company before our conversion into a joint stock company, the names of which are set out in the Articles of Association. Save as disclosed in "History, development and corporate structure" in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to the promoters in connection with the [REDACTED] and the related transactions described in this document.

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## APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

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### DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of the document;
- (b) the written consents referred to in "Other information – Consents of experts" as set out in Appendix VII to this document; and
- (c) a copy of each of the material contracts referred to in "Further information about our business – Summary of material contracts" as set out in Appendix VII to this document.

### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.hjkj.cn](http://www.hjkj.cn) up to and including the date which is 14 days from the date of this document:

- (a) the Articles of Association;
- (b) the accountant's report from PricewaterhouseCoopers in relation to the historical financial information of our Company, the text of which is set out in Appendix I to this document;
- (c) the audited financial statements of our Group for the three years ended 31 December 2022;
- (d) the report from PricewaterhouseCoopers in relation to [REDACTED] financial information, the text of which is set out in Appendix II to this document;
- (e) the material contracts referred to in "Further information about our business – Summary of material contracts" as set out in Appendix VII to this document;
- (f) the service contracts with Directors and supervisors referred to in "Further information about our Directors, supervisors, staff, management and substantial Shareholders – Service contracts" as set out in Appendix VII to this document;
- (g) the written consents referred to in "Other information – Consents of experts" as set out in Appendix VII to this document;
- (h) the legal opinions prepared by Llinks Law Offices, our legal advisers as to PRC law, in respect of certain aspects of our Group;

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**APPENDIX VIII                      DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES AND AVAILABLE FOR INSPECTION**

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- (i) the PRC Company Law, the Securities Law of the PRC (中華人民共和國證券法), the Mandatory Clauses and the Special Regulations together with their unofficial English translations;
- (j) the industry report issued by Frost & Sullivan, the summary of which is set forth in "Industry overview" in this document; and
- (k) the letter, summary of values and valuation certificates relating to our property interests prepared by Vincorn Consulting and Appraisal Limited, the texts of which are set out in Appendix IV to this document.