THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Towngas China Company Limited** (the "**Company**"), you should at once hand this Circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.

港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1083)

(1) SUBSCRIPTION OF EQUITY INTEREST IN SHANGHAI GAS CO., LTD.* BY THE COMPANY AND THEIR COOPERATION TO PROMOTE THE PROPOSED SOUTHBOUND SUBSCRIPTION OF SHARES IN THE COMPANY BY SHANGHAI GAS CO., LTD.*

AND

(2) MAJOR TRANSACTION

A letter from the Board is set out on pages 5 to 23 of this Circular.

* *For identification purposes only*

25 January 2021

CONTENTS

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In this Circular, the following expressions have the meanings set out below unless the context requires otherwise:

"Board"	the board of Directors
"Business Day"	a day excluding a Saturday or Sunday or statutory holiday in the PRC or Hong Kong
"Capital Increase"	the injection of the Consideration to the capital of the Target Company by the Company pursuant to the terms of the Capital Increase Agreement
"Capital Increase Agreement"	the capital increase agreement dated 27 October 2020 entered into between the Company, Shenergy Group and the Target Company in relation to the Capital Increase
"CAS"	the Auditing Standards for Chinese Certified Public Accountants
"Circular"	this circular dated 25 January 2021 and issued to the Shareholders
"Company"	Towngas China Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1083)
"Completion"	completion of the Capital Increase
"Conditions Precedent"	the conditions precedent to Completion as summarised in the section headed "Conditions Precedent to Completion" in the Letter from the Board
"connected person"	has the same meaning ascribed to it under the Listing Rules
"Consideration"	the aggregate amount of RMB4,700,000,000 (equivalent to approximately HK$5,538,010,000), being the total capital contribution to be injected to the Target Company by the Company pursuant to the Capital Increase Agreement
"Director(s)"	the director(s) of the Company
"Enhanced Strategic Cooperation Agreement"	the agreement on deepening the Company-Target Company cooperation dated 27 October 2020 between the Company and the Target Company, pursuant to which the Company and the Target Company agreed on certain arrangements to deepen the strategic cooperation between the parties

"Enlarged Group"	the Group together with its interest in the Target Company as an associate after Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"HKCG"	The Hong Kong and China Gas Company Limited (香港中華煤氣有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3)
"HKCG Group"	HKCG and its subsidiaries
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	the International Financial Reporting Standards
"Immediate Shareholders"	has the meaning defined in the section headed "Listing Rules Implications" in the Letter from the Board
"Latest Practicable Date"	20 January 2021, being the latest practicable date prior to the printing of this Circular for ascertaining certain information in this Circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	the date that is one (1) year after the date of the Capital Increase Agreement or such other date as may be agreed in writing by the Company, the Target Company and Shenergy Group
"percentage ratios"	has the same meaning as ascribed to it under the Listing Rules
"PRC"	the People's Republic of China, which for the purpose of this Circular excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"Proposed Southbound Subscription"	the proposed issuance of ordinary shares by the Company to the Target Company within one (1) year from the effective date of the Capital Increase Agreement, pursuant to the Enhanced Strategic Cooperation Agreement
"RMB"	Renminbi, the lawful currency of the PRC

"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Assets and Equity Exchange"	Shanghai United Assets and Equity Exchange (上海聯合產權交易所)
"Share(s)"	the issued shares of the Company
"Shareholder(s)"	the shareholders of the Company
"Shareholders Agreement"	the shareholders agreement dated 27 October 2020 between the Company, Shenergy Group and the Target Company in relation to, amongst others, the operation and management of the Target Company
"Shenergy Group"	Shenergy (Group) Company Limited* (申能（集團）有限公司), a company incorporated in the PRC with limited liability
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Shanghai Gas Co., Ltd.* (上海燃氣有限公司), a company incorporated in the PRC with limited liability
"Target Company 2019 Audited Accounts"	the audited consolidated financial statements of the Target Company for the 11 months ended 31 December 2019
"Target Company April 2020 Unaudited Accounts"	the unaudited consolidated financial statements of the Target Company for the period of 4 months ended 30 April 2020
"Target Group"	the Target Company and its subsidiaries
"Tender"	the public tender for the investment in the Target Company by way of capital contribution as announced by the Shanghai Assets and Equity Exchange on 24 June 2020
"Transaction Documents"	the Capital Increase Agreement, the Shareholders Agreement and the Enhanced Strategic Cooperation Agreement
"Valuation Report"	the valuation report issued by the Valuer in respect of the valuation of the Target Group as at 31 December 2019

"Valuer"	WeValue Advisory Limited, the independent valuer appointed by the Company to assess the valuation of the Target Group
"%"	per cent

* *For identification purposes only*

In this Circular, the HK$ equivalent of sums in RMB are calculated at the reference exchange rate of RMB1.0000: HK$1.1783 for illustration purposes only. No representation is made that any sum in RMB has been or can be converted to HK$ at the above exchange rate or at any other rates, or at all.

English names of the PRC established companies/entities in this Circular are only translations of their official Chinese names. In case of inconsistencies, the Chinese names of such companies/entities shall prevail.

港華燃氣有限公司
Towngas China Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1083)

Executive Directors:
Mr. Alfred Chan Wing-kin *(Chairman)*
Mr. Peter Wong Wai-yee *(Chief Executive Officer)*
Mr. John Ho Hon-ming *(Company Secretary)*
Mr. Martin Kee Wai-ngai *(Chief Operating Officer)*

Independent Non-Executive Directors:
Dr. Moses Cheng Mo-chi
Mr. Brian David Li Man-bun
Mr. James Kwan Yuk-choi

Registered Office:
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Head Office and Principal Place of Business in Hong Kong:
23rd Floor, 363 Java Road
North Point, Hong Kong

25 January 2021

To the Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION OF EQUITY INTEREST IN SHANGHAI GAS CO., LTD.* BY THE COMPANY AND THEIR COOPERATION TO PROMOTE THE PROPOSED SOUTHBOUND SUBSCRIPTION OF SHARES IN THE COMPANY BY SHANGHAI GAS CO., LTD.*

AND

(2) MAJOR TRANSACTION

Reference is made to the joint announcement issued by the Company and HKCG on 27 October 2020 in relation to, among other things, the proposed injection to the capital of Shanghai Gas Co., Ltd.* (上海燃氣有限公司) by the Company pursuant to the terms of the Capital Increase Agreement, the Shareholders Agreement and the Enhanced Strategic Cooperation Agreement.

This Circular is despatched to the Shareholders for information purposes only. No general meeting is required to be convened to approve the terms of, and the transaction contemplated under, the Capital Increase Agreement, including but not limited to the Company's subscription of 25% equity interest in the Target Company, as the Immediate Shareholders comprising (a) Planwise Properties Limited, (b) Superfun Enterprises Limited and (c) Hong Kong & China Gas (China) Limited (each a wholly-owned subsidiary of HKCG), holding (a) 171,524,099

Shares, (b) 2,918,639 Shares and (c) 1,850,656,677 Shares respectively (representing in aggregate approximately 68.21% of the total Shares having the right to attend and vote at a general meeting of the Company) gave their written approval of the Capital Increase on 27 October 2020, pursuant to Rule 14.44 of the Listing Rules.

Furthermore, to the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholder has any material interest in the Capital Increase. As such, no Shareholder would be required to abstain from voting if the Company were to convene a general meeting for the approval of the aforesaid.

The purpose of this Circular is to provide you with, among others, (i) further details of the Capital Increase and the Transaction Documents; and (ii) certain other information required to be disclosed under the Listing Rules or otherwise required by the Stock Exchange.

INTRODUCTION

As announced by the Company and HKCG on 27 October 2020, the Company entered into:

(a) the Capital Increase Agreement with Shenergy Group and the Target Company, pursuant to which the Company agreed to increase the registered capital and capital reserves of the Target Company by way of capital contribution in the amount of RMB4,700,000,000 (equivalent to approximately HK$5,538,010,000). Upon Completion, the equity interests in the Target Company will be owned as to 25% by the Company and 75% by Shenergy Group;

(b) the Shareholders Agreement with Shenergy Group and the Target Company in relation to, amongst others, the rights and obligations of the Company and Shenergy Group as the equity holders of the Target Company, and the operation and management of the Target Company; and

(c) the Enhanced Strategic Cooperation Agreement with the Target Company, pursuant to which the Company and the Target Company agreed to work together to promote the issuance of ordinary shares by the Company to the Target Company within one (1) year from the effective date of the Capital Increase Agreement, such that upon completion of the Proposed Southbound Subscription, the Target Company will own 25% of the issued share capital of the Company as enlarged by the Proposed Southbound Subscription.

THE CAPITAL INCREASE AGREEMENT

The Capital Increase Agreement

Date

27 October 2020

Parties

(1) the Target Company;

(2) the Company; and

(3) Shenergy Group.

Capital Increase

Pursuant to the Capital Increase Agreement, upon Completion, the registered capital of the Target Company will be increased from RMB1,000,000,000 (equivalent to approximately HK$1,178,300,000) to RMB1,333,333,333 (equivalent to approximately HK$1,571,066,666), and the remaining capital contribution by the Company in the amount of RMB4,366,666,667 (equivalent to approximately HK$5,145,243,334) will be allocated to the capital reserves of the Target Company.

As at the date of the Capital Increase Agreement, Shenergy Group owned 100% of the equity interest in the Target Company. Upon Completion, the equity interests in the Target Company will be owned as to 25% by the Company and 75% by Shenergy Group.

Consideration

The Consideration, in the amount of RMB4,700,000,000 (equivalent to approximately HK$5,538,010,000), shall be paid by the Company to a bank account specified by the Shanghai Assets and Equity Exchange within five (5) Business Days upon the Capital Increase Agreement becoming effective (see the section below headed "Conditions to the Capital Increase Agreement becoming effective" for further details).

The Consideration payable under the Capital Increase Agreement was determined through the Tender process and is on normal commercial terms, taking into account (a) the amount of approximately RMB333,333,333 (equivalent to approximately HK$392,766,666), intended to be raised by the Target Company through the Tender; (b) the valuation of the Target Company as at 31 December 2019 as assessed by the Valuer appointed by the Company, being approximately RMB14,322,484,000 (equivalent to approximately HK$16,876,182,897); and (c) the potential synergies brought by the Target Group and the HKCG Group and the Group.

The Company intends that the Consideration will be funded from internal resources and external financing, which consists of (i) presently available facilities; (ii) facilities from HKCG; and (iii) potential term loan facilities from certain banks, which are subject to applicable regulatory approval of the Capital Increase and satisfaction of other general terms and conditions before the facilities are available for use.

In addition to the Consideration, a transaction fee of RMB5,875,000 (which is equivalent to approximately HK$6,922,513) is payable (and has been paid) by the Company to the Shanghai Assets and Equity Exchange pursuant to the terms and conditions of the Tender.

Conditions to the Capital Increase Agreement becoming effective

The Capital Increase Agreement will become effective on the next day upon the satisfaction of the following conditions:

(a) the approval by the relevant PRC regulatory authorities designated to perform national security review on foreign investments in PRC companies, in respect of the Capital Increase;

(b) the approval by SASAC or its local equivalent in respect of the Capital Increase; and

(c) the Capital Increase having been approved by the Shareholders at an extraordinary general meeting of the Company or, if permitted under applicable laws (including but not limited to the Listing Rules), by the controlling shareholder of the Company in writing.

As at the Latest Practicable Date, the condition in (c) above has been satisfied.

Conditions Precedent to Completion

Under the Capital Increase Agreement, Completion is conditional upon the satisfaction of a number of Conditions Precedent, which are summarised as follows:

(a) the Capital Increase having been approved by the Shareholders at an extraordinary general meeting of the Company or, if permitted under applicable laws (including but not limited to the Listing Rules), by the controlling shareholder of the Company in writing;

(b) the Company and the Target Company having completed the national security review in respect of the Capital Increase;

(c) completion of the requisite Tender procedure of the Shanghai Assets and Equity Exchange, being the issuance of the completion certificate by the Shanghai Assets and Equity Exchange in respect of the Capital Increase;

(d) completion of the capital verification process in respect of the Capital Increase by the Target Company, and the obtaining of the capital verification report by the Target Company;

(e) completion of the requisite filing or registration for the change in ownership of state-owned assets in respect of the Capital Increase;

(f) the Target Company having completed the approval process with the relevant SASAC in respect of the Capital Increase;

(g) there being no material breach of the warranties given by the Target Company and Shenergy Group under the Capital Increase Agreement, and such warranties being true, accurate and not misleading in all material respects, and there being no breach of such warranties that would or may lead to the failure of the Company to realise the objective or expectation of the Capital Increase; and

(h) there being (i) no material adverse change to the Target Company; and (ii) no event or circumstance that exists which has a material adverse effect on, or which would affect the sustainability of, the principal business of the Target Company.

The Company shall use all reasonable endeavours to procure the satisfaction of the Conditions Precedent summarised in paragraphs (a) and (b) above as soon as possible, and in any event on or before the Long Stop Date.

Each of Shenergy Group and the Target Company shall use all reasonable endeavours to procure the satisfaction of the Conditions Precedent summarised in paragraphs (c) to (h) above as soon as possible, and in any event on or before the Long Stop Date.

If any of the Conditions Precedent has not been satisfied on or before the Long Stop Date, the Capital Increase Agreement shall be automatically terminated with immediate effect.

As at the Latest Practicable Date, the Condition Precedent in (a) above has been satisfied.

Completion

Completion shall take place on the fifth (5th) Business Day immediately following the satisfaction or waiver of the last item of the Conditions Precedent (in any event not later than the Long Stop Date), or such other date as may be agreed by the parties to the Capital Increase Agreement.

Termination rights

The Capital Increase Agreement may be terminated under any of the following circumstances:

(a) at any time as agreed between the parties to the Capital Increase Agreement, namely, the Company, Shenergy Group and the Target Company in writing; and

(b) prior to payment of the Consideration by the Company and upon written notice of at least ten (10) Business Days by the Target Company or Shenergy Group to terminate the Capital Increase Agreement on the occurrence of any of the following:

(i) any material misrepresentation or omission in the representations and warranties given by the Company;

(ii) any material breach of the terms, obligations and duties under the Capital Increase Agreement by the Company which is not effectively remedied within ten (10) Business Days of a notice regarding such breach by the Target Company or Shenergy Group; and

(iii) the Company's failure to fully pay the Consideration into the bank account specified by the Shanghai Assets and Equity Exchange in accordance with the terms of the Capital Increase Agreement, and such payment is overdue for more than ten (10) Business Days.

THE SHAREHOLDERS AGREEMENT

In connection with the Capital Increase, on 27 October 2020, the Company, Shenergy Group and the Target Company also entered into the Shareholders Agreement, governing, amongst others, the rights and obligations of the Company and Shenergy Group as the equity holders of the Target Company, and the operation and management of the Target Company.

The Shareholders Agreement

Date

27 October 2020

Parties

(1) the Target Company;

(2) the Company; and

(3) Shenergy Group.

The Company's entitlement to appoint board member

Upon Completion, the board of directors of the Target Company will comprise of five (5) directors, of which the Company will be entitled to nominate one (1) director or the deputy chairman, subject to the Company holding not less than 10% of the equity interest in the Target Company.

The Company's entitlement to appoint supervisor

Upon Completion, the supervisory board of the Target Company will comprise of three (3) supervisors, of which the Company will be entitled to nominate one (1) supervisor, subject to the Company holding not less than 10% of the equity interest in the Target Company.

The Company's entitlement to appoint senior management and other staff

Upon Completion, subject to the Company holding not less than 10% of the equity interest in the Target Company, the Company will be entitled to nominate the deputy general manager of the Target Company. The Company will also be entitled to nominate the deputy financial manager of the Target Company.

Equity holders reserved matters

Upon Completion and prior to the listing of the Target Company (if applicable), the Company, as an equity holder of the Target Company, will have veto rights over certain reserved matters of the Target Company, including but not limited to, amendment of articles of association, change in registered capital, change in principal business or initial public offering of the equity interests in the Target Company.

Board reserved matters

The director nominated by the Company to the board of directors of the Target Company, will have veto rights over certain board reserved matters of the Target Company, including but not limited to, the pricing mechanism for related party transactions of the Target Company, certain material transactions of the Target Company, certain material related party transactions of the Target Company not in the ordinary course of business, and provision of certain material guarantees or loans by the Target Company.

Equity holding restrictions on the Company

Subject to the prior written consent of the Target Company, the Company will be prohibited from holding more than 25% of the equity interest in the Target Company.

Lock-up undertaking by the Company

Subject to the prior written consent of the Target Company and certain other exceptions, the Company will be prohibited from selling or transferring all or any part of its 25% equity interest in the Target Company within three (3) years following Completion.

Pre-emptive rights of the Company

Subject to the 25% equity holding restrictions in the Target Company on the Company under the Shareholders Agreement:

(a) in the event the Target Company proposes to increase its registered capital, the Company will have a pre-emptive right to subscribe for a portion of the registered capital; and

(b) in the event Shenergy Group proposes to transfer its equity interests in the Target Company, the Company will have a right of first refusal to purchase such equity interests on the same terms under the proposed transfer by Shenergy Group.

THE ENHANCED STRATEGIC COOPERATION AGREEMENT

In connection with the Capital Increase, on 27 October 2020, the Company and the Target Company entered into the Enhanced Strategic Cooperation Agreement, pursuant to which the Company and the Target Company agreed on certain arrangements to deepen the strategic cooperation between the parties.

The Enhanced Strategic Cooperation Agreement

Date

27 October 2020

Parties

(1) the Target Company; and

(2) the Company.

The Company and the Target Company agreed to take certain actions to facilitate and implement the Proposed Southbound Subscription, with a view to achieving a cross-shareholding of 25% between the Target Company and the Company including, among other things:

(a) within one (1) year immediately following the effective date of the Capital Increase Agreement or such other period as the parties may agree, an agreement will be entered into between the Target Company and the Company in respect of the Proposed Southbound Subscription and the Proposed Southbound Subscription will become effective on the terms set out in such agreement. The Enhanced Strategic Cooperation Agreement will be automatically extended for one (1) year in the event the agreement is not entered into within such prescribed timeframe; and

(b) the Target Company and the Company will, on the basis of reciprocity and through fair, reasonable and good faith evaluation and negotiations, agree on the valuation of the Proposed Southbound Subscription based on relevant parameters as set out in the Enhanced Strategic Cooperation Agreement.

In the event the Proposed Southbound Subscription is not completed within the prescribed timeframe under the Enhanced Strategic Cooperation Agreement, each of the Target Company and the Company will discuss and negotiate in good faith on the further actions to be taken.

When the Proposed Southbound Subscription materialises, the Company will comply with the relevant Listing Rules requirements, unless an appropriate exemption is applicable or a waiver is obtained.

INFORMATION ON THE TARGET GROUP AND SHENERGY GROUP

The Target Group

The Target Company is a company incorporated in the PRC with limited liability on 27 December 2018 and commenced operation on 1 February 2019. The principal business of the Target Group includes piped gas operation, construction, operation and management of piped gas infrastructures, liquefied natural gas terminals and storages, sale of gas-related construction materials, appliances and utilities, gas-related quality control services, and gas-related technology development, consultation, services and transfer. The Target Group has 4,300 employees and about 25,000 kilometres of gas pipelines supplying gas to 6.3 million customers. The total volume of gas of the Target Company was 8.37 billion cubic metres in the 11 months ended 31 December 2019.

Equity holding structure of the Target Company before and after the Capital Increase

(i) The equity holding structure of the Target Company as at the Latest Practicable Date, and (ii) the expected equity holding structure of the Target Company immediately upon Completion are set out below:

Equity holders	**As at the Latest Practicable Date**		**Immediately upon Completion**	
	Amount of registered capital in the Target Company	*Approximate % of the registered capital of the Target Company*	*Amount of registered capital in the Target Company*	*Approximate % of the registered capital of the Target Company*
Shenergy Group	1,000,000,000	100%	1,000,000,000	75%
The Company	—	—	333,333,333	25%
Total amount of registered capital in the Target Company	**1,000,000,000**	**100%**	**1,333,333,333**	**100%**

The Company considers the Capital Increase to be a strategic investment in the Target Company and intends to hold the equity interests in the Target Company as a long-term investment. As at the Latest Practicable Date, the Company does not have any plan to increase its equity holding in the Target Company.

Financial information of the Target Company

Set out below is some financial information of the Target Company for the 11 months ended 31 December 2019 prepared in accordance with CAS, as extracted from the Target Company 2019 Audited Accounts:

	For the 11 months ended 31 December 2019 *RMB'000 (HK$'000)* Audited
Revenue	26,453,391 (equivalent to approximately HK$31,170,031)
Profit before taxation	735,389 (equivalent to approximately HK$866,509)
Profit after taxation	620,333 (equivalent to approximately HK$730,938)

Set out below is some financial information of the Target Company as at 31 December 2019 prepared in accordance with CAS, as extracted from the Target Company 2019 Audited Accounts:

	As at 31 December 2019 *RMB'000 (HK$'000)* Audited
Net asset value	5,766,072 (equivalent to approximately HK$6,794,163)

Please refer to Appendix II for further financial information of the Target Company, including a copy of the Target Company 2019 Audited Accounts.

The fair value of the Target Company as at 31 December 2019 was RMB14,322,484,000 (equivalent to approximately HK$16,876,182,897) according to the Valuation Report based on market approach.

Shenergy Group

Shenergy Group is a wholly state-owned enterprise incorporated in the PRC in 1996 with a registered capital of RMB10,000,000,000 (equivalent to approximately HK$11,783,000,000) under the supervision of Shanghai SASAC. The principal business of the Shenergy Group is the production and supply of electricity and gas, investment, construction and management of gas infrastructures including liquefied natural gas terminals and storages and investments in financial institutions. The subsidiaries of Shenergy Group include Shenergy Company Limited* (申能股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (Stock Code: 600642).

To the best of the Board's knowledge, information and belief having made all reasonable enquiries, the Target Company, Shenergy Group and their respective ultimate beneficial owners are third parties independent of the Company and their respective connected persons.

INFORMATION ON THE GROUP

The Group is a specialised gas investment and management entity focused on the sales and distribution of piped gas in the PRC including the provision of piped gas, construction of gas pipelines, the operation of city-gas pipeline networks, the operation of gas fuel automobile refilling stations, and the sale of gas household appliances.

REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The Target Group is principally engaged in the sales and distribution of piped gas (including, the procurement or production of piped gas, the construction of gas pipelines, and the operation of gas pipeline networks), which is broadly similar to the Group's business. The Target Group's network of pipes is situated mainly in the Shanghai area, an area where the Group's network of pipes currently does not extend to.

As disclosed in the Company's 2019 annual report, the Group is identifying future environmentally friendly projects that will provide both investors and Shareholders with value-added returns and contribute to the ongoing business growth of the Group. The Group shares the same management philosophy, corporate governance and customer service level with the Target Group. The Target Group is one of the leading city gas operators in the PRC. The Board believes that strategic partnership with the Target Company will strengthen the Company's business growth, profit potential and assets size, as well as its positioning in the Eastern part of China and its influence in the PRC city gas market.

The Target Group has a large customer base in Shanghai where the Group will help to grow and exploit its huge market potential in the extended business. The Target Group also possesses a liquefied natural gas receiving terminal whereas the HKCG Group has a natural gas underground salt carven storage in Jintan, Jiangsu province where these terminal and storage resources can be connected through regional gas pipelines and better utilised to benefit the stable and low cost supply of natural gas to the city gas companies of both the Target Group and the HKCG Group located in Eastern China. The Board believes that the Target Group and the HKCG Group can deepen their strong co-operation in areas of engineering, purchasing, customer service and other extended value-added business, and share the best practices in management know-how, talents and operational expertise. The Company and the Target Group will also ride on the technical expertise of both parties to develop smart energy business in Shanghai.

In light of the current projects and business of the Target Group, the Board is of the view that the Capital Increase can create regional synergies between the projects currently operated by the Target Group and the projects of the Group by broadening the Group's customer base, potentially enhance the Group's future earnings and increase the Group's market share in the relevant market. In addition, the Capital Increase is also in line with the national strategic development of Yangtze River Delta.

Accordingly, the Board is of the view that the Capital Increase Agreement has been entered into on normal commercial terms and the terms of the Capital Increase Agreement are fair and reasonable and the transactions contemplated under the Capital Increase Agreement are in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE CAPITAL INCREASE

It is expected that, upon Completion, the Company will directly hold 25% of the equity interests in the Target Company. The Target Company will therefore be treated as an associate of the Company and their results will be equity accounted for in the consolidated financial statements of the Group.

Please also refer to the pro forma effects of the Capital Increase on the assets and liabilities of the Group as if the Capital Increase were completed on 30 June 2020, as illustrated by way of the unaudited pro forma statement of assets and liabilities of the Enlarged Group set out in Appendix IV to this Circular prepared on the bases and assumptions set out in that Appendix. The unaudited pro forma statement of assets and liabilities (the compilation of which has been reported on by the auditors of the Company) is prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the assets and liabilities or other financial information of the Enlarged Group had the Capital Increase been completed as at the date stated or at any future date. The unaudited pro forma financial information should be read in conjunction with other financial information in this Circular.

LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios in respect of the Capital Increase exceed 25%, but are all less than 100%, the Capital Increase constitutes a major transaction of the Company and is therefore subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, shareholders' approval for a major transaction may be obtained by way of written shareholders' approval in lieu of holding a general meeting if (i) no shareholder is required to abstain from voting if the listed company were to convene a general meeting for the approval of the transaction; and (ii) a written shareholders' approval has been obtained from a shareholder of the listed company or a closely allied group of shareholders who together hold more than 50% of the voting rights at that general meeting to approve the transaction.

To the best of the knowledge, information and belief of the Board having made all reasonable enquiries, no Shareholder is materially interested in the Capital Increase. As such, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Capital Increase and the entry into the Transaction Documents by the Company.

On 27 October 2020, the Company obtained an irrevocable and unconditional written approval of the Capital Increase from (a) Planwise Properties Limited, (b) Superfun Enterprises Limited and (c) Hong Kong & China Gas (China) Limited (being the "**Immediate Shareholders**"), each a wholly-owned subsidiary of HKCG, holding (a) 171,524,099 Shares, (b) 2,918,639 Shares and (c) 1,850,656,677 Shares respectively, representing a total of 2,025,099,415 Shares or 68.21% of the total Shares having the right to attend and vote at a general meeting of the Company. As such written approval has been obtained from the Immediate Shareholders, no general meeting of the Company will be convened for the purpose of approving the Capital Increase.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.67(6)(a)(i) OF THE LISTING RULES

Background

Pursuant to Rule 14.67(6)(a)(i) of the Listing Rules, the Company is required to include in the Circular an accountants' report on the Target Group prepared in accordance with Chapter 4 of the Listing Rules. In this regard, it is required that: (i) the accounts on which such report is based must relate to a financial period ended six months or less before the Circular is issued; (ii) the financial information on the Target Group must be prepared using accounting policies which should be materially consistent with those of the Company; (iii) the accountants' report on the Target Group must include the financial information of the Target Group for the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019 and a further period of a few months ended on a date 6 months or less before the Circular is issued; and (iv) it is prepared under the HKFRS or the IFRS.

Waiver Sought

As the Company considers that the strict compliance with Rule 14.67(6)(a)(i) of the Listing Rules would be unduly burdensome, it has applied for waiver from strict compliance of the aforesaid Listing Rules on the following grounds:

(a) upon Completion, it is expected that the Company will hold 25% of the equity interests in the Target Company, meaning that the Target Company will only become an associate of the Company, and the financial results of the Target Group will be equity accounted for in the Company's consolidated financial statements, but will not be consolidated;

(b) the Company has no access to additional financial information of the Target Company save for the financial information contained in the Tender announcement and information pack made available during the Tender process. Even if the Company was granted access to such additional financial information by the Target Company, in order to fully comply with the requirements of Rule 14.67(6)(a)(i) of the Listing Rules, it would be impractical and unduly burdensome for the Company to engage its reporting accountants to prepare an accountants' report on the Target Group. It is expected that the reporting accountants will have to expend considerable time and manpower to carry out the audit work, even if the required financial information was made available by the Target Company to the Company, and the benefits of such work may not justify the additional work and expenses involved and a significant delay in the issue of the Circular;

(c) under the Capital Increase Agreement, the Target Company and Shenergy Group has provided representations and warranties relating to the Target Company 2019 Audited Accounts, including representations and warranties relating to the truth, completeness, accuracy, lawfulness and validity of the information disclosed by the Target Company in respect of the Capital Increase (including the Target Company 2019 Audited Accounts) by way of public announcement. The Capital Increase Agreement is conditional upon the representations and warranties given by the Target Company and Shenergy Group to the Company remaining true, accurate and not misleading in any material respects. If there is a breach of any such representations and warranties, the Company can claim against the Target Company for the loss suffered, subject to certain limitations;

(d) the nature of the business of the Target Group (including in particular its business in the supply and sale of piped gas in a city), and the similar nature of the businesses in which the Group has substantial experience in investing in the PRC; and

(e) the Company considers that there are no material differences between the accounting policies of the Target Group under CAS and the accounting policies of the Company under HKFRS, apart from applying HKFRS 9 "Financial Instruments" and HKFRS 16 "Leases". However, the Company considers that HKFRS 9 and 16 are not the most relevant metrics in assessing the investment in the Target Company, considering, among other factors that:

    (i) the leases and financial instruments (in the nature of financial assets and liabilities) of the Target Group are not particularly significant when compared to the total assets and liabilities of the Target Group; and

    (ii) in relation to HKFRS 9 (Financial Instruments): the Company considers that the differences in accounting for financial instruments in the nature of trade receivables between CAS and HKFRS will not be significant. As regards financial instruments of the Target Group in the nature of hedging instruments and hedged items, based on the Target Company 2019 Audited Accounts, the Target Company did not have any items appearing in their financial statements under this category;

(f) even though there was no available quantitative comparison of the principal differences between the Target Company's accounting policies under CAS and the Company's accounting policies under HKFRS as at the date of the Capital Increase Agreement, the Company was able to make an investment decision to enter into the Capital Increase Agreement considering that, among other things:

(i) the Company is experienced in the operation of and investment in gas infrastructure business in the PRC. When making the investment decision relating to the Capital Increase, the Company took into account, among other things, the financial information available on the Target Group, the Valuation Report, the business and operating data of the Target Group available;

(ii) the Target Company 2019 Audited Accounts was made available to the Company, albeit prepared in accordance with CAS;

(iii) the Company understands that there has been a convergence between CAS and HKFRS in many respects in recent years; and

(g) the considerations in the section headed "Reasons for and Benefits of the Capital Increase" in the Letter from the Board, which also formed part of the basis by which the Company was able to make an investment decision to enter into the Capital Increase Agreement.

ALTERNATIVE DISCLOSURE

The Company has and will disclose the following information as alternative disclosure to an accountants' report under Chapter 4 of the Listing Rules:

(a) the Target Company 2019 Audited Accounts audited by Zhonghua Certified Public Accountants LLP and prepared in accordance with CAS, as set out in Appendix II of this Circular;

(b) a summary of the material differences between the accounting policies adopted by the Target Company under CAS and those adopted by the Company under HKFRS, other than presentational differences, which would have a significant effect on the Target Company 2019 Audited Accounts had they been prepared in accordance with the accounting policies presently adopted by the Company. Please refer to the summary of the material differences as set out in Appendix II of this Circular;

(c) the Valuation Report prepared using the valuation date of 31 December 2019 and issued by WeValue Advisory Limited, the Valuer appointed by the Company, in respect of the Target Group adopting a market approach using the EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortization) multiple as the valuation approach under the guideline company method, based on a comparison to a number of comparable companies. Please refer to Appendix III of this Circular for the Valuation Report and the section headed "The Board's view on the Valuation Report" in the Letter from the Board;

(d) supplementary financial information of the Target Company for the 11 months ended 31 December 2019 which is required to be disclosed in an accountants' report pursuant to the requirements of Chapter 4 of the Listing Rules but not included in the Target Company 2019 Audited Accounts. Please refer to the section headed "3. Operating Data of the Target Company" in Appendix II of this Circular for the supplementary financial information; and

(e) a quantitative comparison of the principal differences between the Target Company's accounting policies under CAS and the Company's accounting policies under HKFRS in respect of the key balance sheet financial information of the Target Company as at the date of Completion (the "**Balance Sheet Information Comparison**") will be disclosed in the Company's interim report for the six months ended 30 June 2021. The Company's auditor will be engaged to carry out a review on the interim report.

Sufficiency of Alternative Disclosure

The Company considers that the alternative disclosure described above would provide sufficient information on the results of operation of the Target Company for the 11 months ended 31 December 2019 and the financial position as at 31 December 2019, and the preparation of the accountants' report of the Target Group for inclusion in this Circular in strict compliance with the requirements of Rules 14.67(6)(a)(i) of the Listing Rules would be unduly burdensome and would result in unnecessary time and effort being incurred.

The Company considers that the Valuation Report with a valuation date of 31 December 2019 provides relevant and meaningful reference of the valuation of the Target Company to the Shareholders. The Company understands from the Valuer that, given the latest available audited financial statements of the Target Group was the Target Company 2019 Audited Accounts, the valuation date of 31 December 2019 will be well supported by the relevant financial information. The Company further considers that the short-term market fluctuation as a result of COVID-19 would not impact the business fundamentals of the Target Group in the medium or long run due to the generally inelastic and sustainable nature of the Target Group's utility business. As such and considering the long term nature of the Company's investment in the Target Group, the Company is of the view that the Valuation Report is a meaningful alternative disclosure.

The Company further considers that the Target Company April 2020 Unaudited Accounts (as contained in the Tender invitation as announced by the Shanghai Assets and Equity Exchange on 24 June 2020) are neither necessary nor suitable for inclusion in this Circular for the following reasons:

(a) given that the Target Company April 2020 Unaudited Accounts have not been audited or reviewed by auditors, there is no independent assurance provided in respect of the financial information in it; and

(b) the Target Group's unaudited financial information for the first four months of 2020 does not provide a good representation of the financial performance of the Target Group for the full year of 2020 or for a normal year. With the impact of COVID-19 at the start of 2020, the city of Shanghai was locked down, causing serious business interruptions to commercial and industrial customers during that period of time. However, after the lockdown was released in China, industrial production and demand for gas in many parts of China gradually resumed to normal or even surpassed that in the same period in the preceding year, while the total gas sales volume recovered quickly in the second and third quarters of 2020. Such subsequent developments are not reflected in the Target Company April 2020 Unaudited Accounts.

The Company had considered some financial figures extracted from the Target Company April 2020 Unaudited Accounts, and in view of the reasons above, attached very little weight to those financial figures when making the investment decision in relation to the Capital Increase. The Company considers that with the alternative disclosure described above, the Shareholders should have sufficient information to make a properly informed assessment of the Company, even without the inclusion of the Target Company April 2020 Unaudited Accounts in this Circular.

Based on the information provided by the Company, the Stock Exchange has granted the Company waiver from strict compliance with the requirements under Rule 14.67(6)(a)(i) of the Listing Rules, subject to the disclosure of the waiver (including details, reasons and the alternative disclosures described above) in this Circular and the Company's interim report for the six months ended 30 June 2021.

THE BOARD'S VIEW ON THE VALUATION REPORT

The Board is of the view that the valuation conducted by the Valuer is fair and reasonable taking into account the following.

Market approach using EV/EBITDA multiples

The Board understands that the Valuer had considered three approaches that are generally accepted in business valuation, namely the cost approach, the income approach and the market approach, and that the market approach using EV/EBITDA multiples is adopted by the Valuer as the most appropriate valuation approach. Taking into account the nature of the Target Group's business, growth prospect and sustainability of profitability, the Board concurs with the view of the Valuer in the adoption of the market approach using EV/EBITDA multiples as the valuation approach. Please refer to pages III-11 to III-12 of the Valuation Report as set out in Appendix III of this Circular for details.

The comparable companies, as selected through the selection criteria

The Valuer has informed the Board that the comparable companies were selected mainly with reference to the following selection criteria: (a) companies with majority of the revenue deriving from natural gas transmission and distribution business, (b) companies listed on the Stock Exchange with their businesses primarily operating in the PRC, and (c) companies with financial information publicly available. The Valuer has further informed the Board that they consider that the comparable companies selected represent fair and reasonable samples, and are sufficient for the purpose of the appraisal of the Target Group. Considering the Valuer's confirmation that the comparable companies selected by the Valuer and the Target Group share similar characteristics with similar risks and returns other than outliners justified to be excluded, the Board is of the view that the comparable companies constitute a fair and representative sample. Please refer to pages III-13 to III-15 of the Valuation Report as set out in Appendix III of this Circular for details.

The adjustments applied in the valuation

The Valuer has informed the Board that it has adopted an adjustment on discount for lack of marketability ("**DLOM**") to reflect the fact that there is no ready market for shares in a private company such as the Target Company. The Valuer has also reviewed the report "Stout Restricted Stock Study Companion Guide (2019 edition)" (the "**Study**") published by independent research firm Stout Risius Ross, LLC, one of the most widely used and accepted databases available for determination of DLOM for valuation practice. The Valuer notes that the average marketability discount of 20.6% in the Study is the same as adopted by the Valuer. The Valuer understands that DLOM derived from transactions within a long time span would include sufficient samples and take market fluctuations into account. Having considered the above, the Board concurs with the Valuer's view that DLOM of 20.6% is fair and reasonable.

The Valuer has further noted that since the enterprise value of the Target Group derived from the multiples of the comparable companies reflects the implied value of the Target Group's principal operation, the value of the non-operating assets/liabilities need to be separately considered to come up with the equity value of the Target Group. As such, the Valuer noted that it has made adjustments for non-operating assets/liabilities in calculating the equity value of the Target Group, and that such adjustments are appropriate and suitable for the valuation of the Target Group. Taking into account the above, the Board concurs with the Valuer's view that such adjustments are appropriate and suitable for the valuation of the Target Group. Please refer to page III-17 of the Valuation Report as set out in Appendix III of this Circular for details of the adjustments.

THE DIRECTORS' VIEWS

The Directors (including the independent non-executive Directors) consider that the terms of the Capital Increase Agreement are fair and reasonable and the entering into of the Capital Increase Agreement, the Shareholders Agreement, the Enhanced Strategic Cooperation Agreement, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this Circular.

Yours faithfully,
By Order of the Board
Towngas China Company Limited
John Ho Hon-ming
Executive Director and Company Secretary

* *For identification purposes only*

1. FINANCIAL INFORMATION OF THE GROUP

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 is disclosed in the 2020 interim report of the Company published on 31 August 2020 and the audited consolidated financial statements of the Group (i) for the year ended 31 December 2019 is disclosed in the 2019 annual report of the Company published on 14 April 2020, (ii) for the year ended 31 December 2018 is disclosed in the 2018 annual report of the Company published on 12 April 2019, and (iii) for the year ended 31 December 2017 is disclosed in the 2017 annual report of the Company published on 18 April 2018, all of which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.towngaschina.com).

2. STATEMENT OF INDEBTEDNESS

As at 30 November 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of the Circular, the Group had outstanding borrowings and banking facilities of approximately HK$11,682 million which comprises bank loans of approximately HK$11,591 million, amounts due to non-controlling shareholders of approximately HK$62 million, loan from a non-controlling shareholder of approximately HK$21 million and loans from joint ventures of approximately HK$8 million. In addition, the Group had lease liabilities of approximately HK$58 million.

Save as disclosed above or as otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at 30 November 2020, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowings including bank overdrafts or loans or liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Capital Increase, the internal resources available to the Group, presently available facilities and facilities from HKCG, based on the assumptions that the potential term loan facilities can be successfully executed, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements for the next 12 months from the date of this Circular.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of the Group.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In connection with the Group's integrated green energy services, the Group is currently working to upgrade and transform a number of the Group's services, in addition to provision of natural gas to industrial and commercial customers. Examples include the Group's diversification into cooling, heating, steam and hot water, together with other energy-saving, value-added services. A laundry business, under the "C-Tech" brand, has been commissioned, and efforts are being made to develop the industrial and commercial applications in this market to further gas usage.

In line with this extended services strategy, the Group continues to expand the scope of services available on the cloud platform of the Group's online service centre under the Group's Towngas Lifestyle initiative. Further to gas insurance and e-commerce sales services, a brand known as "Towngas Home" has been launched to offer premium household services to residential customers. Premium domestic services relating to kitchenware, heat supply and water purification are also being provided to residential customers under the "Cosy Home" brand.

U-Tech (Guang Dong) Engineering Construction Co., Ltd, the Group's engineering services arm, continues to establish its regional business presence, providing premium engineering services to the Group's internal and external customers across many different regions into the future.

Towngas China Energy Investment Limited ("**TCEI**"), another subsidiary of the Company, is actively engaged in business development in the three major segments of regional heat supply, energy interconnection and smart energy for industrial and commercial customers. Accordingly it has achieved several breakthroughs, acquiring projects in connection with distributed photovoltaic applications and further underpinning our progress in power-related businesses. TCEI is developing extensive cooperations with professional associations and businesses in the industry, enhancing our expertise and technical abilities, while also fostering solid foundations for the business development of the Group's energy business.

The Group is confident that the short-term impact of epidemic caused by COVID-19 on business growth will be shrugged off relatively quickly, as the Group persists in its in-depth exploration of city gas markets together with its development of innovative energy and extended businesses. As ever, the Group's goal is to achieve stable business growth for the year, with solid and ongoing growth into the future.

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE TARGET COMPANY FOR THE 11 MONTHS ENDED 31 DECEMBER 2019

Auditor's Report

Zhong Kuai Zi (2020) No. 4579

To the Board of Directors of Shanghai Gas Co., Ltd.:

I. AUDIT OPINION

We have audited the financial statements of Shanghai Gas Co., Ltd. ("**Shanghai Gas Co.**") comprising the consolidated balance sheet as at 31 December 2019, and the consolidated income statement, consolidated cash flows statement and consolidated statement of changes in equity for 2019, as well as the company balance sheet as at 31 December 2019 and the company income statement, company cash flows statement and company statement of changes in equity for 2019, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the consolidated and company financial position of Shanghai Gas Co. as at 31 December 2019 and the consolidated and company operating results and cash flows for the year of 2019 in accordance with Accounting Standards for Business Enterprises ("**ASBEs**").

II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with Auditing Standards for Chinese Certified Public Accountants ("**Auditing Standards**"). Our responsibilities under those standards are further described in "AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS" section of auditor's report. We are independent of Shanghai Gas Co. and have fulfilled our other ethical responsibilities in accordance with the Code of Ethics for Chinese Certified Public Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management of Shanghai Gas Co. (the "**Management**") is responsible for preparing and presenting the financial statements in accordance with ASBEs and for the purpose of fair presentation and designing, implementing and maintaining internal control necessary to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate Shanghai Gas Co., or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of Shanghai Gas Co..

IV. AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We have also performed the following procedures:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of internal control.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Shanghai Gas Co. to continue as a going concern. If we conclude that there is material uncertainty, the Auditing Standards require us to draw attention of users of financial statements to the relevant disclosures in the financial statements. If the disclosures are inadequate, we shall express a qualified opinion. Our conclusions are based on the information available as of the date of our auditor's report. However, future events or conditions may cause Shanghai Gas Co. to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Shanghai Gas Co. to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit and remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Zhonghua Certified Public Accountants LLP	Chinese Certified Public Accountant: Cao Lei (曹磊)
	Chinese Certified Public Accountant: Guo Jingyu (郭靜瑜)
Shanghai, PRC	8 May 2020

CONSOLIDATED BALANCE SHEET

Qi Cai 01 Biao

Prepared by: Shanghai Gas Co., Ltd. 31 December 2019 Currency unit: RMB

Item	Line No.	Closing balance	Opening balance
Current assets:	1	—	—
Monetary capital	2	2,352,937,850.01	0.00
△Settlement reserves	3	0.00	0.00
△Due from banks and other financial institutions	4	0.00	0.00
☆Financial assets held for trading	5	0.00	0.00
Financial assets at fair value through profit or loss	6	0.00	0.00
Derivative financial assets	7	0.00	0.00
Notes receivable	8	0.00	0.00
Trade receivables	9	1,256,985,337.61	0.00
☆Receivables financing	10	0.00	0.00
Prepayments	11	280,736,962.03	0.00
△Premium receivables	12	0.00	0.00
△Reinsurance premium receivables	13	0.00	0.00
△Reinsurance contract reserves receivable	14	0.00	0.00
Other receivables	15	220,627,835.37	0.00
△Financial assets purchased under agreements to resell	16	0.00	0.00
Inventories	17	974,872,820.65	0.00
Including: Raw materials	18	16,400,500.44	0.00
Commodities (finished goods)	19	65,065,630.96	0.00
☆Contract assets	20	0.00	0.00
Held-for-sale assets	21	0.00	0.00
Non-current assets due within one year	22	0.00	0.00
Other current assets	23	79,735,997.33	0.00
Total current assets	24	5,165,896,803.00	0.00
Non-current assets:	25	—	—
△Loans and advances to customers	26	0.00	0.00
☆Debt investment	27	0.00	0.00
Available-for-sale financial assets	28	63,735,423.10	0.00
☆Other debt investment	29	0.00	0.00
Held-to-maturity investment	30	0.00	0.00
Long-term receivables	31	0.00	0.00
Long-term equity investment	32	598,405,927.24	0.00
☆Investment in other equity instruments	33	0.00	0.00
☆Other non-current financial assets	34	0.00	0.00
Investment properties	35	31,389,184.96	0.00
Fixed assets	36	9,329,121,788.10	0.00
Construction in progress	37	1,561,507,940.89	0.00
Productive biological assets	38	0.00	0.00

Item	Line No.	Closing balance	Opening balance
Oil and gas assets	39	0.00	0.00
☆Right-of-use assets	40	0.00	0.00
Intangible assets	41	59,722,833.98	0.00
Development expenditure	42	0.00	0.00
Goodwill	43	0.00	0.00
Long-term expenses to be amortised	44	279,339.58	0.00
Deferred income tax assets	45	165,128,412.84	0.00
Other non-current assets	46	0.00	0.00
Including: Specially approved reserved supplies	47	0.00	0.00
Total non-current assets	48	11,809,290,850.69	0.00
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	50		
	51		
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	68		
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	70		
	71		
	72		
Total assets	73	16,975,187,653.69	0.00

Item	Line No.	Closing balance	Opening balance
Current liabilities:	74	—	—
Short-term borrowings	75	770,000,000.00	0.00
△Borrowings from central bank	76	0.00	0.00
△Placements from banks and other financial institutions	77	0.00	0.00
☆Financial liabilities held for trading	78	0.00	0.00
Financial liabilities at fair value through profit or loss	79	0.00	0.00
Derivative financial liabilities	80	0.00	0.00
Notes payable	81	0.00	0.00
Trade payables	82	1,778,241,969.92	0.00
Receipts in advance	83	2,834,022,957.82	0.00
☆Contract liabilities	84	0.00	0.00
△Financial assets sold under agreements to repurchase	85	0.00	0.00
△Customer deposits and interbank deposits	86	0.00	0.00
△Amounts paid for agency securities trading	87	0.00	0.00
△Amounts paid for agency securities underwriting	88	0.00	0.00
Employee remuneration payables	89	36,819,779.39	0.00
Including: Wages payables	90	35,002,879.76	0.00
Benefits payables	91	0.00	0.00
# Including: Staff award and welfare fund	92	0.00	0.00
Tax charges payables	93	132,997,003.42	0.00
Including: Tax payable	94	131,848,184.70	0.00
Other payables	95	2,554,669,448.48	0.00
△Fees and commissions payable	96	0.00	0.00
△Reinsurance premium payable	97	0.00	0.00
Held-for-sale liabilities	98	0.00	0.00
Non-current liabilities due within one year	99	239,297,957.02	0.00
Other current liabilities	100	0.00	0.00
Total current liabilities	101	8,346,049,116.05	0.00

Item	Line No.	Closing balance	Opening balance
Non-current liabilities:	102	—	—
△Reserve fund for insurance contracts	103	0.00	0.00
Long-term borrowings	104	49,200,000.00	0.00
Bonds payables	105	0.00	0.00
Including: Preferred shares	106	0.00	0.00
Perpetual bonds	107	0.00	0.00
☆Lease liabilities	108	0.00	0.00
Long-term payables	109	0.00	0.00
Long-term employee remuneration payable	110	0.00	0.00
Estimated liabilities	111	0.00	0.00
Deferred income	112	2,746,509,855.06	0.00
Deferred income tax liabilities	113	67,356,446.33	0.00
Other non-current liabilities	114	0.00	0.00
Including: Specially approved reserved fund	115	0.00	0.00
Total non-current liabilities	116	2,863,066,301.39	0.00
Total liabilities	117	11,209,115,417.44	0.00
Equity attributable to the owners (or shareholders' equity):	118	—	—
Paid-in capital (or share capital)	119	1,000,000,000.00	0.00
State-owned capital	120	0.00	0.00
Capital attributable to state-owned legal entities	121	1,000,000,000.00	0.00
Collective capital	122	0.00	0.00
Private capital	123	0.00	0.00
Capital attributable to foreign investors	124	0.00	0.00
# Less: Reverted investment	125	0.00	0.00
Paid-in capital (or share capital), net	126	1,000,000,000.00	0.00
Other equity instruments	127	0.00	0.00
Including: Preferred shares	128	0.00	0.00
Perpetual bonds	129	0.00	0.00
Capital reserve	130	695,114,639.66	0.00
Less: Treasury shares	131	0.00	0.00
Other comprehensive income	132	1,117,906,449.66	0.00
Including: Exchange difference on translation of financial statements in foreign currencies	133	0.00	0.00
Special reserve	134	889,788,686.33	0.00
Surplus reserve	135	21,342,187.36	0.00
Including: Statutory reserve	136	21,342,187.36	0.00
Discretionary reserve	137	0.00	0.00
# Reserve funds	138	0.00	0.00
# Corporate development reserve	139	0.00	0.00
# Transfer of profit to investment	140	0.00	0.00

Item	Line No.	Closing balance	Opening balance
△General risk reserve	141	0.00	0.00
Retained earnings	142	719,133,240.31	0.00
Total equity attributable to owners of the parent company (or shareholders' equity)	143	4,443,285,203.32	0.00
* Minority interests	144	1,322,787,032.93	0.00
Total equity attributable to the owners (or shareholders' equity)	145	5,766,072,236.25	0.00
Total liabilities and total equity attributable to the owners (or shareholders' equity)	146	16,975,187,653.69	0.00

Note: Items marked with * apply exclusively to consolidated accounting statements; items marked with △ apply exclusively to financial enterprises; items marked with # apply exclusively to foreign-invested enterprises; items marked with ☆ applies to enterprises implementing new standards on revenue/financial instruments.

CONSOLIDATED INCOME STATEMENT

Qi Cai 02 Biao

Prepared by: Shanghai Gas Co., Ltd. 2019 Currency unit: RMB

Item	Line No.	Amount for the current period	Amount for the previous period
I. Total operating income	1	26,453,390,690.61	0.00
Including: Operating income	2	26,453,390,690.61	0.00
△Interest income	3	0.00	0.00
△Premiums earned	4	0.00	0.00
△Fee and commission income	5	0.00	0.00
II. Total operating costs	6	25,860,470,206.76	0.00
Including: Operating costs	7	23,966,096,826.70	0.00
△Interest expenses	8	0.00	0.00
△Fee and commission expenses	9	0.00	0.00
△Surrender value	10	0.00	0.00
△Compensation payment, net	11	0.00	0.00
△Provision of insurance liability, net	12	0.00	0.00
△Dividend on insurance policies paid	13	0.00	0.00
△Reinsurance expenditures	14	0.00	0.00
Tax and surcharges	15	131,307,613.00	0.00
Selling expenses	16	1,070,975,824.23	0.00
Administrative expenses	17	692,970,214.46	0.00
Research and development expenses	18	6,577,857.27	0.00
Finance costs	19	-7,458,128.90	0.00
Including: Interest expenses	20	36,454,990.36	0.00
Interest income	21	44,016,371.30	0.00
Net exchange loss (net gain is represented by "-")	22	0.00	0.00
Others	23	0.00	0.00
Add: Other income	24	82,255,893.83	0.00
Investment income (loss is represented by "-")	25	69,292,659.00	0.00
Including: Investments income from associates and joint ventures	26	57,487,334.95	0.00
☆Gain on derecognition of financial assets measured at amortised cost	27	0.00	0.00
△Exchange gain (loss is represented by "-")	28	0.00	0.00
☆Net gain from exposure hedges (loss is represented by "-")	29	0.00	0.00
Gain from change in fair value (loss is represented by "-")	30	0.00	0.00
☆Credit impairment loss (loss is represented by "-")	31	0.00	0.00
Asset impairment loss (loss is represented by "-")	32	1,394,729.29	0.00
Gain on disposal of assets (loss is represented by "-")	33	0.00	0.00

Item	Line No.	Amount for the current period	Amount for the previous period
III. Operating profit (loss is represented by "-")	34	745,863,765.97	0.00
Add: Non-operating income	35	3,568,470.48	0.00
Including: Government grants	36	0.00	0.00
Less: Non-operating expenses	37	14,043,398.86	0.00
IV. Total profit (total loss is represented by "-")	38	735,388,837.59	0.00
Less: Income tax expenses	39	115,055,540.61	0.00
V. Net profit (net loss is represented by "-")	40	620,333,296.98	0.00
(I) Classified by ownership of equity	41	—	—
Net profit attributable to owners of the parent company	42	642,093,899.18	0.00
* Minority interests	43	-21,760,602.20	0.00
(II) Classified by continuity of operations	44	—	—
Net profit from continuing operations	45	620,333,296.98	0.00
Net profit from discontinued operations	46	0.00	0.00
VI. Other comprehensive income after taxation, net	47	1,120,683,822.93	0.00
Other comprehensive income after taxation attributable to owners of the parent company, net	48	1,117,906,449.66	0.00
(I) Other comprehensive income which will not be reclassified to profit or loss	49	0.00	0.00
1. Re-measurement of changes in defined benefit plan	50	0.00	0.00
2. Other comprehensive income will not be transferred to profit or loss under equity method	51	0.00	0.00
☆3. Change in fair value of other investments in equity instruments	52	0.00	0.00
☆4. Change in fair value of enterprise's own credit risk	53	0.00	0.00
5. Others	54	0.00	0.00
(II) Other comprehensive income which will be reclassified to profit or loss	55	1,117,906,449.66	0.00
1. Other comprehensive income will be transferred to profit or loss under equity method	56	-2,389,657.88	0.00
☆2. Change in fair value of other debt investments	57	0.00	0.00
3. Gain/loss from change in fair value of available-for-sale financial assets	58	1,492,990.74	0.00
☆4. Amount of financial assets reclassified as other comprehensive income	59	0.00	0.00
5. Gain/loss on reclassification of held-to-maturity investment as available-for-sale financial assets	60	0.00	0.00
☆6. Provision for credit impairment of other debt investments	61	0.00	0.00
7. Cash flows hedging reserve (effective portion of gain/loss from cash flow hedging)	62	0.00	0.00
8. Exchange difference on translation of financial statements in foreign currencies	63	0.00	0.00
9. Others	64	1,118,803,116.80	0.00
* Other comprehensive income after taxation attributable to minority interests, net	65	2,777,373.27	0.00

Item	Line No.	Amount for the current period	Amount for the previous period
VII.Total comprehensive income	66	1,741,017,119.91	0.00
Total comprehensive income attributable to owners of the parent company	67	1,760,000,348.84	0.00
* Total comprehensive income attributable to minority interests	68	-18,983,228.93	0.00
VIII.Earnings per shares	69	—	—
Earnings per share, basic	70	0.00	0.00
Earnings per share, diluted	71	0.00	0.00
Supplemental Information I: (audited figures provided by financial enterprises under the supervision of municipal state-owned asset authorities)	72	—	—
Operating income	73	0.00	0.00
Add: △Interest income	74	0.00	0.00
△Premiums earned	75	0.00	0.00
△Fee and commission income, net	76	0.00	0.00
Less: △Interest expenses	77	0.00	0.00
Add: △Gain from change in fair value (loss is represented by "-")	78	0.00	0.00
△Investment income (loss is represented by "-")	79	0.00	0.00
Including: Investments income from associates and joint ventures	80	0.00	0.00
△Exchange gain (loss is represented by "-")	81	0.00	0.00
△Income from other businesses	82	0.00	0.00
Supplemental Information II:	83	—	—
☆Investment income relating to principal operations	84	0.00	0.00
☆Profit from principal operations	85	676,571,106.97	0.00
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Note: Items marked with * apply exclusively to consolidated accounting statements; items marked with △ apply exclusively to financial enterprises; items marked with ☆ applies to enterprises implementing new standards on revenue/financial instruments.

CONSOLIDATED CASH FLOWS STATEMENT

Qi Cai 03 Biao

Prepared by: Shanghai Gas Co., Ltd. 2019 Currency unit: RMB

Item	Line No.	Amount for the current period	Amount for the previous period
I. Cash flows from operating activities:	1	—	—
Cash received from the sale of goods and rendering of services	2	25,919,644,710.13	0.00
△Net increase in customer deposits and interbank deposits	3	0.00	0.00
△Net increase in borrowings from central bank	4	0.00	0.00
△Net increase in placements from other financial institutions	5	0.00	0.00
△Cash received from premiums under original insurance contracts	6	0.00	0.00
△Net cash received for reinsurance business	7	0.00	0.00
△Net increase in deposits for policyholder	8	0.00	0.00
△Net increase in financial assets at fair value through profit of loss	9	0.00	0.00
△Cash received as interest, fee and commission	10	0.00	0.00
△Net increase in placement from banks and other financial institutions	11	0.00	0.00
△Net increase in funds for repurchase business	12	0.00	0.00
△Net cash in received from agency securities trading	13	0.00	0.00
Tax refunds	14	49,476,792.29	0.00
Other cash receipts related to operating activities	15	115,198,800.95	0.00
Sub-total of cash inflows from operating activities	16	26,084,320,303.37	0.00
Cash paid for the purchase of goods and the receipt of services	17	23,211,205,385.68	0.00
△Net increase in loans and advances to customers	18	0.00	0.00
△Net increase in deposits with central bank and interbank	19	0.00	0.00
△Cash paid for compensation payments under original insurance contracts	20	0.00	0.00
△Net increase in due from banks and other financial institutions	21	0.00	0.00
△Cash paid for interest, fee and commission	22	0.00	0.00
△Cash paid for dividend on insurance policies	23	0.00	0.00
Cash paid to and for employees	24	1,206,715,890.04	0.00
Taxation paid	25	310,131,993.61	0.00
Other cash payments related to operating activities	26	853,752,184.52	0.00
Sub-total of cash outflows from operating activities	27	25,581,805,453.85	0.00
Net cash flows from operating activities	28	502,514,849.52	0.00

Item	Line No.	Amount for the current period	Amount for the previous period
II. Cash flows from investing activities:	29	—	—
Cash received from investment recovery	30	0.00	0.00
Cash received as investment income	31	39,407,073.78	0.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	32	2,055,576.57	0.00
Net cash received from disposals of subsidiaries and other business units	33	0.00	0.00
Other cash receipts related to investing activities	34	0.00	0.00
Sub-total of cash inflows from investing activities	35	41,462,650.35	0.00
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	36	1,005,526,259.78	0.00
Cash paid for investments	37	0.00	0.00
△Net increase in pledged loans	38	0.00	0.00
Net cash paid for acquisition of subsidiaries and other business units	39	0.00	0.00
Other cash payments related to investing activities	40	0.00	0.00
Sub-total of cash outflows from investing activities	41	1,005,526,259.78	0.00
Net cash flows from investing activities	42	-964,063,609.43	0.00
III. Cash flows from financing activities:	43	—	—
Cash received as investment	44	1,423,984,438.38	0.00
Including: Cash received by subsidiaries from investment of minority shareholders	45	1,423,984,438.38	0.00
Cash received from borrowings	46	770,000,000.00	0.00
△Cash received on issuance of bonds	47	0.00	0.00
Other cash receipts related to financing activities	48	1,439,021,626.27	0.00
Sub-total of cash inflows from financing activities	49	3,633,006,064.65	0.00
Cash paid for debts settlement	50	781,600,000.00	0.00
Cash paid for distribution of dividends, profits, or interest expenses	51	36,919,454.73	0.00
Including: Dividend and profit paid by subsidiaries to minority shareholders	52	0.00	0.00
Other cash payments related to financing activities	53	0.00	0.00
Sub-total of cash outflows from financing activities	54	818,519,454.73	0.00
Net cash flows from financing activities	55	2,814,486,609.92	0.00
IV. Effect of exchange rate changes on cash and cash equivalents	56	0.00	0.00
V. Net increase in cash and cash equivalents	57	2,352,937,850.01	0.00
Add: Cash and cash equivalents at beginning of year	58	0.00	0.00
VI. Cash and cash equivalents at the end of year	59	2,352,937,850.01	0.00

Note: Items marked with △ apply exclusively to financial enterprises.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Qi Cai 04 Biao
Prepared by: Shanghai Gas Co., Ltd. 2019 Currency unit: RMB

Item	Line No.	Amount for the current year							
		Equity attributable to owners of the parent company							
			Other equity instruments						
		Paid-in capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve
Column No.	–	1	2	3	4	5	6	7	8
I. Closing balance of previous year	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add: Changes in accounting policies	2	—	—	—	—	—	—	—	—
Retrospective adjustments	3	—	—	—	—	—	—	—	—
Others	4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Opening balance of current year	5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Changes for the year (decrease is represented by "-")	6	1,000,000,000.00	0.00	0.00	0.00	695,114,639.66	0.00	1,117,906,449.66	889,788,686.33
(I) Total comprehensive income	7	—	—	—	—	—	—	1,117,906,449.66	—
(II) Capital contributed/reduced by equity owner	8	100,000.00	0.00	0.00	0.00	1,695,014,639.66	0.00	0.00	645,224,707.33
1. Capital contribution by equity owners	9	0.00	—	—	—	0.00	—	—	—
2. Capital contribution by holders of other equity instruments	10	0.00	0.00	0.00	0.00	0.00	—	—	—
3. Share-based payment included in owners' equity	11	0.00	—	—	—	0.00	—	—	—
4. Others	12	100,000.00	—	—	—	1,695,014,639.66	0.00	0.00	645,224,707.33
(III) Appropriation and use of special reserve	13	0.00	—	—	—	0.00	0.00	0.00	244,563,979.00
1. Appropriation of special reserve	14	—	—	—	—	—	—	—	293,039,094.58
2. Use of special reserve	15	—	—	—	—	—	—	—	-48,475,115.58
(IV) Profit distribution	16	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation of surplus reserve	17	—	—	—	—	—	—	—	—
Including: Statutory reserve	18	—	—	—	—	—	—	—	—
Discretionary reserve	19	—	—	—	—	—	—	—	—
# Reserve funds	20	—	—	—	—	—	—	—	—
# Corporate development reserve	21	—	—	—	—	—	—	—	—
# Transfer of profit to investment	22	—	—	—	—	—	—	—	—
2. Appropriation of general risk reserve	23	—	—	—	—	—	—	—	—
3. Distribution to equity owners (or shareholders)	24	—	—	—	—	—	—	—	—
4. Others	25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) Internal movement of owners' equity	26	999,900,000.00	0.00	0.00	0.00	-999,900,000.00	0.00	0.00	0.00
1. Capital (or share capital) increased by conversion of capital reserve	27	999,900,000.00	—	—	—	-999,900,000.00	—	—	—
2. Capital (or share capital) increased by conversion of surplus reserve	28	0.00	—	—	—	—	—	—	—
3. Loss set-off by surplus reserve	29	—	—	—	—	—	—	—	—
4. Transfer of change in defined benefit plan to retained earnings	30	—	—	—	—	—	—	0.00	—
☆5. Transfer of other comprehensive income to retained earnings	31	—	—	—	—	—	—	0.00	—
6. Others	32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Closing balance of current year	33	1,000,000,000.00	0.00	0.00	0.00	695,114,639.66	0.00	1,117,906,449.66	889,788,686.33

Note: Items marked with △ apply exclusively to financial enterprises.

Item	Line No.	Amount for the current year						Amount for the previous year			
		Equity attributable to owners of the parent company						Equity attributable to owners of the parent company			
									Other equity instruments		
		Surplus reserve	△ General risk reserve	Retained profit	Sub-total	Minority interests	Total equity attributable to the owners	Paid-in capital (or share capital)	Preferred shares	Perpetual bonds	Others
Column No.	–	9	10	11	12	13	14	15	16	17	18
I. Closing balance of previous year	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add: Changes in accounting policies	2	—	—	—	—	—	—	0.00	0.00	0.00	0.00
Retrospective adjustments	3	—	—	—	—	—	—	0.00	0.00	0.00	0.00
Others	4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Opening balance of current year	5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Change (increase/decrease) for the year (decrease is represented by "-")	6	21,342,187.36	0.00	719,133,240.31	4,443,285,203.32	1,322,787,032.93	5,766,072,236.25	0.00	0.00	0.00	0.00
(I) Total comprehensive income	7	—	—	642,093,899.18	1,760,000,348.84	-18,983,228.93	1,741,017,119.91	—	—	—	—
(II) Capital contributed/reduced by equity owner	8	0.00	0.00	98,381,528.49	2,438,720,875.48	1,341,770,261.86	3,780,491,137.34	0.00	0.00	0.00	0.00
1. Capital contribution by equity owners	9	—	—	—	0.00	0.00	0.00	0.00	—	—	—
2. Capital contribution by holders of other equity instruments	10	—	—	—	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Share-based payment included in owners' equity	11	—	—	—	0.00	0.00	0.00	0.00	—	—	—
4. Others	12	0.00	0.00	98,381,528.49	2,438,720,875.48	1,341,770,261.86	3,780,491,137.34	0.00	—	—	—
(III) Appropriation and use of special reserve	13	0.00	0.00	0.00	244,563,979.00	0.00	244,563,979.00	0.00	—	—	—
1. Appropriation of special reserve	14	—	—	—	293,039,094.58	23,977,654.17	317,016,748.75	—	—	—	—
2. Use of special reserve	15	—	—	—	-48,475,115.58	-23,977,654.17	-72,452,769.75	—	—	—	—
(IV) Profit distribution	16	21,342,187.36	0.00	-21,342,187.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation of surplus reserve	17	21,342,187.36	—	-21,342,187.36	0.00	—	0.00	—	—	—	—
Including: Statutory reserve	18	21,342,187.36	—	-21,342,187.36	0.00	—	0.00	—	—	—	—
Discretionary reserve	19	0.00	—	0.00	0.00	—	0.00	—	—	—	—
# Reserve funds	20	0.00	—	0.00	0.00	—	0.00	—	—	—	—
# Corporate development reserve	21	0.00	—	0.00	0.00	—	0.00	—	—	—	—
# Transfer of profit to investment	22	0.00	—	0.00	0.00	—	0.00	—	—	—	—
2. Appropriation of general risk reserve	23	—	0.00	0.00	0.00	—	0.00	—	—	—	—
3. Distribution to equity owners (or shareholders)	24	—	—	0.00	0.00	0.00	0.00	—	—	—	—
4. Others	25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) Internal movement of owners' equity	26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital (or share capital) increased by conversion of capital reserve	27	—	—	—	0.00	—	0.00	0.00	—	—	—
2. Capital (or share capital) increased by conversion of surplus reserve	28	0.00	—	—	0.00	—	0.00	0.00	—	—	—
3. Loss set-off by surplus reserve	29	0.00	—	0.00	0.00	—	0.00	—	—	—	—
4. Transfer of change in defined benefit plan to retained earnings	30	—	—	0.00	0.00	—	0.00	—	—	—	—
☆5. Transfer of other comprehensive income to retained earnings	31	—	—	0.00	0.00	—	0.00	—	—	—	—
6. Others	32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Closing balance of current year	33	21,342,187.36	0.00	719,133,240.31	4,443,285,203.32	1,322,787,032.93	5,766,072,236.25	0.00	0.00	0.00	0.00

Note: Items marked with △ apply exclusively to financial enterprises.

Item	Line No.	Amount for the previous year									
		Equity attributable to owners of the parent company									
		Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	△ General risk reserve	Retained profit	Sub-total	Minority interests	Total equity attributable to the owners
Column No.	–	19	20	21	22	23	24	25	26	27	28
I. Closing balance of previous year	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add: Changes in accounting policies	2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retrospective adjustments	3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Others	4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Opening balance of current year	5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Changes for the year (decrease is represented by "-")	6	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(I) Total comprehensive income	7	—	—	0.00	—	—	—	0.00	0.00	0.00	0.00
(II) Capital contributed/reduced by equity owner	8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital contribution by equity owners	9	0.00	—	—	—	—	—	—	0.00	0.00	0.00
2. Capital contribution by holders of other equity instruments	10	0.00	—	—	—	—	—	—	0.00	0.00	0.00
3. Share-based payment included in owners' equity	11	0.00	—	—	—	—	—	—	0.00	0.00	0.00
4. Others	12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(III) Appropriation and use of special reserve	13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation of special reserve	14	—	—	—	0.00	—	—	—	0.00	0.00	0.00
2. Use of special reserve	15	—	—	—	0.00	—	—	—	0.00	0.00	0.00
(IV) Profit distribution	16	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation of surplus reserve	17	—	—	—	—	0.00	—	0.00	0.00	—	0.00
Including: Statutory reserve	18	—	—	—	—	0.00	—	0.00	0.00	—	0.00
Discretionary reserve	19	—	—	—	—	0.00	—	0.00	0.00	—	0.00
# Reserve funds	20	—	—	—	—	0.00	—	0.00	0.00	—	0.00
# Corporate development reserve	21	—	—	—	—	0.00	—	0.00	0.00	—	0.00
# Transfer of profit to investment	22	—	—	—	—	0.00	—	0.00	0.00	—	0.00
2. Appropriation of general risk reserve	23	—	—	—	—	—	0.00	0.00	0.00	—	0.00
3. Distribution to equity owners (or shareholders)	24	—	—	—	—	—	—	0.00	0.00	0.00	0.00
4. Others	25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) Internal movement of owners' equity	26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital (or share capital) increased by conversion of capital reserve	27	0.00	—	—	—	—	—	—	0.00	—	0.00
2. Capital (or share capital) increased by conversion of surplus reserve	28	—	—	—	—	0.00	—	—	0.00	—	0.00
3. Loss set-off by surplus reserve	29	—	—	—	—	0.00	—	0.00	0.00	—	0.00
4. Transfer of change in defined benefit plan to retained earnings	30	—	—	0.00	—	—	—	0.00	0.00	—	0.00
☆5. Transfer of other comprehensive income to retained earnings	31	—	—	0.00	—	—	—	0.00	0.00	—	0.00
6. Others	32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Closing balance of current year	33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

BALANCE SHEET

Qi Cai 01 Biao

Prepared by: Shanghai Gas Co., Ltd. 31 December 2019 Currency unit: RMB

Item	Line No.	Closing balance	Opening balance
Current assets:	1	—	—
Monetary capital	2	1,116,848,490.16	0.00
△Settlement reserves	3	0.00	0.00
△Due from banks and other financial institutions	4	0.00	0.00
☆Financial assets held for trading	5	0.00	0.00
Financial assets at fair value through profit or loss	6	0.00	0.00
Derivative financial assets	7	0.00	0.00
Notes receivable	8	0.00	0.00
Trade receivables	9	2,500,838,513.50	0.00
☆Receivables financing	10	0.00	0.00
Prepayments	11	277,911,961.95	0.00
△Premiums receivables	12	0.00	0.00
△Reinsurance premium receivables	13	0.00	0.00
△Reinsurance contract reserves receivable	14	0.00	0.00
Other receivables	15	305,555,602.10	0.00
△Financial assets purchased under agreements to resell	16	0.00	0.00
Inventories	17	0.00	0.00
Including: Raw materials	18	0.00	0.00
Commodities (finished goods)	19	0.00	0.00
☆Contract assets	20	0.00	0.00
Held-for-sale assets	21	0.00	0.00
Non-current assets due within one year	22	0.00	0.00
Other current assets	23	29,594,820.87	0.00
Total current assets	24	4,230,749,388.58	0.00
Non-current assets:	25	—	—
△Loans and advances to customers	26	0.00	0.00
☆Debt investment	27	0.00	0.00
Available-for-sale financial assets	28	0.00	0.00
☆Other debt investment	29	0.00	0.00
Held-to-maturity investment	30	0.00	0.00
Long-term receivables	31	0.00	0.00
Long-term equity investment	32	3,887,895,751.46	0.00
☆Investment in other equity instruments	33	0.00	0.00
☆Other non-current financial assets	34	0.00	0.00
Investment properties	35	0.00	0.00
Fixed assets	36	1,471,714,169.15	0.00
Construction in progress	37	0.00	0.00
Productive biological assets	38	0.00	0.00

Item	Line No.	Closing balance	Opening balance
Oil and gas assets	39	0.00	0.00
☆Right-of-use assets	40	0.00	0.00
Intangible assets	41	10,504,990.00	0.00
Development expenditure	42	0.00	0.00
Goodwill	43	0.00	0.00
Long-term expenses to be amortised	44	0.00	0.00
Deferred income tax assets	45	78,305,622.91	0.00
Other non-current assets	46	0.00	0.00
Including: Specially approved reserved supplies	47	0.00	0.00
Total non-current assets	48	5,448,420,533.52	0.00
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Total assets	73	9,679,169,922.10	0.00

Item	Line No.	Closing balance	Opening balance
Current liabilities:	74	—	—
Short-term borrowings	75	400,000,000.00	0.00
△Borrowings from central bank	76	0.00	0.00
△Placements from banks and other financial institutions	77	0.00	0.00
☆Financial liabilities held for trading	78	0.00	0.00
Financial liabilities at fair value through profit or loss	79	0.00	0.00
Derivative financial liabilities	80	0.00	0.00
Notes payable	81	0.00	0.00
Trade payables	82	949,019,962.17	0.00
Receipts in advance	83	570,868,215.89	0.00
☆Contract liabilities	84	0.00	0.00
△Financial assets sold under agreements to repurchase	85	0.00	0.00
△Customer deposits and interbank deposits	86	0.00	0.00
△Amounts paid for agency securities trading	87	0.00	0.00
△Amounts paid for agency securities underwriting	88	0.00	0.00
Employee remuneration payables	89	0.00	0.00
Including: Wages payables	90	0.00	0.00
Benefits payable	91	0.00	0.00
# Including: Staff award and welfare fund	92	0.00	0.00
Tax charges payables	93	80,154,156.24	0.00
Including: Tax payable	94	77,348,892.28	0.00
Other payables	95	3,602,183,410.30	0.00
△Fees and commissions payable	96	0.00	0.00
△Reinsurance premium payable	97	0.00	0.00
Held-for-sale liabilities	98	0.00	0.00
Non-current liabilities due within one year	99	0.00	0.00
Other current liabilities	100	0.00	0.00
Total current liabilities	101	5,602,225,744.60	0.00

Item	Line No.	Closing balance	Opening balance
Non-current liabilities:	102	—	—
△Reserve fund for insurance contracts	103	0.00	0.00
Long-term borrowings	104	0.00	0.00
Bonds payables	105	0.00	0.00
Including: Preferred shares	106	0.00	0.00
Perpetual bonds	107	0.00	0.00
☆Lease liabilities	108	0.00	0.00
Long-term payables	109	0.00	0.00
Long-term employee remuneration payable	110	0.00	0.00
Estimated liabilities	111	0.00	0.00
Deferred income	112	0.00	0.00
Deferred income tax liabilities	113	0.00	0.00
Other non-current liabilities	114	0.00	0.00
Including: Specially approved reserved fund	115	0.00	0.00
Total non-current liabilities	116	0.00	0.00
Total liabilities	117	5,602,225,744.60	0.00
Equity attributable to the owners (or shareholders' equity):	118	—	—
Paid-in capital (or share capital)	119	1,000,000,000.00	0.00
State-owned capital	120	0.00	0.00
Capital attributable to state-owned legal entities	121	1,000,000,000.00	0.00
Collective capital	122	0.00	0.00
Private capital	123	0.00	0.00
Capital attributable to foreign investors	124	0.00	0.00
# Less: Reverted investment	125	0.00	0.00
Paid-in capital (or share capital), net	126	1,000,000,000.00	0.00
Other equity instruments	127	0.00	0.00
Including: Preferred shares	128	0.00	0.00
Perpetual bonds	129	0.00	0.00
Capital reserve	130	1,876,007,362.35	0.00
Less: Treasury shares	131	0.00	0.00
Other comprehensive income	132	0.00	0.00
Including: Exchange difference on translation of financial statements in foreign currencies	133	0.00	0.00
Special reserve	134	889,133,413.10	0.00
Surplus reserve	135	21,342,187.36	0.00
Including: Statutory reserve	136	21,342,187.36	0.00
Discretionary reserve	137	0.00	0.00
# Reserve funds	138	0.00	0.00
# Corporate development reserve	139	0.00	0.00
# Transfer of profit to investment	140	0.00	0.00

Item	Line No.	Closing balance	Opening balance
△General risk reserve	141	0.00	0.00
Retained earnings	142	290,461,214.69	0.00
Total equity attributable to owners of the parent company (or shareholders' equity)	143	4,076,944,177.50	0.00
* Minority interests	144	0.00	0.00
Total equity attributable to the owners (or shareholders' equity)	145	4,076,944,177.50	0.00
Total liabilities and total equity attributable to the owners (or shareholders' equity)	146	9,679,169,922.10	0.00

Note: Items marked with * apply exclusively to consolidated accounting statements; items marked with △ apply exclusively to financial enterprises; items marked with # apply exclusively to foreign-invested enterprises; items marked with ☆ applies to enterprises implementing new standards on revenue/financial instruments.

INCOME STATEMENT

Qi Cai 02 Biao

Prepared by: Shanghai Gas Co., Ltd. 2019 Currency unit: RMB

Item	Line No.	Amount for the current period	Amount for the previous period
I. Total operating income	1	20,540,532,367.59	0.00
Including: Operating income	2	20,540,532,367.59	0.00
△Interest income	3	0.00	0.00
△Premiums earned	4	0.00	0.00
△Fee and commission income	5	0.00	0.00
II. Total operating costs	6	20,250,601,684.73	0.00
Including: Operating costs	7	20,054,211,179.83	0.00
△Interest expenses	8	0.00	0.00
△Fee and commission expenses	9	0.00	0.00
△Surrender value	10	0.00	0.00
△Compensation payment, net	11	0.00	0.00
△Provision of insurance liability, net	12	0.00	0.00
△Dividend on insurance policies paid	13	0.00	0.00
△Reinsurance expenditures	14	0.00	0.00
Tax and surcharges	15	21,179,886.72	0.00
Selling expenses	16	7,762,964.58	0.00
Administrative expenses	17	169,877,511.27	0.00
Research and development expenses	18	1,775,377.36	0.00
Finance costs	19	-4,205,235.03	0.00
Including: Interest expenses	20	7,279,554.25	0.00
Interest income	21	11,563,611.45	0.00
Net exchange loss (net gain is represented by "-")	22	0.00	0.00
Others	23	0.00	0.00
Add: Other income	24	0.00	0.00
Investment income (loss is represented by "-")	25	0.00	0.00
Including: Investments income from associates and joint ventures	26	0.00	0.00
☆Gain on derecognition of financial assets measured at amortised cost	27	0.00	0.00
△Exchange gain (loss is represented by "-")	28	0.00	0.00
☆Net gain from exposure hedges (loss is represented by "-")	29	0.00	0.00
Gain from change in fair value (loss is represented by "-")	30	0.00	0.00
☆Credit impairment loss (loss is represented by "-")	31	0.00	0.00
Asset impairment loss (loss is represented by "-")	32	-456,873.41	0.00
Gain on disposal of assets (loss is represented by "-")	33	0.00	0.00

Item	Line No.	Amount for the current period	Amount for the previous period
III. Operating profit (loss is represented by "-")	34	289,473,809.45	0.00
Add: Non-operating income	35	0.18	0.00
Including: Government grants	36	0.00	0.00
Less: Non-operating expenses	37	1,391.69	0.00
IV. Total profit (loss is represented by "-")	38	289,472,417.94	0.00
Less: Income tax expenses	39	76,050,544.38	0.00
V. Net profit (net loss is represented by "-")	40	213,421,873.56	0.00
(I) Classified by ownership of equity	41	—	—
Net profit attributable to owners of the parent company	42	213,421,873.56	0.00
* Minority interests	43	0.00	0.00
(II) Classified by continuity of operations	44	—	—
Net profit from continuing operations	45	213,421,873.56	0.00
Net profit from discontinued operations	46	0.00	0.00
VI. Other comprehensive income after taxation, net	47	0.00	0.00
Other comprehensive income after taxation attributable to owners of the parent company, net	48	0.00	0.00
(I) Other comprehensive income which will not be reclassified to profit or loss	49	0.00	0.00
1. Re-measurement of changes in defined benefit plan	50	0.00	0.00
2. Other comprehensive income will not be transferred to profit or loss under equity method	51	0.00	0.00
☆3. Change in fair value of other investments in equity instruments	52	0.00	0.00
☆4. Change in fair value of enterprise's own credit risk	53	0.00	0.00
5. Others	54	0.00	0.00
(II) Other comprehensive income which will be reclassified to profit or loss	55	0.00	0.00
1. Other comprehensive income will be transferred to profit or loss under equity method	56	0.00	0.00
☆2. Change in fair value of other debt investments	57	0.00	0.00
3. Gain/loss from change in fair value of available-for-sale financial assets	58	0.00	0.00
☆4. Amount of financial assets reclassified as other comprehensive income	59	0.00	0.00
5. Gain/loss on reclassification of held-to-maturity investment as available-for-sale financial assets	60	0.00	0.00
☆6. Provision for credit impairment of other debt investments	61	0.00	0.00
7. Cash flows hedging reserve (effective portion of gain/loss from cash flow hedging)	62	0.00	0.00
8. Exchange difference on translation of financial statements in foreign currencies	63	0.00	0.00
9. Others	64	0.00	0.00
* Other comprehensive income after taxation attributable to minority interests, net	65	0.00	0.00

Item	Line No.	Amount for the current period	Amount for the previous period
VII.Total comprehensive income	66	213,421,873.56	0.00
Total comprehensive income attributable to owners of the parent company	67	213,421,873.56	0.00
* Total comprehensive income attributable to minority interests	68	0.00	0.00
VIII. Earnings per shares	69	—	—
Earnings per share, basic	70	0.00	0.00
Earnings per share, diluted	71	0.00	0.00
Supplemental Information I: (audited figures provided by financial enterprises under the supervision of municipal state-owned asset authorities)	72	—	—
Operating income	73	0.00	0.00
Add: △Interest income	74	0.00	0.00
△Premiums earned	75	0.00	0.00
△Fee and commission income, net	76	0.00	0.00
Less: △Interest expenses	77	0.00	0.00
Add: △Gain from change in fair value (loss is represented by "-")	78	0.00	0.00
△Investment income (loss is represented by "-")	79	0.00	0.00
Including: Investments income from associates and joint ventures	80	0.00	0.00
△Exchange gain (loss is represented by "-")	81	0.00	0.00
△Income from other businesses	82	0.00	0.00
Supplemental Information II:	83	—	—
☆Investment income relating to principal operations	84	0.00	0.00
☆Profit from principal operations	85	289,473,809.45	0.00
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Note: Items marked with * apply exclusively to consolidated accounting statements; items marked with △ apply exclusively to financial enterprises; items marked with ☆ applies to enterprises implementing new standards on revenue/financial instruments.

CASH FLOWS STATEMENT

Qi Cai 03 Biao

Prepared by: Shanghai Gas Co., Ltd. 2019 Currency unit: RMB

Item	Line No.	Amount for the current period	Amount for the previous period
I. Cash flows from operating activities:	1	—	—
Cash received from the sale of goods and rendering of services	2	22,427,108,256.64	0.00
△Net increase in customer deposits and interbank deposits	3	0.00	0.00
△Net increase in borrowings from central bank	4	0.00	0.00
△Net increase in placements from other financial institutions	5	0.00	0.00
△Cash received from premiums under original insurance contracts	6	0.00	0.00
△Net cash received for reinsurance business	7	0.00	0.00
△Net increase in deposits for policyholder	8	0.00	0.00
△Net increase in financial assets at fair value through profit of loss	9	0.00	0.00
△Cash received as interest, fee and commission	10	0.00	0.00
△Net increase in placements from banks and other financial institutions	11	0.00	0.00
△Net increase in funds for repurchase business	12	0.00	0.00
△Net cash received from agency securities trading	13	0.00	0.00
Tax refunds	14	0.00	0.00
Other cash receipts related to operating activities	15	459,928.57	0.00
Sub-total of cash inflows from operating activities	16	22,427,568,185.21	0.00
Cash paid for the purchase of goods and the receipt of services	17	22,820,519,645.61	0.00
△Net increase in loans and advances to customers	18	0.00	0.00
△Net increase in deposits with central bank and interbank	19	0.00	0.00
△Cash paid for compensation payments under original insurance contracts	20	0.00	0.00
△Net increase in due from banks and other financial institutions	21	0.00	0.00
△Cash paid for interest, fee and commission	22	0.00	0.00
△Cash paid for dividend on insurance policies	23	0.00	0.00
Cash paid to and for employees	24	34,821,467.69	0.00
Taxation paid	25	130,257,985.99	0.00
Other cash payments related to operating activities	26	132,684,003.41	0.00
Sub-total of cash outflows from operating activities	27	23,118,283,102.70	0.00
Net cash flows from operating activities	28	-690,714,917.49	0.00

Item	Line No.	Amount for the current period	Amount for the previous period
II. Cash flows from investing activities:	29	—	—
Cash received from investment recovery	30	0.00	0.00
Cash received as investment income	31	0.00	0.00
Net cash received from disposals of fixed assets, intangible assets and other long-term assets	32	0.00	0.00
Net cash received from disposals of subsidiaries and other business units	33	0.00	0.00
Other cash receipts related to investing activities	34	0.00	0.00
Sub-total of cash inflows from investing activities	35	0.00	0.00
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	36	8,207,489.93	0.00
Cash paid for investments	37	0.00	0.00
△ Net increase in pledged loans	38	0.00	0.00
Net cash paid for acquisition of subsidiaries and other business units	39	0.00	0.00
Other cash payments related to investing activities	40	0.00	0.00
Sub-total of cash outflows from investing activities	41	8,207,489.93	0.00
Net cash flows from investing activities	42	-8,207,489.93	0.00
III. Cash flows from financing activities:	43	—	—
Cash received as investment	44	0.00	0.00
Including: Cash received by subsidiaries from investment of minority shareholders	45	0.00	0.00
Cash received from borrowings	46	400,000,000.00	0.00
△Cash received on issuance of bonds	47	0.00	0.00
Other cash receipts related to financing activities	48	1,424,948,420.08	0.00
Sub-total of cash inflows from financing activities	49	1,824,948,420.08	0.00
Cash paid for debts settlement	50	0.00	0.00
Cash paid for distribution of dividends, profits, or interest expenses	51	9,177,522.50	0.00
Including: Dividend and profit paid by subsidiaries to minority shareholders	52	0.00	0.00
Other cash payments related to financing activities	53	0.00	0.00
Sub-total of cash outflows from financing activities	54	9,177,522.50	0.00
Net cash flows from financing activities	55	1,815,770,897.58	0.00
IV. Effect of exchange rate changes on cash and cash equivalents	56	0.00	0.00
V. Net increase in cash and cash equivalents	57	1,116,848,490.16	0.00
Add: Cash and cash equivalents at beginning of year	58	0.00	0.00
VI. Cash and cash equivalents at the end of year	59	1,116,848,490.16	0.00

Note: Items marked with △ apply exclusively to financial enterprises.

STATEMENT OF CHANGES IN EQUITY

Qi Cai 04 Biao

Prepared by: Shanghai Gas Co., Ltd. 2019 Currency unit: RMB

Item	Line No.	Amount for the current year													
		Equity attributable to owners of the parent company												Minority interests	Total equity attributable to the owners
		Paid-in capital (or share capital)	Other equity instruments: Preferred shares	Other equity instruments: Perpetual bonds	Other equity instruments: Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	△ General risk reserve	Retained profit	Sub-total		
Column No.	–	1	2	3	4	5	6	7	8	9	10	11	12	13	14
I. Closing balance of previous year	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add: Changes in accounting policies	2	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Retrospective adjustments	3	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Others	4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Opening balance of current year	5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Changes for the year (decrease is represented by "-")	6	1,000,000,000.00	0.00	0.00	0.00	1,876,007,362.35	0.00	0.00	889,133,413.10	21,342,187.36	0.00	290,461,214.69	4,076,944,177.50	0.00	4,076,944,177.50
(I) Total comprehensive income	7	–	–	–	–	–	–	0.00	–	–	–	213,421,873.56	213,421,873.56	0.00	213,421,873.56
(II) Capital contributed/reduced by equity owner	8	100,000.00	0.00	0.00	0.00	2,875,907,362.35	0.00	0.00	645,224,707.33	0.00	0.00	98,381,528.49	3,619,613,598.17	0.00	3,619,613,598.17
1. Capital contribution by equity owners	9	0.00	–	–	–	0.00	–	–	–	–	–	–	0.00	0.00	0.00
2. Capital contribution by holders of other equity instruments	10	0.00	0.00	0.00	0.00	0.00	–	–	–	–	–	–	0.00	0.00	0.00
3. Share-based payment included in owners' equity	11	0.00	–	–	–	0.00	–	–	–	–	–	–	0.00	0.00	0.00
4. Others	12	100,000.00	–	–	–	2,875,907,362.35	0.00	0.00	645,224,707.33	0.00	0.00	98,381,528.49	3,619,613,598.17	0.00	3,619,613,598.17
(III) Appropriation and use of special reserve	13	0.00	–	–	–	0.00	0.00	0.00	243,908,705.77	0.00	0.00	0.00	243,908,705.77	0.00	243,908,705.77
1. Appropriation of special reserve	14	–	–	–	–	–	–	–	246,056,432.32	–	–	–	246,056,432.32	0.00	246,056,432.32
2. Use of special reserve	15	–	–	–	–	–	–	–	-2,147,726.55	–	–	–	-2,147,726.55	0.00	-2,147,726.55
(IV) Profit distribution	16	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21,342,187.36	0.00	-21,342,187.36	0.00	0.00	0.00
1. Appropriation of surplus reserve	17	–	–	–	–	–	–	–	–	21,342,187.36	–	-21,342,187.36	0.00	–	0.00
Including: Statutory reserve	18	–	–	–	–	–	–	–	–	21,342,187.36	–	-21,342,187.36	0.00	–	0.00
Discretionary reserve	19	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
# Reserve funds	20	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
# Corporate development reserve	21	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
# Transfer of profit to investment	22	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
2. Appropriation of general risk reserve	23	–	–	–	–	–	–	–	–	–	0.00	0.00	0.00	–	0.00
3. Distribution to equity owners (or shareholders)	24	–	–	–	–	–	–	–	–	–	–	0.00	0.00	0.00	0.00
4. Others	25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) Internal movement of owners' equity	26	999,900,000.00	0.00	0.00	0.00	-999,900,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital (or share capital) increased by conversion of capital reserve	27	999,900,000.00	–	–	–	-999,900,000.00	–	–	–	–	–	–	0.00	–	0.00
2. Capital (or share capital) increased by conversion of surplus reserve	28	0.00	–	–	–	–	–	–	–	0.00	–	–	0.00	–	0.00
3. Loss set-off by surplus reserve	29	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
4. Transfer of change in defined benefit plan to retained earnings	30	–	–	–	–	–	–	0.00	–	–	–	0.00	0.00	–	0.00
☆5. Transfer of other comprehensive income to retained earnings	31	–	–	–	–	–	–	0.00	–	–	–	0.00	0.00	–	0.00
6. Others	32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Closing balance of current year	33	1,000,000,000.00	0.00	0.00	0.00	1,876,007,362.35	0.00	0.00	889,133,413.10	21,342,187.36	0.00	290,461,214.69	4,076,944,177.50	0.00	4,076,944,177.50

Note: items marked with △ apply exclusively to financial enterprises; items marked with # apply exclusively to foreign-invested enterprises; items marked with ☆ applies to enterprises implementing new standards on revenue/financial instruments.

Item	Line No.	Amount for the previous year													
		Equity attributable to owners of the parent company												Minority interests	Total equity attributable to the owners
		Paid-in capital (or share capital)	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	△ General risk reserve	Retained profit	Sub-total		
			Preferred shares	Perpetual bonds	Others										
Column No.	–	15	16	17	18	19	20	21	22	23	24	25	26	27	28
I. Closing balance of previous year	1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Add: Changes in accounting policies	2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retrospective adjustments	3	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Others	4	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Opening balance of current year	5	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
III. Changes for the year (decrease is represented by "-")	6	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(I) Total comprehensive income	7	–	–	–	–	–	–	0.00	–	–	–	0.00	0.00	0.00	0.00
(II) Capital contributed/reduced by equity owner	8	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital contribution by equity owners	9	0.00	–	–	–	0.00	–	–	–	–	–	–	0.00	0.00	0.00
2. Capital contribution by holders of other equity instruments	10	0.00	0.00	0.00	0.00	0.00	–	–	–	–	–	–	0.00	0.00	0.00
3. Share-based payment included in owners' equity	11	0.00	–	–	–	0.00	–	–	–	–	–	–	0.00	0.00	0.00
4. Others	12	0.00	–	–	–	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(III) Appropriation and use of special reserve	13	0.00	–	–	–	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation of special reserve	14	–	–	–	–	–	–	–	0.00	–	–	–	0.00	0.00	0.00
2. Use of special reserve	15	–	–	–	–	–	–	–	0.00	–	–	–	0.00	0.00	0.00
(IV) Profit distribution	16	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Appropriation of surplus reserve	17	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
Including: Statutory reserve	18	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
Discretionary reserve	19	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
# Reserve funds	20	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
# Corporate development reserve	21	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
# Transfer of profit to investment	22	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
2. Appropriation of general risk reserve	23	–	–	–	–	–	–	–	–	–	0.00	0.00	0.00	–	0.00
3. Distribution to equity owners (or shareholders)	24	–	–	–	–	–	–	–	–	–	–	0.00	0.00	0.00	0.00
4. Others	25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) Internal movement of owners' equity	26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Capital (or share capital) increased by conversion of capital reserve	27	0.00	–	–	–	0.00	–	–	–	–	–	–	0.00	–	0.00
2. Capital (or share capital) increased by conversion of surplus reserve	28	0.00	–	–	–	–	–	–	–	0.00	–	–	0.00	–	0.00
3. Loss set-off by surplus reserve	29	–	–	–	–	–	–	–	–	0.00	–	0.00	0.00	–	0.00
4. Transfer of change in defined benefit plan to retained earnings	30	–	–	–	–	–	–	0.00	–	–	–	0.00	0.00	–	0.00
☆5. Transfer of other comprehensive income to retained earnings	31	–	–	–	–	–	–	0.00	–	–	–	0.00	0.00	–	0.00
6. Others	32	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Closing balance of current year	33	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Note: items marked with △ apply exclusively to financial enterprises; items marked with # apply exclusively to foreign-invested enterprises; items marked with ☆ applies to enterprises implementing new standards on revenue/financial instruments.

Shanghai Gas Co., Ltd.
Notes to the 2019 financial statements

I. GENERAL INFORMATION OF THE COMPANY

In December 2018, Shanghai Gas (Group) Co., Ltd. implemented a structural adjustment to its business segments to optimise the allocation of resources and approved the division of Shanghai Gas (Group) Co., Ltd. into two companies with limited liability, being the subsisting company and the spin-off company. The new company is "Shanghai Gas Co., Ltd." (hereinafter the "Company"). Its uniform social credit code is 91310115MA1K49935Q, and its registered capital amounts to RMB1,000 million, held 100% by Shenergy (Group) Company Limited; the legal representative of the Company is Mr. Wang Zhehong (王者洪). The term of operation of the Company is up to December 2043. Its registered address is Unit 1009, No. 958 Lujiazhui Ring Road, Pudong New District, Shanghai (上海市浦東新區陸家嘴環路958號1009室). Its scope of operation comprises gas operations, construction, operation and management of infrastructure gas facilities, sales of gas equipment and apparatus and construction materials, quality inspection technical services, technology development, consultation, services and transfer in the energy technology sector, and import and export of goods and technologies (subject to the obtaining of relevant licenses in case of licensed operations).

The Company officially established its account books and came into operation on 31 January 2019.

II. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The Company has prepared the financial statements on a going-concern basis based on actual transactions and events, which have been recognised and measured in accordance with "ASBEs — Basic Standards" and other accounting standards.

Based on the Company's assessment, its ability to continue as a going concern in the 12 months following the end of the reporting period is sound, and there is no factor that would cast significant doubt on its ability to continue as a going concern.

III. STATEMENT OF COMPLIANCE WITH ASBES

The financial statements prepared by the Company are in compliance with requirements of ASBEs and have presented a true and complete information such as the Company's financial position, operating results, change in owners' equity and cash flows.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

(I) Accounting period

The accounting period is from 1 January to 31 December.

(II) Bookkeeping base currency

The bookkeeping base currency of the Company is RMB.

(III) Basis of measurement and pricing principle

The Company's accounting items are generally measured at historical cost. Where measurement at replacement cost, net realisable value, present value or fair value is required under ASBEs, such measurement shall only be conducted if definitive amounts of such accounting items can be obtained and reliably measured.

(IV) Accounting treatment of business combinations under common control and business combinations not under common control

1. Business combinations under common control

A business combination under common control is a business combination in which the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Where the combining party settles the consideration for combination by way of cash payment, transfer of non-cash assets or obligation of debts, the initial investment cost of long-term equity investment is stated as the portion of the carrying amount of the owners' equity of the combining party acquired at the combination date is stated as initial investment cost of long-term equity investment. Any difference between the initial investment cost of long-term equity investment and the carrying amount of cash paid, non-cash assets transfer or debts assumed is recognised by adjusting the capital reserve; if the capital reserve is not sufficient to absorb the difference, any excess is recognised by adjusting retained profits. Any cost directly attributable to the combination is recognised in profit or loss in the current period when incurred.

Where the combining party settles the consideration for combination by way of issuance of equity securities, the initial investment cost of long-term equity investment is stated as the portion of the carrying amount of the owners' equity of the combining party stated in the consolidated financial statements of the ultimate controller at the combination date, and share capital is stated as the total nominal value of shares issued. Any difference between the initial investment cost of long-term equity investment and the total nominal value of shares issued recognised by adjusting the capital reserve; if the capital reserve is not sufficient to absorb the difference, any excess is recognised by adjusting retained profits.

The cost of intermediaries such as audit, legal service and valuation consultancy fees and other relevant management fees incurred by the combining party in connection with the business combination is recognised in profit or loss in the current period when incurred.

2. Business combinations not under common control

A business combination not under common control is a business combination in which the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where the business combination is facilitated through a one-off swap transaction by the acquirer, the combination cost is represented by the fair value of the assets given, liabilities incurred or assumed and equity securities issued by the acquirer at the acquisition date for the acquisition of control over the acquiree. The cost of intermediaries such as audit, legal service and valuation consultancy fees and other relevant management fees incurred by the acquirer in connection with the business combination is recognised in profit or loss in current period as incurred; the transaction cost of the issuance of equity or debt securities by the acquirer as consideration for combination is included in the initial recognition of the amount of the equity or debt securities.

The combination cost and net identifiable assets obtained by the acquirer are measured at fair value at the acquisition date. The difference represented by the excess of the combination cost over the fair value of attributable net identifiable assets obtained by the acquiree at the acquisition date in the combination is recognised as goodwill; the difference represented by the excess of the fair value of attributable net identifiable assets obtained by the acquirer in the combination over the combination cost is charged to profit or loss in the current period.

3. Control of investee not under common control as a result of, among others, additional investment

The cost method is adopted instead and initial investment cost thereunder is stated as the sum of the carrying amount of equity investments originally held and additional investment costs. Other comprehensive income recognised under the equity method in connection with equity investment held prior to the acquisition date is accounted for upon the disposal of such investment on the same basis that would have been adopted for the direct disposal of relevant assets or liabilities by the investee. Where equity investments held prior to the acquisition date have been accounted for in accordance with relevant provisions under ASBE 22 — Recognition and Measurement of Financial Instruments, accumulated fair-value changes previously included in other comprehensive income shall be transferred to profit or loss in the current period after switching to the cost method.

In the consolidated financial statements, equity in the acquiree held prior to the acquisition date is remeasured at the fair value of such equity at the acquisition date, and the difference between the fair value and its carrying amount is recognised in current investment income; other comprehensive income under the equity method relating to equity in the acquiree held prior to the acquisition date shall be transferred, to the extent related, to income for the period which the acquisition date falls within.

(V) Preparation of consolidated financial statements

1. Scope of consolidation

The scope of consolidated financial statements comprises the Company and its subsidiaries. The scope of consolidated financial statements is determined on basis of control.

2. Basis of control

An investor controls an investee if it is entitled to have variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. Relevant activities mean activities that have a material impact on the returns generated by the investee.

3. Decision-maker and agent

An agent exercises the power of decision-making on behalf of the key officer in-charge only and does not control the investee. Where an investing party entrusts the decision-making for relevant activities of the investee to an agent, such power of decision-making is deemed to be owned by the investing party itself.

In determining whether a decision-maker is an agent, the Company takes into general consideration the relationships between the decision-maker and the investee as well as other investing parties.

(1) Where one party has the substantive power to unconditionally remove the decision-maker, such decision-maker is an agent.

(2) In circumstances other than that stated under (1), judgement shall be taken into general consideration of relevant factors such as the scope of decision-making exercised by the decision-maker in respect of the investee, substantive powers that other parties are entitled to, level of remuneration of the decision-maker, risks of variable returns assumed by the decision-maker by virtue of his/her other interests in the investee held.

4. Procedure of consolidation

Where the accounting policies or accounting periods adopted by a subsidiary are inconsistent with those adopted by the Company, necessary adjustments are made to the financial statements of such subsidiary to align with the Company's accounting policies or accounting period; or the subsidiary is required to prepare separate accounting statements in accordance with the Company's accounting policies or accounting period.

The consolidated balance sheet, consolidated income statement, consolidated cash flows statement and consolidated statement of changes in owners' (or shareholders') equity are based on the respective balance sheets, income statements, cash flows statement and statement of changes in owners' (or shareholders') equity of the Company and its subsidiaries, respectively, and are prepared by the Company on a consolidated basis after offsetting the effect of internal transactions between the Company and its subsidiaries and between subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated cash flows statement and consolidated statement of changes in owners' (or shareholders') equity.

Unrealised gain/loss from intra-group transaction incurred as a result of the disposal of assets by the Company to its subsidiaries is offset in full against "Net profit attributable to equity holders of the Company". Unrealised gain/loss from intra-group transaction incurred as a result of the disposal of assets by a subsidiary to the Company is offset against "Net profit attributable to owners of parent company" and "Gain/loss attributable to minority interests", allocated according to the percentage of the Company's interest in such subsidiary. Unrealised gain/loss from intra-group transaction as a result of the disposal of assets between subsidiaries is offset against "Net profit attributable to owners of parent company" and "Minority interests", allocated according to the percentage of the Company's interest in the subsidiary which is the selling party.

Minority interest means the portion of equity in a subsidiary not attributable to the Company and is shown as "minority interests" under owners' equity in the consolidated balance sheet. Net gain/loss of a subsidiary for the current period attributable to minority interests is shown as "Minority interests" under net profit in the consolidated income statement. Comprehensive income of a subsidiary for the current period of a subsidiary attributable to minority interests is shown as "Total comprehensive income attributable to minority interests" under total comprehensive income in the consolidated income statement. If minority shareholders exist, a "minority interests" column is added to the consolidated statement of changes in equity to reflect any change in minority interests. Where the loss of a subsidiary for the period attributable to its minority shareholders exceeds the opening amount of owners' equity in such subsidiary attributable to minority shareholders, the balance of the loss shall be charged to minority interests.

Where new subsidiaries and businesses are added to the Company for the reporting period as a result of a business combination under common control, the opening balance of the consolidated balance sheet is adjusted in the preparation of such consolidated balance sheet; in the preparation of the consolidated income statement, the income, expenditure and profit of such new subsidiaries and businesses for the duration from the start of the period in which the combination takes place to the end of the reporting period is included in the consolidated income statement; in the preparation of the cash flows statement, the cash flow of such new subsidiaries and businesses for the duration from the start of the period in which the combination takes place to the end of the reporting period is included in the consolidated cash flows statement; the relevant items in comparative statements are also adjusted as if the post-combination reporting entity have existed since the ultimate controller started to exercise control.

Where new subsidiaries and businesses are added to the Company for the reporting period as a result of a business combination not under common control, the opening balance of the consolidated balance sheet is not adjusted in the preparation of such consolidated balance sheet; in the preparation of the consolidated income statement, the income, expenditure and profit of such new subsidiaries and businesses for the duration from the acquisition date to the end of the reporting period is included in the consolidated income statement; in the preparation of the consolidated cash flows statement, the cash flow of such new subsidiaries for the duration from the acquisition date to the end of the reporting period is included in the consolidated cash flows statement.

Where the Company disposes of subsidiaries and businesses during the reporting period, the opening balance of the consolidated balance sheet is not adjusted in the preparation of such consolidated balance sheet; in the preparation of the consolidated income statement, the income, expenditure and profit of such new subsidiaries and businesses for the duration from the beginning of the period to the date of disposal is included in the consolidated income statement; in the preparation of the consolidated cash flows statement, the cash flow of such new subsidiaries for the duration from the beginning of the period to the date of disposal is included in the consolidated cash flows statement.

5. Accounting treatment of special transactions

5.1 Acquisition of equity in a subsidiary held by its minority shareholders

In the consolidated financial statements, any difference between newly acquired long-term equity investments as a result of the acquisition of minority interests and the attributable net assets of the subsidiary computed on a continuous basis from the acquisition date or combination date shall be recognised by adjusting the capital reserve (capital premium or share capital premium), or retained profit if the capital reserve is insufficient to absorb the difference.

5.2 Disposal of long-term equity investment in a subsidiary without loss of control

In the event of disposals of long-term equity investment in a subsidiary without loss of control, any difference between the disposal amount and the net assets of the subsidiary computed on a continuous basis from the acquisition date or combination date attributable to the disposal of long-term equity investment shall be recognised in the consolidated financial statements by adjusting the capital reserve (capital premium or share capital premium), or retained profit if the capital reserve is insufficient to absorb the difference.

5.3 Treatment of remaining equity in the event of loss of control over investee as a result of partial disposal of equity investment, among others

In the preparation of consolidated financial statements, remaining equity is remeasured at fair value at the date of loss of control. The difference representing the sum of the consideration obtained for the disposal of equity and the fair value of the remaining equity less the net assets of the subsidiary computed on a continuous basis from the acquisition date or combination date attributable to the original shareholding percentage shall be included in the investment income for the period during which the loss of control takes place, and goodwill is also written down simultaneously. Other comprehensive income relating to the original equity investment in the subsidiary is transferred to investment income for the period upon the loss of control.

5.4 Accounting treatment of gradual disposal of equity investments in a subsidiary in multiple transactions until the loss of control, where the multiple transactions are considered packaged transactions

Where the transactions under the disposal of equity investments in a subsidiary until the loss of control are considered packaged transactions, the transactions shall be treated as a transaction involving the disposal of a subsidiary and the loss of control; provided that any difference between each disposal consideration prior to the loss of control and the share of net assets attributable to the disposal of investment in such subsidiary is recognised as other comprehensive income in the consolidated financial statements and, upon the loss of control, transferred to profit or loss for the period during which the loss of control takes place.

Terms, conditions and economic effects of transactions under the disposal of equity investments in a subsidiary fulfilling one or more of the following conditions usually indicate that the multiple transactions are packaged transactions:

(1) Such transactions are entered into simultaneously or where their mutual effect on one another has been taken into consideration;

(2) A complete business outcome could only be formed by such transactions as a whole;

(3) The occurrence of one transaction is dependent on the occurrence of at least one of the other transactions;

(4) One transaction being uneconomical when considered separately but economical when considered in conjunction with other transactions.

(VI) Criteria for determining cash equivalents

Cash items shown in the cash flows statement represent cash on hand and deposits readily available for payments. Cash equivalents represent short-term investments that are highly liquid and readily convertible into known amounts of cash with insignificant risk of changes in value.

(VII) Financial assets and financial liabilities

1. Recognition and derecognition of financial instruments

1.1 A financial asset or financial liability is recognised when the Company becomes a party to a financial instrument contract.

1.2 Financial assets are derecognised upon satisfaction of one of the following conditions:

1.2.1 Contractual rights to receive cash flow generated from such financial assets have been terminated;

1.2.2 Such financial assets have been transferred and satisfied conditions for the derecognition of financial assets in accordance with ASBE 23 — Transfer of Financial Assets. Where the present obligations of financial liabilities are released in full or in part, such financial liabilities or a part thereof shall be released.

2. Classification of financial assets

Financial assets at initial recognition are classified into financial assets at fair value through profit or loss, receivables, financial assets available for sale and held-to-maturity investments. The classification of financial assets is dependent on the intentions and ability of the Company in holding the financial assets.

2.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for disposal in the short term. They are presented in the balance sheet as trading financial assets.

2.2 Receivables

Receivables, including trade receivables, other receivables and long-term receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

2.3 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any other categories. Available-for-sale financial assets to be disposed of within 12 months from the balance sheet date are presented as non-current assets due within one year in the balance sheet.

2.4 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity date and fixed or determinable payments which the management has the clear intention and ability to hold to maturity. Held-to-maturity investments with maturity within 12 months from the balance sheet date are presented as non-current assets due within one year in the balance sheet.

3. Measurement of financial assets

Financial assets are recognised at fair value in the balance sheet when the Company becomes a party to a financial instrument contract. The related transaction costs incurred on obtaining financial assets at fair value through profit or loss are directly recognised in profit or loss. The related transaction costs of other financial assets are included in the initial recognition.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value, provided that investments in equity instruments not quoted in an active market and of which fair value cannot be reliably measured shall be recognised at cost; receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Changes in fair value of financial assets at fair value through profit or loss are recognised in gain/loss from change in fair value; interests or cash dividends received during asset holding period and gains or losses arising on disposal are recorded in profit or loss.

Other than impairment losses and exchange gains or losses from financial assets held in foreign currencies, changes in fair value of available-for-sale financial assets are recognised in shareholders' equity until the derecognition of the financial assets, upon which accumulated fair-value change previously recognised directly in equity is transferred to profit or loss. Interest accrued on investment in available-for-sale debt instruments during the holding period using the effective interest method is included in investment income; cash dividend on investments in available-for-sale equity instruments is recognised in investment income upon the announcement of such dividend by the investee.

4. Basis for and measurement of transfer of financial assets

A financial asset is derecognised when the Company has transferred substantially all risks and rewards relating to the ownership of a financial asset to the transferee. A financial asset is not derecognised if the Company retains substantially all risks and rewards relating to the ownership of the financial asset.

Where the transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss in the current period:

(1) the carrying amount of the financial asset transferred;

(2) the sum of the consideration received for the transfer and, where the transferred financial asset is an available-for-sale financial asset, the accumulated fair-value change previously recognised directly in owners' equity.

Where new financial assets are obtained or new financial liabilities are assumed as a result of the transfer of financial assets, such financial assets or financial liabilities (including long options, short options, guaranteed liabilities, forward contracts and swaps, among others), and such financial assets net of financial liabilities are included as a component of the said consideration.

Where the Company and the transferee of the financial assets enter into a service contract providing related services (including the receipt of cash flow generated from such financial assets and delivery of such cash flow received to a designated custodian), a service asset or service liability is recognised in respect of such service contract. The service liability is initially measured at fair value and included as a component of the said consideration.

Where a part of the financial assets satisfies the criteria for derecognition, the carrying amount of the entire financial assets to be transferred shall be allocated between the derecognised portion and the portion that continues to be recognised (and a retained servicing asset shall be treated as a part of the financial assets continuing to be recognised for this purpose) according to their respective relative fair values, and the difference between the two amounts below is recognised in profit or loss in the current period:

(1) the carrying amount allocated to the derecognised portion;

(2) the sum of the consideration received for the derecognised portion and, where the transferred financial asset is an available-for-sale financial asset, the amount of accumulated fair-value change previously recognised directly in owners' equity corresponding to the derecognised portion.

The amount of cumulative fair-value change previously recognised directly in owners' equity corresponding to the derecognised portion is determined after allocation between the derecognised portion and the portion continuing to be recognised of the financial asset according to their respective relative fair values.

5. Classification of financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities at initial recognition. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated as financial liabilities at fair value through profit or loss at initial recognition.

6. Measurement of financial liabilities

Financial liabilities are recognised at fair value in the balance sheet when the Company becomes a party to a financial instrument contract. The related transaction costs incurred on obtaining financial liabilities at fair value through profit or loss are directly recognised in profit or loss. The related transaction costs of other financial liabilities are included in the initial recognition.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value without deducting transaction costs that might be incurred in the future settlement of financial liabilities.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

7. Determination of fair value of financial assets and financial liabilities

The fair values of financial assets or financial liabilities with an active market are determined using quotations in the active market. When an active market does not exist for the financial instruments, the fair value is determined through valuation techniques, which include reference to the familiarize situations and prices of recent market transactions conducted by parties on a voluntary basis, reference to the current fair value of other financial instruments which are similar in nature, discounted cash flow and option pricing model, among others.

8. Impairment tests for financial assets and accounting treatment

At each balance sheet date, the Company conducts examination on the carrying amount of financial assets, other than financial assets at fair value through profit or loss in the current period and make impairment provisions if objective evidence indicates impairment of a certain financial asset.

When an impairment in financial assets measured at amortised cost occurs, an impairment provision is recorded as the excess of the carrying amount over estimated future cash flow (excluding future credit loss yet to materialise). If objective evidence indicates recovery of the value of the financial assets which is objectively related to events occurring after the recognition of such impairment, the previously recognised impairment loss is reversed and included in profit or loss in the current period.

In the case of a significant or prolonged decline in the fair value of an available-for-sale financial asset, the accumulated loss arising from the decline in fair value previously included directly in Shareholders' equity is recognised in impairment loss. If the fair value of an investment in available-for-sale debt instruments for which impairment losses have previously been recognised recovers subsequently and such recovery is objectively related to an event occurring after the previous recognition of impairment loss, the previously recognised impairment loss is reversed and included in profit or loss in the current period. If the fair value of an investment in available-for-sale equity instruments for which impairment losses have previously been recognised recovers subsequent to the end of the period and such recovery is objectively related to an event occurring after the previous recognition of impairment loss, the previously recognised impairment loss is reversed and directly recognised in shareholders' equity. Impairment losses of investments in equity instruments not quoted in an active market and of which fair value cannot be reliably measured are not reversed even if there is a recovery in value in subsequent periods.

(VIII) Trade receivables

1. Criteria for determining individually significant receivables and method for bad debt provision:

Basis of determination or threshold of individually significant receivables	Single transaction with a value more than RMB5 million.
Method of bad debt provision for receivables which are individually significant and for which provision is separately made	Separate impairment tests are conducted to calculate bad debt provision based on the excess of the carrying amount over the present value of estimated future cash flows.

2. Bad debt provision for receivables on a group basis:

2.1 Basis for determining a group of receivables

Groups by age	Receivables that have been individually assessed to be unimpaired (other than receivable groups with related parties and those for which recovery is assured) as aforesaid are classified into certain groups according to the credit risk characteristic of age. The bad debt provision ratios for various groups for the year are determined based on the actual loss rate of identical or similar receivable groups with similar credit risk characteristics in previous years, taking into consideration of the current circumstances, and the amounts of bad debt provision for the year are calculated accordingly.
Groups of related parties	Receivables from related parties are consolidated into one group.
Groups of assured recovery	Receivables for which recovery is assured are consolidated into one group.

2.2 Methods for bad debt provision on a group basis

Groups by age	Aging analysis.
Groups of related parties	No bad debt provision made.
Groups of assured recovery	No bad debt provision made.

2.3 Where aging analysis is adopted for bad debt provision on a group basis:

Age	**Percentage of provision for trade receivables**	**Percentage of provision for other receivables**
Within 1 year	–	–
1–2 years	10.00%	10.00%
2–3 years	20.00%	20.00%
3–4 years	30.00%	30.00%
4–5 years	40.00%	40.00%
More than 5 years	100.00%	100.00%

3. Receivables which are not individually significant but for which bad debt provision is separately made:

Reason for making separate bad debt provision	A bad debt provision is recognised in respect of the receivable in question when objective evidence exists indicating that the Group will not be able to recover the full amount according to the original terms of the receivable.
Method for bad debt provision	Separate impairment tests are conducted to calculate bad debt provision based on the excess of the carrying amount over the present value of estimated future cash flows.

4. Criteria for the recognition of loss of bad debts:

When a debtor is bankrupt or dead and the debts cannot be recovered from the debtor's liquidated assets or estates; or when the debtor's repayment obligations are overdue and there is palpable signs indicating the non-recoverability of the debt, loss of bad debts are recognised upon approval of the board of directors of the Company and written off against bad debt provisions already made. If the bad debt provisions are insufficient for the write-off, the difference shall be charged to profit or loss in the current period.

(IX) Inventory accounting

1. Inventories of the Company mainly include raw materials, goods in stock, construction in progress, low-value consumables and materials for contract work, among others. Inventories are initially recognised at actual cost upon their acquisition. Raw materials and auxiliary materials are accounted for using the planned cost method upon dispatch in daily accounting and transferred to differences upon collection for use. Low-value consumables are amortised in on a one-off basis upon collection for use.

2. Inventory system

   The Company adopts the perpetual inventory system.

3. Criteria for the recognition of inventory impairment provision and method of calculation

Inventories at the end of the period are stated at the lower of costs and net realisable value. Inventory impairment provision is separately recognised as the excess of cost over net realisable value of individual inventory items and included in profit or loss in the current period. Net realisable value represents the estimated selling price of the inventory in the ordinary course of business less the estimated costs of completion, estimated selling expenses and related taxes. The net realisable value of inventories is ascertained on the basis of conclusive evidence obtained, taking in account the purpose of maintaining the inventories and the impact of post-balance sheet date events, among other factors.

(X) Long-term equity investment

1. Initial measurement

If long-term equity investments are formed as a result of business combination, investment cost is recognised in accordance with relevant provisions under Note IV/(IV) Accounting treatments of business combinations under common control and business combinations not under common control; investment cost of long-term equity investments acquired other than as a result of business combination is recognised in accordance with the following:

(1) The investment cost of the long-term equity investment obtained by cash payment is the actual purchase price. The initial investment cost includes costs directly relating to the acquisition of long-term equity investments, taxes and other necessary expenses.

(2) The investment cost of the long-term equity investment obtained by way of the issuance of equity securities is recognised as the fair value of the equity securities issued. Costs directly relating to the issuance of equity securities shall be determined in accordance with pertinent provisions under ASBE 37 — Presentation of Financial Instruments.

(3) The investment cost of long-term equity investments contributed by investors is recognised as the value agreed under the investment contract or agreement, unless such value agreed under the investment contract or agreement is not fair.

(4) Subject to the commercial substance of non-monetary asset swap and reliable measurement of the fair value of assets to be swapped in or swapped out, the investment cost of the swapped in long-term equity investment in exchange for non-monetary assets is determined based on the fair value of the swapped-out assets, unless there is conclusive evidence that the fair value of the swapped-in assets is more reliable; for non-monetary asset swaps that do not meet the above criteria, the investment cost of swapped-in long-term equity investment is recognised as the carrying amount of swapped-out assets plus related taxes and fees payable.

(5) The investment cost of a long-term equity investment obtained through debt restructuring is determined based on fair value.

2. Subsequent measurement and recognition of profit or loss

2.1 Subsequent measurement under cost method

Long-term equity investments in an investee over which the Company is able to exercise control is accounted for using the cost method, and the long-term equity investment is valued at the initial investment cost. The cost of the long-term equity investment is adjusted in the event of additional investments or the disposal of the investment. Cash dividend or profit distribution declared by the investee is recognised as investment income for the current period.

2.2 Subsequent measurement under equity method

The Company's long-term equity investments in associates and joint ventures are accounted for using the equity method. When the initial investment cost of a long-term equity investment is greater than the attributable share of fair value of the net identifiable assets of the investee at the time of the investment, the initial investment cost of the long-term equity investment is not adjusted; if the initial investment cost of the long-term equity investment is less than the attributable share of fair value of the net identifiable assets of the investee at the time of the investment, the difference is included in profit or loss in the current period, and the cost of the long-term equity investment is also adjusted.

Under the equity method, the investing party shall, after obtaining the long-term equity investment, recognise investment income and other comprehensive income according to the share of net profit or loss and other comprehensive income realised by the investee attributable to the investing party and adjust the carrying amount of the long-term equity investment; the investing party shall reduce the carrying amount of the long-term equity investment based on its entitlements to the profit or cash dividend distribution declared by the investee; the investing party shall adjust the carrying amount of the long-term equity investment and include such adjustment in the owner's equity in the event of other changes in the owner's equity other than net profit or loss, other comprehensive income and profit distribution of the investee. When recognising the share of net profit or loss of the investee, the investing party shall recognise the net profit of the investee as adjusted on the basis of the fair value of the net identifiable assets of the investee at the time of obtaining the investment. Where the accounting policies and accounting period adopted by the investee are not consistent with those of the investing party, the financial statements of the investee shall be adjusted to conform to the accounting policies and accounting period of the investing party, and investment income and other comprehensive income shall be recognised according to the adjusted financial statements.

The investing party ceases to recognise net loss of the investee when the carrying amount of the long-term equity investment and other long-term equity constituting in substance net investment in the investee is reduced to zero, unless the investing party has an obligation to assume additional losses. If the investee realises net profit in future, the investing party resume the recognition of its share of profit after making up unrecognised share of loss by deduction against its share of profit.

When computing the recognition of its attributable share of net profit or loss of the investee, the portion of unrealised gain or loss from internal transactions with associates and joint ventures attributable to the investing party calculated according to its percentage of entitlement is set off, and investment income is recognised on this basis. Unrealised loss from internal transactions between the investing party and the investee is recognised in full if it is deemed an asset impairment loss in accordance with pertinent provisions under ASBE 8 — Assets Impairment.

2.3 Where the investing party is able to exercise significant influence or joint control over the investee as a result of additional investment but has not assumed control, the initial investment cost under the equity method and recognised as the sum of the fair value of the previously held equity investment determined in accordance with ASBE 22 — Recognition and Measurement of Financial Instruments and the cost of the new investment. Where the previously held equity investment is classified as an available-for-sale financial asset, the difference between the fair value and the carrying amount and the accumulated fair-value change previously recognised in other comprehensive income are transferred to current gain or loss under the equity method.

2.4 Accounting treatment of partial disposal of equity

In the event of the loss of joint control or significant influence over the investee as a result of the partial disposal of equity investments or otherwise, the remaining equity after the disposal is accounted for in accordance with the policy described under the section headed "Financial instruments" herein. The difference between the fair value and the carrying amount on the date of loss of joint control or significant influence is recognised in profit or loss in the current period. When the equity method is no longer adopted, other comprehensive income recognised in respect of the original equity investment using the equity method is accounted for on the same basis on which the direct disposal of relevant assets or liabilities by the investee is accounted for.

In the event of the loss of control over the investee as a result of the partial disposal of equity investments or otherwise, the remaining equity is accounted for under the equity method if such remaining equity after the disposal enables joint control or significant influence over the investee, and the remaining equity is deemed to have been adjusted under the equity method upon acquisition; if such remaining equity after the disposal does not enable joint control or significant influence over the investee, it is accounted for in accordance with the policy described under the section headed "Financial instruments" herein. The difference between the fair value and the carrying amount on the date of loss of control is recognised in profit or loss in the current period.

2.5 Treatment of equity investments in associates or joint ventures wholly or partially classified as held-for-sale assets

Equity investments in associates or joint ventures classified as held-for-sale assets are stated at carrying amount or fair value less disposal costs, whichever is lower. If the fair value less disposal costs is less than the original carrying amount, the difference is recognised as asset impairment loss. The remaining equity investment not classified as held-for-sale assets is accounted for using the equity method. If equity investments in associates or joint ventures previously classified as held-for-sale no longer fulfill the conditions for such classification, retrospective adjustments are made using the equity method from the date of classification as held-for-sale assets. The financial statements for the period during which they are classified as held-for-sale are adjusted accordingly.

2.6 Disposal of long-term equity investments

Upon the disposal of long-term equity investments, the difference between the carrying amount and the actual consideration received is included in profit or loss in the current period. Upon the disposal of long-term equity investments accounted for using the equity method, the portion originally included in other comprehensive income is accounted for according to a corresponding ratio on the same basis on which the direct disposal of relevant assets or liabilities by the investee is accounted for.

2.7 Basis for determining significant influence over investee

An investing party is deemed to have significant influence over an investee if it has the power to participate in the decision-making of the financial and operating policies of the investee but cannot control or jointly control the formulation of these policies.

2.8 Impairment tests and impairment provision

The investing party conducts impairment tests on a long-term equity investment when its carrying amount is higher than the share of carrying amount of the investee's owners' equity attributable to the investing party or in similar circumstances. If the recoverable amount is lower than the carrying amount of the long-term equity investment, impairment provision should be made.

(XI) Joint venture arrangements

1. Basis for determining joint control of an investee

Joint control exists when an arrangement is jointly controlled by the parties under an agreement, and decisions about the relevant activities require the unanimous consent of the parties sharing the control. An arrangement collectively controlled by two or more parties is not deemed as a joint control.

2. Classification of joint venture arrangements

A joint venture arrangement can either be a joint operation or a joint venture enterprise.

3. Accounting treatment for parties to a joint operation

A party to the joint operation shall recognise the following items relating to its share of interest in the joint operation and account for the same in accordance with relevant ASBEs:

(1) assets held alone and, pro-rata to its share, assets held jointly;

(2) liabilities assumed alone and, pro-rata to its share, liabilities assumed jointly;

(3) income from the sale of its attributable share of output of the joint operation;

(4) income from the sale of output of the joint operation pro-rata to its attributable share;

(5) expenses incurred alone and, pro-rata to its share, expenses incurred by the joint operation.

When a party to a joint operation contributes or sells, among others, assets (other than assets constituting the business) to the joint operation, it shall only recognise gains or losses from the transaction attributable to other parties to the joint operation until the sale of such assets by the joint operation to a third party. When an impairment loss recorded in assets contributed or sold qualifies for treatment under ASBE 8 — Impairment of Assets, among others, the loss shall be recognised in full by the party to the joint operation.

When a party to a joint operation acquires, among others, assets (other than assets constituting the business) from the joint operation, it shall only recognise gains or losses from the transaction attributable to other parties to the joint operation until the sale of such assets to a third party. When an impairment loss recorded in assets acquired qualifies for treatment under ASBE 8 — Impairment of Assets, among others, the loss shall be recognised by the party to the joint operation pro-rata to its attributable share.

A party that participates in, but does not have joint control of, a joint operation shall also account for its interest in accordance with the above if such party is entitled to the assets and undertakes liabilities relating to the joint operation, otherwise it shall account for its interest in accordance with the relevant ASBE.

4. Accounting treatment for parties to a joint venture

A party to a joint venture shall account for its investment in the joint venture in accordance with the relevant policy set out under the note herein headed "Long-term equity investment".

A party that participates in, but does not have joint control of, a joint venture shall account for its investment in the joint venture based on the extent of its influence on the joint venture:

(1) In case of significant influence over the joint venture, it should be accounted for in accordance with the relevant policy set out under the note herein headed "Long-term equity investment".

(2) In the absence of significant influence over the joint venture, it should be accounted for in accordance with the relevant policy set out under the section headed "Financial instruments" herein.

(XII) Investment properties

Investment properties, including land use rights held and leased and intended for transfer after appreciation in value and leased buildings, are initially measured at actual cost. Subsequent expenses relating to investment properties are charged to the cost of investment properties when it is likely that the related economic benefits will flow to the Company and the cost can be reliably measured; otherwise, such expenses are charged to profit or loss in the current period when incurred.

The Company adopts the cost model for subsequent measurement of all investment properties and amortises its buildings and land use rights over their estimated useful life. The estimated useful life (amortisation period) of buildings under investment properties is set out in the following:

Category	Useful life	Estimated net residual rate	Annual amortisation rate
Houses and buildings	40 years	4.00%	2.40%

When the investment property is changed to owner occupation, the investment property is transferred to fixed assets or intangible assets from the date of change in use. When owner-occupied property changes to the earning of rentals or capital appreciation, fixed assets or intangible assets are transferred to investment properties from the date of change in use. Upon the transfer, the carrying amount remains the same before and after the transfer.

The estimated useful life of investment properties is reviewed and adjusted as appropriate at the end of each annual period.

Investment properties are derecognised upon disposal or permanent withdrawal from use when no economic benefit is expected to be gained from the disposal. The amount of disposal income from the sale, transfer, retirement or damage of investment properties after deducting its carrying amount and related taxes expenses is recognised in profit or loss.

When the recoverable amount of investment properties falls below its carrying amount, the carrying amount is written down to the recoverable amount.

(XIII) Fixed assets

1. Criteria for the recognition of fixed assets

Fixed assets refer to tangible assets held for the purpose of producing goods, rendering services, lease or operational management, having a useful life of more than one fiscal year. Fixed assets are recognised when they meet all of the following conditions:

(1) the economic benefits associated with the fixed assets are likely to flow to the entity;

(2) the cost of the fixed asset can be measured reliably.

2. Initial measurement and subsequent measurement of fixed assets

Newly purchased or constructed fixed assets are initially measured at the actual cost on acquisition. Fixed assets injected by State-owned shareholders as part of the corporate conversion of the Company are recorded at the appraised value recognised by State-owned assets administration authorities. Subsequent expenditures incurred in connection with fixed assets are included in fixed asset costs if it is likely that economic benefits associated with the asset will flow to the Company and the cost can be reliably measured; the carrying amount of replaced fixed assets is derecognised; all other subsequent expenditures are recognised in profit or loss when incurred. A fixed asset is derecognised upon disposal or when no economic benefits are expected to be generated from its use or disposal. The disposal proceeds from the sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes expenses is recognised in profit or loss.

3. Fixed asset depreciation

Category	Useful life	Residual value rate	Annual depreciation rate
Houses and buildings	5–40 years	4% and 5%	1.92%–19.20%
Machinery equipment	5–35 years	4% and 5%	2.71%–19.20%
Special equipment	5–35 years	4% and 5%	2.71%–19.20%
Transportation equipment	3–20 years	4% and 5%	4.75%–32.00%
Office and other equipment	1–20 years	4% and 5%	4.75%–96.00%

At the end of each annual period, the estimated useful life and estimated net residual value of and depreciation method for fixed assets are reviewed and adjusted as appropriate.

4. Impairment tests and impairment provision for fixed assets

When the fair value less disposal costs of a fixed asset and the present value of its estimated future cash flow are both lower than its carrying amount, an indication of impairment of the fixed asset is recognised. Where there is an indication of impairment, the carrying amount of the fixed asset is written down to the recoverable amount. The recoverable amount is the higher of the fair value of the fixed asset net of disposal costs and the present value of its estimated future cash flow.

Fixed assets qualified as held-for-sale are stated at the lower of its carrying amount and its fair value less disposal costs. When the fair value less disposal costs falls below the original carrying amount, the difference is recognised as impairment loss.

(XIV) Construction in progress

1. Accounting of construction in progress: All expenses incurred in the construction process are measured at cost as actually incurred. The actual cost comprises construction expenditures, other expenditures necessary for the purpose of preparing the construction in progress for its intended use and borrowing costs incurred before the assets are ready for their intended use eligible for capitalisation. The point of time for the transfer of construction in progress to fixed assets: when a fixed asset under construction is completed and delivery for use, the construction in progress is transferred to fixed assets based on the actual cost of the work project. If the final accounting for work completion is yet to be conducted, fixed assets should be recognised with an estimated value based on work budgets, pricing or actual cost on the date on which it is ready for the intended use, which shall be adjusted after the final accounting for work completion has been conducted. Depreciation is charged from the following month onwards.

2. Criteria for recognising impairment provision for construction in progress: impairment provision for construction in progress is charged when: the construction in progress is suspended for a prolonged period and recommencement of operation is not expected in the next 3 years; the generation of economic benefits for the company is highly uncertain given outdated functions or technologies of the project under construction; or there is other evidence proving impairment in the construction in progress has occurred.

3. Method of making impairment provision for construction in progress: measured at the carrying amount or the recoverable amount, whichever lower, at the end of the period. The impairment provision for construction in progress is charged at an amount equivalent to the excess of the carrying amount over the recoverable amount.

(XV) Intangible assets

Intangible assets include land use rights and software measured at actual cost.

1. Land use rights

Land use rights are amortised evenly over the term of use. Amounts of acquired land and buildings of which reasonable allocation between land use rights and buildings is not feasible are recognised as fixed assets.

2. Software

Software is amortised evenly over its effective period as provided under the law.

3. Impairment of intangible assets

When the fair value less disposal costs of an intangible asset and the present value of its estimated future cash flow of are both lower than its carrying amount, an indication of impairment of the intangible asset is recognised. Where there is an indication of impairment, the carrying amount of the fixed asset is written down to the recoverable amount. The recoverable amount is the higher of the fair value of the fixed asset net of disposal costs and the present value of its estimated future cash flow.

4. Periodic review of useful life and amortisation method

For intangible assets with a finite useful life, review of its estimated useful life and amortisation method is performed at each year-end and adjustments are made as appropriate.

(XVI) Long-term expenses to be amortised

Long-term expenses to be amortised are expenses which have been incurred but which shall be amortised over the current period and subsequent periods of more than (but not equal to) 1 year.

Long-term expenses to be amortised are amortised evenly over the benefit period, among which: prepaid rental for operating lease of fixed assets is amortised evenly over the lease term of the lease contract; expenditure for improvement of fixed assets held under operating lease is amortised evenly over the remaining lease term or the remaining useful life of the leased asset, whichever is shorter.

The remaining unamortised value of an item subject to long-term expenses to be amortised is transferred in full to profit or loss in the current period if such item cannot generate benefit for subsequent accounting periods.

(XVII) Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised and recorded as part of the cost of such when expenditures for the asset and borrowing costs have been incurred and the activities to get the asset ready for use are in progress. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, and the borrowing costs incurred thereafter are recognised in profit or loss in the current period. If the acquisition or construction of an asset is disrupted abnormally and the period of disruption lasts for more than 3 months, capitalisation of borrowing costs should be suspended until the acquisition or construction resumes.

During the period of capitalisation, the interest amount of special borrowings (borrowings incurred specifically for the purpose of acquiring, constructing or producing assets eligible for capitalisation) to be capitalised is determined as interest expenses incurred by the special borrowings for the period less any interest income earned from deposits of unused borrowings with banks or any investment income on the temporary investment of those borrowings. The interest amount of general borrowings to be capitalised is determined by applying a capitalisation rate for general borrowings to the weighted average accumulated asset expenses in excess of asset expenses attributable to special borrowings. The capitalisation rate is determined on the basis of the weighted average interest rate for general borrowings.

Where there is a discount or premium in the borrowing, the interest amount for each period shall be adjusted in accordance with the effective interest rate method to determine the discount or premium amount to be amortised for each accounting period.

(XVIII) Employee remuneration

1. Short-term remuneration

Short-term remuneration incurred when employees have rendered service for the Company during accounting periods is recognised as liability and charged to profit or loss in the current period or cost of relevant assets. The amount of employee benefits is charged to profit or loss in the current period or cost of relevant assets when incurred. Employee benefits expense of a non-monetary nature is measured at fair value. In respect of contributions to social insurance expenses such as medical insurance, work injury insurance expense, maternity insurance expense and housing provident fund paid on behalf of employees and labour union fund and employee education fund made in accordance with regulations, an amount of employee remuneration is determined based on stipulated bases and rate for provision during the accounting periods in which services in the current period are rendered to the Company by employees and recognised as liabilities charged to profit or loss or cost of relevant assets.

When the employees render service that increase entitlement to future compensated absence, employee remuneration relating to accumulating compensated absences is recognised and measured as the increase in expected payments as a result of accumulated outstanding entitlements. Employee remuneration relating to accumulating compensated absences is recognised for the accounting period during which the staff absence takes place.

2. Post-employment benefits

2.1 Defined contribution plan

When employees have rendered services to the Company during accounting period, the Company shall recognise the in the current period contribution payable to defined contribution plans as liabilities charged to profit or loss or cost of relevant assets. If contribution payable under the defined contribution plan do not fall due wholly within 12 months after the end of the annual report period corresponding to the related services rendered by employees, Employee remuneration payable is measured at the full amount payable as discounted.

3. Termination benefits

When the Company provides termination benefits to employees, employee benefits liabilities are recognised for termination benefits with a corresponding charge to profit or loss in the current period at the earlier of:

(1) the point of time at which the Company cannot unilaterally withdraw the offer of termination benefits under an employment termination plan or redundancy proposal.

(2) the point of time at which the Company recognises costs or expenses related to restructuring that involves the payment of termination benefits.

The Company recognises employee remuneration payable arising from the termination benefits based on reasonable estimates in accordance with the terms of the termination plan.

The Company does not have other long-term employee benefits.

(XIX) Long-term asset impairment

Goodwill and intangible assets with indefinite useful life separately stated in the financial statements are tested for impairment at least annually, irrespective of whether there is evidence of impairment. Fixed assets, intangible assets, investment properties measured by the cost method and long-term equity investments are tested for impairment if there is any indication that an asset may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, an impairment provision equivalent to the difference amount is charged and included in impairment loss. The recoverable amount is the higher of the net value after the fair value of the asset less the disposal costs and the present value of its estimated future cash flows. Provision for asset impairment is determined and recognised on an individual basis. If it is not feasible to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs is determined. An asset group is the smallest group of assets that is able to generate cash inflows independently.

Once recognised, the above asset impairment loss will not be reversed even if there is a recovery in value in subsequent periods.

(XX) Asset groups

The recognition of asset groups is based on whether the major cash inflow generated by the asset group is independent of the cash inflow of other assets or asset groups. At the same time, when identifying asset groups, the manner in which the Company's management manages production and operating activities and makes decisions on the continuing use or disposal of an asset is also taken into consideration.

An impairment loss is recognised when the recoverable amount of the asset group is lower than its carrying amount. The recoverable amount of an asset group is the higher of net value after its fair value less the disposal costs and the present value of its estimated future cash flow. Goodwill presented in the consolidated financial statements does not include goodwill of subsidiaries attributable to minority interests. However, goodwill attributable to minority interests is included when performing impairment tests on the assets concerned to adjust the carrying amount of the asset group and compare the adjusted carrying amount of the asset group with its recoverable amount. If an impairment occurs to the aforesaid asset group, such loss is recognised as goodwill impairment loss attributable to the Company after deducting the portion attributable to minority interests on a pro-rata basis.

(XXI) Government grants

Government grants are monetary assets or non-monetary assets received from the government by the Company at no consideration, excluding capital contributions from the government as an owner of the Company. Government grants are classified into asset-related government grants and income-related government grants. Asset-related government grants are government grants obtained by the Company to acquire, construct or otherwise generate long-term assets. Income-related government grants are government grants other than asset-related government grants.

A government grant in the form of monetary assets is measured at the amount received or receivable. A government grant in the form of non-monetary assets is measured at fair value; or at the nominal amount if the fair value cannot be reliably obtained.

Asset-related government grants are recognised as deferred income and evenly allocated over the useful life of the related assets and included in profit or loss in the current period. Government grants measured at the nominal amount are directly included in profit or loss in the current period. Income-related government grants are recognised as deferred income and included in profit or loss in the current period for the period in which the related expenditure is recognised if they are used to compensate the Company's expenditure or losses in subsequent periods; or directly included in profit or loss in the current period if they are used to compensate the Company's incurred expenditure or losses.

(XXII) Estimated liabilities

The Company recognises an estimated liability when there is a present obligation relating to product quality warranties or loss-making contracts, among others, the performance of which will probably result in an outflow of economic benefits and the amount of which can be reliably measured. No estimated liabilities are recognised in respect of future operating losses.

An estimated liability is initially measured at the best estimate of the expenditure required to settle the present obligation concerned, taking into general consideration of factors such as risks, uncertainties and the time value of money relating to contingencies. The best estimate is determined by applying a discount to relevant future cash outflow if the effect of the time value of money is material; the increase in the carrying amount of estimated liabilities as a result of the reversal of discount with the passage of time is recognised as interest expense.

At the balance sheet date, the carrying amount of the estimated liabilities is reviewed and adjusted as appropriate to reflect current best estimate.

(XXIII) Production safety funds

In accordance with the Production Safety Law of the People's Republic of China and the Administrative Measures on Allocation and Utilisation of Production Safety Fund for Enterprises, the Company and its sales subsidiary companies shall set aside production safety funds on an average monthly basis equivalent to 1.5% of the actual business revenue of the previous year. Such production safety funds are included in the cost of relevant products or profit or loss in the current period and also credited to "special reserve": on application, production safety funds utilised as expenses are directly offset in "special reserve", while production safety funds utilised to procure fixed assets are consolidated under "construction in progress" and recognised as fixed assets when the completion of the safety project reaches the working condition for the intended use; the cost of the fixed assets formed is simultaneously offset in special reserves and accumulated depreciation with the same amount is recognised. No further depreciation would be charged against such fixed assets in subsequent periods.

Production safety funds are primarily applied to meet expenses incurred for the improvement, conversion and maintenance work for safety protection facilities and equipment (excluding initial safety facilities set up under "three requirements for simultaneous design, construction and commissioning"), including expenses for safety status inspection and maintenance systems for roads, waterways, railways, pipeline transmission facilities, equipment and loading/unloading vehicles and ancillary safety equipment for transportation facilities, equipment and loading/unloading vehicles; expenses for the purchase, installation and application of car Global Positioning System ("GPS") system with mileage tracking functions, marine communication and navigation positioning and automatic identification system and electronic navigational charts; expenses for the procurement, maintenance and servicing of emergency rescue kits and equipment and emergency drills; expenses for the evaluation, control and rectification of material source of dangers and hazards; inspection and assessment of production safety (excluding safety assessment of new projects, conversions and expansions), expenses for consultation and standardisation development; expenses for procuring and upgrading safety protection gear for on-site workers; expenses for promotion, education and training relating to production safety; expenses for the promotion and application of new technologies, standards, processes and equipment for production safety; expenses for inspection and testing of safety facilities and special equipment; other expenses directly relating to production safety.

The provision of production safety funds may be suspended or reduced with the approval of local authorities for the supervision and administration of production safety at county level or above when the balance of a company's production safety funds brought forward from the end of previous year reaches 1.5% of its business revenue for the previous year.

(XXIV) Revenue

1. The Company recognises business revenue for the sales of goods when: the major risks and rewards of ownership of the goods have been transferred to the buyer, the Company no longer exercises ongoing management and effective control over such goods, it is likely that the economic benefit associated with the transaction will flow to the Company, and the revenue and cost relating to the sales of such goods can be reliably measured.

2. The Company recognises business revenue from the provision of a labour service when the labour service has been rendered, service payment has been received or evidence of receipt of service payment has been obtained if the service commences and ends in the same accounting year; or according to the percentage completion method when the total revenue of the labour contract and the extent of completion of labour service can be reliably determined, payments relating to the transaction can flow in, and costs already incurred and costs to be incurred in connection with the completion of the labour service can be reliably measured if the service commences and ends in different accounting years; business revenue from long-term contract work is recognised using the percentage completion method based on the amount of work completed at the time of settlement if the outcome of the contract can be reasonably foreseen.

3. The interest income and royalty arising from the assignment of the right to use assets held by the Company is recognised as revenue when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be reliably measured.

4. Leased properties: business revenue is recognised according to the benefit period of the contract when it is probable that the economic benefits associated with the transaction will flow to the Company, if a lease contract has been entered into.

5. The Company's revenue from pipe row fees for gas pipes in newly built residential communities is recognised as deferred income. The exact accounting method is set out as follows:

   (1) Revenue from pipe row fees for gas pipes in newly built residential communities received from property developers (the rate of which has been decreased to RMB17.00 per square metre (gross area) from RMB24.50 per square metre (gross area) with effect from 1 November 2019 (applicable to construction projects under contracts signed prior to that date but not yet settled) in accordance with Document Hu Fa Gai Jia Guan (2019) No. 51 issued by Shanghai Municipal Development and Reform Commission, and the new rate shall apply accordingly);

(2) Fees for the construction of ancillary pipe rows outside the red line received from construction and development companies which absorb ancillary expenses (at a rate of RMB12.40 per square metre (gross area) in the form of gas pipe row subsidy fee subject to a maximum of not more than RMB18.30 per square metre (gross area) in accordance with Document Hu Ran Ji (2005) No. 62 in connection with the publication of "Rates for Gas Fees Applicable to Residential Construction Bases Absorbing Costs of Ancillary Facilities");

(3) Computation of revenue:

Except for subsidiary Shanghai Dazhong Gas Co., Ltd., all other sales subsidiary companies recognise the aforesaid gas pipeline fees as deferred income upon receipt and recognise revenue evenly in 20 years from the month of receipt. Shanghai Dazhong Gas Co., Ltd. recognises revenue evenly in 10 years from the month of receipt.

(4) Computation of cost:

Related cost incurred is included in construction in progress and transferred to fixed assets in the month during which the project is completed. From the following month onwards, depreciation is charged evenly over a period of 20 years.

(XXV) Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognised based on the difference (including taxable temporary difference and deductible temporary difference) between tax bases and carrying amounts of assets and liabilities. Deductible losses available for set-off against taxable income in subsequent years in accordance with taxation laws are deemed deductible temporary differences. No deferred tax liability is recognised for temporary difference arising from initial recognition of goodwill. No deferred income tax assets or deferred income tax liabilities are recognised for a temporary difference arising from initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable income (or deductible loss). At balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates for the period when the asset is expected to be recovered or the liability is expected to be settled.

Deferred income tax assets are only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred income tax assets and deferred income tax liabilities arising from temporary differences relating to investment in subsidiaries, associates and joint ventures are recognised, provided that temporary difference of which the time of reversal can be controlled by the Company and which is not likely to be reversed in the foreseeable future is not recognised.

(XXVI) Measurement of fair value

1. Assumptions for fair value measurement of relevant assets or liabilities

   1) The disposal of assets or transfer of liabilities by market participants on the measurement date is an orderly transaction under prevailing market conditions.

   2) The orderly transaction of asset disposal or transfer of liabilities is conducted in a primary market for the relevant assets or liabilities or, in the absence of a primary market, a most favourable market for the relevant assets or liabilities. In identifying the primary market (or most favourable market), the Company usually considers all reasonably obtainable information, provided that in the absence of inspection of all markets, a market in which the disposal of assets or transfer of liabilities can be conducted in a normal manner may be deemed the primary market (or most favourable market).

   3) The fair value of relevant assets or liabilities is measured at prices prevailing in the primary market, or prices in the most favourable market in the absence of a primary market.

   4) In the absence of an observable market that can provide price information relevant to the disposal of assets or transfer of liabilities at the measurement date, the Company makes the assumption that the disposal of assets or transfer of liabilities takes place on the measurement date from the perspective of the market participant who holds the assets or bears the liabilities and measures the fair value of relevant assets or liabilities based on the price of the hypothetical transaction.

   5) The Company adopts the assumptions that would be adopted by a market participant who prices the asset or liability with the aim of achieving maximum economic benefits.

2. Initial measurement of fair value

The Company determines whether the fair value of a relevant asset or liability on initial recognition is equivalent to its transaction price based on the nature of the transaction and the characteristics of such relevant asset or liability, among others.

Where the initial measurement of relevant assets or liabilities at fair value is required or permissible under relevant accounting standards and the transaction price is not equal to the fair value, the Company shall include relevant gains or losses in profit or loss in the current period, unless otherwise stipulated under relevant accounting standards.

3. Valuation techniques

When measuring the fair value of relevant assets or liabilities, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient supporting data and other information are available.

When applying valuation techniques, the Company gives priority to relevant observable inputs. The use of unobservable inputs are allowed only if relevant observable inputs are not available or impracticable to obtain.

4. Fair-value hierarchy

The Company categorises inputs for fair value measurement into three levels and uses the inputs of Level 1, Level 2 and Level 3 in that order.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities obtainable at the measurement date.

Level 2 inputs are directly or indirectly observable inputs for the relevant assets or liabilities, other than Level 1 inputs.

Level 3 inputs are unobservable inputs for the relevant assets or liabilities.

The level of fair value measurement results is determined by the lowest level of input values which are material to the fair value measurement as a whole. The Company determines the materiality of inputs used on the basis of the characteristics of the relevant assets or liabilities. The level of fair value measurement results is dependent on the input value of the valuation technique, but not the technique itself.

The Company uses Level 3 inputs, namely, unobservable inputs, only when market activities of relevant assets or liabilities are absent or scarce to the extent that it is impossible or impracticable to obtain relevant observable inputs.

5. Fair value measurement of non-financial assets

When measuring non-financial assets at fair value, the Company takes into consideration the ability of market participants to put assets into best uses for economic benefits or to sell the assets to other market participants who are able to put the assets into best uses for economic benefits.

In determining the best uses of non-financial assets, the Company takes into consideration factors such as whether such uses are legally permissible, physically possible and financially viable. Under usual circumstances, the Company may regard the present uses of a non-financial asset as its best uses, unless market or other factors indicate that market participants could achieve maximum benefit by putting such assets to other uses.

6. Fair value measurement of liabilities and an enterprise's own equity instruments

The Company shall comply with the following principles when measuring its liabilities or own equity instruments at fair value:

Where an observable quoted market price for identical or similar liabilities or enterprise's own equity instruments is available, the fair value of the said liabilities or enterprise's own equity instruments is determined based on such quoted price.

Where observable quoted market prices for identical or similar liabilities or own equity instruments are not available but the item is held by another party as an asset, the fair value of the said liabilities or own equity instruments is determined based on the fair value of the said asset from the perspective of a market participant at the measurement date.

Where observable quoted market prices for identical or similar liabilities or own equity instruments are not available and the item is not held by any party as an asset, the fair value of the said liabilities or enterprise's own equity instruments is determined using valuation techniques from the perspective of a market participant who bears liabilities or is an issuer of equity instruments.

(XXVII) Classified as held-for-sale

1. Conditions for classification as held-for-sale

Non-current assets or disposal groups that simultaneously meet the following conditions are recognised as held-for-sale:

1) they can be readily sold under prevailing circumstances as is customary for similar transactions in the sales of such assets or disposal groups;

2) The sale is very likely to occur, namely, the Company has made a resolution on a sale plan and has obtained a firm commitment to purchase, and the sale is expected to be completed within one year. Approval for the sale from relevant authorities or regulatory bodies governing the Company has been obtained, where such approval is required.

A firm commitment to purchase is represented by a legally binding purchase agreement entered into by the Company and other parties. The agreement contains important terms such as transaction price, timing and sufficiently severe penalties for breach of contract, such that major adjustments to or revocation of the agreement is highly unlikely.

2. Measurement of non-current assets or disposal groups held-for-sale

On initial measurement or re-measurement at balance sheet date of a non-current asset or a disposal group held-for-sale, where the carrying amount is higher than the fair value less cost to sell, the carrying amount is written down to the fair value less cost to sell. The amount of write-down is recognised as an asset impairment loss and charged to profit or loss. At the same time, impairment provision is made in respect of held-for-sale assets.

At initial measurement, non-current assets or disposal groups classified as held-for-sale at the acquisition date are measured at the lower of the initial measurement amount and the fair value less cost to sell based on the assumption that such non-current assets or disposal groups are not classified as held-for-sale. Other than non-current assets or disposal groups acquired in a business combination, if the fair value less cost to sell is recognised as the initial measurement of such non-current assets or disposal groups, the difference arising therefrom is recorded in profit or loss.

On re-measurement at balance sheet date of a disposal group held-for-sale, the carrying amount of the assets and liabilities in the disposal group is first measured in accordance with relevant accounting standards, and then applies accounting treatment in accordance with the provisions of the above paragraph.

The asset impairment loss amount of a disposal group held-for-sale is first reduced by the carrying amount of goodwill in the disposal group, and then reduced by the carrying amount of various non-current assets on pro-rate basis under applicable standard in the disposal group.

If the fair value less cost to sell of a non-current asset held-for-sale increases at subsequent balance sheet dates, the previous written-down amount shall be recovered and reversed in the asset impairment loss amount recognised on non-current assets on pro-rate basis under applicable standard after classification as held-for-sale, and the reversed amount is recorded in profits or loss. Asset impairment loss recognised before classification as held-for-sale shall not be reversed.

If the fair value less cost to sell of a disposal group held-for-sale increases at subsequent balance sheet dates, the previous written-down amount shall be recovered and reversed in the asset impairment loss amount recognised for non-current assets stipulated under applicable standards after classification as held-for-sale, and the reversed amount is recorded in profits or loss. The carrying amount of goodwill previously written down and the asset impairment loss recognised before classification as held-for-sale for non-current assets stipulated under applicable standards shall not be reversed.

The subsequent reversed amount in respect of the asset impairment loss recognised in the disposal groups held-for-sale is recognised by increasing the carrying amount of various non-current assets as on pro-rata basis under applicable standard in the disposal group (other than goodwill) in proportion.

Non-current held-for-sale assets or non-current assets in disposal groups held-for-sale are not depreciated or amortised. Interests and other expenses accrued on liabilities in disposal groups held-for-sale shall continue to be recognised.

Non-current assets or disposal groups are measured at the lower of the following if they no longer meet the conditions for classification as held-for-sale and are no longer classified as such or upon removal from disposal groups held-for-sale:

1) the carrying amount before they are classified as held-for-sale, adjusted for depreciation, amortisation or impairment that would have been recognised had they not been classified as held-for-sale;

2) the recoverable amount.

The unrecognised gain or loss is recorded in profit or loss when the Company derecognises the non-current assets or disposal groups held-for-sale.

(XXVIII) Leases

Leases are classified as finance leases when substantially all risks and rewards relating to asset ownership are transferred. All other leases are classified as operating leases.

1. Operating leases

Rental expenses for operating leases shall be charged to costs of the relevant assets or profit or loss on a straight-line basis over the lease term.

2. Finance leases

A leased asset is measured at the lower of its fair value and the present value of the minimum lease payment. The difference between the recorded amount of the leased asset and the minimum lease payment is recognised as unrecognised finance expenses and amortised using the effective interest rate method over the lease term. The balance of the minimum lease payment after deducting unrecognised finance expenses is presented as long-term payables.

(XXIX) Significant accounting judgements and estimates

In the course of applying accounting policies, the management has made, in addition to accounting estimates, the following judgements which are material to the amounts recognised in the financial statements:

1. Operating lease — the Company as lessor

The Company has entered into lease contracts in respect of investment properties. The Company is of the view that all material risks and rewards associated with ownership of these properties have been retained, and the leases are accordingly accounted for as operating leases.

2. Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that might result in significant adjustments to the carrying amounts of assets and liabilities for the next accounting year are set out below:

Deferred income tax assets: deferred income tax assets should be recognised for all unused tax losses to the extent that it is probable that sufficient taxable profits will be available to set off the loss. This requires the management to apply numerous judgements to estimate the timing and amount of future taxable profits with reference to tax planning strategies, so as to determine the amount of deferred income tax assets to be recognised.

3. Estimated gross profit margin of gas pipeline work

Final cost accounting of the Company's gas pipeline work (excluding construction of gas pipe rows in newly built residential communities) takes place only after the connection of gas supply. To ensure the timeliness of revenue and cost recognition and in view of the Company's experience and historical data, the Company recognises gross profit of construction work and provides interim cost estimates according to the estimated gross profit margin on a provisional basis after the connection of gas supply. The difference between such cost estimate and the actual cost for settlement may have a considerable effect on the profit or loss for the next periods.

V. STATEMENT ON CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND RECTIFICATION OF ERRORS

(I) Changes in principal accounting policies of the Company for the current period

There was no change in the significant accounting policies of the Company for the reporting period.

(II) Changes in accounting estimates

There was no change in the major accounting estimates for the reporting period.

(III) Rectification of accounting errors of previous periods

There was rectification of significant accounting errors of previous periods during the reporting period.

VI. TAXES (FEES)

(I) Value-added tax

Payable in respect of the Company's gas revenue and revenue from sales of goods and provision of modern services based on the balance of the taxable sales amount multiplied by the applicable tax rates of 5%, 6%, 9%, 10%, 13% and 16% after offsetting the deductible of input tax for the current period.

(II) City maintenance and construction tax

The Company is subject to city maintenance and construction tax levied at 1% or 7% of the turnover tax payable for the period.

(III) Enterprise Income tax

The Company is subject to enterprise income tax based on its taxable income and applicable tax rates for the current period. The income tax rate applicable to the Company is 25%. Income tax is set aside on a monthly basis and paid in advance on a quarterly basis. Consolidated filing of returns is conducted annually.

(IV) Education surcharge

The Company is subject to education surcharge levied at 3% of the turnover tax payable for the period.

(V) Local education surcharge

The Company is subject to local education surcharge levied at 2% of the turnover tax payable for the period.

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(I) General information of subsidiaries included in the consolidated financial statements for the year (unit of monetary amounts: RMB10,000)

No.	Name of Company	Level	Corporate type	Place of incorporation	Business nature	Registered capital	Percentage of ownership interest held	Percentage of voting rights	Investment amount	Means of acquisition
1	Shanghai Gas Pudong Sales Co., Ltd.	2	1	Shanghai	Gas sales and gas work construction	78,605.51	100.00%	100.00%	78,605.51	4
2	Shanghai Gas Chongming Co., Ltd.	2	1	Shanghai	Gas sales and gas work construction	25,000.00	100.00%	100.00%	28,967.49	3
3	Shanghai Jinshan Natural Gas Co., Ltd.	2	1	Shanghai	Gas sales and gas work construction	5,000.00	100.00%	100.00%	5,000.00	4
4	Shanghai Dazhong Gas Co., Ltd.	2	1	Shanghai	Gas sales and gas work construction	100,000.00	50.00%	50.00%	50,000.00	4
5	Shanghai City South Gas Development Co., Ltd.	3	1	Shanghai	Gas pipeline construction	850.00	50.00%	100.00%	850.00	4
6	Shanghai Town Gas Materials Supply & Sales Company	3	1	Shanghai	Sale of gas-related materials	200.00	50.00%	100.00%	200.00	4
7	Shanghai Dazhong Gas Pipeline Work Co., Ltd.	3	1	Shanghai	Gas pipeline construction	1,000.00	50.00%	100.00%	1,000.00	4
8	Shanghai Qingpu Gas Co., Ltd.	2	1	Shanghai	Gas sales	100,000.00	51.00%	51.00%	58,446.60	3
9	Shanghai Qingpu Gas General Business Co., Ltd.	3	1	Shanghai	Gas production and sales	30.00	51.00%	100.00%	1,248.43	3
10	Shanghai Jiajing Automobile Transport Co., Ltd.	3	1	Shanghai	Transportation	50.00	51.00%	100.00%	47.11	3
11	Shanghai Gas City North Sales Co., Ltd.	2	1	Shanghai	Gas sales and gas work construction	122,479.89	100.00%	100.00%	122,479.89	3
12	Shanghai City Gas Complete Equipment Co., Ltd.	3	1	Shanghai	Gas equipment sales and installation	910.00	100.00%	100.00%	910.00	4
13	Shanghai Gas Information Business Co., Ltd.	2	1	Shanghai	Gas information service	200.00	100.00%	100.00%	200.00	4

Note: Corporate type: 1. Domestic non-financial subsidiary, 2. Domestic financial subsidiary, 3. Overseas subsidiary, 4. Business unit, 5. Infrastructure construction unit;
Means of acquisition: 1. Incorporation by investment, 2. Combination of enterprises under common control, 3. Combination of enterprises not under common control, 4. Others

(II) Reasons for parent company exercising control over investee but owning less than half of the voting rights in the investee

No.	Name of Company	Percentage of ownership interest held	Percentage of voting rights	Registered capital	Investment amount	Level	Reasons for inclusion in consolidated statements
1	Shanghai Dazhong Gas Co., Ltd.	50.00%	50.00%	100,000.00	50,000.00	2	Note

Note: The Company includes this subsidiary in its consolidated financial statements as the Company exercises effective control over its production operations and financial decision-making.

(III) Information on significant non-wholly-owned subsidiaries

1. Minority shareholders

No.	Name of Company	Percentage of minority shareholding	Gain/loss attributable to minority shareholders for the period	Dividend paid to minority shareholders for the period	Accumulated minority interests at the end of the period
1	Shanghai Dazhong Gas Co., Ltd.	50.00%	–93,488	–	782,501,934.09

2. Key financial information

Item	Balance at the end of the period/ Amount incurred for the period
Current assets	810,596,325.45
Non-current assets	4,222,147,373.12
Total assets	5,032,743,698.57
Current liabilities	2,901,353,618.01
Non-current liabilities	566,386,212.38
Total liabilities	1,565,003,868.18
Operating income	3,958,557,890.19
Net profit	-18,697,709.47
Total comprehensive income	-13,142,962.93
Cash flows from operating activities	682,095,514.43

(IV) Entities included in and entities excluded from the consolidated financial statements starting from the period

Subsidiary Shanghai Dazhong Gas Co., Ltd. established a subsidiary Shanghai Dazhong Gas Pipeline Work Co., Ltd. during the period.

The above company has been included in the consolidated financial statements.

4.2 Entities excluded from the consolidated financial statements starting from the period

There is no entity that has been excluded from the consolidated financial statements starting from the period.

VIII. NOTES TO SIGNIFICANT ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(I) Monetary capital

Item	Balance at year-end	Balance at the beginning of the year
Cash	285,304.82	–
Bank deposits	2,348,481,677.15	–
Other monetary capital	4,170,868.04	–
Total	2,352,937,850.01	–

(II) Trade receivables

1. Trade receivables

Category	At year-end				At the beginning of the year			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually significant trade receivables of bad debt provision on an individual basis	–	–	–	–	–	–	–	–
Trade receivables of bad debt provision in credit risk characteristic portfolio	1,288,940,911.38	100.00%	31,955,573.77	2.48%	–	–	–	–
Individually insignificant trade receivables of bad debt provision on an individual basis	–	–	–	–	–	–	–	–
Total	1,288,940,911.38	100.00%	31,955,573.77	2.48%	–	–	–	–

(1) Trade receivables of bad debt provision in credit risk characteristic portfolio

1) Trade receivables of bad debt provision based on aging analysis:

Aging Structure	At year-end			At the beginning of the year		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	1,081,207,582.71	95.14	–	–	–	–
1-2 years	13,954,861.92	1.23	1,939,877.57	–	–	–
2-3 years	6,704,857.52	0.59	1,340,971.50	–	–	–
3-4 years	4,723,683.01	0.42	1,417,104.90	–	–	–
4-5 years	4,666,318.09	0.41	2,058,869.99	–	–	–
Over 5 years	25,198,749.81	2.22	25,198,749.81	–	–	–
Total	1,136,456,053.06	100.00	31,955,573.77	–	–	–

2) Trade receivables of bad debt provision based on other methods

Name of group	At year-end		At the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Related parties	152,484,858.32	–	–	–

(2) The top five debtors of trade receivable balances

Name of debtors	Nature	Book balance
Yiliu Natural Gas	Gas sales	128,975,613.26
Shanghai Shenergy Qingpu Thermal Power Co., Ltd.	Gas sales	113,039,414.19
Songjiang Natural Gas	Gas sales	97,868,560.24
Shanghai Caojing Thermal Power Co., Ltd.	Gas sales	84,051,032.80
Chemical Industry Park Property Company	Gas sales	35,370,490.90
Total	–	459,305,111.39

(III) Prepayments

Aging	Amount at year-end	Amount at the beginning of the year
Within 1 year	280,736,962.03	–

1. The top five suppliers of prepayment balances

Name of suppliers	Nature	Aging	Book balance
CNPC Shanghai Sales Company	Purchase of Gas	Within 1 year	255,951,500.00
Sinopec Dazhou Natural Gas Sales Department	Purchase of Gas	Within 1 year	21,940,200.00
Total	–		277,891,700.00

(IV) Other receivables

Item	Balance at year-end	Balance at the beginning of the year
Interest receivable	7,293,881.75	–
Other receivables	213,333,953.62	–
Total	220,627,835.37	–

1. Interest receivable

Type	Balance at year-end	Balance at the beginning of the year
Deposit interest receivable	7,293,881.75	–

2. Other receivables

Category	At year-end				At the beginning of the year			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually significant other receivables of bad debt provision on an individual basis	–	–	–	–	–	–	–	–
Other receivables of bad debt provision is in credit risk characteristic portfolio	239,073,119.18	99.46%	25,739,165.56	10.77%	–	–	–	–
Individually insignificant other receivables of bad debt provision on an individual basis	1,290,943.62	0.54%	1,290,943.62	100.00%	–	–	–	–
Total	240,364,062.80	100.00%	27,030,109.18	11.25%	–	–	–	–

2.1 Other receivables of bad debt provision in credit risk characteristic portfolio

(1) Other receivables of bad debt provision based on aging analysis

Aging structure	At year-end			At the beginning of the year		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	14,580,931.33	35.36	–	–	–	–
1-2 years	1,014,976.13	2.46	380,974.65	–	–	–
2-3 years	50,181.70	0.12	10,036.34	–	–	–
3-4 years	111,751.82	0.27	33,525.54	–	–	–
4-5 years	266,900.06	0.65	106,760.03	–	–	–
Over 5 years	25,207,869.00	61.14	25,207,869.00	–	–	–
Total	41,232,610.04	100.00	25,739,165.56	–	–	–

(2) Other receivables of bad debt provision based on other methods

Name of group	At year-end		At the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Related parties	197,579,019.14	–	–	–
Assured recoverability	261,490.00	–	–	–
Total	197,840,509.14	–	–	–

(3) Individually insignificant other receivables of bad debt provision on an individual basis at year-end

Name of debtors	Book balance	Bad debt provision	Percentage of provision	Reasons for provision
Shanghai Jinshan District Jinjian Gas Institute Engineering Department	1,280,943.62	1,280,943.62	100.00%	Reasonable expectations of unlikely recovery
Pledge amounts	10,000.00	10,000.00	100.00%	Reasonable expectations of unlikely recovery
Total	1,290,943.62	1,290,943.62	100.00%	–

2.3 The top five debtors of other receivable balances

Name of debtors	Nature of amount	Book balance
Shanghai Gas (Group) Co., Ltd.	Investment amount not received	103,029,019.14
Shanghai Natural Gas Pipeline Network Co., Ltd.	Lease of fixed assets	94,500,000.00
Gas charges received on behalf of other parties	Gas charges	25,702,493.80
Shanghai Jinshan District Jinjian Gas Institute Engineering Department	Investment amounts	1,280,943.62
Advances	Advances	683,883.00
Total	–	225,196,339.56

(V) Inventories

Item	At year-end			At the beginning of the year		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Raw materials	16,400,500.44	–	16,400,500.44	–	–	–
Commodity stock	65,065,630.96	–	65,065,630.96	–	–	–
Construction work	884,605,759.44	–	884,605,759.44	–	–	–
Low-value consumables	4,377,458.50	–	4,377,458.50	–	–	–
Revolving materials	185,812.69	–	185,812.69	–	–	–
Materials in transit	4,237,658.62	–	4,237,658.62	–	–	–
Total	974,872,820.65	–	974,872,820.65	–	–	–

None of the inventories set out above was subject to debt security as at the end of the year.

(VI) Other current assets

Item	Balance at year-end	Balance at the beginning of the year
Deductible input value-added tax (“VAT”)	4,080,529.97	–
Prepaid enterprise income tax	25,959,576.08	–
Prepaid business tax	7,630,305.24	–
Input tax pending certification	29,594,820.87	–
Prepaid city maintenance and construction tax	142,328.37	–
Prepaid education surcharge	73,407.47	–
Prepaid individual income tax	72.90	–
Prepaid VAT (portion under simplified VAT computation method)	6,262,580.09	–
Output tax to be carried forward	5,992,376.34	–
Total	79,735,997.33	–

(VII) Available-for-sale financial assets

Item	Fair value at year-end	Fair value at the beginning of the year
Equity instruments at fair value	35,542,110.10	–
Equity instruments at cost	28,193,313.00	–
Less: Impairment provision for available-for-sale financial assets	–	–
Total	63,735,423.10	–

The above equity instruments measured at fair value have been recognised based on Level-1 inputs, namely, unadjusted quotations in an active market for identical assets available at 31 December 2019.

The above equity instruments measured at cost are all equity investments in non-listed companies not quoted in an active market and whose fair value cannot be reliably measured, and have been measured at cost.

(VIII) Long-term equity investment

1. Classification of long-term equity investment

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at year-end
Investment in joint ventures	–	2,731,170.74	970,000.00	1,761,170.74
Investment in associates	–	623,276,506.23	26,631,749.73	596,644,756.50
Sub-total	–	626,007,676.97	27,601,749.73	598,405,927.24
Less: Impairment provision for long-term investment	–	–	–	–
Total	–	626,007,676.97	27,601,749.73	598,405,927.24

2. Breakdown of investments in joint ventures and associates

Investee	Investment cost	Balance at the beginning of the period	Changes for the period							Balance at the end of the period	Balance of impairment provision at the end of the period
			Increase in investment	Decrease in investment	Profit/loss for investment recognised under equity method	Adjustments to other comprehensive income	Cash dividend or profit declared	Transfer upon demerger	Impairment provision		
Joint venture											
Shanghai Shentai Property Management Co., Ltd.	500,000.00		–	–	1,001,810.50	–	-970,000.00	1,729,360.24	–	1,761,170.74	–
Sub-total	500,000.00		–	–	1,001,810.50	–	-970,000.00	1,729,360.24	–	1,761,170.74	–
Associates											
Yuyao Shenran Energy Co., Ltd.	3,000,000.00		3,000,000.00	–	–	–	–	–	–	3,000,000.00	–
Shanghai Fengxian Gas Co., Ltd.	110,883,721.71		–	–	27,451,004.83	-1,035,112.73	-12,000,000.00	228,336,487.44	–	242,752,379.54	–
Shanghai Songjiang Gas Co., Ltd.	41,602,113.86		–	–	29,034,519.62	4,600,285.85	-14,631,749.73	331,889,321.22	–	350,892,376.96	–
Sub-total	155,485,835.57		3,000,000.00	–	56,485,524.45	3,565,173.12	-26,631,749.73	560,225,808.66	–	596,644,756.50	–
Total	155,985,835.57		3,000,000.00	–	57,487,334.95	3,565,173.12	-27,601,749.73	561,955,168.90	–	598,405,927.24	–

3. Investments in material joint ventures and associates

(1) Basic information on significant associates

Key financial information	Balance at the end of the period/amount incurred for the period	Balance at the end of the period/amount incurred for the period
	Shanghai Fengxian Gas Co., Ltd.	**Shanghai Songjiang Gas Co., Ltd.**
Current assets	771,941,028.52	1,232,240,783.15
Non-current assets	624,931,803.67	1,337,022,545.14
Total assets	1,396,872,832.19	2,569,263,328.29
Current liabilities	537,969,234.81	826,385,294.29
Non-current liabilities	123,179,972.15	865,647,091.61
Total liabilities	661,149,206.96	1,692,032,385.90
Net assets	735,723,625.23	877,230,942.39
Share of net assets pro-rata to shareholding percentage	242,752,379.54	350,892,376.96
Adjustments	–	–
Carrying amount of equity investments in joint ventures	242,752,379.54	350,892,376.96
Fair value of equity investments with publicly available price quotations	–	–
Operating income	869,317,289.44	1,193,092,105.39
Net profit	51,870,020.71	72,586,299.06
Other comprehensive income	–	1,937,250.00
Total comprehensive income	51,870,020.71	74,523,549.06
Dividends from associates received for the current period	12,000,000.00	14,631,749.73

4. Investments in non-material joint ventures and associates

Item	Amount for the period	Amount for the previous year
Joint ventures:		
Total carrying amount of investment	1,761,170.74	–
Total amount of the following items, pro-rata to shareholding percentage	–	–
Net profit	1,001,810.50	–
Other comprehensive income	–	–
Total comprehensive income	1,001,810.50	–
Associates:		
Total carrying amount of investment	596,644,756.50	–
Total amount of the following items, pro-rata to shareholding percentage	–	–
Net profit	56,485,524.45	–
Other comprehensive income	3,565,173.12	–
Total comprehensive income	56,485,524.45	–

(IX) Investment properties

Item	Balance at the beginning of the year	Increase through demerger	Increase for the year	Decrease for the year	Balance at year-end
I. Total original value	–	55,304,345.57	–	–	55,304,345.57
Including: Houses and buildings	–	55,304,345.57	–	–	55,304,345.57
II. Total accumulated depreciation (amortisation)	–	22,587,856.09	1,327,304.52	–	23,915,160.61
Including: Houses and buildings	–	22,587,856.09	1,327,304.52	–	23,915,160.61
III. Total impairment provision	–	–	–	–	–
Including: Houses and buildings	–	–	–	–	–
IV. Total carrying amount	–	——	——	——	31,389,184.96
Including: Houses and buildings	–	——	——	——	31,389,184.96

No impairment provision in respect of the above investment properties is required as their net realisable value was not lower than their carrying amount as at the end of the year.

(X) **Fixed assets**

Item	Balance at year-end	Balance at the beginning of the year
Fixed assets	9,329,119,738.70	–
Disposal of fixed asset	2,049.40	–
Total	9,329,121,788.10	–

1. Fixed assets

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the year	Balance at the end of the period
I. Total original value	–	16,555,961,724.57	1,016,465,016.79	380,517,835.72	17,191,908,905.64
Including: Houses and buildings	–	663,435,609.66	112,822,823.82	44,224,582.95	732,033,850.53
Machinery equipment	–	183,438,673.70	11,107,847.53	3,470,349.19	191,076,172.04
Transport equipment	–	174,769,687.90	13,325,602.67	20,922,807.38	167,172,483.19
Special equipment	–	15,362,646,036.23	824,153,152.52	299,821,781.94	15,886,977,406.81
Office equipment and others	–	171,671,717.08	34,922,702.92	12,078,314.26	194,516,105.74
Refurbishment	–	–	20,132,887.33	–	20,132,887.33
II. Total accumulated depreciation	–	7,077,921,121.99	750,772,867.75	295,471,305.58	7,533,222,684.16
Including: Houses and buildings	–	281,973,636.32	28,344,438.94	26,733,877.42	283,584,197.84
Machinery equipment	–	109,284,101.85	13,879,960.68	3,197,279.65	119,966,782.88
Transport equipment	–	101,543,864.85	15,099,010.09	20,064,686.67	96,578,188.27
Special equipment	–	6,464,552,448.87	681,906,048.19	235,677,483.68	6,910,781,013.38
Office equipment and others	–	120,567,070.10	10,589,110.99	9,797,978.16	121,358,202.93
Refurbishment	–	–	954,298.86	–	954,298.86
III. Total impairment provision	–	329,566,482.78	–	–	329,566,482.78
Including: Houses and buildings	–	3,646,313.16	–	–	3,646,313.16
Machinery equipment	–	–	–	–	–
Transport equipment	–	505,571.86	–	–	505,571.86
Special equipment	–	324,183,204.75	–	–	324,183,204.75
Office equipment and others	–	1,231,393.01	–	–	1,231,393.01
Refurbishment	–	–	–	–	–
IV. Total carrying amount	–	——	——	——	9,329,119,738.70
Including: Houses and buildings	–	——	——	——	444,803,339.53
Machinery equipment	–	——	——	——	71,109,389.16
Transport equipment	–	——	——	——	70,088,723.06
Special equipment	–	——	——	——	8,652,013,188.68
Office equipment and others	–	——	——	——	71,926,509.80
Refurbishment	–	——	——	——	19,178,588.47

1.1 Supplemental information on fixed assets

Item	Amount	Remark
1. Original value of fixed assets for which full depreciation had been charged and put to ongoing use as at the end of the year	2,518,331,462.56	–
2. Original value of fixed assets with title certificates yet to be obtained as at the end of the year	15,099,713.48	–

1.2 No fixed assets were held for sale and subject to ownership restrictions as at the end of the year.

2. Disposal of fixed asset

Item	Balance at year-end	Balance at the beginning of the year	Reasons for disposal
Office equipment to be disposed	2,049.40	–	Disposal is in progress

(XI) Construction in progress

1. Construction in progress

Item	At year-end			At the beginning of the year		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Pipeline work and upgrade projects	1,564,326,983.26	9,551,734.38	1,554,775,248.88	–	–	–
Others	6,732,692.01	–	6,732,692.01	–	–	–
Total	1,571,059,675.27	9,551,734.38	1,561,507,940.89	–	–	–

1.1 Change in items of construction in progress

Name of construction	Balance at the beginning of the year		Increase through demerger for the year	Increase for the year	Decrease for the year			Balance of impairment provision at year-end	Source of fund
	Book balance	Impairment provision			Transfer to fixed assets	Other decrease	Book balance		
Pipeline work and upgrade projects	–	–	1,564,873,825.82	953,427,678.68	953,974,521.24	–	1,564,326,983.26	9,551,734.38	Self-raised
Others	–	–	3,487,247.54	3,245,444.47	–	–	6,732,692.01	–	Self-raised
Total	–	–	1,568,361,073.36	956,673,123.15	953,974,521.24	–	1,571,059,675.27	9,551,734.38	–

1.2 Impairment provision of construction in progress

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the year	Balance at year-end	Reason for provision
Pipeline work and upgrade projects	–	9,551,734.38	–	–	9,551,734.38	–

(XII) Intangible assets

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the year	Balance at the end of the period
I. Total original value	–	65,311,556.60	11,706,900.00	–	77,018,456.60
Including: Right-of-use for software	–	9,194,512.00	7,440,500.00	–	16,635,012.00
Land use rights	–	56,117,044.60	4,030,000.00	–	60,147,044.60
Patents	–	–	198,300.00	–	198,300.00
Trademarks	–	–	38,100.00	–	38,100.00
II. Total accumulated amortisation	–	7,700,466.42	2,494,344.68	–	10,194,811.10
Including: Right-of-use for software	–	6,026,512.00	1,644,075.00	–	7,670,587.00
Land use rights	–	1,673,954.42	814,809.68	–	2,488,764.10
Patents	–	–	29,745.00	–	29,745.00
Trademarks	–	–	5,715.00	–	5,715.00
III. Total impairment provision	–	7,100,811.52	–	–	7,100,811.52
Including: Right-of-use for software	–	–	–	–	–
Land use rights	–	7,100,811.52	–	–	7,100,811.52
Patents	–	–	–	–	–
Trademarks	–	–	–	–	–
IV. Total carrying amount	–	——	——	——	59,722,833.98
Including: Right-of-use for software	–	——	——	——	8,964,425.00
Land use rights	–	——	——	——	50,557,468.98
Patents	–	——	——	——	168,555.00
Trademarks	–	——	——	——	32,385.00

(XIII) Long-term expenses to be amortised

Type	Balance at the beginning of the year	Increase for the year	Decrease for the year	Including: amortisation for the year	Balance at year-end	Remaining months for amortisation
Property insurance	–	279,339.58	–	–	279,339.58	——

(XIV) Deferred income tax assets

1. Deferred income tax assets and deductible temporary differences recognised

Item	Balance at year-end		Balance at the beginning of the year	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Bad debt provision	5,107,177.55	20,428,710.17	–	–
Differences in taxable income on revenue recognition	7,100,491.15	28,401,964.60	–	–
Subsidies for ancillary gas facilities	71,667,189.12	286,668,756.49	–	–
Accrued expenses	74,316,250.80	297,265,003.20	–	–
Policy-based relocation	6,937,304.22	27,749,216.87	–	–
Total	165,128,412.84	660,513,651.33	–	–

(1) Details of unrecognised deferred income tax assets:

Item	Balance at year-end	Balance at the beginning of the year
Receipts in advance — prepayments of construction work items	162,417,155.25	–
Deferred income — differences in gas pipeline fee prepayments	297,193,082.96	–
Deductible loss	312,772,004.75	–
Total	772,382,242.96	–

(2) Deductible loss of unrecognised deferred income tax assets due in the following years:

Year	Balance at year-end	Balance at the beginning of the year	Remark
2023	162,677,313.80	–	——
2024	150,094,690.95	–	——
Total	312,772,004.75	–	——

The amount of pretax losses available for making up is subject to the approval of competent taxation authorities.

(XV) Short-term borrowings

Type of borrowings	Balance at year-end	Balance at the beginning of the year
Credit loan	770,000,000.00	–

(XVI) Trade payables

Aging	Balance at year-end	Balance at the beginning of the year
Within 1 year (including 1 year)	1,716,393,447.93	–
1-2 years	15,000.00	–
2-3 years	14,195,278.65	–
More than 3 years	47,638,243.34	–
Total	1,778,241,969.92	–

(XVII) Receipts in advance

Aging	Balance at year-end	Balance at the beginning of the year
Within 1 year (including 1 year)	1,662,413,665.55	–
1 year and above	1,171,609,292.27	–
Total	2,834,022,957.82	–

The above receipts in advance aged over 1 year are primarily receipts in advance for pipe row construction work amounts and pipe row and ancillary construction work not yet completed and recognised.

(XVIII) Employee remuneration payables

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the period	Balance at year-end
I. Short-term remuneration	–	44,922,138.89	1,042,920,399.27	1,051,063,377.86	36,779,160.30
II. Post-employment benefits — defined contribution plan	–	40,618.99	152,168,514.48	152,168,514.38	40,619.09
III. Termination benefits	–	–	–	–	–
Total	–	44,962,757.88	1,195,088,913.75	1,203,231,892.24	36,819,779.39

1. Short-term remuneration

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the period	Balance at year-end
1. Wages, bonuses, allowances and subsidies	–	43,295,016.13	726,256,997.51	734,549,133.88	35,002,879.76
2. Employee benefits	–	–	45,614,356.44	45,614,356.44	–
3. Social insurance	–	24,964.80	71,911,878.51	71,911,962.51	24,880.80
Including: 1. Medical insurance	–	22,166.80	59,592,248.60	59,592,332.60	22,082.80
2. Work injury insurance	–	927.80	3,169,131.89	3,169,131.89	927.80
3. Maternity insurance	–	1,870.20	6,212,283.22	6,212,283.22	1,870.20
4. Others	–	–	2,938,214.80	2,938,214.80	–
4. Housing provident fund	–	1,015.00	72,542,955.22	72,543,109.22	861.00
5. Labour union fund and employee education fund	–	1,601,142.96	17,776,667.44	17,627,271.66	1,750,538.74
6. Others	–	–	4,008,335.49	4,008,335.49	–
7. Labour expenses	–	–	104,647,609.76	104,647,609.76	–
8. Expenses on external personnel	–	–	727.00	727.00	–
9. Employment security fund for the disabled	–	–	160,871.90	160,871.90	–
Total	–	44,922,138.89	1,042,920,399.27	1,051,063,377.86	36,779,160.30

2. Defined contribution plan

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the period	Balance at year-end
1. Basic endowment insurance	–	37,927.69	111,352,330.49	111,352,330.39	37,927.79
2. Unemployment insurance	–	2,691.30	4,669,085.84	4,669,085.84	2,691.30
3. Corporate annuity payments	–	–	36,147,098.15	36,147,098.15	–
Total	–	40,618.99	152,168,514.48	152,168,514.38	40,619.09

3. The Company did not have any defined benefit scheme.

(XIX) Taxes charges payables

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the period	Balance at year-end
VAT	–	36,091,592.06	210,332,478.80	232,052,097.68	14,371,973.18
City maintenance and construction tax	–	1,307,455.57	15,178,429.94	15,143,935.79	1,341,949.72
Education surcharge	–	801,258.81	10,212,789.26	9,865,229.35	1,148,818.72
River work construction and maintenance fee	–	1,373.89	–	–	1,373.89
Enterprise income tax	–	10,133,935.90	148,461,628.46	48,654,807.74	109,940,756.62
Property tax	–	36,834.33	3,838,906.14	3,690,248.30	185,492.17
Land appreciation tax	–	–	5,383,149.32	5,383,149.32	–
Individual income tax	–	5,983,891.58	16,068,222.87	16,189,746.76	5,862,367.69
Land use tax	–	–	779,409.81	695,511.84	83,897.97
Vehicle and vessel levy	–	–	49,825.47	49,825.47	–
Other taxes and fees	–	–	252,400.00	252,400.00	–
Stamp duty	–	33,042.30	5,246,466.61	5,219,135.45	60,373.46
Total	–	54,389,384.44	415,803,706.68	337,196,087.70	132,997,003.42

(XX) Other payables

Item	Balance at year-end	Balance at the beginning of the year
Interest payable	817,758.32	–
Other payables	2,553,851,690.16	–
Total	2,554,669,448.48	–

1. Interest payable

Item	Balance at year-end	Balance at the beginning of the year
Interests on bank borrowings	817,758.32	–

2. Other payables

Aging	Balance at year-end	Balance at the beginning of the year
Provisional receipts and amounts received on behalf of other parties	143,126,621.33	–
Bonds and deposits	49,201,238.58	–
Construction work amounts	202,221,810.47	–
Amounts to be settled	66,391,903.24	–
Fund for the Adjustment of Industry Structure	7,644,082.00	–
Upgrade to smart electricity meters	297,265,003.20	–
Related-party amounts	1,738,146,397.26	–
Scientific research funding	480,000.00	–
Others	49,374,634.08	–
Total	2,553,851,690.16	–

2.1 Material outstanding payments aged over 1 year and reasons for outstanding:

Item	Amount owed	Reasons for outstanding
Accrued expenses for smart meters and apparatus	297,265,003.20	Pending for settlement
Infrastructure construction costs payable	32,011,127.33	Pending for settlement
Compensation for demolition of gas cabinets in Chuansha	27,749,216.87	Pending for settlement
Subsidy for upgrade of gas facilities in old city districts	20,000,000.00	Pending for settlement
Compensation for migration and relocation	10,754,608.89	Migration and relocation work yet to be completed
Total	377,025,347.40	–

(XXI) Non-current liabilities due within one year

Item	Balance at year-end	Balance at the beginning of the year
Gas pipeline fees and ancillary facility fees	226,964,593.31	–
Subsidy for clean alternative energy	733,363.71	–
Long-term borrowings due within one year	11,600,000.00	–
Total	239,297,957.02	–

(XXII) Long-term borrowings

Type of borrowings	Balance at year-end	Balance at the beginning of the year
Credit loan	49,200,000.00	–

(XXIII) Deferred income

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the year	Balance at year-end	Reason for refund for the year
Subsidy for clean alternative energy	–	12,059,160.16	–	733,363.56	11,325,796.60	–
Ancillary gas facilities	–	235,686,677.54	39,667,227.43	17,998,961.26	257,354,943.71	–
Pipe rows for new residential communities	–	2,234,929,261.77	290,349,160.22	234,549,574.04	2,290,728,847.95	–
Compensation for land requisition	–	157,439,750.39	33,225,678.14	3,565,161.73	187,100,266.80	–
Total	–	2,640,114,849.86	363,242,065.79	256,847,060.59	2,746,509,855.06	–

(XXIV) Deferred income tax liabilities

Item	Balance at year-end		Balance at the beginning of the year	
	Deferred income tax liabilities	Deductible temporary differences	Deferred income tax liabilities	Deductible temporary differences
Changes in fair value of available-for-sale financial assets	8,657,414.93	34,629,659.72	–	–
Long-term equity investments	58,699,031.40	234,796,125.60	–	–
Total	67,356,446.33	269,425,785.32	–	–

(XXV) Paid-in capital

Name of investor	Balance at the beginning of the year		Increase for the year	Decrease for the year	Balance at year-end	
	Investment amount	Percentage share			Investment amount	Percentage share
Shenergy (Group) Company Limited	–	–	1,000,000,000.00		1,000,000,000.00	100.00%

The Company has been established as a result of the demerger of Shanghai Gas (Group) Co., Ltd. and its paid-in capital was consistent with its registered capital as at the end of the period.

(XXVI) Capital reserve

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at year-end
I. Capital premium	–	695,114,639.66	–	695,114,639.66

The increase for the period is due to the excess of demerged net assets over paid-in capital upon the demerger of Shanghai Gas (Group) Co., Ltd..

(XXVII) Surplus reserve

Item	Balance at the beginning of the year	Increase for the year	Decrease for the year	Balance at year-end
Statutory surplus reserve	–	21,342,187.36	–	21,342,187.36

The increase in statutory surplus reserve is due to provision at 10% of net profit for the period in accordance with the articles of association.

(XXVIII) Special reserve

Item	Balance at the beginning of the year	Increase through demerger for the year	Increase for the year	Decrease for the year	Balance at year-end
Production safety funds	–	645,224,707.33	293,039,094.58	48,475,115.58	889,788,686.33

(XXIX) Retained earnings

Item	Amount for the year	Amount for the previous year
Opening balance of the year	–	–
Transfer on demerger	98,381,528.49	
Increase for the year	642,093,899.18	–
Including: Transfer of net profit for the year	642,093,899.18	–
Decrease for the year	21,342,187.36	–
Including: Appropriation for surplus reserve for the year	21,342,187.36	–
Other reductions	–	–
Closing balance of the year	719,133,240.31	–

(XXX) Operating income and operating costs

Item	Amount incurred for the year		Amount incurred for the previous year	
	Revenue	Cost	Revenue	Cost
1. Sub-total of principal businesses	26,301,586,769.47	23,944,598,864.72	–	–
Natural gas	21,471,914,010.37	20,480,239,845.01	–	–
Construction work	4,552,280,898.45	3,304,906,204.57	–	–
Liquefied gas	85,544,578.09	81,259,683.85	–	–
Income from pipeline transmission fees	112,950,000.00	–	–	–
Commodity trade and others	78,897,282.56	78,193,131.29	–	–
2. Sub-total of other businesses	151,803,921.14	21,497,961.98	–	–
Leasing	94,277,046.85	3,620,338.47	–	–
Sales of materials	15,612,579.65	12,642,614.85	–	–
Income from late payment penalty and default penalty	17,651,803.65	–	–	–
Provision of labour services	15,165,686.88	3,482,259.03	–	–
Others	9,096,804.11	1,752,749.63	–	–
Total	26,453,390,690.61	23,966,096,826.70	–	–

(XXXI) Finance costs

Item	Amount incurred for the year	Amount incurred for the previous year
Interest expenses	36,454,990.36	–
Less: Interest income	44,016,371.30	–
Net interest expenses	-7,561,380.94	–
Handling charges	103,252.04	–
Total	-7,458,128.90	–

(XXXII) Asset impairment loss

Item	Amount incurred for the year	Amount incurred for the previous year
Loss of bad debts	-1,394,729.29	–

(XXXIII) **Investment income**

Type	Amount incurred for the year	Amount incurred for the previous year
Investment income received during period of holding available-for-sale financial assets	11,805,324.05	–
Long-term equity investment income recognised under equity method	57,487,334.95	–
Total	69,292,659.00	–

The remittance of the above investment income is not subject to significant restrictions.

(XXXIV) **Other gains**

Item	Amount incurred for the year	Amount incurred for the previous year
Government subsidy — instant VAT refund	48,917,046.29	–
Government subsidy — subsidy for municipal upgrade work	1,926,605.50	–
Assistance funds	8,125,000.00	–
Subsidy for urgent disposals	1,012,540.00	–
Subsidy for ancillary gas facilities	16,015,599.89	–
Subsidy for clean alternative energy	733,363.56	–
Subsidy for gas distribution and transmission	1,785,200.00	–
Others	46,280.63	–
Financial refund	180,000.00	–
Subsidy for stabilising employment	1,395,402.00	–
Subsidy for demolition and relocation	2,118,855.96	–
Total	82,255,893.83	–

(XXXV) **Non-operating income**

Item	Amount incurred for the year	Amount incurred for the previous year
Income from retirement and disposal of fixed assets	2,027,274.16	–
Net income from disposal of scrapped products	791,170.97	–
Penalty income	13,000.00	–
Other gains	737,025.35	–
Total	3,568,470.48	–

(XXXVI) Non-operating expenses

Item	Amount incurred for the year	Amount incurred for the previous year
Loss on retirement and damage of assets	14,005,287.47	–
Donations other than those for public interest	4,000.00	–
Surcharge on late payments	10,439.47	–
Other expenses	23,671.92	–
Total	14,043,398.86	–

(XXXVII) Income tax expenses

Item	Amount incurred for the year	Amount incurred for the previous year
Current income tax calculated with tax laws and relevant provisions	128,781,839.07	–
Deferred income tax expenses	-5,320,010.16	–
Differences on settlement of income tax for the previous periods	-8,406,288.30	–
Total	115,055,540.61	–

Reconciliation of accounting profit to income tax expenses

Item	Amount incurred for the year
Total profit	735,388,837.59
Income tax expenses calculated at statutory/applicable tax rates	183,847,209.40
Effect of adjustments to income tax of previous periods	-8,406,288.30
Effect of non-taxable income	-16,525,164.76
Effect of non-deductible costs, expenses and losses	61,709,748.71
Effect of utilisation of deductible loss of previously losses from unrecognised deferred income tax assets	-192,142,257.49
Effect of deductible temporary differences or deductible losses from unrecognised deferred income tax assets for the period	44,214,195.34
Others	42,358,097.71
Income tax expenses	115,055,540.61

(XXXVIII) Other comprehensive income

1. Items of other comprehensive income and their income tax effect and transfer to profit or loss

Item	Amount incurred for the period			Amount incurred for the previous period		
	Pretax amount	Income tax	Net of tax	Pretax amount	Income tax	Net of tax
1. Other increases — increase on demerger	1,118,803,116.80	–	1,118,803,116.80	–	–	–
Other comprehensive income to be reclassified as profit or loss in future	–	–	–	–	–	–
2. Gain/loss on changes in fair value of available-for-sale financial assets	1,973,135.19	480,144.45	1,492,990.74	–	–	–
Less: Amounts included in other comprehensive income for the previous period and profit or loss for the current period	–	–	–	–	–	–
Sub-total	1,973,135,19	480,144.45	1,492,990.74	–	–	–
3. Share of other comprehensive income of investee under equity method	–1,944,011.24	445,646.64	–2,389,657.88	–	–	–
Less: Amounts included in other comprehensive income for the previous period and profit or loss for the current period	–	–	–	–	–	–
Sub-total	–1,944,011.24	445,646.64	–2,389,657.88	–	–	–
Total other comprehensive income	1,118,832,240.75	925,791.09	1,117,906,449.66	–	–	–

2. Reconciliation of items of other comprehensive income

Item	Gain/loss on changes in fair value of available-for-sale financial assets	Share of other comprehensive income of investee reclassified to profit or loss under equity method	Total
I. Opening balance of the previous year	–	–	–
II. Amount of change (increase/ decrease) for the previous year	–	–	–
III. Opening balance of the year	–	–	–
IV. Amount of change (increase/ decrease) for the year	15,613,129.29	1,102,293,320.37	1,117,906,449.66
V. Closing balance of the year	15,613,129.29	1,102,293,320.37	1,117,906,449.66

(XXXIX) Notes to the consolidated cash flows statement

1. Reconciliation of net profit to cash flows from operating activities

Item	Amount for the year	Amount for the previous year
I. Reconciliation of net profit with cash flows from operating activities		
Net profit	620,333,296.98	–
Add: Asset impairment provision	-1,394,729.29	–
Depreciation of fixed assets and investment properties	752,100,172.27	–
Amortisation of intangible assets	2,494,344.68	–
Amortisation of long-term expenses to be amortised	–	–
Loss on disposal of fixed assets, intangible assets and other long-term assets (gain indicated by the "-" sign)	–	–
Loss on write-off of fixed assets (gain indicated by the "-" sign)	11,978,013.31	–
Loss on changes in fair value (gain indicated by the "-" sign)	–	–
Finance costs (gain indicated by the "-" sign)	34,727,057.14	–
Loss on investment (gain indicated by the "-" sign)	-69,292,659.00	–
Decrease in deferred income tax assets (increase indicated by the "-" sign)	-5,320,010.16	–
Increase in deferred income tax liabilities (decrease indicated by the "-" sign)	–	–
Decrease in inventories (increase indicated by the "-" sign)	1,543,295,122.70	–
Decrease in operating receivables (increase indicated by the "-" sign)	117,600,673.01	–
Increase in operating payables (decrease indicated by the "-" sign)	-2,748,570,411.12	–
Others (appropriation to special reserve)	244,563,979.00	–
Net cash flows from operating activities	502,514,849.52	–
II. Non-cash investing and financing activities:	–	–
Debts changed to capital	–	–
Convertible bonds due within one year	–	–
Finance leasing of fixed assets	–	–
III. Net increase in cash and cash equivalents:	–	–
Cash at year-end	2,352,937,850.01	–
Less: Cash at the beginning of the period	–	–
Add: Cash equivalents at year-end	–	–
Less: Cash equivalents at the beginning of the period	–	–
Net increase in cash and cash equivalents	2,352,937,850.01	–

2. Cash and cash equivalents

Item	Balance at year-end	Balance at the beginning of the year
I. Cash	2,352,937,850.01	–
Including: Cash on hand	285,304.82	–
Bank deposits available for payment	2,348,481,677.15	–
Other monetary capital available for payment	4,170,868.04	–
II. Cash equivalents	–	–
Including: Bond investment due within three months	–	–
III. Balance of cash and cash equivalents at the end of the period	2,352,937,850.01	–

The Company or subsidiaries in the Group did not have cash and cash equivalents with ownership restrictions.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Information of the parent company

Name of company	Relationship with the Company	Place of incorporation	Principal operations	Shareholding percentage of parent company	Percentage of voting rights of parent
Shenergy (Group) Company Limited	Parent company	Shanghai	Energy exploration and investment	100.00%	100.00%

(II) For details of the Company's subsidiaries, please refer to Note VII.

(III) For details of the Company's associates and joint ventures, please refer to "Long-term equity investment".

(IV) Related parties not subject to controlling relationship but involved in related transactions

Name of company	Place of incorporation	Relationship with the Company	Business nature
Shanghai Natural Gas Pipeline Network Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Natural gas transmission and distribution
Shanghai Gas (Group) Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Natural gas sales
Shenergy Group Financial Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Deposit and financing business for fellow subsidiaries
Shanghai Dazhong Public Utilities (Group) Co., Ltd.	Shanghai	Minority shareholder of subsidiary	Industrial investment
Shanghai Shenergy Qingpu Thermal Power Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Steam production and sales
Shanghai Shenergy Chongming Power Generation Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Electricity production and sales
Shanghai Shenergy Fengxian Thermal Power Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Refined oil sales
Shanghai Shenergy Lingang CCGT Power Generation Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Electricity production and sales
Shanghai Shenergy Energy Service Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Consultation for and transfer of energy businesses
Shanghai Zhangjiang Hi-Tech Park New Energy Technology Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Energy sales
Shanghai Wusong Gas Production Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Ancillary gas services
Shanghai Pudong Gas Production Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Ancillary gas services
Shanghai Liquefied Petroleum Gas Management Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Liquefied petroleum gas ("LPG") sales
Shanghai Jiulian Group Co., Ltd.	Shanghai	Under common control of ultimate holding parent company	Industrial investment and domestic trade

(V) Significant related parties and related party transactions (currency unit: RMB10,000)

1. Sales of goods and provision of services

Name of company	Types of transaction	Amount for the year	Amount for the previous year	Conditions for transaction
Shanghai Gas (Group) Co., Ltd.	Pipeline transmission service	11,295.00	–	Per agreement
Shanghai Gas (Group) Co., Ltd.	Advances for migration and relocation	3,322.57	–	Per agreement
Shanghai Gas (Group) Co., Ltd.	Sale of properties	3,872.72	–	Per agreement
Shanghai Natural Gas Pipeline Network Co., Ltd.	Lease of properties	8,250.00	–	Per agreement
Shanghai Shenergy Qingpu Thermal Power Co., Ltd.	Natural gas sales	14,365.78	–	Per agreement
Shanghai Shenergy Energy Service Co., Ltd.	Natural gas sales	5,909.54	–	Per agreement
Shanghai Shenergy Chongming Power Generation Co., Ltd.	Natural gas sales	32,320.03	–	Per agreement
Shanghai Shenergy Fengxian Thermal Power Co., Ltd.	Natural gas sales	43,689.11	–	Per agreement
Shanghai Shenergy Lingang CCGT Power Generation Co., Ltd.	Natural gas sales	96,635.30	–	Per agreement
Shanghai Caojing Thermal Power Co., Ltd.	Natural gas sales	205,584.47	–	Per agreement
Shanghai Gas (Group) Co., Ltd.	Natural gas resale	160,849.90	–	Per agreement
Shanghai Zhangjiang Hi-Tech Park New Energy Technology Co., Ltd.	Natural gas sales	4,613.51	–	Per agreement

2. Purchase of goods and receipt of labour services

Name of company	Types of transaction	Amount for the year	Amount for the previous year	Conditions for transaction
Shanghai Wusong Gas Production Co., Ltd.	Receipt of service	4,848.18	–	Per agreement
Shanghai Pudong Gas Production Co., Ltd.	Receipt of service	5,716.62	–	Per agreement
Shanghai Liquefied Petroleum Gas Management Co., Ltd.	Purchase of LPG	3,389.65	–	Per agreement
Shanghai Jiulian Group Co., Ltd.	Purchase of natural gas	2,140.70	–	Per agreement
Shanghai Gas (Group) Co., Ltd.	Purchase of natural gas	46,206.11	–	Per agreement
Shanghai Natural Gas Pipeline Network Co., Ltd.	Purchase of natural gas	1,846,680.75	–	Per agreement
Shanghai Gas (Group) Co., Ltd.	Advances for expenses for the period	7,643.99	–	Per agreement

3. Other Transactions

Name of company	Types of transaction	Amount for the year	Amount for the previous year	Conditions for transaction
Shenergy Group Financial Co., Ltd.	Income from deposits interests	2,809.20	–	Market interest rate
Shenergy Group Financial Co., Ltd.	Loan interest	2,738.00	–	Per agreement
Shenergy Group Financial Co., Ltd.	Loan repayment	47,000.00	–	Per agreement
Shenergy Group Financial Co., Ltd.	Borrowing of loan	27,000.00	–	Per agreement
Shanghai Dazhong Public Utilities (Group) Co., Ltd.	Loan repayment	20,000.00	–	Per agreement
Shanghai Dazhong Public Utilities (Group) Co., Ltd.	Interest payment	350.29	–	Per agreement

(VI) Balance of significant related-party payables and receivables (currency unit: RMB10,000)

Name of company	Nature of balances	Balance at year-end	Balance at the beginning of the year
Shanghai Shenergy Chongming Power Generation Co., Ltd.	Receipts in advance	663.00	–
Shanghai Shenergy Fengxian Thermal Power Co., Ltd.	Receipts in advance	811.48	–
Shanghai Caojing Thermal Power Co., Ltd.	Trade receivables	8,405.10	–
Shanghai Shenergy Lingang CCGT Power Generation Co., Ltd.	Trade receivables	2,989.48	–
Shanghai Shenergy Qingpu Thermal Power Co., Ltd.	Trade receivables	11,303.94	–
Shanghai Shenergy Energy Service Co., Ltd.	Trade receivables	681.86	–
Shanghai Liquefied Petroleum Gas Management Co., Ltd.	Trade payables	917.51	–
Shanghai Pudong Gas Production Co., Ltd.	Trade payables	1,839.81	–
Shanghai Natural Gas Pipeline Network Co., Ltd.	Other payables	506.93	–
Shanghai Natural Gas Pipeline Network Co., Ltd.	Other receivables	9,450.00	–
Shanghai Gas (Group) Co., Ltd.	Other receivables	10,302.90	–
Shanghai Gas (Group) Co., Ltd.	Other payables	172,808.34	–
Shenergy Group Financial Co., Ltd.	Long-term loan	4,920.00	–
Shenergy Group Financial Co., Ltd.	Short-term loan	77,000.00	–
Shenergy Group Financial Co., Ltd.	Non-current liabilities due within one year	1,160.00	–
Shenergy Group Financial Co., Ltd.	Bank deposit	186,364.96	–
Shenergy Group Financial Co., Ltd.	Interest receivable	729.08	–
Shenergy Group Financial Co., Ltd.	Long-term loan	4,920.00	–
Shanghai Jiulian Group Co., Ltd.	Receipts in advance	3,271.00	–
Shanghai Natural Gas Pipeline Network Co., Ltd.	Trade payables	24,092.30	–
Shanghai Hongqiao Business District New Energy Investment Development Co., Ltd.	Receipts in advance	439.56	–

X. CONTINGENCY

As of 31 December 2019, the Company had no contingencies that would affect the reading and understanding of these financial statements.

XI. COMMITMENT

As of 31 December 2019, the Company had no commitment that would affect the reading and understanding of these financial statements.

XII. NOTE ON NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

As of 31 December 2019, the Company had no material non-adjusting event after balance sheet date that would affect the reading and understanding of these financial statements.

XIII.OTHER SIGNIFICANT MATTERS

(I) Assets and liabilities measured at fair value: (currency unit: RMB10,000)

Item	Balance at the beginning of the year	Gain/loss of changes in fair value for the year	Accumulated fair-value change accounted for in equity	Impairment provision for the year	Balance at year-end
Financial Assets					
1. Financial assets measured at fair value through profit and loss (derivative financial assets not included)	–	–	–	–	
2. Derivative financial assets	–	–	–	–	
3. Financial assets available for sale	–	–	1,561.31	–	6,373.54
Sub-total of financial assets	–	–	1,561.31	–	6,373.54
Total	–	–	1,561.31	–	6,373.54
Financial liabilities	–	–	–	–	–

(II) Other significant matters required to be disclosed:

1. As of 31 December 2019, the records of industrial and commercial registration authorities indicated the Company held 100% equity in Shanghai Chongming Yingfeng Gas Transportation Co., Ltd., which is not shown in the Company's book records. Such company was invested and established by Shanghai Chongming County Gas Administration Office, the precedent of the Company prior to its conversion.

2. In accordance with the principles set out in the Gong Si Hu Ran Ji (2004) No. 82 "Principles of the Multi-level Integration of Shanghai Gas Group" and Hu Ran Ji (2008) No. 4 "Notice on the Issue of 'Opinion-in-principle on Further Deepening Multi-level Integration'", multi-level integration of the Company's subsidiaries is undergoing further deepened implementation. As of 31 December 2019, the tax filing of subsidiary Shanghai City Gas Complete Equipment Co., Ltd. had been completed and de-registration with industrial and commercial authorities was in progress.

3. Other than matters stated above, there were no other material events required to be disclosed by the Company as of 31 December 2019.

XIV. NOTES ON KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS

(I) Trade receivables

Category	At year-end				At the beginning of the year			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually significant trade receivables of bad debt provision on an individual basis	–	–	–	–	–	–	–	–
Trade receivables of bad debt provision in credit risk characteristic portfolio	2,516,796,001.95	100.00%	15,957,488.45	0.63%	–	–	–	–
Individually insignificant trade receivables of bad debt provision on an individual basis	–	–	–	–	–	–	–	–
Total	2,516,796,001.95	100.00%	15,957,488.45	0.63%	–	–	–	–

1. Trade receivables of bad debt provision in credit risk characteristic portfolio

(1) Trade receivables of bad debt provisions based on aging analysis

Aging structure	At year-end			At the beginning of the year		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	810,951,584.27	97.24	–	–	–	–
1-2 years	3,033,442.65	0.36	303,344.27	–	–	–
2-3 years	1,927,857.86	0.23	385,571.57	–	–	–
3-4 years	2,102,874.28	0.25	630,862.28	–	–	–
4-5 years	2,208,747.37	0.26	883,498.95	–	–	–
Over 5 years	13,754,211.38	1.65	13,754,211.38	–	–	–
Total	833,978,717.81	100.00	15,957,488.45	–	–	–

(2) Trade receivables of bad debt provision based on other methods

Name of group	At year-end		At the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Related parties	1,682,817,284.14	–	–	–

(II) Other receivables

Category	At year-end				At the beginning of the year			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Individually significant other receivables of bad debt provision on an individual basis	–	–	–	–	–	–	–	–
Other receivables of bad debt provision in credit risk characteristic portfolio	300,359,439.59	100.00%	–	–	–	–	–	–
Individually insignificant other receivables of bad debt provision on an individual basis	–	–	–	–	–	–	–	–
Total	300,359,439.59	100.00%	–	–	–	–	–	–

1. Other receivables of bad debt provision in credit risk characteristics portfolio

(1) Other receivables of bad debt provision based on aging analysis

Aging structure	At year-end			At the beginning of the year		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	13,034,009.40	100.00	–	–	–	–

(2) Other receivables of bad debt provision based on other methods

Name of group	At year-end		At the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Related parties	287,325,430.19	–	–	–

(III) Long-term equity investment

1. Classification of long-term equity investment

Item	Balance at the beginning of the year	Increase on demerger	Increase for the year	Decrease for the year	Balance at year-end
Investment in subsidiaries	–	3,884,895,751.46	–	–	3,884,895,751.46
Investment in joint ventures	–		–	–	–
Investment in associates	–		3,000,000.00	–	3,000,000.00
Sub-total	–	3,884,895,751.46	3,000,000.00	–	3,887,895,751.46
Less: Impairment provision	–		–	–	–
Total	–	3,884,895,751.46	3,000,000.00	–	3,887,895,751.46

2. Breakdown of investment in subsidiaries

Investee	Accounting method	Investment cost	Balance at the beginning of the year	Increase on demerger	Changes (increase/ decrease)	Balance at the end of the year	Percentage of shareholdings in investee	Percentage of voting rights in investee	Impairment provision	Impairment provision for the year	Cash dividend for the year
Shanghai Gas City North Sales Co., Ltd.	Cost method	1,465,331,365.73	–	1,465,331,365.73	–	1,465,331,365.73	100.00%	100.00%	–	–	–
Shanghai Dazhong Gas Co., Ltd.	Cost method	550,989,537.59	–	550,989,537.59	–	550,989,537.59	50.00%	50.00%	–	–	–
Shanghai Pudong Gas Sales Co., Ltd.	Cost method	947,512,173.56	–	947,512,173.56	–	947,512,173.56	100.00%	100.00%	–	–	–
Shanghai Gas Information Business Co., Ltd.	Cost method	2,084,741.15	–	2,084,741.15	–	2,084,741.15	100.00%	100.00%	–	–	–
Shanghai Chongming Gas Co., Ltd.	Cost method	289,674,916.00	–	289,674,916.00	–	289,674,916.00	100.00%	100.00%	–	–	–
Shanghai Jinshan Natural Gas Co., Ltd.	Cost method	44,837,017.43	–	44,837,017.43	–	44,837,017.43	100.00%	100.00%	–	–	–
Shanghai Qingpu Gas Co., Ltd.	Cost method	584,466,000.00	–	584,466,000.00	–	584,466,000.00	51.00%	51.00%	–	–	–
Total		3,884,895,751.46	–	3,884,895,751.46	–	3,884,895,751.46	–	–	–	–	–

3. Breakdown of investment in associate

			Change for the period								
Investee	**Investment cost**	**Balance at the beginning of the period**	**Additional investment**	**Decrease in investment**	**Investment gain/loss recognised under equity method**	**Adjustments to other comprehensive income**	**Other changes**	**Cash dividend or profit distribution declared**	**Impairment provision**	**Balance at the end of the period**	**Balance of impairment provision at the end of the period**
Yuyao Shenran Energy Co., Ltd.	3,000,000.00	–	3,000,000.00	–	–	–	–	–	–	3,000,000.00	–

(IV) Operating income and operating costs

Item	Amount for the year		Amount for the previous year	
	Income	Cost	Income	Cost
1. Sub-total of principal businesses	20,441,740,385.48	20,053,173,305.63	–	–
Natural gas sales	20,287,039,368.66	19,898,532,848.31	–	–
LPG sales	742,924.23	682,364.73	–	–
Commodity trade	153,958,092.59	153,958,092.59	–	–
2. Sub-total of other businesses	98,791,982.11	1,037,874.20	–	–
Leasing	90,493,534.29	–	–	–
Others	8,298,447.82	1,037,874.20	–	–
Total	20,540,532,367.59	20,054,211,179.83	–	–

XV. APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the board of directors of the Company.

Shanghai Gas Co., Ltd.

8 May 2020

2. SUMMARY OF MATERIAL ACCOUNTING DIFFERENCES

The key differences between CAS and HKFRS on leases and financial instruments which are applicable to the Target Company are summarised below:

Financial Instruments

CAS 22	HKFRS 9
Financial assets can be measured at cost, subject to assessment for indications of impairment.	All financial assets and liabilities are initially measured at fair value.
The amount of impairment loss recognised is the difference between the carrying amount of asset and present value of estimated discounted cash flows.	Investments in equity instruments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment.
For trade receivables, the carrying amount is reduced through an allowance account and the movement of allowance account is recognised in profit or loss.	Loss allowance for expected credit loss ("**ECL**") is recognised for trade receivables. The measurement of ECL is a function of the probability of default, loss given default and the exposure at default.

Leases

CAS 21	HKFRS 16
Leases are classified as finance leases or operating leases.	A right-of-use asset and a corresponding liability are recognised for all leases, except for short-term leases and leases of low value assets.
Operating lease payments are recognised as an expense over the term of the lease.	The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation.
	The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments.

The Company considers that there are no material differences between the accounting policies of the Target Group under CAS and the accounting policies of the Company under HKFRS, apart from applying HKFRS 9 "Financial Instruments" and HKFRS 16 "Leases". However, the Company considers that HKFRS 9 and 16 are not the most relevant metrics in assessing the investment in the Target Company, considering, among other factors that:

(i) the leases and financial instruments (in the nature of financial assets and liabilities) of the Target Group are not particularly significant when compared to the total assets and liabilities of the Target Group; and

(ii) in relation to HKFRS 9 (Financial Instruments): the Company considers that the differences in accounting for financial instruments in the nature of trade receivables between CAS and HKFRS will not be significant. As regards financial instruments of the Target Group in the nature of hedging instruments and hedged items, based on the Target Company 2019 Audited Accounts, the Target Company did not have any items appearing in their financial statements under this category.

3. OPERATING DATA OF THE TARGET COMPANY

By the end of 2019, the Target Group had over 25,000 kilometers of gas pipelines which serve 6.3 million customers. For the 11 months ended 31 December 2019, the total volume of gas was 8.37 billion cubic meters of natural gas which accounted for more than 90 percent market share in Shanghai. The Target Company is the sole gas distributor in Shanghai. It owns Wuhaogou liquified natural gas ("**LNG**") terminal with a total LNG storage capacity of 320,000 cubic meters, and a throughput of 1.5 million tonnes per year. The Target Company is also the sole user of Shenergy Group's Yangshan Port LNG terminal which has a total LNG storage capacity of 895,000 cubic meters, and a throughput of 6.0 million tonnes per year.

The following is the text of the Valuation Report from WeValue Advisory Limited, the independent valuer appointed by the Company to assess the valuation of the Target Company, which has been prepared for the purposes of incorporation in this Circular.

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25 January 2021

The Board of Directors
Towngas China Company Limited
23rd, 363 Java Road,
North Point, Hong Kong

Dear Sirs/Madams,

VALUATION OF THE FAIR VALUE OF 100% EQUITY INTEREST IN SHANGHAI GAS CO., LTD.*

In accordance with the instructions from Towngas China Company Limited (the "**Company**"), WeValue Advisory Limited ("**WeValue**" or "**we**") has performed a valuation analysis (the "**Subject Valuation**") of the fair value of 100% equity interest in Shanghai Gas Co., Ltd.* (上海燃氣有限公司) (the "**Target Company**", together with its subsidiaries as the "**Target Group**") as of 31 December 2019 (the "**Valuation Date**").

We understand this report (the "**Report**") is prepared for the Company, solely for its internal reference purpose and inclusion in its public disclosure. No third party may place any reliance upon this Report other than the intended use stated herein. Save as expressly agreed by us in writing, we accept no duty of care or liability in connection with any unauthorized use of this Report.

This Report identifies the valuation subject and the scope of the Subject Valuation, describes the basis of value, explains the valuation methodology adopted, sets forth assumptions made and presents our conclusion of value. Documentation of this Report is specific to the purpose of the Subject Valuation and the intended use stated herein, supporting documentation is retained in our working papers.

* *For identification purposes only*

COMPANY BACKGROUND

The Target Company is a company incorporated in the People's Republic of China (the "**PRC**") with limited liability on 27 December 2018 and commenced operation on 1 February 2019. The Target Group was formed from the reorganization of Shanghai Gas (Group) Co., Ltd. at the end of 2018. Its business operation has been serving the Shanghai natural gas industry for years.

The principal business of the Target Group includes (1) piped gas operation, (2) construction, operation, and management of piped gas infrastructures, (3) liquefied natural gas terminals and storages, sale of gas-related construction materials, appliances and utilities, (4) gas-related quality control services, (5) gas-related technology development, consultation, services and transfer. The Target Group's network of pipes is situated mainly in the Shanghai area. The Target Group has 4,300 employees and about 25,000 kilometres of gas pipelines supplying gas to 6.3 million customers. The Target Group sold 8.37 billion cubic metres of gas in the eleven months ended 31 December 2019.

SCOPE OF WORK

In performing the Subject Valuation, our scope of work includes:

- Review and analyze agreements and documents pertinent to the Subject Valuation;
- Review and analyze historical financial information for the eleven months ended 31 December 2019 of the Target Group;
- Review and analyze the business plan of the Target Group;
- Discuss with the management of the Company (the "**Management**") on explanations and clarifications of data provided;
- Discuss with the Management on historical performance, current operations and future prospects of the Target Group;
- Perform research on the general economic and industry outlook of the Target Group;
- Perform research on market data for comparable publicly listed companies and transactions in the same or similar lines of business as that of the Target Group;
- Determine the appropriate valuation methodology;
- Estimate appropriate valuation multiples, valuation parameters, discounts or premiums applicable to the Subject Valuation;
- Review and analyze other facts and data pertinent to the Subject Valuation;
- Construct financial models and perform the Subject Valuation; and

- Prepare the Report to outline the basis of value, the adopted valuation methodology, assumptions, valuation analysis and the conclusion of value.

PURPOSE OF VALUATION

The Company contemplates to invest in the Target Company by way of capital contribution. Upon completion of the proposed capital contribution, the Company will own 25% equity interest in the Target Company.

The purpose of the Subject Valuation is to express an independent opinion on the fair value of 100% equity interest in the Target Company as at the Valuation Date from a non-marketable and non-controlling perspective solely for the Company's internal reference purpose and inclusion in its public disclosure.

The Subject Valuation does not constitute a fairness opinion, a solvency opinion or an investment advice. It is inappropriate to use the Report for any purpose other than the intended use stated herein.

BASIS OF VALUE

We have performed our valuation in accordance with the International Valuation Standards issued by the International Valuation Standards Council.

The basis of value would be fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In performing the Subject Valuation, we assume the business of the Target Group to be on a going concern basis.

SOURCE OF INFORMATION

The Subject Valuation is performed in the form of desktop analysis of information available and representation from the Management. During the course of our work, we rely upon financial and operational information obtained from the Management, including but not limited to historical information. We assume such information to be complete, accurate and timely in all material respects, and no material information pertaining to the Subject Valuation is withheld from us. We have no reason to doubt the truth and accuracy of the information and representations provided to us by the Management and have not independently verified the truth or accuracy of such information.

Key documents reviewed and analyzed:

- Background of the Target Group and relevant corporate information;
- Group chart of the Target Group as at 31 December 2019;
- Business licenses of the Target Group;
- Audited financial statements of the Target Group for the eleven months ended 31 December 2019; and

- Audited financial statements of certain subsidiaries of the Target Company with minority interests for the year ended 31 December 2019.

We also rely upon information from various public, financial or industry sources. We have no reason to doubt the truth and accuracy of such information and have accepted such information without further verification.

Key sources of public information referenced:

- S&P Capital IQ;

- Annual reports of selected comparable companies; and

- Other available information from public sources.

MAJOR ASSUMPTIONS

In performing the Subject Valuation, we have considered some principal factors including, but not limited to, the following:

- Nature and history of the operations of the Target Group;

- Stage of development of the Target Group;

- Historical profitability of the Target Group;

- Risks associated with the Target Group;

- Economic conditions affecting the Target Group;

- Outlook of the specific industry in which the Target Group is operating;

- Past results, current operations and future prospects of the Target Group;

- Sales of equity or ownership interests in business enterprises similar to the Target Group;

- Extent, condition, utility and capacity of facilities and equipment utilized by the Target Group; and

- The attitude of the investment market toward securities with similar characteristics, as measured by market performance, and alternative investment opportunities available to an investor.

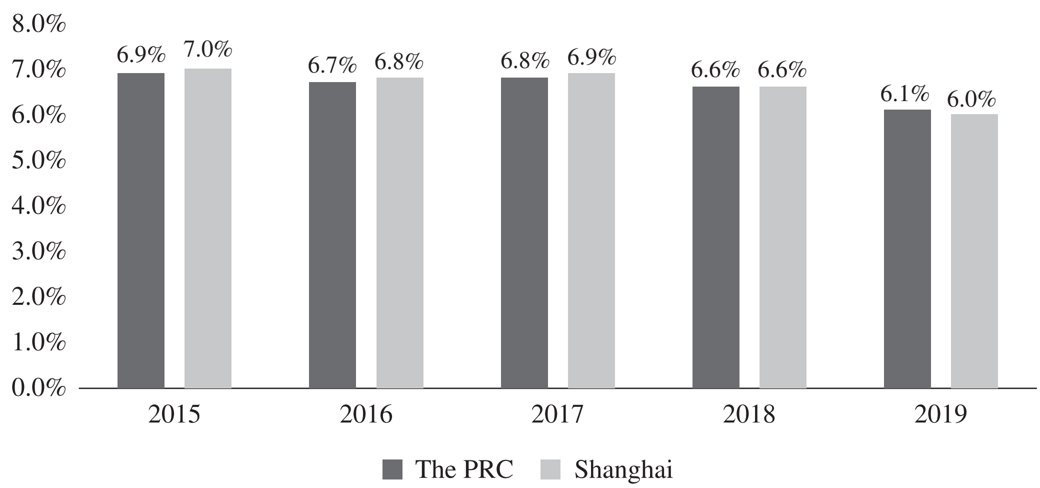
A number of assumptions have to be made to establish our valuation analysis, including:

- There will be no major changes in the existing political, legal, fiscal and economic conditions and regional policies in country in which the Target Group carries on its operations;
- There will be no major changes in the current taxation law in country in which the Target Group carries out its operations;
- Exchange rates, inflation rates and interest rates will not differ materially from those currently prevailing;
- Industry trends and market conditions will not deviate materially from prevailing market expectations;
- The Target Group will operate on a going concern basis;
- The Target Group has obtained/will obtain all necessary permits, licenses and approvals to carry out its businesses and operations;
- The Target Group has complied/will comply with all applicable laws and regulations;
- Any management changes or changes in ownership of the Target Group will not have adverse effects on the long-term profitability of its operations;
- The Target Group has retained/will retain competent management, key personnel and technical staff to support its ongoing operations;
- The growth/operation of the Target Group will not be constrained by the availability of finance;
- Legal titles on land and buildings, machinery and equipment possessed by the Target Group as at the Valuation Date are legitimate and complete;
- The facilities, machinery and equipment of the Target Group will be sufficient for future operation and maintenance of its business; and
- The Target Group's operations, machinery and equipment will not be materially impacted by natural disasters and other operating hazards.

ECONOMIC OVERVIEW

Amid the slowing global economic growth and the Sino-American trade war, the PRC has experienced the slowest growth in terms of its gross domestic product ("**GDP**") in nearly 30 years. According to the National Bureau of Statistics of the PRC, the Chinese GDP growth rate gradually slowed down from 6.9% in 2015 to 6.1% in 2019; statistics from the Shanghai Municipal Statistics Bureau also showed that the GDP growth rate of Shanghai dropped from 7.0% in 2015 to 6.0% in 2019.

GDP Growth Rate in the PRC and Shanghai between 2015 and 2019

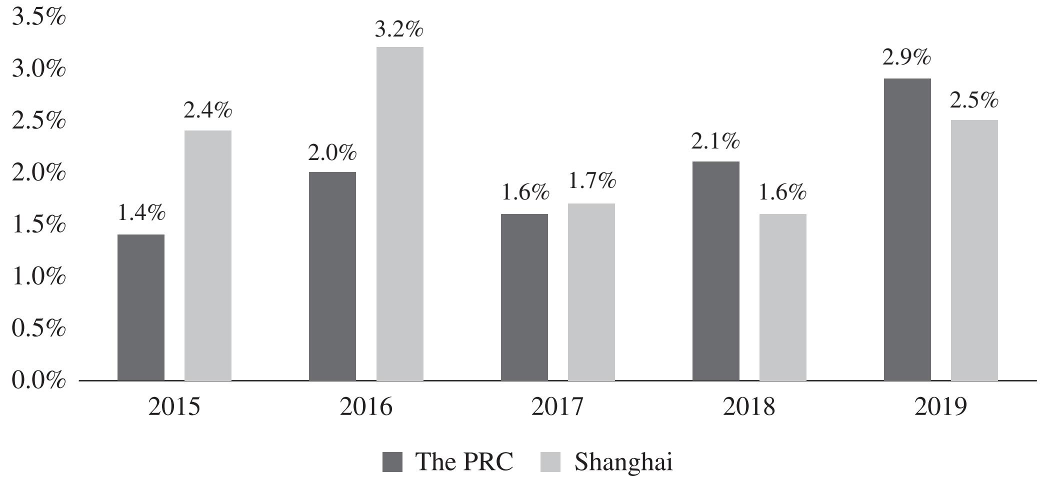


Source: National Bureau of Statistics of the PRC, Shanghai Municipal Statistics Bureau

Despite the slowing economic growth, the PRC, achieving a GDP of US$14.3 trillion and accounting for 16.4% of global GDP in 2019, according to the World Bank, continues to be the second largest economy in the world. The PRC government will likely remain proactive fiscal and monetary policies to continue boosting the economy while preventing a looming debt crisis.

The PRC had recorded relatively stable inflation rates between 2015 and 2018, ranging from 1.4% to 2.1%. The inflation rate in 2019 was boosted up to 2.9% partially due to the soaring of food price (such as soaring hog price under African Swine Fever). Inflation rates in Shanghai ranged between 1.6% to 3.2% between 2015 and 2019.

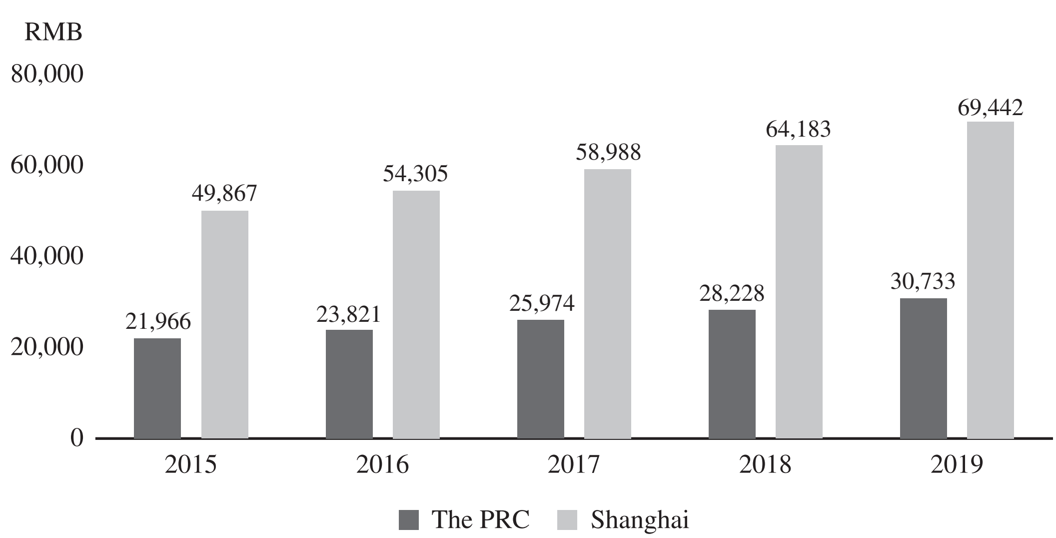
Inflation Rate in the PRC and Shanghai between 2015 and 2019



Source: National Bureau of Statistics of the PRC, Shanghai Municipal Statistics Bureau

Without being affected by the slowing economic growth and higher inflationary pressure, the PRC and Shanghai continued to record a strong growth in per capita disposable income between 2015 and 2019. According to the National Bureau of Statistics of the PRC, per capita disposable income of the PRC increased from RMB21,966 in 2015 to RMB30,733 in 2019, translating into a compound annual growth rate ("**CAGR**") of 8.8%, while statistics from Shanghai Municipal Statistics Bureau shows that the per capita disposable income in Shanghai also increased in a CAGR of 8.6% during the same period, from RMB49,867 in 2015 to RMB69,442 in 2019.

Per Capita Disposable Income in the PRC and Shanghai between 2015 and 2019



Source: National Bureau of Statistics of the PRC, Shanghai Municipal Statistics Bureau

INDUSTRY OVERVIEW

Classification of Natural Gas

Natural gas is a fossil energy source that forms deep beneath the Earth's surface. It can be classified into conventional and unconventional natural gas by way of production. Conventional natural gas is trapped in reservoirs in the porous rock which is easy to produce by using traditional drilling methods, while unconventional natural gas, such as shale gas and tight gas, is natural gas that forms in reservoirs with very low permeability compared to conventional reservoirs which cannot be extracted economically through traditional drilling methods. Special drilling methods such as horizontal drilling followed by hydraulic fracturing are necessary to achieve economic production of unconventional natural gas. Natural gas can also be classified based on transportation methods, namely piped natural gas, liquefied natural gas, and compressed natural gas.

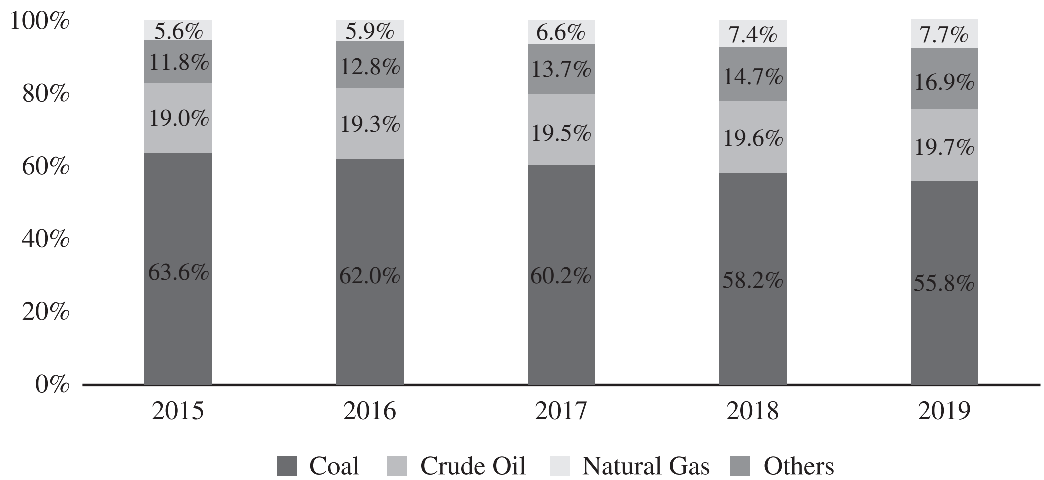
Value Chain of the PRC Natural Gas Industry

Natural gas in the PRC mainly comes from major domestic gas-producing regions and international importation. Natural gas is transported to provincial-level gate stations and pipelines via high-pressure transmission pipelines, which is then further transported to municipal-level pipelines through city gates. Local natural gas operators reduce the pressure of the gas and deliver natural gas to end-users such as industrial and residential users through low-pressure pipelines.

The PRC Natural Gas Market

In the light of escalating public demand for blue skies and a healthier living environment, the PRC has implemented policies such as coal-to-gas conversion reform and regulations on return cap of long-distance transmission pipelines and city distribution pipelines to encourage the consumption of natural gas. The "13th Five-Year Plan for Natural Gas Development" issued by the PRC government also targets the consumption of natural gas to account for 10% of primary energy consumption by 2020. According to the National Bureau of Statistics of the PRC, the PRC natural gas consumption has increased from 167 million tonnes of oil equivalent ("**MTOE**") in 2015 to 261 MTOE in 2019, translating into a CAGR of 11.8%. As of 2019, natural gas accounted for 7.7% of the primary energy consumption of the PRC.

The Primary Energy Consumption in the PRC by Fuel Type between 2015 and 2019



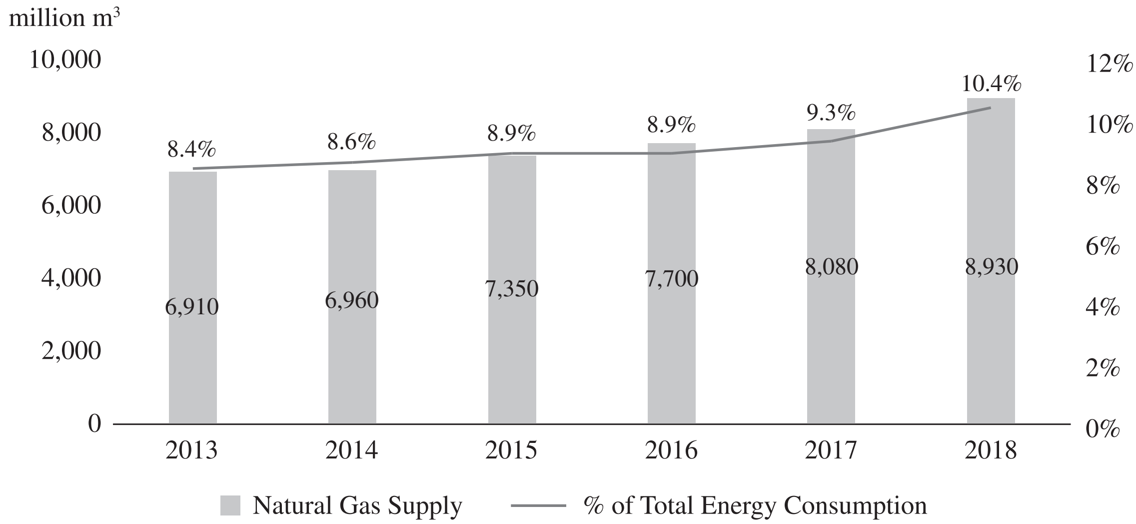
Source: National Bureau of Statistics of the PRC

Shanghai Natural Gas Market

Shanghai is a pioneer of natural gas development in the PRC. It is one of the earliest cities in the PRC to promote and use natural gas. With the discovery of Pinghu oil and gas field in the East China Sea in 1983, and the beginning of production at the Pinghu field in April 1999 with gas pipeline connected to Shanghai and Ningbo, Shanghai has become one of the cities with the largest overall natural gas network in the country.

According to the Ministry of Housing and Urban-Rural Development of the PRC ("**MOHURD**"), natural gas supply in Shanghai had increased from 6,910 million cubic meters in 2013 to 8,930 million cubic meters in 2018, translating into a CAGR of 5.3%. As of 2018, natural gas accounted for 10.4% of total energy consumption in Shanghai.

Natural Gas Supply and Percentage of Total Energy Consumption in Shanghai between 2013 and 2018



Source: MOHURD, Shanghai Municipal Statistics Bureau

Future Trends of Natural Gas Market in the PRC

The formation of the National Pipeline Company in 2019 is part of the oil and gas reform, intending to segregate the ownership of upstream and midstream gas infrastructure assets in the PRC through acquiring natural gas pipelines from the three big oil groups in the PRC. Before the reform, all the long-distance pipelines were controlled by national upstream gas suppliers. Major oil and gas companies were reluctant to grant third-party access to their pipelines as the opening up of pipelines essentially means sharing their sales and markets with competitors. With the establishment of the National Pipeline Company, the usage of the midstream pipelines could be opened up for third parties, which increases the number of natural gas suppliers and facilitates the formation of market mechanism. The establishment of the National Pipeline Company would benefit downstream natural gas suppliers and end users, by enjoying more stable gas supplies and lower gas purchasing costs in the future.

VALUATION METHODOLOGY

The Market Approach

The Market Approach assumes a reasonable investor will pay no more for an asset than it would cost to acquire a substitute asset with the same utility, it indicates the value of a business/an asset based on a comparison to comparable publicly traded companies and/or transactions in the similar field of business. Comparisons are normally made through the use of valuation multiples.

The value of a business/an asset is derived by applying the valuation multiples to the relevant financial measures, with adjustments made to the indicated value to reflect conditions and utilities of the subject business/asset relative to the market comparable.

Two methods, namely the Guideline Public Company Method and the Guideline Transaction Method, are commonly used in performing the Market Approach. The Guideline Public Company Method is based on the premise that pricing multiples of publicly traded companies that are comparable to the subject business/asset is used as an indication of value. The Guideline Transaction Method is based on the premise that pricing multiples of recent sale and purchase transactions of businesses/assets that are the same or comparable to the subject business/asset is used as an indication of value.

The Cost Approach

The Cost Approach assumes a reasonable investor will pay no more for an asset than it would cost to replace a similar asset offering equivalent utility. It is based on the concept of replacement, less depreciation from physical deterioration and functional obsolescence, as an indication of value.

The Income Approach

The Income Approach assumes a reasonable investor will pay no more for an asset than all future benefits one would generate from, it indicates the value of a business/an asset based on the future economic benefits that a business/an asset can be expected to generate over its life.

The value of a business/an asset is derived by converting the future economic benefits into present value. Future economic benefits may be represented by dividends, distributions or various forms of earnings or cash flow. These benefits are then converted to present value by applying an appropriate capitalization factor/discount rate giving considerations to interest rates, the rates of return expected by a reasonable investor on alternative investments and the specific risk characteristics of the expected future economic benefits.

Capitalization Method and Discounted Cash Flow Method are common Income Approach methods.

Valuation Methodology Adopted

We have considered three valuation approaches, namely, the Income Approach, the Market Approach and the Cost Approach. The Cost Approach is not adopted as it cannot recognize the economic benefits of ownership of the business. The Income Approach is not adopted as the underlying assumptions of financial forecast involves a high level of uncertainty and the Target Group is not able to provide a reasonable set of financial projections. Having considered the nature of the Target Group's business, growth prospect and sustainable profitability, as well as the availability of sufficient comparable companies in the market, we adopt the Market Approach in the Subject Valuation.

Two methods, namely the Guideline Public Company Method and the Guideline Transaction Method, are commonly used in performing the Market Approach. In the past 2 years, there was only one transaction consists of available data to compute transaction multiple, the derived transaction multiple may not be representative for the Subject Valuation. Given the limited number of comparable transactions, the Guideline Transaction Method is hence not adopted.

For the Guideline Public Company Method, we have considered earning-multiples for the Subject Valuation for the reason that the Target Group has established a stabilized level of profitability. Valuation multiples considered include enterprise value to earnings before interest, tax, depreciation, and amortization ("**EV/EBITDA multiple**"), enterprise value to earnings before interest and tax ("**EV/EBIT multiple**") and price-to-earning ("**P/E multiple**").

P/E multiple is not adopted as the Target Group has a noticeably different gearing level from the comparable companies, which might distort the net income among different companies, thus undermining the comparability of P/E multiple. Moreover, natural gas companies are fixed asset intensive, the choice of depreciation and amortization policy may significantly distort the net income level of a company, therefore distorting the comparability of P/E multiple.

Similarly, EV/EBIT multiple is not adopted as the natural gas companies are fixed asset intensive, the choice of depreciation and amortization policy may significantly distort the EBIT level of different companies, therefore undermining the comparability of EV/EBIT multiple.

Considering that the gearing ratio, amortization and depreciation policy and tax policy may not be similar among comparable companies and the Target Group, EV/EBITDA multiple, which eliminates the differences arising from tax policy, accounting policy and capital structure, is considered to be the most appropriate valuation approach to estimate the fair value of the Target Group.

Accordingly, only valuation by the way of EV/EBITDA multiple under the Guideline Public Company Method is adopted in the Subject Valuation.

VALUATION ANALYSIS

Financial Metrics

The key historical financial metrics of the Target Group are illustrated below:

In RMB Thousand (unless specified otherwise)

	Eleven months ended 31 December 2019	Annualized for FY2019
Revenue	26,453,391	28,858,245
Normalized EBITDA	1,666,876	1,818,412
Normalized EBITDA margin	6.3%	6.3%
Total Assets	16,975,187	
Net Assets	5,766,072	

The revenue consists of (1) the distribution fee of natural gas and liquefied petroleum gas ("**LPG**") to residential, industrial, and commercial users, (2) construction fee of natural gas pipelines, and (3) pipeline transmission tariff. The Target Group has demonstrated a long history and it holds a significant market share of natural gas business in Shanghai.

Since the reorganization of the Target Group was completed by the end of January 2019, only eleven-month financial data (i.e. February–December 2019) was available as of 31 December 2019. Based on the comparison of natural gas sales volume between February to December 2019 versus full year 2019 natural gas sales volume, the annualization of February to December 2019 natural gas sales volume indicated a very significant portion of the amount for the entire year, we therefore consider the annualization of February to December 2019 financials to be a good proxy of the full year financials. From an operational perspective, the natural gas sales volume from 2017 to 2019 showed a constant trend, and the Target Group has the ability to pass on the cost to the end customers through the pricing mechanism of gas selling prices, we consider the normalized EBITDA to be a sustainable EBITDA to be applied in the Subject Valuation.

Selection of Comparable Companies

When selecting comparable companies of the Target Group, considerations were given to its market segment, geographic area and other business characteristics. The comparable companies are identified in S&P Capital IQ, a market intelligence platform developed by S&P Global. This platform is widely used in the areas of valuation, corporate finance, investment research and asset management. We have based on the following selection criteria in identifying comparable companies in S&P Capital IQ:

1. Companies with majority of the revenue deriving from natural gas transmission and distribution business;

2. Companies listed in the Hong Kong Stock Exchange with their businesses primarily operating in the PRC; and

3. Financial information publicly available.

Based on the selection criteria listed above, details of comparable companies identified for the Subjection Valuation are listed below:

	S&P Capital IQ Ticker	Company Name	Company Description	Revenue Contribution (as a % of total revenue)
1.	SEHK:384	China Gas Holdings Limited	China Gas Holdings Limited, an investment holding company, operates as a gas operator and service provider in the PRC.	1. Sales of Piped Gas and LPG (57.7%) 2. Gas Connection (17.3%)
2.	SEHK:2688	ENN Energy Holdings Limited	ENN Energy Holdings Limited, an investment holding company, engages in the investment, construction, operation, and management of gas pipeline infrastructures, integrated energy, and vehicle and ship refueling stations in the PRC.	1. Retail Gas Sales Business (51.0%) 2. Wholesale of Gas (31.5%)
3.	SEHK:1193	China Resources Gas Group Limited	China Resources Gas Group Limited, an investment holding company, engages in the sales of liquefied gas and connection of gas pipelines in the PRC.	1. Sales and Distribution of Gas Fuel and Related Products (72.4%) 2. Gas Connection (18.9%) 3. Gas Stations (6.8%) 4. Sales of Gas Appliances (0.7%)
4.	SEHK:135	Kunlun Energy Company Limited	Kunlun Energy Company Limited, an investment holding company, engages in the exploration, development, production, and sale of crude oil and natural gas in the PRC.	1. Natural Gas Sales (81.3%) 2. Natural Gas Pipeline (9.1%) 3. Liquified Natural Gas ("**LNG**") Processing and Terminal (7.9%)
5.	SEHK:392	Beijing Enterprises Holdings Limited	Beijing Enterprises Holdings Limited, an investment holding company, engages in piped gas, brewery, water and environmental, solid waste treatment, and other businesses primarily in the PRC.	1. Piped Gas Operations (70.1%)
6.	SEHK:3633	Zhongyu Gas Holdings Limited	Zhongyu Gas Holdings Limited, an investment holding company, engages in the development, construction, and operation of natural gas projects in the PRC.	1. Natural Gas Sales (71.3%) 2. Natural Gas Pipeline Construction (19.4%)
7.	SEHK:1083	Towngas China Company Limited	Towngas China Company Limited, an investment holding company, sells and distributes piped gas in the PRC.	1. Sales and Distribution of Piped Gas and Related Products (83.8%) 2. Gas Connection (16.2%)

	S&P Capital IQ Ticker	Company Name	Company Description	Revenue Contribution (as a % of total revenue)
8.	SEHK:1600	China Tian Lun Gas Holdings Limited	China Tian Lun Gas Holdings Limited, together with its subsidiaries, engages in the transportation, distribution, and sales of natural gas and compressed natural gas through its gas pipeline connections in the PRC.	1. City Gas Sales (43.4%) 2. Long-Haul Pipeline Gas Transmission and Sales (18.0%)
9.	SEHK:6828	Beijing Gas Blue Sky Holdings Limited	Beijing Gas Blue Sky Holdings Limited, an investment holding company, engages in the sales and distribution of natural gas and other related products in the PRC.	1. Trading and Distribution of Natural Gas (92.4%) 2. Natural Gas Refueling Station (7.6%)
10.	SEHK:1430	Suchuang Gas Corporation Limited	Suchuang Gas Corporation Limited, an investment holding company, engages in the distribution and sales of piped natural gas to industrial, commercial, and residential users mainly in the PRC.	1. Natural Gas Operation (100.0%)
11.	SEHK:2886	Binhai Investment Company Limited	Binhai Investment Company Limited, an investment holding company, engages in the construction of gas pipeline networks, provision of connection services, and sale of LPG and piped gas in the PRC.	1. Sales of Piped Natural Gas (81.3%) 2. Gas Construction and Installation Service (15.8%)
12.	SEHK:603	China Oil and Gas Group Limited	China Oil and Gas Group Limited, an investment holding company, primarily invests in natural gas and energy related businesses mainly in the PRC.	1. Sales and Distribution of Natural Gas and Other Related Products (90.2%) 2. Gas Pipeline Construction and Connection (5.5%)
13.	SEHK:1265	Tianjin Jinran Public Utilities Company Limited	Tianjin Jinran Public Utilities Company Limited engages in the operation and management of gas pipeline infrastructure, and the sales and distribution of piped gas to industrial and commercial users, and residential users in the PRC.	1. Sales of Piped Gas (95.3%) 2. Gas Connection (3.6%) 3. Sales of Gas Appliances and Others (0.5%) 4. Gas Pipelines Rent (0.4%) 5. Gas Transportation (0.2%)

Source: S&P Capital IQ

The comparable companies are identified from S&P Capital IQ based on the aforesaid criteria. Having considered over 50% of revenue of the comparable companies are generated from the distribution and sales of natural gas business, and their operating locations are principally in the PRC, we consider that the Target Group and the comparable companies share similar business characteristics with similar risks and returns. Therefore, the comparable companies are regarded as exhaustive and representative in deriving pricing multiples samples in terms of their business natures.

EV/EBITDA Multiple

Enterprise value represents the total value of a company, which is derived by market capitalization, adding net debt (gross debt net of cash and cash equivalents), non-controlling interests, and preferred shares of a company.

The EV/EBITDA multiple of the comparable companies are listed below:

In RMB Million (unless otherwise specified)

	S&P Capital IQ Ticker	Market Capitalization as of 31 December 2019	Enterprise Value as of 31 December 2019	Last-Twelve-Month ("LTM") EBITDA	LTM EV/EBITDA Multiple
1.	SEHK:384	136,219	171,088	12,096	14.14
2.	SEHK:2688	85,669	103,057	8,787	11.73
3.	SEHK:1193	85,091	92,378	7,570	12.20
4.	SEHK:135	53,254	98,928	19,802	5.00
5.	SEHK:392	40,333	88,775	7,204	12.32
6.	SEHK:3633	16,219	24,361	1,433	17.00
7.	SEHK:1083	13,857	22,840	2,141	10.67
8.	SEHK:1600	6,228	10,326	1,688	6.12
*9.	SEHK:6828	2,403	4,437	(15)	NM
10.	SEHK:1430	1,719	1,583	191	8.28
11.	SEHK:2886	1,533	3,594	368	9.76
12.	SEHK:603	1,365	7,690	1,453	5.29
*13.	SEHK:1265	1,085	(124)	13	NM
	Maximum				17.0
	Minimum				5.0
	Median				**10.7**

NM — Not Meaningful

* Comparable companies with negative multiples are regarded as outliers.

Source: S&P Capital IQ

The enterprise values of the comparable companies are computed based on their market capitalization as of 31 December 2019 and their latest financial data available as of 31 December 2019. The LTM EBITDA of the comparable companies are derived from the latest financial data of the comparable companies as of 31 December 2019, which is regarded as the same basis of the Target Group.

Having considered that (1) the comparable companies operate in similar industry, (2) the comparable companies principally operate in the PRC, (3) the Target Group exhibits a similar scale to the median of the comparable companies, no adjustment on EV/EBITDA multiple of comparable companies is considered necessary.

Non-operating Assets/Liabilities

Non-operating assets/liabilities are those assets or liabilities that are not essential for the principal operation of a company. Having considered the enterprise value of the Target Group derived from the multiples of the comparable companies reflects the implied value of the Target Group's principal operation, the value of non-operating assets/liabilities needs to be separately considered to come up with the equity value of the company.

Discount for Lack of Marketability ("DLOM")

DLOM refers to the illiquidity of the ownership interest, that is, the speed and difficulty of conversion into cash if the owner chooses to sell. DLOM reflects the concept that when comparing otherwise identical assets, a readily marketable asset would have a higher value than an asset with a long marketing period or restrictions on the ability to sell the asset.

For example, publicly-traded securities can be bought and sold nearly instantaneously while shares in a private company may require a significant amount of time to identify potential buyers and complete a transaction.

DLOM of the Subject Valuation is determined based on the academic study "Stout Restricted Stock Study Companion Guide (2019 edition)" published by Stout Risius Ross, LLC, which suggested an average marketability discount of 20.6% based on 751 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through June 2018. Given that "Stout Restricted Stock Study Companion Guide (2019 edition)" published by Stout Risius Ross, LLC, which is one of the national preeminent firms that offers a broad range of financial advisory services to private and public companies, is an independent research study report with the largest fully-vetted DLOM database designing to assist valuation professionals of determining DLOM, we consider the marketability discount is a fair and reasonable estimate. Given the Target Group is unlisted and private, while its comparable companies are listed, a DLOM of 20.6% is applied to the equity value estimated.

Calculation of Valuation Result

In RMB Thousand (unless otherwise specified)	**Remarks**	**As at 31 December 2019**
Normalized earnings before interest, tax, depreciation, and amortization ("**Normalized EBITDA**")		1,818,412
EV/EBITDA Multiple	*Note 1*	10.7x
Enterprise value		**19,457,008**
Add: Cash and cash equivalents		2,352,938
Less: Debt		(830,800)
Less: Non-operating liabilities	*Note 2*	(843,815)
— Long-term investments		598,406
— Net deferred tax assets		97,772
— Investment properties		31,389
— Available-for-sale investments		63,735
— Other receivables (non-operating in nature)		103,029
— Other payables (non-operating in nature)		(1,738,146)
Less: Non-controlling interests	*Note 3*	(2,096,938)
100% Equity value before valuation adjustment		**18,038,393**
DLOM		20.6%
100% Equity value		**14,322,484**

Note 1: Median, which indicates the midpoint of a distribution and is less liable to be distorted by outliers, is adopted. Comparable companies with negative multiples are regarded as outliners.

Note 2: The fair values of long-term investments, net deferred tax assets, investment properties, available-for-sale investments, other receivables (non-operating in nature), other payables (non-operating in nature) are proxied by their respective net book values as of 31 December 2019.

Note 3: The non-controlling interests represent 50% and 49% equity interests in two subsidiaries of the Target Company, namely Shanghai Dazhong Gas Co., Ltd. and Shanghai Qingpu Gas Co., Ltd. respectively. The fair values of non-controlling interests are determined based on the Market Approach using the same set of comparable companies, compared against the net asset values of the non-controlling interests in respective subsidiaries. The higher of the calculated values based on the Market Approach and their respective net asset values are taken as the fair values of non-controlling interests. The fair value of Shanghai Dazhong Gas Co., Ltd. is derived from the Market Approach. The 50% non-controlling interests in Shanghai Dazhong Gas Co., Ltd. is estimated to be RMB1,556,654,000. Given that the fair value of Shanghai Qingpu Gas Co., Ltd. derived from the Market Approach is lower than its net assets value, its net assets value is adopted as the proxy of its fair value. The fair value of 49% non-controlling interests in Shanghai Qingpu Gas Co., Ltd. is estimated to be RMB540,284,000. The total fair value of non-controlling interests is estimated to be RMB2,096,938,000.

INDEPENDENCE DECLARATION

We confirm to the best of our knowledge and belief we have no present nor prospective interest in the Company, its affiliates and the Target Group.

Our compensation is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the Company, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the Subject Valuation.

CONCLUSION OF VALUE

Based upon our scope of work, basis of value, valuation methodology selected, general and specific assumptions made and analysis performed, we have estimated the fair value of 100% equity interest (on non-controlling basis) of the Target Company to be RMB14,322,484,000.

Please note that the above conclusion is arrived after making a series of assumptions, in case those assumptions are altered, the conclusion may be varied substantially.

Yours faithfully,
For and on behalf of
WeValue Advisory Limited

Kenny Lui, *CPA (HK), CAIA, LLM*
Managing Director

Prepared by:

Peter Chan, *CFA, FRM*
Manager

Balder Tsang, *CFA*
Assistant Manager

Macy Tong
Analyst

Note: Mr. Kenny Lui is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and Chartered Alternative Investment Analyst (CAIA). He holds a Master Degree in Laws. Kenny has 20-year experience in valuation, deal advisory, accounting and auditing.

LIMITATIONS AND CONDITIONS

- This Report is prepared solely for the purpose and the use stated herein and is subject to restrictions on use and distribution as specified in the engagement letter entered into between the Company and WeValue Advisory Limited. The Report is not intended for any other use by any third parties.

- Without our written consent, no one shall mention, quote or refer all or part of the Report in any form, or distribute or copy all or part of the content other than the use stated herein. All duties and liabilities (including without limitation, those arising from negligence or otherwise) to any party other than the addressee of this Report are specifically disclaimed.

- The Subject Valuation is performed in the form of desktop analysis, no site visit to the Target Group is performed. We have not performed any title search nor investigation on the legal titles of assets possessed by the Target Group.

- During the course of our work, we rely upon relevant information and representations obtained from the Management. The Management has confirmed to us that such information and representation are accurate, complete and timely in all material respects and that they are not aware of any material matters relevant to the Subject Valuation which have been withheld from us. We have no reason to doubt the truth and accuracy of the information and representations provided to us by the Management and have not independently verified their truth or accuracy.

- We also rely upon certain information obtained from various public, financial or industry sources, and have accepted such information without further verification. Such information was obtained from sources such as S&P Capital IQ and other public domains. We assume no representation, liability or warranty for the accuracy and completeness of such information.

- By its nature, valuation work cannot be regarded as an exact science and conclusions arrived at in many cases will be dependent on the use of numerous assumptions and considerations of many uncertainties, not all of which can be easily quantified or ascertained.

- There are other matters which we have not considered in the Subject Valuation, such as: (i) issues of law (including validity and effectiveness of contracts, compliance with relevant laws and regulations and all matters relating to product liability); (ii) environmental, health and safety matters; and (iii) regulatory issues. We have assumed that the above factors will have no impact on the Subject Valuation.

BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group (''**Unaudited Pro Forma Financial Information**'') is prepared by the Directors to illustrate the effect of the Capital Increase, as if the Capital Increase had been completed on 30 June 2020. Details of the Capital Increase are set out in the section headed ''Letter from the Board'' contained in this Circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules, for the purpose of illustrating the effect of the Capital Increase pursuant to the terms of the Capital Increase Agreement.

The unaudited pro forma statement of assets and liabilities is prepared based on the information on unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, which has been extracted from the published interim report of the Company for the six months ended 30 June 2020 and after making pro forma adjustments relating to the Capital Increase that are (i) directly attributable to the Capital Increase and (ii) factually supportable, as if the Capital Increase had been completed on 30 June 2020. The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Capital Increase been completed as at 30 June 2020 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group and the Target Company, as set out in the published interim report of the Company for the six month ended 30 June 2020 and the financial information of the Target Company as set out in Appendix II to this Circular respectively, and other financial information included elsewhere in the Circular.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 30 June 2020	Pro forma adjustments		Unaudited pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)			
	(Note 1)	*(Note 2)*	*(Note 3)*	
Non-current assets				
Property, plant and equipment	17,362,299	—	—	17,362,299
Right-of-use assets	807,562	—	—	807,562
Intangible assets	447,417	—	—	447,417
Goodwill	5,194,186	—	—	5,194,186
Interests in associates	4,231,479	5,538,010	—	9,769,489
Interests in joint ventures	3,023,313	—	—	3,023,313
Loans to associates	53,044	—	—	53,044
Equity instruments at fair value through other comprehensive income	1,764,529	—	—	1,764,529
Other financial assets	28,378	—	—	28,378
	32,912,207	5,538,010	—	38,450,217
Current assets				
Inventories	595,455	—	—	595,455
Loan to an associate	10,749	—	—	10,749
Loans to joint ventures	204,046	—	—	204,046
Trade and other receivables, deposits and prepayments	1,794,629	—	—	1,794,629
Amounts due from non-controlling shareholders	188,043	—	—	188,043
Time deposits over three months	45,081	—	—	45,081
Bank balances and cash	2,400,623	(5,538,010)	(13,022)	(3,150,409)
	5,238,626	(5,538,010)	(13,022)	(312,406)

	The Group as at 30 June 2020	Pro forma adjustments		Unaudited pro forma total for the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)			
	(Note 1)	*(Note 2)*	*(Note 3)*	
Current liabilities				
Trade and other payables and accrued charges	2,551,404	—	—	2,551,404
Contract liabilities	3,329,661	—	—	3,329,661
Lease liabilities	25,606	—	—	25,606
Amounts due to non-controlling shareholders	67,067	—	—	67,067
Taxation payable	985,266	—	—	985,266
Borrowings — amounts due within one year	3,768,446	—	—	3,768,446
Loan from a non-controlling shareholder	19,198	—	—	19,198
Loans from joint ventures	56,013	—	—	56,013
	10,802,661	—	—	10,802,661
Net current liabilities	(5,564,035)	(5,538,010)	(13,022)	(11,115,067)
Total assets less current liabilities	27,348,172	—	(13,022)	27,335,150
Non-current liabilities				
Lease liabilities	32,829	—	—	32,829
Borrowings — amounts due after one year	6,697,252	—	—	6,697,252
Deferred taxation	847,964	—	—	847,964
Other financial liabilities	13,447	—	—	13,447
	7,591,492	—	—	7,591,492
Net assets	19,756,680	—	(13,022)	19,743,658

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group:

1. The amounts are extracted from unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the published interim report of the Company for the six months ended 30 June 2020.

2. The adjustment represents the cash injection to the capital of the Target Company amounting to RMB4,700,000,000 (equivalent to approximately HK$5,538,010,000). Upon Completion, the Enlarged Group will have 25% equity interest in the Target Company in which the Enlarged Group will have significant influence. Accordingly, the Target Company will be accounted for as an associate of the Enlarged Group using the equity method of accounting in accordance with Hong Kong Accounting Standard 28 "Investments in Associates and Joint Ventures" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In the opinion of the Directors, the assumed cash shortfall for the purpose of the Unaudited Pro Forma Financial Information will be financed by both internal resources of the Group and external financing.

   The adjustment resulted from the Capital Increase is calculated as follows:

	RMB'000	*HK$'000*
Net identifiable assets and liabilities of the Target Company as at 31 December 2019 extracted from the audited consolidated financial statements on The Target Company set out in Appendix II to this circular	5,766,072	6,794,163
Capital Increase to the Target Company	4,700,000	5,538,010
Net identifiable assets and liabilities of the Target Company as at 31 December 2019 upon completion of the Capital Increase	10,466,072	12,332,173
25% of equity interest acquired	2,616,518	3,083,043
Premium on the Capital Increase	2,083,482	2,454,967
Additions in interests in associates	4,700,000	5,538,010

   The above calculation is determined assuming that the fair values of the identifiable assets and liabilities of the Target Company at the completion date of the Capital Increase are the same as their carrying amounts shown in the consolidated statement of financial position of the Target Company as at 31 December 2019 and no other adjustments since 31 December 2019.

   For the purpose of preparation of the Unaudited Pro Forma Financial Information, the fair values of the identifiable assets and liabilities acquired and goodwill have been determined on a provisional basis, awaiting the completion of the identification of separable intangible assets and valuation of the identifiable assets and liabilities. Since the fair value of the identifiable assets and liabilities of the Target Company at the completion date of the Capital Increase may be different from the estimated fair values used in the preparation of the Unaudited Pro Forma Financial Information, the amount of provisional goodwill at the completion date of the Capital Increase may be also different from that estimated amount presented above.

   For the purpose of the preparation of the Unaudited Pro Forma Financial Information, no impairment is identified by the directors of the Company on the interest in an associate acquired by the Company upon completion of the Capital Increase as there is no indicator of impairment under Hong Kong Accounting Standard 28 "Investments in Associates and Joint Ventures" and Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the HKICPA (the "**Applicable Accounting Standards**"). After completion of the Capital Increase, in preparation of the consolidated financial statements of the Group in future, the Group will perform impairment review in accordance with the requirements of the Applicable Accounting Standards, whenever there is impairment indicator.

3. The adjustment represents the payment of estimated transaction costs of approximately HK$13,022,000.

4. For the purpose of the Unaudited Pro Forma Financial Information, the exchange rate adopted is RMB1.0000: HK$1.1783. No representation is made that the RMB amounts have been, could have been or could be coverted to HK$ or vice versa, at that rate or at any other rates or at all.

5. No other adjustments have been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transactions subsequent to 30 June 2020.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of Company, in respect of the unaudited pro forma financial information of the Enlarged Group prepared for the purpose of incorporation in this circular.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte. 德勤

To the Directors of Towngas China Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Towngas China Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 June 2020 and the related notes as set out on page IV-1 to IV-4 to the circular issued by the Company dated 25 January 2021 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages IV-1 to IV-4 to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed injection to the capital of Shanghai Gas Co., Ltd. (the "**Transaction**") on the Group's financial position as at 30 June 2020 as if the Transaction had been taken place at 30 June 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated financial statements for the six months ended 30 June 2020 on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "**Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars**" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma 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:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 25 January 2021

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to: (a) Divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) Section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares and shares of the Company's associated corporation:

Name of company	Name of Director	Capacity	Interests in shares: Personal interest	Interests in shares: Family interest	Interests in shares: Corporate interest	Aggregate interest in shares	Approximate % of the issued share capital of the Company or its associated corporation as at the Latest Practicable Date
The Company	Alfred Chan Wing-kin	Beneficial owner	4,041,693	—	—	4,041,693	0.14%
	Peter Wong Wai-yee	Beneficial owner	3,201,000	—	—	3,201,000	0.11%
	John Ho Hon-ming	Beneficial owner	1,133,862	—	—	1,133,862	0.04%
	James Kwan Yuk-choi	Beneficial owner	2,265,000	—	—	2,265,000	0.08%
HKCG	Alfred Chan Wing-kin	Interest held jointly with spouse	338,831	—	—	338,831	0.00%
	John Ho Hon-ming	Beneficial owner	53,058	—	—	53,058	0.00%
	James Kwan Yuk-choi	Beneficial owner and interest of spouse	115,500	135,523	—	251,023	0.00%

Save as stated above, as at the Latest Practicable Date, there were no other interests or short positions of the Directors and the chief executive of the Company in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 to 9 of Part XV of the SFO or the Model Code.

Substantial Shareholders' interests

As at the Latest Practicable Date, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Nature of interest	Aggregate interest in Shares	Approximate % of the issued share capital of the Company as at the Latest Practicable Date
Lee Shau-kee	Interest of controlled corporations	2,025,099,415 *(Note 1)*	68.21%
Rimmer (Cayman) Limited ("**Rimmer**")	Trustee	2,025,099,415 *(Note 2)*	68.21%
Riddick (Cayman) Limited ("**Riddick**")	Trustee	2,025,099,415 *(Note 2)*	68.21%
Hopkins (Cayman) Limited ("**Hopkins**")	Interest of controlled corporations	2,025,099,415 *(Note 2)*	68.21%
Henderson Development Limited ("**HD**")	Interest of controlled corporations	2,025,099,415 *(Note 2)*	68.21%
Henderson Land Development Company Limited ("**HLD**")	Interest of controlled corporations	2,025,099,415 *(Note 2)*	68.21%
Faxson Investment Limited ("**Faxson**")	Interest of controlled corporations	2,025,099,415 *(Note 2)*	68.21%
HKCG	Interest of controlled corporations	2,025,099,415 *(Note 3)*	68.21%
Towngas International Company Limited ("**TICL**")	Interest of controlled corporation	1,850,656,677 *(Note 3)*	62.33%
Hong Kong & China Gas (China) Limited ("**HK&CG (China)**")	Beneficial owner	1,850,656,677 *(Note 3)*	62.33%
Towngas Investment Company Limited ("**TICL-HK**")	Interest of controlled corporations	174,442,738 *(Note 3)*	5.88%
Planwise Properties Limited ("**Planwise**")	Beneficial owner	171,524,099 *(Note 3)*	5.78%

Notes:

1. The entire issued share capital of Rimmer, Riddick and Hopkins were owned by Dr. the Hon. Lee Shau-kee. Dr. the Hon. Lee Shau-kee was therefore taken to be interested in the same 2,025,099,415 Shares as set out in Notes 2 and 3 below by virtue of Part XV of the SFO.

2. Rimmer and Riddick as trustees of respective discretionary trusts, held units in a unit trust ("**Unit Trust**"). Hopkins as trustee of the Unit Trust owned all the issued ordinary shares of HD. HD was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HLD. HLD through its subsidiaries (including Faxson) was entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of HKCG. Each of Rimmer, Riddick, Hopkins, HD, HLD and Faxson was therefore taken to be interested in the same 2,025,099,415 Shares which HKCG is deemed interested in as described in Note 3 below by virtue of Part XV of the SFO.

3. As HK&CG (China) was a wholly-owned subsidiary of TICL, which in turn was a wholly-owned subsidiary of HKCG, each of TICL and HKCG was therefore taken to be interested in the 1,850,656,677 Shares held by HK&CG (China) by virtue of Part XV of the SFO. In addition, as Planwise and Superfun Enterprises Limited ("**Superfun**") were wholly-owned subsidiaries of TICL-HK, which in turn was a wholly-owned subsidiary of HKCG, each of TICL-HK and HKCG was therefore taken to be interested in 174,442,738 Shares, which included (a) the 171,524,099 Shares held by Planwise; and (b) the 2,918,639 Shares held by Superfun by virtue of Part XV of the SFO.

Save as disclosed above, the Directors are not aware that there is any person (other than any Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or a short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered into the register required to be kept under Section 336 of the SFO.

3. COMPETING BUSINESS INTERESTS

As at the Latest Practicable Date, the following Directors were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules:

Mr. Alfred Chan Wing-kin, the Chairman of the Company, is the managing director of HKCG. Mr. Peter Wong Wai-yee and Mr. John Ho Hon-ming, both executive Directors, are also the executive directors of HKCG. Dr. Moses Cheng Mo-chi, an independent non-executive Director, is an independent non-executive director of HKCG.

The HKCG Group (excluding the Group) is principally engaged in the production, distribution and marketing of gas, water and related activities in Hong Kong and in the PRC. Although some of the businesses carried out by the HKCG Group are similar to the businesses carried out by the Group, they are of different scale and/or in different locations. Therefore, the Directors are of the view that the businesses of the HKCG Group do not compete directly with the businesses of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates has any interest in any business which competes or is likely to compete with the businesses of the Group.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, with any member of the Group, a service agreement which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MATERIAL INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date, which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

7. MATERIAL CONTRACTS

The following contracts (not being entered into in the ordinary course of business carried on or intended to be carried on by the Group), were entered into by the members of the Group within two years preceding the Latest Practicable Date and are or may be material:

(a) the Capital Increase Agreement;

(b) the Shareholders Agreement;

(c) the Enhanced Strategic Cooperation Agreement;

(d) joint venture agreement between Towngas China Energy Investment Limited and Maanshan Hong Kong and China Gas Company Limited (馬鞍山港華燃氣有限公司) dated 2 February 2019 in relation to Maanshan Towngas China Energy Co., Ltd. (馬鞍山港能投智慧能源有限公司), pursuant to which Towngas China Energy Investment Limited agreed to subscribe to 70% of the equity interests with a capital contribution of RMB35 million and Maanshan Hong Kong and China Gas Company Limited agreed to subscribe to 30% of the equity interests with a capital contribution of RMB15 million in Maanshan Towngas China Energy Co., Ltd.;

(e) joint venture agreement between Towngas China Energy Investment Limited, Maanshan Hong Kong and China Gas Company Limited and Anhui Dangtu Economic Development Area Company Limited (安徽當塗經濟開發區產業投資有限公司) dated 8 April 2019 in relation to Dangtu Towngas China Energy Co., Ltd. (當塗港能投智慧能源有限公司), pursuant to which Towngas China Energy Investment Limited agreed to subscribe to 60% of the equity interests with a capital contribution of RMB18 million, Maanshan Hong Kong and China Gas Company Limited agreed to subscribe to 30% of the equity interests with a capital contribution of RMB9 million and Anhui Dangtu Economic Development Area Company Limited agreed to subscribe to 10% of the equity interests with a capital contribution of RMB3 million in Dangtu Towngas China Energy Co., Ltd.;

(f) asset purchase agreement entered into between Luliang Changhui Gas Company Limited (陸良長惠燃氣有限公司) and Luliang Hong Kong & China Gas Company Limited (陸良港華燃氣有限公司), a subsidiary of the Company, dated 16 June 2019, pursuant to which Luliang Changhui Gas Company Limited transferred residential land and five properties to Luliang Hong Kong & China Gas Company Limited at a consideration of RMB49.88 million;

(g) cooperation framework agreement between Shenzhen Gas Corporation Ltd. (深圳市燃氣集團股份有限公司) and Towngas China Energy Investment Limited dated 20 June 2019 in relation to the Shenzhen Gas Building Distributed Energy Station Reconstruction Project;

(h) asset restructuring agreement between Qingdao Huisen Petroleum Company Limited (青島匯森石油天然氣有限公司) and Qingdao Zhongji Hong Kong and China Gas Company Limited (青島中即港華燃氣有限公司), a subsidiary of the Company, dated 6 August 2019 in relation to asset restructuring worth RMB38 million of Qingdao Huisen Petroleum Company Limited;

(i) share transfer agreement between Jineng Energy (Tianjin) Company Limited (冀能能源(天津)有限公司) and Towngas China Energy Investment Limited dated 8 August 2019 in relation to Tangshan Fengnan Towngas China Energy Co., Ltd. (唐山港華能源有限公司), pursuant to which Jineng Energy (Tianjin) Company Limited agreed to transfer 6% of its equity interests in Tangshan Fengnan Towngas China Energy Co., Ltd. to Towngas China Energy Investment Limited for a consideration of RMB40.76 million;

(j) joint venture agreement between Towngas China Energy Investment Limited and Jineng Energy (Tianjin) Company Limited dated 8 August 2019 in relation to Tangshan Fengnan Towngas China Energy Co., Ltd., pursuant to which Towngas China Energy Investment Limited agreed to subscribe to 45% of the equity interests with a capital contribution of RMB43.2 million and Jineng Energy (Tianjin) Company Limited agreed to subscribe to 55% of the equity interests with a capital contribution of RMB52.8 million in Tangshan Fengnan Towngas China Energy Co., Ltd.;

(k) joint venture agreement between Towngas China Energy Investment Limited and Songyang Hong Kong and China Gas Company Limited (松陽港華燃氣有限公司), a subsidiary of the Company, dated 8 August 2019 in relation to Songyang Towngas China Energy Co., Ltd. (松陽港能投智慧能源有限公司), pursuant to which Towngas China Energy Investment Limited agreed to subscribe to 70% of the equity interests with a capital contribution of RMB21 million and Songyang Hong Kong and China Gas Company Limited agreed to subscribe to 30% of the equity interests with a capital contribution of RMB9 million in Songyang Towngas China Energy Co., Ltd.;

(l) capital increase agreement entered into between Towngas China Energy Investment Limited, Tianhe Energy Internet Investment Development (Jiangsu) Company Limited (天合能源互聯網投資發展(江蘇)有限公司) and Changzhou Hong Kong and China Gas Company Limited (常州港華燃氣有限公司) dated 18 September 2019, pursuant to which the parties agreed to increase the registered capital of Changzhou Smart Energy Management Company Limited (常州智微能源管理有限公司) by RMB25 million, with RMB13.95 million from Towngas China Energy Investment Limited, RMB3.3 million from Tianhe Energy Internet Investment Development (Jiangsu) Company Limited and RMB7.75 million from Changzhou Hong Kong and China Gas Company Limited;

(m) joint venture agreement between Towngas China Energy Investment Limited, Tianhe Energy Internet Investment Development (Jiangsu) Company Limited and Changzhou Hong Kong and China Gas Company Limited dated 18 September 2019 in relation to

Changzhou Towngas China Energy Co., Ltd. (常州港華天合智慧能源有限公司), pursuant to which the equity interests in Changzhou Towngas China Energy Co., Ltd. will be 45%, 30% and 25% respectively;

(n) joint venture agreement between Towngas China Energy Investment Limited, Anhui KedaPowerSales Company Limited (安徽科達售電有限公司) and Maanshan Keju Industry Company Limited (馬鞍山科聚實業有限公司) dated 18 September 2019 in relation to Anhui Towngas Keda Power Sales Co., Ltd. (安徽港華科達智慧能源有限公司), pursuant to which Towngas China Energy Investment Limited agreed to subscribe to 50% of the equity interests with a capital contribution of RMB100.005 million, Anhui KedaPowerSales Company Ltd. agreed to subscribe to 40% of the equity interests with a capital contribution of RMB80.004 million and Maanshan Keju Industry Company Limited agreed to subscribe to 10% of the equity interests with a capital contribution of RMB20.001 million in Anhui Towngas Keda Power Sales Co., Ltd.;

(o) share transfer agreement between Towngas Investments Limited and Hong Kong & China Gas (Qingdao) Limited (香港中華煤氣(青島)有限公司), both subsidiaries of the Company, dated 26 October 2019 in relation to Qingdao Laoshanwan Towngas China Energy Co., Ltd. (青島嶗山灣港華能源有限公司), pursuant to which Towngas Investments Limited agreed to transfer its entire equity interests in Qingdao Laoshanwan Towngas China Energy Co., Ltd. (amounting to 60% of the registered capital valued at RMB18 million) to Hong Kong & China Gas (Qingdao) Limited;

(p) joint venture agreement between Qingdao Laoshanwan Development Group Company Limited (青島嶗山灣發展集團有限公司) and Hong Kong & China Gas (Qingdao) Limited (香港中華煤氣(青島)有限公司) dated 30 October 2019 in relation to Qingdao Laoshanwan Towngas China Energy Co., Ltd., pursuant to which Qingdao Laoshanwan Development Group Company Limited agreed to subscribe to 40% of the equity interests with a capital contribution of RMB12 million and Hong Kong & China Gas (Qingdao) Limited agreed to subscribe to 60% of the equity interests with a capital contribution of RMB18 million in Qingdao Laoshanwan Towngas China Energy Co., Ltd.;

(q) investment agreement between Sichuan Chuangang Gas Limited Liability Company (四川川港燃氣有限責任公司) and Ziyang Hong Kong and China Gas Company Limited (資陽港華燃氣有限公司), a subsidiary of the Company, dated 12 December 2019 in relation to Ziyang Linkong huagang Gas Company Limited (資陽臨空華港燃氣有限公司), pursuant to which Sichuan Chuangang Gas Limited Liability Company and Ziyang Hong Kong and China Gas Company Limited each agreed to subscribe to 50% of the equity interests with a capital contribution of RMB10 million each in Ziyang Linkong huagang Gas Company Limited;

(r) joint venture agreement between Towngas China Energy Investment Limited, Tongling Hong Kong and China Gas Co., Ltd. (銅陵港華燃氣有限公司) and Tongling Large River Investment Holding Co., Ltd. (銅陵大江投資控股有限公司) dated 6 January 2020 in relation to Tongling Towngas China Energy Co., Ltd. (銅陵

港能投智慧能源有限公司), pursuant to which Towngas China Energy Investment Limited agreed to subscribe to 40% of the equity interests with a capital contribution of RMB9.8 million, Tongling Hong Kong and China Gas Co., Ltd. agreed to subscribe to 40% of the equity interests with a capital contribution of RMB9.8 million and Tongling Large River Investment Holding Company Limited agreed to subscribe to 20% of the equity interests with a capital contribution of RMB4.9 million in Tongling Towngas China Energy Co., Ltd.;

(s) joint venture agreement between Towngas China Energy Investment Limited, Shandong Xincheng Hengye Group Co., Ltd. (山東省鑫誠恒業集團有限公司) and Qingdao Zhongji Hong Kong and China Gas Company Limited, a subsidiary of the Company, dated 26 May 2020 in relation to Qingdao Towngas China Energy Co., Ltd. (青島港能投智慧能源有限公司), pursuant to which Towngas China Energy Investment Limited agreed to subscribe to 39% of the equity interests with a capital contribution of RMB6 million, Shandong Xincheng Hengye Group Co., Ltd. agreed to subscribe to 35% of the equity interests with a capital contribution of RMB5.38 million and Qingdao Zhongji Hong Kong and China Gas Company Limited agreed to subscribe to 26% of the equity interests with a capital contribution of RMB4 million in Qingdao Towngas China Energy Co., Ltd.;

(t) capital increase agreement between Towngas China Energy Investment Limited, Shandong Xincheng Hengye Group Co., Ltd. and Qingdao Zhongji Hong Kong and China Gas Company Limited dated 26 May 2020 in relation to Qingdao Towngas China Energy Co., Ltd.;

(u) share purchase agreement between Huzhou Hongbin Business Information Consulting Partnership (General Partnership) (湖州紅彬商務信息諮詢合夥企業(普通合夥)) as seller and U-Tech (Guang Dong) Engineering Construction Co., Ltd (卓裕(廣東)工程建設有限公司), a subsidiary of the Company, as buyer dated 12 September 2020 in relation to the sale and purchase of 80% of the equity interests in Jiangsu Jinzhuo Construction Co., Ltd. (江蘇金卓建設工程有限公司) for a consideration of RMB80 million;

(v) joint venture agreement between Fuxin City Investment Construction Asset Management Service Co., Ltd. (阜新城市投資建設資產經營服務有限公司), Towngas China Energy Investment Limited and Fuxin Hongkong and China Gas Company Limited (阜新港華燃氣有限公司), a subsidiary of the Company, dated 2 November 2020 in relation to Fuxin Towngas China Energy Co., Ltd. (阜新港能投智慧能源有限公司), pursuant to which Fuxin City Investment Construction Asset Management Service Co., Ltd. agreed to subscribe to 40% of the equity interests with a capital contribution of RMB58 million, Towngas China Energy Investment Limited agreed to subscribe to 40% of the equity interests with a capital contribution of RMB58 million and Fuxin Hongkong and China Gas Company Limited agreed to subscribe to 20% of the equity interests with a capital contribution of RMB29 million in Fuxin Towngas China Energy Co., Ltd.; and

(w) joint venture agreement between Haicheng Chengsheng Thermoelectric Co., Ltd. (海城成盛熱電有限公司), Towngas China Energy Investment Limited and An Shan Hong Kong and China Gas Company Limited (鞍山港華燃氣有限公司), a subsidiary of the Company, dated 8 December 2020 in relation to Haicheng Towngas China Energy Co., Ltd. (海城港華能源有限公司), pursuant to which Haicheng Chengsheng Thermoelectric Co., Ltd. agreed to subscribe to 49% of the equity interests with a capital contribution of RMB9.8 million, Towngas China Energy Investment Limited agreed to subscribe to 41% of the equity interests with a capital contribution of RMB8.2 million and An Shan Hong Kong and China Gas Company Limited agreed to subscribe to 10% of the equity interests with a capital contribution of RMB2 million in Haicheng Towngas China Energy Co., Ltd..

8. EXPERT QUALIFICATION AND CONSENT

The following are the names and qualifications of the experts to the Company whose letter, report, opinions or advice are contained or referred to in this Circular:

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
WeValue Advisory Limited	Valuation advisors

Each of the above experts has given and has not withdrawn its written consent to the issue of this Circular with the inclusion therein of its report, and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and WeValue Advisory Limited:

(a) did not have any shareholding interest in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) was not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019 (being the date to which the latest published audited financial statements of the Group were made up).

9. MISCELLANEOUS

(a) The registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is at 23rd Floor, 363 Java Road, North Point, Hong Kong.

(c) The principal share registrar and transfer office of the Company is Suntera (Cayman) Limited, Royal Bank House — 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.

(d) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The Hong Kong branch share transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(f) The company secretary of the Company is Mr. John Ho Hon-ming, a member of the Hong Kong Institute of Certified Public Accountants.

(g) Save and except for the Chinese names of the PRC entities and the Target Company 2019 Audited Accounts (which in the case of any inconsistency, the Chinese version shall prevail), the English text of this Circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection from 9:00 a.m. to 5:00 p.m. (Monday to Friday) at Clifford Chance, 27th Floor, Jardine House, One Connaught Place, Central, Hong Kong, from the date of this Circular up to and including 8 February 2021:

(a) the articles of association of the Company;

(b) the letter from the Board, the text of which is set out in "Letter from the Board" in this Circular;

(c) the annual reports and the interim report of the Company for each of the three financial years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020, respectively;

(d) the Target Company 2019 Audited Accounts, the text of which is set out in Appendix II to this Circular;

(e) the Valuation Report, the text of which is set out in Appendix III to this Circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this Circular;

(g) the written consents referred to in the section headed "Expert Qualification and Consent" in this Appendix;

(h) the material contracts referred to in the section headed "Material Contracts" in this Appendix; and

(i) this Circular.