# CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD.

(Incorporated in the Cayman Islands with members' limited liability)

Stock code : 1940

# 2020 ANNUAL REPORT

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. David T Chen *(Chairman) (duties suspended)*
Mr. Yao Li *(Vice Chairman)*
Ms. Gao Guimin

### Non-executive Directors

Mr. Zhang Aimin
Mr. Lai Yui
Ms. Ng Shuk Ming

### Independent Non-executive Directors

Mr. Siu Chi Hung
Mr. Xiao Huan Wei
Ms. Li Chun Elsy

## COMPANY SECRETARY

Ms. Siu Wing Kit

## AUTHORISED REPRESENTATIVES

Mr. Yao Li
Ms. Siu Wing Kit

## AUDIT COMMITTEE

Mr. Siu Chi Hung *(Chairman)*
Mr. Zhang Aimin
Mr. Xiao Huan Wei

## REMUNERATION COMMITTEE

Mr. Xiao Huan Wei *(Chairman)*
Ms. Gao Guimin
Mr. Siu Chi Hung

## NOMINATION COMMITTEE

Mr. David T Chen *(Chairman) (duties suspended)*
Mr. Yao Li *(Vice Chairman)*
Mr. Xiao Huan Wei
Mr. Siu Chi Hung
Ms. Li Chun Elsy

## AUDITOR

BDO Limited
*Certified Public Accountants*
*and Registered Public Interest Entity Auditor*
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

No. 9 Binhe Road
Lubei District
Tangshan
Hebei Province
The People's Republic of China

## REGISTERED OFFICE IN CAYMAN ISLANDS

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## BRANCH OFFICE IN HONG KONG

Unit 10, 29th Floor, Bank of America Tower
No.12, Harcourt Road
Hong Kong

## PRINCIPAL BANKERS

China Construction Bank
ICBC
Bank of China
Bank of Communications

## COMPLIANCE ADVISER

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

## HONG KONG LEGAL ADVISER

MinterEllison LLP
Level 32
Wu Chung House
213 Queen's Road East
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111, Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE

Stock Code: 1940

## WEBSITE

www.cgiiholdings.com

# VICE CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO. LTD. (the "**Company**"), I present the annual report of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020 ("**2020**", the "**Year**" or the "**Reporting Period**").

## Review

The successful listing of the Company on the main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in December 2020 marked a historic milestone in the development of the Company. Looking back, the Group started the cooperation with Tangshan Steel Company Limited (currently known as HBIS Company Limited ("**HBIS Company**"), a steel manufacturer listed on the Shenzhen Stock Exchange) in 2007, with HBIS Company contributed its industrial gas facilities, equipment and land, and the Group contributed the technical and management experience. The two organically congregated. The endeavor of more than a decade was rewarded with the Company's continuing growth and technological advancements. The products' applications extended from the traditional industrial areas to medical, food, beverage, green energy (hydrogen) and public services (compressed natural gas and liquefied natural gas for vehicles) areas; Tangshan Tangsteel Gases Co., Ltd (唐山唐鋼氣體有限公司) ("**TTG**"), the major operating subsidiary of the Group, possesses 52 utility patents and 11 software copyrights, and has also obtained the High-Tech Enterprise Certification. TTG has gradually emerged as a market leader in the industrial gas industry in the Beijing-Tianjin-Hebei region.

The Company's success has ridden on the mixed-ownership reform (that is the reform of mixing state ownership and non-state ownership). Combining the background and resources of state-owned enterprise, a professional and efficient management and research and development team, with an efficient professional management system, and the capital advantages from internationally renowned institutional investors (such as Temasek Holdings (Private) Limited and Bank of China Limited), which eventually formed an effective corporate governance structure. We, together with the above investors, perform our duties, work independently and transparently, supervise each other and combine our strengths, laying a solid foundation for the Company's leading position in industrial gas industry of Jing-jin-ji Region. In addition, corporate governance is a key to the success of a company. After the listing of the Company, I will further strengthen the Company's corporate governance system and enhance its management efficiency to not only comply with the regulatory requirements but also attain to international standards.

## Outlook

The Company's past success draws a clear blueprint for its future development. Relying on the long-standing strategic and reciprocal relationship with HBIS Group Co., Ltd ("**HBIS**") (together with its subsidiaries and their respective subsidiaries, but excluding the Group the "**HBIS Group**"), we will seek opportunities working with companies under HBIS for further business development and equity cooperation opportunities, so as to grow our business. Looking ahead, we will replicate the successful experience of building up common interest entity with HBIS and explore the opportunities to provide on site industrial gas to other large state-owned enterprises, further enhancing the Group's reputation and leadership status.

Leveraging on the listing platform in Hong Kong, the Company will gear up to a higher level. I will also, as always, adhere to the corporate tenet: "committed to providing users with high-quality products, advanced application technologies and a full range of services. While being the customers' preferred supplier, the Company will also strive to become their long-term partner". Through the strategic layout in key industries and in the entire China market, we will build up a professional, intensive and international industrial gas company and create greater value for our shareholders.

**Mr. Yao Li**
*Vice Chairman of the Board*

Tangshan, 31 March, 2022

A summary of the Group's results and assets and liabilities for the past four financial years is set out below:

| | 2020<br>RMB'000 | 2019<br>RMB'000 | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|---|
| **RESULTS** | | | | |
| Revenues | **1,186,824** | 1,305,152 | 1,145,578 | 1,027,197 |
| **Profit before income tax*** | **3,688** | 172,026 | 152,354 | 110,762 |
| Income tax expense | **(31,385)** | (38,188) | (32,521) | (30,771) |
| **(Loss)/profit for the year attributable to owners of the Company** | **(27,697)** | 133,838 | 119,833 | 79,991 |
| **Other comprehensive income attributable to owners of the Company** | | | | |
| Currency translation differences | **2,542** | (951) | 1,606 | (472) |
| **Total comprehensive income for the year** | **(25,155)** | 132,887 | 121,439 | 79,519 |
| **ASSETS AND LIABILITIES** | | | | |
| Total assets | **2,524,718** | 2,052,539 | 1,936,977 | 1,573,045 |
| Total liabilities | **(1,206,225)** | (748,505) | (833,764) | (450,762) |
| Equity attributable to the owners of the company | **1,318,493** | 1,304,033 | 1,103,214 | 1,122,283 |

*: Profit before income tax of 2020 included the non-recurring credit loss allowance for loan receivables amounting to RMB118,000,000

# MANAGEMENT DISCUSSION AND ANALYSIS

In this report, "we", "us", "our" and "China Gas" refer to the Company. Unless otherwise defined herein, capitalized terms used in this annual report shall have the same meanings as defined in the prospectus of the Company dated 16 December 2020 (the "**Prospectus**").

## BUSINESS REVIEW

The outbreak of the COVID-19 pandemic in early 2020 has severely impacted the global economy. Attributable to the effective public health measures implemented by the Chinese government, China has witnessed sustained economic growth. According to the National Bureau of Statistics of China, the China's gross domestic product ("**GDP**") increased by approximately 2.3% for the Reporting Period as compared to the year ended 31 December 2019, making it one of the few major economies that had successfully emerged from the economic downturn.

Benefiting from the stable development of macroeconomies in the People's Republic of China (the "**PRC**" or "**China**") , the industrial gas industry has grown steadily in 2020. The industrial gas industry demonstrated its resilience under the COVID-19 pandemic, with a surge in demand from the medical and electronics industries replacing the fall in demand from heavy industries. According to data published by OilChem China, production capacity in the industrial gas market in the Beijing-Tianjin-Hebei region was approximately 4.69 million $Nm^3$/hr as of 31 October 2020 which represents an increase of approximately 5.65% compared to approximately 4.44 million $Nm^3$/hr for the same period in 2019. In addition, the largest user of industrial gases is the iron and steel industry, which is also the largest source of the Company's income. In early 2020, some steel companies in China suspended operations due to the outbreak of COVID-19. However, with the pandemic under control, the iron and steel industry had gradually recovered in the second half of 2020. The demand and prices of steel recorded a rebound and the steel industry continued to improve.

### Operation of the Company

On 29 December 2020, the Company was successfully listed on the Stock Exchange, raising net proceeds of approximately HK$320 million to be mainly used for, inter alia, procurement and relocation of air separation units for its development at the Zhongqi Investment plant. The successful listing of the Company is a major milestone in its development.

Being the exclusive industrial gas supplier to HBIS Laoting Iron and Steel Co., Ltd. (河鋼樂亭鋼鐵有限公司) ("**HBIS Laosteel**") in the HBIS Tangsteel New District, a newly built KDONAr-60000/100000/2100 air separation unit and a relocated KDONAr-40000/40000/1360 air separation unit at the new plant of Zhongqi Investment (Tangshan) Gases Co., Ltd., (中氣投(唐山)氣體有限公司) ("**Zhongqi Investment**") a wholly-owned subsidiary of the Company, has commenced operation in the fourth quarter of 2020. The new plant of China Gas Investment (Tangshan) Gas Co., Ltd., having a production capacity of oxygen of 140,000 $Nm^3$/hr, has become the Company's new production base.

In 2020, the Company produced 1,470,000,000 $m^3$ of oxygen, 1,770,000,000 $m^3$ of nitrogen, and 5,670,000 $m^3$ of hydrogen in total, achieving sales revenue of RMB877 million. A total of 243,500 tons of liquefied industrial gas products were sold, including 107,100 tons of liquefied oxygen, 31,900 tons of liquefied nitrogen, 61,700 tons of liquefied argon and 42,700 tons of carbon dioxide, achieving sales revenue of RMB215 million; supplied liquidified natural gas ("**LNG**") and provided gas transmission service, achieving sales revenue of RMB80 million; and generated other revenue reaching RMB14 million.

## INDUSTRY OUTLOOK AND GROUP STRATEGIES

China's GDP growth target for 2021 is more than 6%. The Chinese government's effective measures against the COVID-19 pandemic, strong infrastructure investment policies, and liquidity support from the central bank have effectively facilitated a strong economic recovery. With the mass vaccination, we believe that the domestic and global economy will gradually recover in 2021.

The manufacturing sector of China has recovered rapidly under the pandemic. According to the General Administration of Customs of China, foreign trade hit a record high in 2020. It is estimated that the momentum of the manufacturing sector will continue for a certain period in 2021. Therefore, we believe that the industrial gas industry will also benefit from stable macroeconomic conditions and move forward steadily.

After the listing of the Company on the Stock Exchange, the management will seize the opportunities arising from its listing status to enhance the Company in all aspects.

Firstly, the proceeds raised from the initial public offering (the "**IPO**") of the Company are to speed up the construction of the air separation unit in the Zhongqi Investment plant which will increase and enhance the production capacity of oxygen. The relocation of the old plant is expected to be completed in the first quarter of 2021, which is expected to result in a net increase of 67,000 $Nm^3$/hr in oxygen production capacity, representing an increase of approximately 30.7% compared to the Company's oxygen production capacity as of 30 June 2020.

Secondly, the Company will deploy the rare gas production unit in Zhongqi Investment plant and focus on the development of high value-added specialty gases for electronics, calibration, shielding/welding and medical applications, in order to enrich its product portfolio, diversify its customer mix and enhance its profitability. In addition, accumulating years of experience in advanced technologies in the production and supply of industrial gases, the Company will actively plan to participate in large oxygen production projects from steel, coal chemical and petrochemical companies, and seek business opportunities outside the Beijing-Tianjin-Hebei region, as well as expand its business to various downstream industries such as petrochemicals, chemicals and electronics.

Furthermore, according to non-competition undertaking executed by HBIS on 15 June 2020 in favour of the Group (the "**Non-competition Undertaking**"), in the event that the Group makes a request to acquire or HBIS intends to dispose of or any third party offers to HBIS to acquire the industrial gas assets of HBIS and its subsidiaries (the "**Industrial Gas Assets**"), either in whole or in part, the Group shall have the right of first refusal to acquire the Industrial Gas Assets on a preferential basis at a fair consideration to be evaluated by an appraiser. Therefore, the acquisition of high-quality industrial gas assets from HBIS is an important development strategy for the Group in the foreseeable future, providing predictable growth momentum for the Group's business development. For further details of the Non-competition Undertaking, please refer to the Prospectus and the section headed "Non-competition arrangements" in the directors' report of this annual report.

In general, upon the listing of the Company, the management of the Group will seize the opportunity in the coming year, through expanding and strengthening production capacity, looking for opportunities for mergers and acquisitions of high quality assets and expand and develop new products and new target market so as to reach its mission - to become a market leader and the most influential industrial gas supplier in China.

## FINANCIAL REVIEW

The gross revenue of the Group for the Reporting Period amounted to approximately RMB1,186.82 million (the gross revenue in 2019: approximately RMB1,305.15 million), representing a decrease of approximately 9.07% as compared with the year ended 31 December 2019. The gross profit in 2020 amounted to approximately RMB269.01 million (2019: approximately RMB282.23 million), representing a decrease of approximately 4.7% as compared with last year, mainly due to a decrease of revenue. The gross profit margin in 2020 increased by approximately 1% to approximately 22.67% (2019: 21.67%), mainly due to an increase in average selling prices of our products and cost saving measures taken during the Year. The losses in total comprehensive income attributable to owners of the Company amounted to approximately RMB25.16 million (2019: profits in total comprehensive income attributable to owners of the Company of approximately RMB132.89 million), representing a decrease of approximately 119%. Loss per share attributable to equity shareholders of the Company amounted to approximately RMB0.03 (2019: earnings per share amounted to approximately RMB0.15), representing a decrease of approximately 120% as compared to the year ended 31 December 2019.

### Revenue

Revenue for the Reporting Period decreased by approximately 9.07% from approximately RMB1,305.15 million in 2019 to approximately RMB1,186.82 million. During the Year, revenue derived from supply of pipeline industrial gas amounted to approximately RMB877.51 million, representing a decrease of approximately 5.81% as compared to approximately RMB931.64 million in 2019. Revenue derived from supply of liquefied industrial gas amounted to approximately RMB214.98 million, representing a decrease of approximately 15.76% as compared to approximately RMB255.20 million in 2019. Revenue derived from supply of LNG and gas transmission service for 2020 amounted to approximately RMB81.22 million, representing a decrease of approximately 21.6% as compared to approximately RMB103.60 million for 2019. Other revenue was approximately RMB13.11 million, representing a decrease of approximately 10.96% as compared to approximately RMB14.72 million for 2019. The changes in revenues were  mainly due to the fact that demand reduced as a result of the outbreak of COVID-19 in early 2020, and the relocation of TTG headquarters plant has caused disruption to the production of the old plant, while the new plant is at the trial run stage.

### Other income and other losses

Other income for the Reporting Period decreased by approximately 20.27% to approximately RMB1.79 million (2019: approximately RMB2.25 million), mainly due to no investment income generated from bank wealth management product of the Group for the Year.

Other losses for the Year increased by approximately 4,883.93% to approximately RMB21.00 million (2019: RMB0.42 million), mainly due to the impairment of plant, equipment and property as well as net foreign exchange translation losses.

### Selling and distribution expenses

Selling and distribution expenses for the Year decreased by approximately 17% to RMB1.36 million (2019: RMB1.63 million), as sales personnels tended to communicate with clients through telephone given the pandemic situation so as to reduce the population mobility, leading to a decrease in traveling expenses.

### Administrative expenses

Administrative expenses for the Reporting Period increased by approximately 34.26% to approximately RMB53.96 million (2019: approximately RMB40.19 million), due to an increase in depreciation expenses related to the increase in capital expenses pertaining to the relocation of equipment from TTG headquarters plant, newly built property, plant and equipment, and increase in expenses related to the listing of the Company.

### Impairment Provision on Loan Receivables

Between 30 November 2020 and 1 December 2020, Mr. David T Chen ("**Mr. Chen**") on behalf of the Company entered into the three loan agreements with Company A, Company B and Company C (collectively the "**Borrowers**") for the advancement of short term loans in an aggregate sum of RMB118,000,000 (the "**Loans**").

Although the Company had continuously demanded for settlement with Borrowers, the Company has not received any repayment up to date. After taking into account that the Loans became long overdue and recoverability of the balances, the Group has considered it is unlikely to recover the outstanding Loans balances of RMB118,000,000 and hence an impairment provision on Loans receivables of RMB118,000,000 is made.

### Finance costs

Finance costs for the Reporting Period increased by approximately 17.3% to approximately RMB22.73 million (2019: approximately RMB19.37 million), mainly due to an increase in interest expenses for financing activities as the Group's bank borrowings increased.

### Income tax expense

Income tax expense for the year ended 31 December 2020 decreased by approximately 18% to approximately RMB31.39 million (2019: approximately RMB38.19 million), since the decrease in operation earnings of various subsidiaries operates in Hong Kong.

## LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group had a total cash and bank balances of approximately RMB511.83 million as at 31 December 2020 of which approximately 62% was is Hong Kong dollars, 32% was in RMB and 6% was in United States dollars (2019: approximately RMB139.79 million of which approximately 61% was in RMB and 39% was in United States dollars). As at 31 December 2020, bank and other borrowings of the Group amounted to approximately RMB607.80 million (2019: approximately RMB383.00 million), which include bank borrowings of approximately RMB594.49 million (2019: approximately RMB368.00 million), lease liability of approximately RMB13.30 million (2019: approximately RMB15.00 million). The bank borrowings bear interest rate at range of Loan Prime Rate +0.50% to +4.785% and People's Bank of China benchmark interest rate 4.35%. The Group's gearing ratio (calculated as total debt divided by total equity) was 46% as at 31 December 2020 (2019: 29%). Net debt is calculated as total borrowings, as well as lease liabilities, less cash and cash equivalents. Net debts were approximately RMB96.00 million as at 31 December 2020 (2019: Net debts of approximately RMB243.21 million).

The Group recorded total current assets value of approximately RMB930.47 million as at 31 December 2020, representing an increase of approximately 51.31% as compared to approximately RMB614.94 million in 2019; and total current liabilities value of approximately RMB920.53 million as at 31 December 2020, increased by approximately RMB323.09 million as compared to approximately RMB597.44 million in 2019. The current ratio of the Group, calculated by dividing the total current assets value by the total current liabilities value, was approximately 1.01 as at 31 December 2020 (2019: approximately 1.03). The current ratio continues to maintain a healthy condition.

Currently, the Group's operating and capital expenditures are mainly financed by cash generated from operation, internal liquidity and bank borrowings.

## RISK MANAGEMENT

The Group's principal financial instruments include financial assets at fair value through profit or loss, loan receivables, receivables under LNG finance lease arrangements, LNG finance lease receivables, accounts and other receivables and bank balances and cash. The main purpose of these financial instruments is to support the Group's LNG business. The Group also has various financial assets and financial liabilities arising from its business operations. The principal risks arising from its financial instruments are foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group intends to achieve an appropriate balance between these risks and the investment returns so as to minimise the potential adverse impact on its business and financial condition. The Group will not obtain collateral from counterparty. At the end of the Reporting Period, the credit risk of the Group as measured by trade receivables due from the biggest customer and the five biggest customers of the Group, respectively, as a percentage of total trade receivables, was 92% (2019: 88%) and 96% (2019: 96%). For the Reporting Period, trade and note receivables were determined to have low credit risk and low expected credit losses, and no provisions were made for the impairment losses of such trade and note receivables. The management of the Group also evaluated available forward-looking information, including but not limited to the expected growth rate of the industry and the subsequent settlement, and concluded that the credit risk has no significant increase. As at 31 December 2020 and 2019, approximately 94% and 93% of trade receivables of the Group was from HBIS Group. The credit period granted to the Group's customers, including the HBIS Group, is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience, business relationship with the Group and other factors. In view of the sound collection history of receivables due from them, the management believes that the credit risk inherent in the Group's outstanding trade receivables balances due from them is not significant. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term. The liquidity policy has been followed by the Group during the Year, and the Directors consider that it is effective in managing liquidity risks.

### Foreign currency risk

As other payables as well as cash and cash equivalents of the Group, which are denominated in other currency different to the function currency of its related business, were mainly generated from the business outside China, the currencies that caused such exposure are primarily the United States dollars and Hong Kong dollars. The Group did not use derivative financial instruments to hedge against its foreign exchange risk. The Group periodically reviews its foreign exchange risk and considers that there is no significant exposure to its foreign exchange risk.

### Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from mismatches in amounts or time with regard to the maturity of financial assets and liabilities. The Group manages its liquidity risk through regular monitoring with the following objectives: maintaining the stability in developing the Group's principal businesses, timely monitoring cash and bank position, projecting cash flows and evaluating the level of current assets to ensure liquidity of the Group.

### Pledge of assets

As at 31 December 2020, certain property, plant and equipment of the Group amounting to RMB17.32 million (2019: Nil) were pledged to banks for loan facilities granted to the Group.

## TREASURY POLICIES

Bank balance and cash held by the Group was denominated in Hong Kong dollars, Renminbi and United States dollars. The Group currently does not have a foreign currency and interest rate hedging policy. However, the management of the Group monitored foreign currency and interest rate exposure from time to time and would consider hedging significant foreign currency and interest rate exposure should the need arise.

## CAPITAL COMMITMENT

As at 31 December 2020, the total capital commitments by the Group amounted to approximately RMB184.27 million (2019: approximately RMB223.23 million), representing a decrease of approximately 17.45% as compared to 2019. They were mainly contracted commitments in respect of purchase of property, plant and equipment.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2020 (2019: Nil).

## STAFF AND REMUNERATION POLICIES

The Group believes that talent is one of the key factors which has led to the Group's success. The Group has experienced management team members and employees to assist it in its business expansion. The Group plans to continue to attract and retain highly skilled personnel and further strengthen its corporate culture by continuing to invest in supporting employees in their career development. The Group also plans to provide its employees with trainings and professional development programmes and further align employees' interests with its own interest.

The Group places high emphasis on the training and development of its staff. The Group invests in continuing education and training programs for its management and other staff members to update their skills and knowledge periodically. The Group provides training for its staff members with respect to its operation, technical knowledge and work safety standards and environmental protection.

To attract and retain the suitable personnel who are beneficial to the development of the Group, the Group has adopted a share option scheme since June 2020 (the "**Share Option Scheme**"). Pursuant to the Share Option Scheme, share options may be granted to eligible employees of the Group as a long-term incentive. No share options were granted, cancelled, lapsed or exercised in 2020 (2019: Nil).

The Group hired 370 employees in total as of 31 December 2020 (31 December 2019: 400). The Group's total staff costs amounted to approximately RMB40.04 million for the Year (for the year ended 31 December 2019: approximately RMB46.74 million). The Group offers competitive remuneration packages to its employees.

The Group determines remuneration of employees mainly based on the industry practice, individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees with reference to the Group's performance as well as individual's performance.

## OTHER MATTERS

### Change of Auditor

On 3 December 2021, the Company announced that PricewaterhouseCoopers ("**PwC**") resigned as the auditor of the Company with effect from 29 November 2021. The Board resolved, with the recommendation of the audit committee of the Company (the "**Audit Committee**"), to appoint BDO Limited as the new auditor of the Company with effect from 3 December 2021 to fill the vacancy following the resignation of PwC, and to hold office until the conclusion of the next annual general meeting of the Company.

## REVIEW OF CONSOLIDATED ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Audit Committee has reviewed together with the Board and BDO Limited, the Group's external auditor, the audited consolidated financial statements of the Group for the Reporting Period. The Audit Committee is satisfied that the audited consolidated financial statements of the Group for the Reporting Period were prepared in accordance with the applicable accounting standards and fairly present the Group's financial position and results for the Reporting Period.

## SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSAL

The Group had no material acquisitions, disposals, or investment projects for sale during the Reporting Period.

## IMPACT OF THE COVID-19 PANDEMIC

In early 2020, there was a sudden outbreak of the COVID-19 pandemic in China, which was especially a hard hit in Wuhan, Hubei Province. Although there were some infection cases in North China where the Company mainly conducts its business, the overall situation was not serious. Therefore, TTG, the subsidiary of the Company in China, recorded a slight decrease in sales in liquid products due to the impact on the transportation only from February to March 2020, and the Company's overall business maintained stable without a significant decrease in business volumes.

## IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On 18 January 2021, the executive director, Mr. Chen on behalf of the Company entered into the Investment Agreement with Union Space Group Limited in respect of the Investment in the sum of HK$80,000,000 with a fixed return of 4.5% per annum, due on 17 December 2021 (the "Investment").

On 17 December 2021 when the Investment became due, the Company did not receive any repayment, and the Company has not received any repayment since then. Although the Company had continuously demanded for settlement with the counter party, the Company has not received any repayment up to date. There is no financial impact to the Group for the Reporting Period because the investment was made in January 2021. The Group considered it would have a financial impact for the year ended 31 December 2021 which an impairment provision of RMB66,400,000 will be made.

Details of the above transaction was set out in the announcement of the Company dated 23 March 2022.

Save as disclosed above, the Directors are not aware of any significant event requiring disclosure that have been taken place subsequent to the Reporting Period and up to the date of this annual report.

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering amounted to HK$315.9 million (equivalent to RMB298.1 million) after deducting the underwriting fees and commissions and other estimated expenses payable by the Company in connection with the Global Offering.

Upon receipt of the net proceeds from the Global Offering, such funds became part of the Group's assets under its cash pooling management. As such, the funds were basically of the same nature as any other unrestricted bank balances of the Group.

As at 31 December 2020, due to the proximity in time between completion of the Global Offering and the year-end date, the proceeds raised by the Company from the Global Offering had not been fully utilized.

The Group will gradually utilise the net proceeds in accordance with the intended purposes and expected timeline as disclosed in the Prospectus. The breakdown of the intended use and amount utilised as at 31 December 2020 were as follows:

| | Planned use of net proceeds as stated in the Prospectus RMB'000 | Approximate amount of utilised net proceeds as at 31 December 2020 RMB'000 | Approximate amount of unutilised net proceeds as at 31 December 2020 RMB'000 | Expected timeline of application of the unutilised net proceeds |
|---|---|---|---|---|
| **Procurement and relocation of air separations unit(s) ("ASUs") relating to the development at the Zhongqi Investment Plant** | | | | |
| **Phase I** | | | | |
| First ASU: payment for the remaining procurement and installation cost | 64,990 | 64,990 | 0 | N/A |
| Second ASU: payment for the remaining procurement and installation cost and relocation of certain existing ancillary equipment and machinery such as air compressors from the TTG headquarters plant | 101,790 | 101,790 | 0 | N/A |
| Third ASU: relocation and installation of a used ASU from the TTG headquarters plant | 80,170 | 26,000 | 54,170 | 30 Jun 2021 |
| **Phase II** | | | | |
| Fourth ASU: procurement and installation of a new ASU | 50,553 | 0 | 50,553 | 31 Dec 2022 |
| **Working capital and other general corporate purposes** | 27,300 | 0 | 27,300 | 30 Jun 2021 |
| **Total** | 324,803 | 192,780 | 132,023 | N/A |

# PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Below are the brief profiles of the current Directors and senior management of the Group.

## DIRECTORS

As at the date of this annual report, the Board currently comprises 9 Directors, of which three are executive Directors, three are non-executive Directors and three are independent non-executive Directors. The following table sets forth information regarding the Directors.

| Name | Age | Position | Date of Appointment as Director |
|---|---|---|---|
| **Executive Directors** | | | |
| David T Chen (陳大維) *(duties suspended)* | 72 | Executive Director and chairman of the Board | 4 August 2006 |
| Yao Li (姚力) | 57 | Executive Director and vice chairman of the Board | 30 November 2015 |
| Gao Guimin (高貴敏) | 52 | Executive Director | 13 December 2019 |
| **Non-executive Directors** | | | |
| Zhang Aimin (張愛民) | 50 | Non-executive Director | 30 November 2015 |
| Lai Yui (黎叡) | 47 | Non-executive Director | 19 August 2011 |
| Ng Shuk Ming (伍淑明) | 44 | Non-executive Director | 19 August 2011 |
| **Independent non-executive Directors** | | | |
| Siu Chi Hung (蕭志雄) | 51 | Independent non-executive Director | 17 June 2020 |
| Xiao Huan Wei (肖煥偉) | 64 | Independent non-executive Director | 17 June 2020 |
| Li Chun Elsy (李雋) | 49 | Independent non-executive Director | 17 June 2020 |

## EXECUTIVE DIRECTORS

**Mr. David T Chen (陳大維)**, aged 72, is one of the founders and has been a Director since 4 August 2006. He was redesignated as an executive Director and appointed as the chairman of the Board on 13 December 2019 and was responsible for the overall and comprehensive leading management and supervision of the relevant business of the Group. Mr. Chen was the chairman of the nomination committee of the Company (the "**Nomination Committee**"). He has also been a director of Tangshan Tangsteel Gases Co., Ltd. (唐山唐鋼氣體有限公司), a wholly-owned subsidiary of the Company, since its establishment on 8 February 2007. Mr. Chen has been suspended all the day-to-day duties, powers and authorities since 11 May 2021.

Mr. Chen has over 34 years of working experience in the industrial gas industry. Prior to joining the Group, he has already possessed extensive and practical experience in managing multinational corporations and cooperating with Chinese national corporations as he had served as the head of China region in two multinational companies. Mr. Chen served as the chief representative in China for BOC (China) Holdings Co., Ltd., a company principally engaged in the production and sales of industrial gas, from September 1986 to August 1996 and was mainly responsible for business development investment. From September 1996 to September 2001, he served as the chief representative of Eaton (China) Investments Co., Ltd., a company principally engaged in power management and the manufacture and sales of mechanical components, and was mainly responsible for management and business strategy.

Mr. Chen obtained his master's degree in nuclear science from Cornell University of the United States in June 1986.

**Mr. Yao Li (姚力)**, aged 57, joined the Group in May 2010 as the general manager of TTG, and has been a Director since 30 November 2015. He was redesignated as the executive Director and vice chairman of the Board on 13 December 2019. He is primarily responsible for the overall and comprehensive leading management and supervision and the relevant business of the Group and its day-to-day operations. Mr. Yao is the vice chairman of the Nomination Committee. He is also a director of TTG since 22 June 2011.

Mr. Yao has over 36 years of working experience in the industrial gas industry. Prior to joining the Group, Mr. Yao had been working in various positions in HBIS Group during June 1989 to August 2008, including as the section head of the mechanical section of the energy department, where he was primarily responsible for facilities management, spare parts management, maintenance organisation; as the deputy plant manager of the southern zone power plant and the hot rolled steel factory, where he was primarily responsible for the facilities management of southern zone power and hot rolled sheet plant; as the deputy supervisor of the power generation department, where he was responsible for the management of water workshop, gas workshop, machine repair workshop, thermoelectricity workshop and mechanical division, energy division. From August 2008 to May 2010, Mr. Yao served as the deputy manager of Tangshan Luanxian Steel project.

From May 2010, Mr. Yao joined the Group and served as the general manager of TTG until April 2013, where he was mainly responsible for the comprehensive work of the Company, and the management of comprehensive division. From April 2013 to May 2014, Mr. Yao has served as the department head of non-steel business department of Tangshan Steel Company Limited (唐山鋼鐵股份有限公司) (currently known as HBIS Company Limited (河鋼股份有限公司)), mainly responsible for the operation management, planning and development and business collaboration of non-steel systems. Since May 2014, Mr. Yao has been serving as the vice general manager of Tangshan Iron and Steel Group Co., Ltd. (唐山鋼鐵集團有限責任公司) ("**HBIS Tangsteel**"), mainly responsible for the operation management, planning and development and business collaboration of the non-steel business department, and he currently also serves as a director of HBIS Tangsteel. Mr. Yao also served as the director of Zhongqi Investment since its establishment in July 2018 until January 2019.

Mr. Yao received the title of professional senior engineer in December 2003 from Hebei provincial title reform leading group office (河北省職稱改革領導小組辦公室).

Mr. Yao obtained his bachelor's degree in chemical engineering from Hebei Institute of Technology (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in China in July 1985. Mr. Yao then went on to obtain a master's degree in technical economics from Renmin University of China (中國人民大學) in June 2001. Mr. Yao further obtained his doctoral degree in metallurgy and engineering from University of Science and Technology Beijing (北京科技大學), China in January 2015.

**Ms. Gao Guimin (高貴敏)**, aged 52, joined the Group in March 2007. She was appointed as an executive Director on 13 December 2019. She is responsible for overall and comprehensive leading management and supervision of the relevant business of the Company. Ms. Gao is a member of the remuneration committee of the Company (the "**Remuneration Committee**"). She is also a director of TTG, since 13 December 2019.

Ms. Gao has over 27 years of working experience in the industrial gas industry. Before joining the Group, between September 1993 and July 2006, Ms. Gao worked as a technician at the mobile division of a factory of Tangshan Steel Company Limited (唐山鋼鐵股份有限公司) (currently known as HBIS Company Limited (河鋼股份有限公司)) which principally engaged in producing and supplying industrial oxygen. Between July 2006 and March 2007, Ms. Gao was the deputy head of operation workshop No. 1 of Tangshan Steel Oxygen Factory (唐鋼氧氣廠).

Between March 2007 and February 2008, Ms. Gao served as a deputy manager at the engineering department of TTG. Between February 2008 and August 2009, Ms. Gao was the manager at the facilities management department of TTG. Between August 2009 and January 2016, Ms. Gao was the manager at the production facilities department of TTG. Between January 2016 and February 2018, Ms. Gao worked as the operation director of the Company. Between February 2018 and December 2020, Ms. Gao was the general manager of Tangshan Chuangyuan Fangda Electric Co., Ltd., a subsidiary of HBIS Tangsteel, which principally engaged in production of electrical appliances such as high and low voltage switches, circuit breakers and smart meters, where Ms. Gao was responsible for organising, implementing, and hosting the production, operation, management and investment plan of the company and implementing resolutions of the board. Between May 2018 and December 2020, Ms. Gao was a director of Tangsteel-POSCO LED Co., Ltd. (唐鋼浦項(唐山)新型光源有限公司), a subsidiary of Chuangyuan Fangda Electric Co., Ltd. Between January 2016 and February 2018, Ms. Gao has been named a specialist expert of TTG (唐山唐鋼氣體有限公司專業專家) where she was responsible for training and technology sharing.

Ms. Gao received the title of professional senior engineer in December 2014 from Hebei provincial title reform leading group office (河北省職稱改革領導小組辦公室).

Ms. Gao obtained her bachelor's degree in electrical automation from Tangshan Institute of Engineering and Technology (唐山工程技術學院) (currently known as the North China University of Science and Technology (華北理工大學) in China in July 1992. Ms. Gao obtained her master's degree in business administration from Nankai University (南開大學) in China in December 2012.

## NON-EXECUTIVE DIRECTORS

**Mr. Zhang Aimin (張愛民)**, aged 50, has been a Director since 30 November 2015 and was redesignated as the non-executive Director on 13 December 2019. He is primarily responsible for the overall and comprehensive leading, management and supervision of the Company and its relevant business. Mr. Zhang is a member of the audit committee of the Company (the "**Audit Committee**"). He has also been a director of TTG, since 27 May 2013. He is also currently a supervisor of HBIS Tangsteel Pipeline Company Limited (唐山鋼鐵集團管業有限公司), a wholly-owned subsidiary of HBIS Tangsteel.

Mr. Zhang has over 26 years of accounting experience in the industrial industry. From July 1994 to March 1996, Mr. Zhang served as a statement accountant at the accounting section of the finance division of Tangshan Steel Company Limited (唐山鋼鐵股份有限公司) (currently known as HBIS Company Limited (河鋼股份有限公司)). Between March 1996 and November 2003, Mr. Zhang was a regional cost management manager at the cost management section of the finance division of Tangshan Steel Company Limited and was mainly responsible for overseeing cost management. Between November 2003 and June 2005, he served as the deputy section head and subsequently between October 2006 and August 2008, the section head of the cost management section of the finance division of Tangshan Steel Company Limited. From October 2006 to August 2008, concurrent to his then position, he was also named a level 4 expert of the finance division of Tangshan Steel Company Limited. Between August 2008 and March 2009, he served as the deputy division head of the finance division of Tangshan Steel Company Limited. Between March 2009 and May 2014, he was the deputy department head of the finance operation department of Tangshan Steel Company Limited, where he was responsible for cost and profit accounting and benchmarking of Tangsteel Company Limited and its subsidiaries. Between May 2014 and July 2018, Mr. Zhang was the department head of the finance operation department and since December 2020, he has been the chief accountant of HBIS Tangsteel, where he was responsible for financial capital management of HBIS Tangsteel and its subsidiaries. Since May 2017, concurrent to his then position, he has also been the deputy commander of project management department and chief accountant of HBIS Laosteel where he is mainly responsible for financial capital management of the projects.

Further to his professional experience, Mr. Zhang received the qualification as a senior accountant from Hebei provincial title reform leading group office (河北省職稱改革領導小組辦公室) in November 2005.

Mr. Zhang obtained his bachelor's degree in engineering management from Hebei Mechatronics College (河北機電學院) (currently known as Hebei University of Science and Technology (河北科技大學)) in China in July 1994.

**Mr. Lai Yui (黎叡)**, aged 47, was appointed as a Director on 19 August 2011 and redesignated as a non-executive Director on 13 December 2019. He is responsible for participating in decision-making in respect of major matters such as strategy, etc. Mr. Lai is also a director of TTG since 24 December 2012.

Mr. Lai has more than 23 years of working experience in the investment banking and private equity industries. Between July 2007 and December 2012, Mr. Lai served as director of investment, with Temasek Holdings (Private) Limited and/or its wholly-owned subsidiaries. From 24 September 2014 to 30 June 2020, Mr. Lai was as a non-executive director of Canvest Environmental Protection Group Company Limited (stock code: 1381), the shares of which are listed on the Main Board of the Stock Exchange. Since January 2013, Mr. Lai has been employed by various subsidiaries of BOC International Holdings Limited as the managing director and is currently the chief executive officer of CITP Advisor (Hong Kong) Ltd.

Mr. Lai obtained a bachelor's degree in science (magna cum laude) and a bachelor's degree in arts (magna cum laude) from University of Pennsylvania, the United States in May 1997.

**Ms. Ng Shuk Ming (伍淑明)**, aged 44, was appointed as a Director on 19 August 2011 and redesignated as a non-executive Director on 13 December 2019. She is responsible for participating in decision-making in respect of major matters such as strategy, etc. Ms. Ng is also a director of TTG, since 15 July 2015.

Ms. Ng has more than 13 years of working experience in the private equity industry. Between September 2007 and June 2010, she worked as an associate and senior associate at Excelsior Capital Asia, a direct investment firm focused on North Asia area, where Ms. Ng was responsible for executing and monitoring high value investments. Since June 2010, Ms. Ng has been working as an associate and subsequently a principal at CITP Advisors (Hong Kong) Ltd., where Ms. Ng is responsible for project development, executing and monitoring high value investments.

Ms. Ng has been a member of the Hong Kong Institute of Certified Public Accountants since January 2003.

Ms. Ng obtained her bachelor's degree in professional accountancy from Chinese University of Hong Kong in December 1999 and a postgraduate diploma in financial strategy from Saïd Business School, University of Oxford in June 2021.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Siu Chi Hung (蕭志雄)**, aged 51, was appointed as an independent non-executive Director on 17 June 2020 and commenced his service and role from 29 December 2020, being the first day of trading of shares of the Company on the Stock Exchange (the "**Listing Date**"), which is explicitly stated in his appointment letter. He is responsible for supervising and providing independent advice to the Board. Mr. Siu is the chairman of the Audit Committee, a member of each of the Remuneration Committee and Nomination Committee.

Mr. Siu has 25 years of accounting experience. He joined KPMG (Hong Kong) in August 1994 as an accountant and became a partner in July 2008. Mr. Siu was the head of real estate of KPMG (China) and the head of capital markets development, Southern China of KPMG (China) before his retirement in June 2018. He was appointed as an independent non-executive director of Roiserv Lifestyle Services Co., Ltd. (stock code: 02146), Dongjiang Environmental Company Limited (stock code: 00895) and Central China Management Company Limited (stock code: 09982), since April 2020, December 2020 and May 2021, respectively. Mr. Siu was an executive director of LVGEM (China) Real Estate Investment Company Limited (Stock code: 00095) from September 2019 to September 2021. The shares of those companies are listed on the Main Board of the Stock Exchange.

Mr. Siu is currently a member of the Hong Kong Institute of Certified Public Accountants (HKICPA), a member of the American Institute of Certified Public Accountants (AICPA) and a member of the Hong Kong Independent Non-Executive Director Association (HKiNEDA). He obtained the qualification certificate of independent directors for listed companies (上市公司獨立董事資格證書) from the Shenzhen Stock Exchange in February 2021.

Mr. Siu obtained his bachelor's degree in Business Administration from Chinese University of Hong Kong in May 1994.

**Mr. Xiao Huan Wei (肖煥偉)**, aged 64, was appointed as an independent non-executive Director on 17 June 2020 and commenced his service and role from 29 December 2020 (the Listing Date), which is explicitly stated in his appointment letter. He is responsible for supervising and providing independent advice to the Board. Mr. Xiao is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Xiao had over 14 years of work experience in the investment industry. From July 2005 to May 2014, Mr. Xiao served as executive director, group chief executive, chairman of the group executive committee, and group chief executive director of VXL Capital Limited (currently known as Crown International Corporation Limited (皇冠環球集團有限公司)) (stock code: 0727), the shares of which are listed on the Main Board of the Stock Exchange, where he was responsible for overseeing acquisitions, asset transfers, planning and construction development of various projects.

Mr. Xiao has been the chairman of Secret Garden (Zhangjiakou) Resort Co., Ltd. (密苑(張家口)旅遊股份有限公司) ("**ZJK**") since February 2014, a company that principally engaged in the construction and operation of projects relating to comprehensive and all-season ecotourism resources development, greenery and environmental protection, skiing, outward bound, competition and sports skills training, stadium and playground construction and provision of agent services, where Mr. Xiao has been responsible for the comprehensive leading of the operation management and administration work of ZJK. Mr. Xiao is also the chairman of certain subsidiaries of ZJK.

Mr. Xiao is a member of Beijing 2022 Olympics Winter Games Bid Committee and the 11th and 12th Chinese People's Political Consultative Conference national committee of Hebei Province.

Mr. Xiao obtained his associate degree in Theory in Marxism-Leninism from Fudan University (復旦大學), China in May 1984.

**Ms. Li Chun Elsy (李雋)**, aged 49, was appointed as an independent non-executive Director on 17 June 2020 and commenced her service and role from 29 December 2020 (the Listing Date), which is explicitly stated in her appointment letter. She is responsible for supervising and providing independent advice to the Board.

Ms. Li has over 11 years of working experience in global financial institutions. Between March 2008 and November 2014, she has held various roles at Deutsche Bank AG, Hong Kong Branch, including managing director of institutional client group and managing director of financial institutions group of the investment banking department. Between May 2015 and January 2017, Ms. Li was a consultant of Egon Zehnder International. Since May 2017, Ms. Li has been the group treasurer and head of corporate development of Sun Hung Kai & Co. Limited (stock code: 0086), the shares of which are listed on the Main Board of the Stock Exchange.

Ms. Li has been a member of the Listing Committee of the Stock Exchange since July 2019. Ms. Li was qualified as a certified public accountant of the State of New York, United States in January 2002.

Ms. Li acquired her bachelor's degree in Business Administration from University of Michigan Business School, University of Michigan, United States in May 1997.

Note: Each of Mr. Yao Li, Ms. Gao Guimin, Mr. Zhang Aimin, Mr. Lai Yui and Ms. Ng Shuk Ming is of the view that each of the independent non executive Directors took on their roles and duties as directors of the Company since their appointment date.

## SENIOR MANAGEMENT

**Mr. Li Libing (李立兵)**, aged 51, joined the Group in March 2007, and was appointed as the operation director of the Company on 13 December 2019, and is mainly responsible for the day to day operation and production of the Group. Mr. Li has been appointed as the chief executive officer of the Company on 31 March 2022.

Before joining the Group, from August 1992 to June 1995, Mr. Li worked as a technician at Tangshan Steel Oxygen Factory (唐鋼氧氣廠) where he was responsible for the management of technology relating to oxygen production. From June 1995 to October 1997, he was the leader of the2#15000Nm3/hr machinery planning group of Tangshan Steel Oxygen Factory (唐鋼氧氣廠), where he oversaw the infrastructure project management. From October 1997 to February 2000, he worked as the deputy head of operation workshop No. 3 of Tangshan Steel Oxygen Factory (唐鋼氧氣廠), where he was responsible for the production of oxygen and technology management. From February 2000 to August 2003, he worked as a technician at the production division of Tangshan Steel Oxygen Factory (唐鋼氧氣廠), where he was responsible for the management of craftsmanship and infrastructure and technology renovation project management. Between August 2003 and January 2007, he held various positions within the engineering technology division of the power generation department of HBIS Tangsteel (currently known as HBIS Tangsteel Power Technology Branch Company (唐山鋼鐵集團有限責任公司能源科技分公司), a branch company of HBIS Tangsteel),where, from January 2007 to March 2007, he was the director at operation workshop No. 3 of the power energy division of HBIS Tangsteel.

After joining the Group, between March 2007 and February 2010, he was the manager of the branch of Tangshan Stainless Steel Co., Ltd ("**Tangshan Stainless Steel**"). Between February 2010 and February 2016, he worked as the manager of engineering and technology department of TTG. Between January 2016 and December 2018, Mr. Li was retained as an expert in oxygen production technique (制氧工藝技術專家) and has been the technology and business development director since January 2016.

Further to his professional experience, Mr. Li received the title of professional senior engineer in November 2017 from Hebei provincial title reform leading group office (河北省職稱改革領導小組辦公室).

Mr. Li obtained his bachelor's degree in refrigeration equipment and cryogenics technology from Shanghai Institute of Mechanical Engineering (上海機械學院) (currently known as University of Shanghai for Science and Technology (上海理工大學)) in China in July 1992 and a master's degree in mechanical engineering from Tianjin University (天津大學) in China in September 2008.

**Ms. Wang Xiangwen (王香文)**, aged 50, joined the Group in March 2007, and was appointed as the acting financial controller of the Company on 27 August 2021, and is mainly responsible for the financial management of the Company.

Before joining the Group, between July 1993 and August 2003, Ms. Wang worked as an accountant of the finance section of Tangshan Steel Oxygen Factory (唐鋼氧氣廠). Between August 2003 and March 2007, she worked as an accountant of the finance section of Tang Steel Power Plant (唐鋼動力廠). After joining the Group, between March 2007 and March 2010, she worked as a deputy director manager of the financial department of TTG and as a deputy manager of the financial department of TTG between March 2010 and March 2012. Between March 2012 and 1 March 2018, she worked as a manager of the financial department of TTG. Since 1 March 2018, she has been working as a financial controller of TTG. Given her professional experience, she was certified as an intermediate accountant by Title Reform Leading Group Office of Hebei Province (河北省職稱改革領導小組辦公室).

**Mr. Li Xiaojun (李曉軍)**, aged 49, joined the Group in March 2007, and was appointed as the equipment safety and quality control director of the Company on 13 December 2019, and is mainly responsible for the formulation of equipment operation specifications and standards, inspecting and supporting the safe operation of equipment of various affiliated companies.

Before joining the Group, between July 1992 and March 2003, Mr. Li served various positions at different divisions of Tangshan Steel Oxygen Factory (唐鋼氧氣廠). Between March 2007 and August 2007, Mr. Li worked as a salesman at the sales of products branch division of TTG, where he was responsible for the sale of products. Between August 2007 and January 2008, he was a deputy manager of the Huludao project of TTG, where he was responsible for the development of Huludao's new projects. Between January 2008 and February 2011, Mr. Li worked as a deputy manager at the sales of products branch division of TTG, respectively, where he was responsible for sales management system. Between February 2011 and July 2013, Mr. Li worked as a deputy manager and manager at the general division of TTG, and was concurrently serving as the relevant party branch secretary, where his then work responsibilities included branding, organising conventions and events to boost the image of TTG. Between July 2013 and October 2018, Mr. Li was a manager and party secretary at the sales of products branch division of TTG, where he was responsible for strengthening market cultivation, establishing positive competition system and boosting business development. Since October 2018, he has been a manager and party secretary of TTG Ironmaking Branch, where he is responsible for production, operation and product supply of the Ironmaking Branch.

Mr. Li received the title of metallurgical experiment engineer in December 2005 from Hebei provincial title reform leading group office (河北省職稱改革領導小組辦公室).

Mr. Li received his associate degree in industrial analysis from Tangshan Institute of Engineering and Technology (唐山工程技術學院) (currently known as North China University of Science and Technology (華北理工大學) in July 1992 in China.

Mr. Li then received his bachelor of degree in management via distance learning from University of International business and Economics (對外經濟貿易大學)) in China in June 2013.

**Mr. Hui Guangyu (惠光宇)**, aged 50, joined the Group in May 2007, and was appointed as the public relationship director of the Company on 13 December 2019, and is mainly responsible for the communications between shareholders, public investors, institutional investors and potential investors. Before joining the Group, from September 1994 to October 2003, Mr. Hui was a raw materials technician at a factory of the HBIS Group engaged in processing of raw materials, where he was responsible for safety and environmental management. Between October 2003 and May 2007, Mr. Hui served as a safety officer at a supply site of HBIS Company Limited, where he was responsible for safety management and development of management system.

Mr. Hui joined the Group in May 2007, between May 2007 and September 2009, he worked as a safety officer at the safety division of TTG, where he was responsible for safety and environmental protection management of the company. Between September 2009 and November 2012, Mr. Hui was the division head at the general division of TTG, where he was responsible for corporate management. Between November 2012 and December 2012, Mr. Hui was a deputy manager at the safety division of TTG, where he provided support to the overall work of the division. Subsequently, between December 2012 and January 2016, he was promoted as a manager of the safety division of TTG, where he was responsible for safety, environmental protection and fire safety management of the company. Between January 2016 and November 2018, Mr. Hui was a manager at the production and facility division of TTG, where he was responsible for coordination and organisation of production, management of maintenance and repair of equipment and procurement of resources. Since October 2018, Mr. Hui has been a manager at the sales of products branch division of TTG, where he has been responsible for pre-listing work of the company and other corporate activities.

Further to his professional experience, Mr. Hui received the title of senior engineer in environment engineering in November 2016 from Hebei provincial title reform leading group office (河北省職稱改革領導小組辦公室).

Mr. Hui received his first bachelor's degree in environmental engineering from Chongqing University (重慶大學) in China in June 1994. Mr. Hui then received his second bachelor' s degree in metallurgical engineering via correspondence study from the Northeastern University (東北大學) in China in January 2009.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the shareholders of the Company (the "**Shareholders**") on the corporate governance of the Company for the period from the Listing Date up to 31 December 2020.

## CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Board is committed to achieving high standards of corporate governance with a view to safeguarding the interests of Shareholders as a whole.

The Company has adopted the principles and code provisions of the Corporate Governance Code and Corporate Governance Report (effective until 31 December 2021) (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

The Company has complied with all applicable code provisions set out in the CG Code throughout the period from the Listing Date and up to 31 December 2020 except as disclosed below.

Code provision A.1.1 (which has been renumbered as code provision C.5.1 with effect from 1 January 2022) of the CG Code provides that board meetings should be held at least four times a year at approximately quarterly intervals. As the Company was only listed on the Listing Date, no Board meeting was held from the Listing Date and up to 31 December 2020.

Code provision A.2.1 (which has been renumbered as code provision C.2.1 with effect from 1 January 2022) of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Chen is the chairman of the Board who provides leadership and is responsible for the effective functioning and leadership of the Board. Mr. Chen is also one of the founders of the Group who performs the duty of chief executive officer during the Year and was responsible for overall and comprehensive leading management and supervision of the relevant business of the Group. As disclosed in the announcement of the Company dated 11 May 2021, all the day-to-day duties, powers and authorities of Mr. Chen had been suspended since 10 May 2021, pending the outcome of the Investigation (as defined in note 3(d) to the consolidated financial statements). The Board considers that the balance of power and authority, accountability and independent decision-making under the present arrangement would not have been impaired in light of the diverse background and experience of the independent non-executive Directors, and the composition of the Board which comprises three independent non-executive Directors, three non-executive Directors and three executive Directors also provides added independence to the Board. Further, the Audit Committee composed of one non-executive Director and two independent non-executive Directors has free and direct access to the Company's external auditors and independent professional advisers when it considers necessary.

At the Board meeting held on 31 March 2022, Mr. Li Libing has been appointed as the chief executive officer of the Company.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

The Company was listed on the Listing Date on the Stock Exchange. Accordingly, the relevant standards set out in the Model Code do not apply to the Company for the period from 1 January 2020 to 28 December 2020. Having made specific enquiry with the Directors, the Directors have confirmed that the required standard had been complied with throughout the period from the Listing Date and up to 31 December 2020.

# BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board shall regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

## Board Composition

The Board of currently comprises the following Directors:

*Executive Directors*

Mr. David T Chen *(Chairman) (duties suspended)*
Mr. Yao Li *(Vice Chairman)*
Ms. Gao Guimin

*Non-executive Directors*

Mr. Zhang Aimin
Mr. Lai Yui
Ms. Ng Shuk Ming

*Independent non-executive Directors*

Mr. Siu Chi Hung
Mr. Xiao Huan Wei
Ms. Li Chun Elsy

The biographical information of the Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 14 to 21 of this annual report.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

## Independent Non-executive Directors

Since the Listing Date up to 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

## Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

All the Directors are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles of Association of the Company (the "**Articles**"), at each annual general meeting, one-third of the Directors for the time being, or if their number is not a multiple of three (3), the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Articles also provides that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

## Responsibilities, Accountabilities and Contributions of the Board and Management

The Board shall assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board is responsible for deciding all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

## Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company organised training sessions conducted by the qualified professionals for all Directors. The training sessions covered a wide range of relevant topics including directors' duties and responsibilities, corporate governance and regulatory updates. In addition, relevant reading materials including compliance manual/legal and regulatory updates/seminar handouts had been provided to the Directors for their reference and studying.

The training records of the Directors for the Reporting Period and up to date of this report are summarized as follows:

| Directors | Type of Training [Note] |
|---|---|
| ***Executive Directors*** | |
| Mr. David T Chen *(duties suspended)* | A |
| Mr. Yao Li | A/B |
| Ms. Gao Guimin | A/B |
| ***Non-Executive Directors*** | |
| Mr. Zhang Aimin | A |
| Mr. Lai Yui | A |
| Ms. Ng Shuk Ming | A/B |
| ***Independent Non-Executive Directors*** | |
| Mr. Siu Chi Hung | A |
| Mr. Xiao Huan Wei | A |
| Ms. Li Chun Elsy | A |

*Note:*

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

## BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are available on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

### Audit Committee

The Company has established an Audit Committee on 17 June 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code (which has been renumbered as code provision D.3 with effect from 1 January 2022).

The Audit Committee consists of three members, being Mr. Siu Chi Hung, Mr. Zhang Aimin and Mr. Xiao Huan Wei. Apart from Mr. Zhang Aimin, who is a non-executive Director, the other two members of the Audit Committee are independent non-executive Directors. The Audit Committee is chaired by Mr. Siu Chi Hung, who holds the appropriate professional qualification. The primary duties of the Audit Committee are to assist the Board by providing an independent view on the effectiveness of the financial reporting system, risk management and internal control systems, to oversee the audit process, to develop and review the Group's policies and to perform other duties and responsibilities as assigned by the Board.

No meeting of the Audit Committee was held during the period from the Listing Date to 31 December 2020. Up to the date of this annual report, four meetings of the Audit Committee were held on 15 March 2021, 27 January, 28 March and 30 March 2022, to review, in respect of the years ended 31 December 2020 and 2021, the annual financial results and reports, in respect of the six months ended 30 June 2021, the interim results and report; and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

## Remuneration Committee

The Company has established a Remuneration Committee on 17 June 2020 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code (which has been renumbered as code provision E.1 with effect from 1 January 2022). The Remuneration Committee consists of three members, being Mr. Xiao Huan Wei, Ms. Gao Guimin and Mr. Siu Chi Hung. Apart from Ms. Gao Guimin, who is an executive Director, the other two members of the Remuneration Committee are independent non-executive Directors. The Remuneration Committee is chaired by Mr. Xiao Huan Wei. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board regarding the Group's policy and structure for the remuneration of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to the Board on the remuneration packages of the Directors and senior management; and (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives

The remuneration policy for the Directors and senior management members is based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors and senior management members. The Company's remuneration policy is subject to review by and the recommendations of the Remuneration Committee.

As the Company has just been listed on the Listing Date, and there was no change in the policy and structure of the remuneration of the Directors and senior management of the Company, no meeting of the Remuneration Committee was held from the Listing Date up to 31 December 2020. Up to the date of this annual report, one meeting of the Remuneration Committee was held on 30 March 2022 to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

The remuneration of the members of the senior management of the Group by band for the Reporting Period is set out below:

| Remuneration (HKD) | No. of person |
|---|---|
| 0 – 500,000 | 4 |
| 1,500,001 – 2,000,000 | 1* |

* The senior management has retired on 16 February 2022.

## Nomination Committee

The Company has established a Nomination Committee on 17 June 2020 with written terms of reference in compliance with paragraph A.5 of the CG Code (which has been renumbered as code provision B.3 with effect from 1 January 2022). The Nomination Committee consists of five members, namely Mr. Chen (duties suspended), Mr. Yao Li, Mr. Xiao Huan Wei, Mr. Siu Chi Hung and Ms. Li Chun Elsy. Apart from Mr. Chen and Mr. Yao Li, who are executive Directors, the other three members of the Nomination Committee are independent non-executive Directors. The chairman of the Nomination Committee is Mr. Chen (duties suspended) and the vice chairman is Mr. Yao Li. The primary function of the Nomination Committee is to make recommendations to the Board on the appointment and removal of the Directors and senior management, as well as to review the board diversity policy (the "**Board Diversity Policy**").

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the director nomination policy (the "**Director Nomination Policy**") that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

No meeting of the Nomination Committee was held from the Listing Date to 31 December 2020. Up to the date of this annual report, one meeting of the Nomination Committee was held on 30 March 2022 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

## Board Diversity Policy

The Company has adopted a Board Diversity Policy on 17 June 2020 which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage, and attracting, retaining and motivating employees from the widest possible pool of available talent.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of services.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

The Nomination Committee will report annually, in the corporate governance report of the Company, on the process it has used in relation to Board appointments. Such report will include a summary of the Board Diversity Policy, the measurable objectives set for implementing the Board Diversity Policy and progress made towards achieving the measurable objectives.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

## Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and

- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the Reporting Period, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

## PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR OF THE COMPANY

Procedures for shareholders to propose a person for election as a Director is as set out in the "Procedure for Shareholders to Propose a person for Election as a Director of the Company" disclosed on the Company's website.

### Corporate Governance Functions

The Audit Committee is responsible for performing the functions set out in the code provision D.3.1 of the CG Code (which has been renumbered as code provision A.2.1 with effect from 1 January 2022).

During the period from the Listing Date to the date of this report, the Audit Committee had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and written employee guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## ATTENDANCE RECORDS OF DIRECTORS

The Company was listed on 29 December 2020, no Board meetings, Committee meetings or general meetings were held from the Listing Date up to 31 December 2020. The Company will fully comply with the provisions of the CG Code by holding Board meetings at least four times a year, approximately on a quarterly basis.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviews their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Board conducts review of the Group's risk management and internal control systems at least once a year.

The Company adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

The Company is primarily exposed to the following risks: (i) operational risks, such as relationship with members of the HBIS, ability to manage expansion and relocation of certain machinery and equipment, production control, product quality control and customer services; (ii) regulatory risks, such as safety, environmental protection and maintenance of required licenses, permits and certificates; and (iii) financial risks, such as interest rate risk, credit risk and capital management.

The Board is responsible for establishing the internal control system and reviewing its effectiveness. In accordance with the applicable laws and regulations in the PRC, the Group has established procedures for developing and maintaining internal control systems. Such systems cover corporate governance, operations, management, legal matters, finance and auditing, as appropriate for the needs of the Group. The Directors and management closely monitor the implementation and assess the effectiveness of these guidelines and measures which are crucial to the business sustainability. The material internal control deficiencies noted include the inadequate control procedures to ensure the following:

- obtain all the required land use and construction related permits before commencement of construction;
- finish or obtain all required completion inspection procedures, evaluation procedures, permits, and licenses before commencement of operation or use;
- timely system to detect and report the issues to the management; and
- seek advice from external legal advisers when necessary to obtain advice on legal and compliance matters relating to the Group's construction and operation.

The following sets out the key measures adopted by the Group under its risk management and internal control systems:

- The Company has engaged an internal control consultant to appraise the internal control systems and identify risk areas presented to the operations and control environment of the Group. As the business continues to expand, the Company will refine and enhance the internal control systems to respond to the evolving requirements of the expanded operations as appropriate. The Company will continue to review the internal control systems to ensure compliance with applicable legal and regulatory requirements;
- The compliance matters are directly reported to the Board which is led by the vice chairman of the Board.
- The Company has formulated a comprehensive internal control policy which covers various major areas of the operations including capital management system, contract approval process and management, conflict of interest declaration notice, chop management system.

The Company conducted a comprehensive review of the group's risk management and internal control system through its internal control consultant, covering the fiscal year of 2020. The main tasks include review of corporate-level internal control, sales and accounts receivable and collection management, procurement, accounts payable and payment management, inventory and cost management, covering logistics arrangement, human resources and remuneration management, fixed asset management, cash and investment management, financial reporting and disclosure, tax management, information system management, chop and contract management and payment approval.

As of the date of this report, the internal control consultant has performed internal control review in two stages. The first stage of work mainly includes submitting a work report on the Company's internal defects and rectification suggestions to the Company's management, while the second stage of work mainly includes testing the rectification status of the internal control defects identified previously and proposing improvement or rectification suggestions to the management.

Based on the importance and the impact, the rectification priorities (high priority, medium priority, and low priority) used in the "Details of Internal Control Shortcomings" description allow management to develop action plans to address internal control shortcomings based on their importance.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period.

The management is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The management examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial controls, risk management and internal control system, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

## PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group conducts its affairs with close attention to the inside information provisions under the SFO and the Listing Rules. The Directors and senior management are responsible for determining whether any particular information is inside information and overseeing and coordinating disclosure of inside information of the Group. They are also responsible for taking reasonable measures to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group from time to time and that disclosures are made and/or announcements are published on a timely basis in accordance with the applicable laws and regulations, and before such information is fully disclosed to the public, they shall ensure the same is kept strictly confidential. The Directors are also committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way.

Whistleblowing is an important part of an effective internal control and risk management system. It is a useful means of uncovering fraud, misconduct or significant risks within the Group. The Company expects and encourages employees of the Group and related parties who deal with the Group such as consultants, contractors, suppliers or customers to report to the Company their concern, allegation or any information that fraud, corruption or any other misconduct is occurring or has occurred in the Group. In this regard, the Company has adopted a whistle-blowing policy, which is posted on the website of the Company, with an aim to provide guidance and reporting channels to whistle-blowers on any suspected fraud, malpractice or inappropriate behaviour within the Group (the "**Reportable Conduct**"). Full support will be given to whistle-blowers who in good faith report any genuinely suspected Reportable Conduct. During the Reporting Period, the Group received no complaints or legal cases alleging any form of corruption.

As disclosed in the Company's announcement dated 31 March 2021, on 24 March 2021, the then auditors of the Company, PwC, informed the Board and the Audit Committee, inter alia, that they required additional information and documentation on the Transactions (as defined in note 3(d) to the consolidated financial statements) during the course of preparing the consolidation financial statements for the Reporting Period. The Board then formed the Investigation Committee (as defined in note 3(d) to the consolidated financial statements) to assist in carrying out the Investigation (as defined in note 3(d) to the consolidated financial statements).

As more time was required for the Investigation Committee to verify the information on the Transactions and to carry out the Investigation and address the Transactions in order for the auditors of the Company to complete the audit, the release of the annual results for the Reporting Period (the "**2020 Annual Results**") and the despatch of the annual report for the same period (the "**2020 Annual Report**") had been delayed.

Since the publication of the 2020 Annual Results was pending, the publication of the interim results for the six months ended 30 June 2021 (the "**2021 Interim Results**") and the despatch of the interim report for the same period (the "**2021 Interim Report**") had been delayed.

The delay in publication of the 2020 Annual Results and the despatch of the 2020 Annual Report constitutes non-compliance of Rules 13.49(1) and 13.46(2)(a) of the Listing Rules respectively. The delay in publication of the 2021 Interim Results and the despatch of the 2021 Interim Report constitutes non-compliance of Rules 13.49(6) and 13.48(1) of the Listing Rules respectively; and the failure to lay the financial statements for the Reporting Period before its members at an annual general meeting within 6 months after the end of the financial year constitutes non-compliance of Rule 13.46(2)(b) of the Listing Rule.

The Company had kept the Shareholders and potential investors informed of the progress of the aforesaid matters by announcements. Eventually, the 2020 Annual Results and 2021 Interim Results were released and published on the websites of the Stock Exchange and the Company on 31 March 2022. It is expected that 2021 Interim Report will be released and published before 30 April 2022. The Board is of the view that the aforesaid delays are one-off incidents and that the aforesaid matters had been/will be rectified eventually and the Company had complied with the Listing Rules in keeping the Shareholders and investors informed of the progress of the aforesaid matters.

## KEY FINDINGS OF INDEPENDENT INVESTIGATION AND ENHANCED INTERNAL CONTROL

On 23 March 2022, the Company announced the key findings of the Independent Investigation (as defined in note 3(d) to the consolidated financial statements) (the "**Key Findings Announcement**") as set out in note 3(d) to the consolidated financial statements. Unless otherwise defined, capitalised terms used below shall have the same meanings as those defined in the Key Findings Announcement.

The Board has reviewed the content and the findings of the Independent Investigation in the two most updated draft investigation reports issued by the Forensic Accountant on 18 February 2022 (the "**Draft Investigation Reports**"). The Board is of the view that the Independent Investigation has comprehensively investigated into the matters raised by PwC and adequately addressed the concerns raised by PwC to the extent that is practicable, despite the limitations as set forth in the Key Findings Announcement, and that the content and the findings of the Independent Investigation in the Draft Investigation Reports are reasonable and acceptable.

The Board is of the view that, based on its review of the findings of the Independent Investigation in the Draft Investigation Reports and on balance, the nature of Transactions 1, 2 and 3 is likely to be as stated in the Loan Agreements, that they are loans from the Company to the Borrowers; and the nature of Transaction 4 is likely to be as stated in the Investment Agreement, that it is an investment in loan notes made by the Company for the purpose of managing free cash to earn higher return. None of the Transactions was approved by the Board. Notwithstanding the Forensic Accountant's conclusion that save and except for the Xijie'ai Agreement, the Expanded Investigation has not uncovered direct evidence of management override by Mr. Chen and Mr. Bai, given that none of the Transactions were approved by the Board, and that, in particular, the telegraphic transfers made pursuant to the Loan Agreements and the Investment Agreement were approved by Mr. Chen and Mr. Bai themselves, the Board considers that there was management override by Mr. Chen and Mr. Bai.

In the assessment of the Board, the Board is of the view that the unauthorised acts of Mr. Chen and Mr. Bai do not have material adverse impact on the business operations of the Group as those acts concerned the Company at the holding company level and did not concern the day-to-day on-the-ground operations of the rest of the Group. Furthermore, since all the day-to-day duties, powers and authorities of Mr. Chen have been suspended since 10 May 2021. The Group's business operations have continued as usual despite the suspension of trading in the Shares since 25 March 2021.

Based on the recommendations made by the Investigation Committee, the Board has taken or will take the following actions:

1. The Board has resolved that Mr. Chen is no longer suited to hold any position within the Group and steps will be taken to remove him from all offices he holds within the Group (including removing him as a Director).

2. The Board proposes to appoint Mr. Yao Li (an executive Director) as the chairman of the Board and the chairman of the Nomination Committee in place of Mr. Chen and Mr. Li Libing as the chief executive officer of the Company.

3. The Company will designate the roles and responsibilities within senior management and the Board as to particular areas of focus for each member or class of members, and which members are to have access to or be the designated owners or reviewers of particular classes of documents.

4. The Company will identify and appoint a suitably qualified accountant with the relevant professional experience as chief financial officer at the listed company level of the Group and recruit a professional team that would report to him/her.

5. The Company will identify and appoint a suitably qualified in-house company secretary and has appointed a law firm in Hong Kong to act as company counsel to the Company to help ensure and supervise the Company's compliance with the Listing Rules and the disclosure requirements thereunder. Further, the Company will engage other relevant professionals, as and when required, to help perfect governance of the Group.

6. The Company has engaged an internal control consultant to review the Group's internal control systems and procedures in response to the concerns identified during the Independent Investigation. The Company has implemented and will continue to enhance its internal controls measures to address and resolve all issues identified in the course of the Company's continuous efforts on reviewing and enhancing its internal controls.

7. The Company has appointed a compliance director to ensure the Company's compliance with the Listing Rules, corporate governance and all applicable laws, rules, codes and guidelines and to provide regular trainings for management personnel of the Group in this regard.

8. The Company has implemented measures to strengthen its payment authorization processes, with new checks and balances to be installed to ensure due supervision, authorization and approval.

9. The Company has implemented measures to segregate the approval and supervision process for material contract approval and signing.

10. The Company will adopt a dividend policy to strengthen and supervise more tightly its dividend declaration, distribution and payment processes, including maintaining appropriate records in relation thereto; and strengthen board approval, disclosure and notification to shareholders (i.e. all public and substantial shareholders).

11. The Company has implemented measures to strengthen its governance and operational control over the supervision of its office operations and the Group.

12. The Company has implemented and will continue to enhance the measures on declaration of conflict of interests by directors and senior management of the Group and will implement checks and balances at the Company and subsidiary levels and enhance and monitor systems and controls designed towards preventing undetected abuse of power by any future director, chief executive officer and/or other senior management.

13. The Company will continue to expend efforts on all available methods and to exercise its rights in relation to the recovery of the defaulting Loans and Investment.

For details of the key findings of the Independent Investigation, please refer to the Key Findings Announcement.

## DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 59 to 64.

## AUDITORS' REMUNERATION

The remuneration paid to the Company's external auditors of the Company in respect of audit services and non-audit services for the Reporting Period amounted to RMB8,080,000. An analysis of the remuneration paid to the external auditors of the Company, in respect of audit services and non-audit services for the Reporting Period is set out below:

| Service Category | Fees Paid/ Payable |
|---|---|
| Audit Services | |
| – BDO Limited | 5,280,000 |
| – PricewaterhouseCoopers | 2,800,000 |
| | 8,080,000 |

## COMPANY SECRETARY

Ms. Siu Wing Kit has been appointed as the Company's company secretary. She is a senior manager of corporate services of Tricor Services Limited. Ms. Siu has confirmed that she has taken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the Reporting Period.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Mr. Hui Guangyu, public relationship director of the Company has been designated as the primary contact person at the Company which would work and communicate with Ms. Siu on the Company's corporate governance and secretarial and administrative matters.

## SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels.

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Procedures for Shareholders to convene an Extraordinary General Meeting and Putting Forward Proposal at General Meeting

Article 58 of the Articles provides that the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

### Contact Details

Shareholders may send their enquiries or requests as mentioned above to the Company:

Address: Unit 2910, Bank of America Tower
12 Harcourt Road, Central, Hong Kong
Investor Relations Department

Email: investor_relations@cgiiholdings.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

## POLICIES RELATING TO SHAREHOLDERS

The Company has in place a shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

## DIVIDEND POLICY

Subject to the Articles, the Company may announce and declare dividends to Shareholders in any currency in general meeting, but no declared dividends shall exceed the amount recommended by the Board. The Articles provides that dividends may be declared and paid out of the profits of the Company, realized or unrealized, or out of any reserve set aside from profits which the Board may determine to be no longer needed. With the sanction of an ordinary resolution, dividends may also be paid out of share premium account or any other fund or account which can be applied for this purpose as permitted by the Companies Act.

The Company is a holding company incorporated under the laws of the Cayman Islands. Hence, the payment and amount of any future dividends will also depend on the availability of dividends received from the subsidiaries. The PRC law requires that dividends be paid only on the basis of profit for the year calculated in accordance with the PRC accounting standards, which differs in many respects from accounting standards generally accepted in other jurisdictions, including International Financial Reporting Standards. The PRC law also requires foreign-invested enterprises to set aside at least 10% of their after-tax profits, if any, as their statutory reserves, which may not be distributed as cash dividends. Distributions by the Company and its subsidiaries may also be subject to any restrictive covenants relating to banking facilities, convertible bond instruments or other agreements that may be entered into by the Company or its subsidiaries in the future.

The amount of any dividend actually distributed to the Shareholders will depend on the earnings and financial position of the Company, its operating requirements, capital requirements and any other conditions deemed relevant by the Directors, subject to the approval of the Shareholders. The Board shall have the absolute discretion to recommend any dividend.

Having due regard to the long-term interests of the Shareholders and the Company, the Board does not recommend the payment of a final dividend for the Reporting Period. As at the date of this annual report, no arrangement has been entered into to enable the Shareholders to waive or agree to waive any dividends (including future dividends).

## CHANGE IN CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association of the Company have been amended and restated with effect from the Listing Date. During the Reporting Period, there has been no change in the constitutional documents.

# DIRECTORS' REPORT

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the Reporting Period.

## GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 4 August 2006 as an exempted company with limited liability under the Companies Law. The shares of the Company (the "**Shares**") were listed on the Main Board of the Stock Exchange on 29 December 2020 (the "**Listing**"). The global offering comprised the Hong Kong public offering of 30,000,000 Shares and the international offering of 270,000,000 Shares (the "**Global Offering**").

## PRINCIPAL ACTIVITIES

The Group is an industrial gas supplier operating in Hebei Province of the PRC. It mainly focuses on the supply of pipeline industrial gas and liquefied industrial gas and it also operates a relatively small-scale LNG-related business which includes the supply of LNG and provision of gas transmission service. The Group's industrial gas products include oxygen, nitrogen, argon, hydrogen and carbon dioxide. Industrial gas is widely used globally in a diverse range of industries. Particularly, industrial gas products are important raw materials for the production of iron and steel.

The activities and particulars of the Company's subsidiaries are shown under note 35 to the consolidated financial statements on pages 65 to 146 of this annual report. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 7 to the consolidated financial statements on pages 65 to 146 of this annual report.

## BUSINESS REVIEW

A review of the Group's business during the Reporting Period, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the Reporting Period, and an indication of likely future developments in the Group's business, could be found in the sections headed "Vice Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the principal risks and uncertainties identified by the Group:

- our relationship with members of the HBIS Group is crucial to our business operation. Our business, financial condition and results of operation may be adversely affected if there is any change to the current arrangements between members of the HBIS Group and us.
- our customers may prematurely terminate or default under our industrial gas supply contracts.
- our business operations and financial performance may be adversely affected if there is any change to the operation and/or business development plans of members of the HBIS Group who are our customers.
- we are subject to risk due to our expansion and relocation of equipment associated with the development of the Zhongqi Investment plant, which was our only production plant under development as at the date of this report.
- we expect to incur substantial depreciation expenses relating to the construction of the Zhongqi Investment plant, which may materially and adversely affect our results of operations and financial condition.
- our business and results of operations may be subject to the changes in the market conditions of the iron and steel industry.

For detailed disclosure about the principal risks and uncertainties identified by the Group, please refer to the "Risk Factors" section in the Prospectus.

The list above is not exhaustive and there may be other risks and uncertainties in addition to those shown above which are not known to the Group or which may not be material now but could turn out to be material in the future.

## RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

### Relationship with Suppliers and Customers

The raw material used in the production process of the Group's industrial gas products is primarily air which we obtain at zero cost. During the Reporting Period, consumption of utilities is the largest component of the Group's cost of revenues. During the Reporting Period, the Group procured electricity, together with primarily water, heating and steam, mainly from the Group's pipeline industrial gas customers HBIS Company Tangshan Branch (河鋼股份唐山分公司), Tangshan Stainless Steel and Tangshan Middle and Heavy Plate Co., Ltd. ("**Tangshan Plate**") based on certain utility purchase contracts. The Group entered into long-term utility purchase contracts with a term of 15 or 30 years with them. The Group also entered into a utilities purchase contract with HBIS Laosteel which is a new customer of Zhongqi Investment. It is an industry norm that the on-site customers will provide utilities to their pipeline industrial gas supplier.

#### *Concentration of Customers and Suppliers*

As at the date of this annual report, the Group experienced concentration of our customers and suppliers, primarily due to the Group's relationship with members of the HBIS Group and our business model. Considering that (i) such concentration is common for industrial gas suppliers in the PRC which primarily engage in supply of pipeline industrial gas; (ii) the Group's relationship with members of the HBIS Group; and (iii) the historical background of our establishment as well as the Group's stability for the past 12 years, the Directors are of the view that the Group's concentration of customers and suppliers would not impact on the operation of the Group.

#### *Overlapping Suppliers and Customers*

The Group's pipeline industrial gas customers are also our suppliers of utilities. The sharing of utility distribution networks with the Group's on-site customers can save us the cost of establishing separate water pipeline and power cable networks. Setting up production plants in close proximity to the sites of the Group's customers can also save delivery costs for customers as pipeline delivery is much cheaper than road tanker delivery in terms of large volume of constant gas supply. While the Group's pipeline industrial gas customers contributed significantly to the revenue during the Reporting Period, the Group's industrial gas products were essential as key raw materials for their iron and steel production and the Group's pipeline industrial gas customers were incentivised to provide the Group with stable and reliable utility supply.

For further details of the Group's major customers and suppliers, please refer to the section headed "Major Customers and Suppliers" in the Directors' Report.

### Relationship with Employees

Employees are regarded as valuable assets of the Group. The Group has a workers' union in accordance with PRC laws and regulations. The Group did not experience any material labour dispute and we believe that the Group has maintained a good working relationship with its staff members. The Group places high emphasis on the training and development of our staff. The Group invest in continuing education and training programs for our management and other staff members to update their skills and knowledge periodically. The Group provide training for our staff members with respect to our operation, technical knowledge and work safety standards and environmental protection.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Reporting Period is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | Sales | Purchases |
| The largest customer | 88% | |
| Five largest customers in aggregate | 91% | |
| The largest supplier | | 78% |
| Five largest suppliers in aggregate | | 82% |

During the Reporting Period, sales to the Group's five largest customers (of which the HBIS Group (including HBIS and its subsidiaries only) is considered as one single customer) together accounted for approximately 91% of the total revenue. During the Reporting Period, sales to the HBIS Group (including HBIS and its subsidiaries) which in aggregate was the Group's largest customer accounted for approximately 88% of the total revenue, and sales to the HBIS Group (including HBIS, its subsidiaries and associates) accounted for approximately 88% of the total revenue. HBIS, the holding company of the HBIS Group, is one of the controlling shareholders of the Company (the "**Controlling Shareholders**") . For more information, please refer to the section headed "Connected Transactions" in this directors' report.

During the Reporting Period, purchase from the Group's five largest suppliers (of which the HBIS Group (including HBIS and its subsidiaries only) is considered as one single supplier) together accounted for approximately 82% of the total cost of revenues. During the Reporting Period, purchase from the HBIS Group (including HBIS and its subsidiaries only) which in aggregate was the Group's largest supplier accounted for approximately 78% of the total cost of revenues, and purchase from the HBIS Group (including HBIS, its subsidiaries and associates) accounted for approximately 78% of the total cost of revenues for the same periods. HBIS, the holding company of the HBIS Group, is one of the Controlling Shareholders. For more information, please refer to the section headed "Connected Transactions" in this directors' report.

Save as disclosed above, at no time during the Reporting Period have the Directors, their close associates (as defined in the Listing Rules) or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

## RESULTS AND DIVIDEND

The consolidation results of the Group for the Reporting Period are set out on pages 65 to 146 of this annual report.

The Board does not recommend the payment of final dividend for the Reporting Period (the year ended 31 December 2019: RMB0.957 per Share).

## CHARITABLE DONATIONS

During the Reporting Period, the Group made an charitable donations of approximately RMB5,000.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 32 to the consolidated financial statements on pages 65 to 146 of this annual report.

## DISTRIBUTABLE RESERVES

As at 31 December 2020, there were no distributable reserves of the Company.

## RESERVES

Details of the movement in the reserves of the Group and of the Company during the Reporting Period are set out in note 33 to the consolidated financial statements on pages 65 to 146 of this annual report.

## DIRECTORS

The Board during the Year and up to the date of this annual report consists of the following 9 Directors:

### Executive Directors

Mr. David T Chen *(Chairman) (duties suspended)*
Mr. Yao Li *(Vice Chairman)*
Ms. Gao Guimin

### Non-executive Directors

Mr. Zhang Aimin
Mr. Lai Yui
Ms. Ng Shuk Ming

### Independent Non-executive Directors

Mr. Siu Chi Hung
Mr. Xiao Huan Wei
Ms. Li Chun Elsy

In accordance with article 84(1) of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The executive Directors including Mr. Chen (duties suspended) and Mr. Yao Li; the non-executive Directors including Mr. Lai Yui and Ms. Ng Shuk Ming will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election.

As disclosed in the circular of the Company dated 12 April 2022, an extraordinary general meeting will be held on 5 May 2022 (the "**EGM**") to consider the removal of Mr. Chen as an executive Director with effect from the date of passing of the resolution. If the aforesaid resolution is passed at the EGM, the motion to re-elect Mr. Chen at the forthcoming Annual General Meeting (the "**AGM**") will be void.

## BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 14 to 21 in the section headed "Profiles of Directors and Senior Management" to this annual report.

## CHANGE OF DIRECTOR DETAILS

Pursuant to Rule 13.51B(1) of the Listing Rules, the details of Directors have been changed as follows:

| Director's name | Details of change |
|---|---|
| Lai Yui | On 30 June 2020, Mr. Lai resigned the position of non-executive director of Canvest Environmental Protection Group Company Limited (stock code: 1381), the shares of which are listed on the Stock Exchange. |
| Siu Chi Hung | Mr. Siu was appointed as the independent non-executive director of Roiserv Lifestyle Services Co., Ltd. (stock code: 02146), Dongjiang Environmental Company Limited (stock code: 00895) and CENTRAL CHINA MANAGEMENT COMPANY LIMITED (stock code: 09982) on 6 April 2020, 22 December 2020 and 12 May 2021, respectively. He resigned as the executive director of LVGEM (China) Real Estate Investment Company Limited (stock code: 0095) on 20 September 2021. The shares of those companies are listed on the Main Board of the Stock Exchange. |

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

## DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS

Each of the executive Directors has entered into a service contract with the Company, under which they agreed to act as executive Directors for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either of the Director or the Company. Under the respective appointment letters, each of the non-executive Directors and independent non-executive Directors is entitled to a fixed Director's fee.

The appointments of the Directors are subject to the provisions of retirement and rotation of Directors under the Articles.

Save as disclosed above, as at the date of this report, none of the Directors has entered into any service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation).

## EMOLUMENT OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 13(a) and 13(b) to the consolidated financial statements on pages 65 and 146 of this annual report.

None of the Directors has waived any emoluments and no emoluments were paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office for the Reporting Period.

Except as disclosed above, no other payments had been made or were payable, for the Reporting Period, by the Group to or on behalf of any of the Directors.

## INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 December 2020, none of the Directors or chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the Reporting Period was the Company or its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

## CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

## EQUITY-LINKED AGREEMENTS

During the Reporting Period, other than the Share Option Scheme as set out in the section under "Share Option Scheme" and note 40 to the consolidated financial statements on pages 65 to 146 of this annual report, the Company has not entered into any equity-linked agreement.

## SHARE OPTION SCHEME

The Company adopted the Share Option Scheme conditionally by the written resolutions of its then shareholders on 17 June 2020 (the "**Date of Adoption**") and such scheme is effective for a period of 10 years commencing from 29 December 2020. The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules. The principal terms of the Share Option Scheme are summarised as follows:

The purpose of the Share Option Scheme is to motivate Eligible Persons (as set out in paragraph 2 below) to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined in paragraph 2 below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The Board may, at its sole discretion, invite any director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group (an "**Employee**"), any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (an "**Executive**"), a director or proposed director (including an independent non-executive director) of any member of the Group, a general staff of any member of the Group, a consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group, a person or entity that provides advisory, consultancy, professional or other services to any member of the Group, or a close associate (as defined under the Listing Rules) of any of the foregoing persons (together, the "**Eligible Persons**" and each an "**Eligible Person**").

The maximum number of Shares to be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme (and under any other share option schemes of the Company) shall not exceed 30% of the Shares in issue at any time. The maximum number of Shares to be issued upon exercise of all share options which may be granted under the Share Option Scheme (and under any other share option schemes) shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (i.e. not exceeding 120,000,000 Shares) (the "**Scheme Mandate Limit**").

The maximum number of Shares issued and to be issued upon exercise of the share options granted to any one Eligible Person (including exercised and outstanding share options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

A share option may be exercised at any time during the option period to be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. An offer of the grant of a share option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the share option duly signed by the grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within the period specified in the letter containing the offer of the grant of the share option. Once such acceptance is made, the share option shall be deemed to have been granted and to have taken effect from the offer date.

The subscription price in respect of any particular share option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option), but the subscription price shall be the highest of: (a) the nominal value of Share; (b) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average of the closing prices of Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the offer date. The subscription price shall also be subject to adjustment in accordance with the reorganisation of capital structure.

As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 120,000,000, representing 10% of the issued Shares of the Company.

No options was granted by the Company under the Share Option Scheme since the Date of Adoption. The Company did not have any outstanding share options as at 31 December 2020 and up to the date of this report.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

To the best of the knowledge of the Directors or chief executives of the Company, as at 31 December 2020, the persons (other than Directors or chief executives of the Company) who had interests or short positions in Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO are as follows:

| Name of Shareholder | Nature of Interest | Number of Shares interested | Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Huitang Zhihe (Hong Kong) Co., Limited (惠唐郅和(香港)有限公司) ("**HK Huitang Zhihe**") (2) | Beneficial owner | 431,904,000(L) | 35.99% |
| Shanghai Huitang Zhihe Investment Co., Ltd. (上海惠唐郅和投資有限公司) ("**SH Huitang Zhihe**")(2) | Interest in a controlled corporation | 431,904,000(L) | 35.99% |
| HBIS Company(2) | Interest in a controlled corporation | 431,904,000(L) | 35.99% |
| Handan Iron and Steel Group Co., Ltd. (邯鄲鋼鐵集團有限責任公司) ("**HBIS Hansteel**")(2) | Interest in a controlled corporation | 431,904,000(L) | 35.99% |
| HBIS(2) | Interest in a controlled corporation | 431,904,000(L) | 35.99% |
| China Gas Investors Ltd. ("**CGI**")(3) | Beneficial owner | 468,096,000(L) | 39.01% |
| Huang He Investment Limited ("**Huang He**")(3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| China Infrastructure Partners, L.P. ("**China Infrastructure**")(3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| CITP GP I Ltd. ("**CITP GP**")(3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| BOCI Investment Limited(3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| BOC International Holdings Limited(3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| Bank of China Limited (3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| Springleaf Investments Pte. Ltd. (3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| Anderson Investments Pte. Ltd. (3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| Thomson Capital Pte. Ltd. (3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| Tembusu Capital Pte. Ltd. (3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |
| Temasek Holdings (Private) Limited (3) | Interest in a controlled corporation | 468,096,000(L) | 39.01% |

*Notes:*

(1) The letter "L" denotes the shareholder's long position in the Shares.

(2) HK Huitang Zhihe is wholly-owned by SH Huitang Zhihe which in turn is wholly-owned by HBIS Company, which in turn is directly and indirectly owned by Chengde Iron and Steel Group Co., Ltd. (承德鋼鐵集團有限公司)("**HBIS Chengsteel**"), HBIS Hansteel and HBIS Tangsteel as to approximately 4.17%, 39.73% and 18.32%, respectively, and HBIS Chengsteel, HBIS Hansteel and HBIS Tangsteel are owned by HBIS as to 100%, 100% and 92.99%, respectively. As such, HBIS through its subsidiaries together indirectly holds approximately 62.22% equity interest in HBIS Company. By virtue of the SFO, each of SH Huitang Zhihe, HBIS Company, HBIS Hansteel and HBIS is deemed to be interested in the same number of Shares held by HK Huitang Zhihe.

(3) CGI is owned as to 80% and 20% by Huang He and OxyChina Limited ("**OxyChina**") respectively. Huang He is wholly-owned by China Infrastructure, whose general partner is CITP GP, which is held as to:

(i) 60% by BOCI Investment Limited, which is wholly-owned by BOC International Holdings Limited, which is in turn wholly-owned by Bank of China Limited whose shares are listed and traded on the Main Board (stock code:3988) and the Shanghai Stock Exchange (stock code: 601988); and

(ii) 40% by Springleaf Investments Pte. Ltd., which is wholly-owned by Anderson Investments Pte. Ltd., which is in turn wholly-owned by Thomson Capital Pte. Ltd.. Thomson Capital Pte. Ltd. is wholly-owned by Tembusu Capital Pte. Ltd., which is in turn wholly-owned by Temasek Holdings (Private) Limited.

As at the date of this report, (a) each of the 4 shareholders of OxyChina charged all of the shares registered in their respective own name in OxyChina; and (b) OxyChina charged all of its shares in CGI registered in its name in favour of Eastern Sky Limited as security agent nominated by Huang He pursuant to the charges dated 25 July 2011. For details, please refer to the section headed "History, Reorganisation and Corporate Structure — Overview" in the Prospectus.

By virtue of the SFO, each of Huang He, China Infrastructure, CITP GP, BOCI Investment Limited, BOC International Holdings Limited, Bank of China Limited, Springleaf Investments Pte., Ltd., Anderson Investments Pte. Ltd., Thomson Capital Pte., Ltd., Tembusu Capital Pte. Ltd. and Temasek Holdings (Private) Limited is deemed to be interested in the same number of Shares held by CGI.

Save as disclosed above, as at 31 December 2020, the Company had not been notified by any person (other than Directors or chief executives of the Company) that they had interests or short positions in Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

## INDEMNITY OF DIRECTORS

Article 164(1) of the Articles provides that the Directors, among others, at any time, whether at present or in the past, and the liquidator or trustees (if any) acting or who have acted in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

The Company has arranged appropriate liability insurance for the Directors and senior management.

## DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Related Party Transactions" in this directors' report and in note 37 to the consolidated financial statements contained in this annual report, no transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Period.

## BORROWINGS

As at 31 December 2020, the Group had outstanding bank borrowings of RMB594.50 million. Details of the borrowings are set out in the section headed "Management Discussion and Analysis"in this annual report and note 29 to the consolidated financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the group for the last four financial years is set out on pages 5 of this annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Reporting Period are set out in note 17 to the consolidated financial statements on pages 65 to 146 of this annual report.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group employed a total of 370 employees in the PRC, as compared to 400 as at 31 December 2019, nil employees in Hong Kong, as compared to nil as at 31 December 2019. Total employee expenditures during the Reporting Period amounted to RMB40.04 million as compared to RMB46.73 million for the year ended 31 December 2019. The Group operates a defined contribution retirement scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all qualified employees. Employees of the Group's factories in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC.

The remuneration policy for the Directors and senior management members is based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of the Directors and senior management members. The Company's remuneration policy is subject to review by and the recommendations of the Remuneration Committee. To attract and retain the suitable personnel for the development of the Group, the Group has adopted a the Share Option Scheme since June 2020. Pursuant to the Share Option Scheme, share options may be granted to eligible employees of the Group as a long-term incentive.

## MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the Reporting Period.

## RETIREMENT BENEFITS SCHEME

The Group did not have any employees in Hong Kong for the Reporting Period. In March 2021, the Group has engaged certain employees in its branch office in Hong Kong and each of such employees has participated in the Mandatory Provident Fund in Hong Kong.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension obligations of the Company are set out in notes 4(q) to the consolidated financial statements in this annual report.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material non-compliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the Reporting Period to be published in due course.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period from the Listing Date and up to 31 December 2020, neither the Company, nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

## CONTRACT WITH CONTROLLING SHAREHOLDERS

Other than disclosed in the section headed "Connected Transactions" in this directors' report and note 37 to the consolidated financial statements on pages 65 to 146 of this annual report, no contract of significance was entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of its subsidiaries during the Reporting Period or subsisted at the end of the year, and no contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries was entered into during the Reporting Period or subsisted at the end of the year.

## NON-COMPETITION ARRANGEMENTS

As disclosed in the Prospectus, HBIS has executed a Non-competition Undertaking to the effect that it will not, and will procure its subsidiaries not to, among others, engaged in any activities which are or may be in competition, either directly or indirectly, with those of the Group.

HBIS has confirmed and undertaken in the Non-competition Undertaking that the Industrial Gas Assets are primarily ancillary facilities for the iron and steel production of HBIS and its subsidiaries and the industrial gas produced with such Industrial Gas Assets is primarily distributed to subsidiaries of HBIS through pipelines for their own use.

As confirmed in the Non-competition Undertaking, HBIS and its subsidiaries have not engaged in any activities which are in competition, either directly or indirectly, with those of the Group. HBIS and its subsidiaries also undertake not to, either directly or indirectly, engage in any activities which are or may be in competition with the business of the Group in the future.

Upon Listing, in the event that the Group makes a request to acquire, or HBIS intends to dispose of or any third party offers to HBIS to acquire the Industrial Gas Assets, either in whole or in part, the Group shall have the right of first refusal to acquire the Industrial Gas Assets on a preferential basis at a fair consideration to be evaluated by an appraiser.

In the event that any adjustments of national policy(ies) or other force majeure event(s) lead(s) to inevitable competition between the businesses of the Group and those of HBIS and its subsidiaries in the future (the "**Potential Competing Businesses**"), HBIS and its subsidiaries shall forthwith adopt measures in a timely manner to transfer the Potential Competing Businesses to the Group on a preferential basis under the same conditions or cease such Potential Competing Businesses.

HBIS has further undertaken that it shall fully respect the Group as an independent legal person and ensure our independent operation and the Group's autonomy in decision-making.

HBIS has confirmed in writing to the Company of their compliance with the Non-competition Undertaking for disclosure in this annual report during the Reporting Period. HBIS did not transfer and no third party had offered to acquire any Industrial Gas Assets during the Reporting Period and no Potential Competing Business was identified by HBIS during the same period. The independent non-executive Directors have reviewed the implementation of the Non-competition Undertaking and are of the view that the Non-competition Undertakings has been complied with by HBIS for the Reporting Period.

## MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the Reporting Period.

## LOAN AND GUARANTEE

During the Reporting Period, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the Controlling Shareholders or their respective connected persons.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the Reporting Period was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

## TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

## CONNECTED TRANSACTIONS

### Continuing connected transactions for the Reporting Period

As each of HBIS Company and HBIS is a Controlling Shareholder, members of the HBIS Group are the connected persons of the Company. Therefore, the following transactions constituted continuing connected transactions of the Group for the Reporting Period, which are subject to the reporting and annual review requirements under Chapter 14A of the Listing Rules:

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### (1) Master Gas Products and Related Services Agreement

*Description and principal terms*

On 17 June 2020, the Company and HBIS entered into a gas products and related services framework agreement (the "**Master Gas Products and Related Services Agreement**"), pursuant to which, the Company agreed to supply gas products (including pipeline and liquefied industrial gas and other gas products as agreed by the Company and members of the HBIS Group from time to time) and provide related services (including provision of gas transmission and storage tanks rental services) to members of the HBIS Group mainly for their production of iron and steel products (the "**Gas Products and Related Services Transactions**") for a term commencing from the Listing Date and ending on 31 December 2022. The Master Gas Products and Related Services Agreement will be automatically renewed for a successive period of three years thereafter subject to review and approval by the independent shareholders after expiration of the three-year term and the compliance with the Listing Rules and provided always that the Company shall have the right to terminate at any time by giving to HBIS not less than thirty (30) business days' prior written notice. The Group may from time to time enter into operational agreement(s) with members of the HBIS Group in relation to any Gas Products and Related Services Transaction(s) upon, and subject to, the terms and conditions of the Master Gas Products and Related Services Agreement (the "**Operational Gas Products and Related Services Agreements**"). Each of the Company and HBIS agreed to procure their respective members to comply with the terms of the Master Gas Products and Related Services Agreement.

The following table sets out the major existing Operational Gas Products and Related Services Agreements as at 31 December 2020:

| Counterparty | Relationship with the Group | Nature of the transaction | Term |
|---|---|---|---|
| HBIS Tangshan Branch (Note 1) | Branch of HBIS Company | Supply of industrial gas, including but not limited to pipeline oxygen, nitrogen, and hydrogen and liquefied oxygen, nitrogen and argon | March 2007 to February 2037 |
| Tangshan Stainless Steel (Note 2) | Subsidiary of HBIS Tangsteel | Supply of industrial gas, including but not limited to pipeline oxygen and nitrogen, and liquefied oxygen, nitrogen and argon | March 2007 to February 2037 |
| Tangshan Plate (Note 1) | Subsidiary of HBIS Company | Supply of industrial gas, including but not limited to pipeline oxygen, nitrogen and hydrogen and liquefied oxygen, nitrogen and argon | January 2015 to December 2029 and further extended to May 2033 |
| Tangshan Iron and Steel Group High-strength Car Plate Co., Ltd. ("Tangshan High-Strength") (Note 3) | Subsidiary of HBIS Tangsteel | Supply of industrial gas, including but not limited to pipeline nitrogen and hydrogen | January 2019 to December 2022 |
| HBIS Laosteel (Note 4) | a wholly-owned subsidiary of HBIS | Supply of industrial gas, including but not limited to pipeline oxygen, nitrogen, argon and hydrogen and liquefied oxygen and nitrogen | 15 years from date of commencement of operations of the Zhongqi Investment plant, or a date to be agreed by both parties |

Notes:

1. HBIS Company is a Controlling Shareholder indirectly holding 35.99% of the issued share capital of the Company and therefore is a connected person of the Company. HBIS Tangshan Branch is a branch company of HBIS Company and Tangshan Plate is a subsidiary of HBIS Company and therefore are connected persons of the Company under the Listing Rules.

2. HBIS, through its subsidiaries, indirectly holds approximately 62.22% equity interest in HBIS Company. HBIS Company indirectly holds 35.99% of the issued share capital of the Company. Each of HBIS and HBIS Company is a Controlling Shareholder and a connected person of the Company under the Listing Rules. Tangshan Stainless Steel is a subsidiary of HBIS Tangsteel which is a non-wholly owned subsidiary of HBIS. Accordingly, Tangshan Stainless Steel is a connected person of the Company under the Listing Rules.

3. Tangshan High-Strength is a subsidiary of HBIS Tangsteel. Accordingly, Tangshan High-Strength is a connected person of the Company under the Listing Rules.

4. HBIS Laosteel is a wholly-owned subsidiary of HBIS. Accordingly, HBIS Laosteel is a connected puson of the Company under the Listing Rules.

Despite that the Master Gas Products and Related Services Agreement has an initial term of three years, the majority of the major existing Operational Gas Products and Related Services Agreements were entered into on a long-term basis as set out above. The Directors believe that the long-term industrial gas supply arrangement can protect the interests of the Company and the Shareholders by minimising the Company's investment and capital risk in incurring a large amount of capital expenditure in the construction of the production facilities before generating any revenue. The Directors are of the view that the long-term industrial gas supply arrangement is necessary for the efficient and continuing operation of the Company and that the long-term industrial gas supply arrangement is an established feature of the Company's business model for the on-site industrial gas supply operation and is consistent with the industry norm. For further details of the terms of the major existing Operational Gas Products and Related Services Agreements, please refer to the sections headed "Business — Our business — Customers — Pipeline industrial gas customers", "— Customers — Liquefied industrial gas customers" and "— Customers — LNG-related business customers" in the Prospectus.

Each of the Operational Gas Products and Related Services Agreements is and will be subject to the terms and conditions of the Master Gas Products and Related Services Agreement. Upon expiration of the Master Gas Products and Related Services Agreement and the annual caps and in the event that the approval from the independent shareholders for its renewal or new annual caps is not granted, the Company will re-comply with the relevant Listing Rules or apply for waivers in respect of each of the Operational Gas Products and Related Services Agreements, where applicable.

### *Pricing guidelines*

The unit price for each type of industrial gas products and the fees for related services are set out in the relevant Operational Gas Products and Related Services Agreement subject to adjustment by parties entering into a supplemental agreement. The unit price for each type of the pipeline industrial gas products is determined on cost plus basis after arm's length negotiations between the relevant parties, taking into account major costs, including electricity expenses (with reference to the government-prescribed price), depreciation of our equipment and the administrative and finance cost. The unit price of each type of liquefied industrial gas and fees for storage tanks rental services will be determined with reference to the relevant market price charged by independent third party providers for the same or similar type of liquefied industrial gas and rental services and actual cost which includes the transportation cost, where applicable. The fees for gas transmission are based on actual costs and expenses incurred in providing such service. Monthly settlement is made on the basis of the actual supply volume by each of the relevant member of the HBIS Group under the relevant Operational Gas Products and Related Services Agreement where applicable.

As the Company's business is electricity intensive, where relevant, the existing Operational Gas Products and Related Services Agreements provide for a price adjustment mechanism with a pre-determined formula to factor in the fluctuation in electricity price and supplemental agreements between the Group and relevant member of the HBIS Group have been or will be made to reflect the price adjustment under such mechanism.

*Implications under the Listing Rules*

Since one or more of the applicable percentage ratios for the Gas Products and Related Services Transactions contemplated under the Master Gas Products and Related Services Agreement is more than 5%, the Gas Products and Related Services Transactions contemplated under the Master Gas Products and Related Services Agreement shall be subject to annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Industrial Gas Products and Related Services Transactions contemplated under the Master Gas Products and Related Services Agreement.

### (2) Master Utilities and Related Services Agreement

*Description and principal terms*

On 17 June 2020, the Company and HBIS entered into a utilities and related services framework agreement (the "**Master Utilities and Related Services Agreement**"), pursuant to which, the Group agreed to procure from members of the HBIS Group utilities including, among others, water, electricity, steam and coke oven gas ("**COG**"), related equipment (including electrical cabinet and cables) and services (including sewage treatment services) (the "**Utilities and Related Services**") (the "**Utilities and Related Services Transactions**") for a term commencing from the Listing Date and ending on 31 December 2022. The Master Utilities and Related Services Agreement will be automatically renewed for a successive period of three years thereafter subject to review and approval by the independent shareholders after expiration of the three-year term and the compliance with the Listing Rules and provided always that the Company shall have the right to terminate at any time by giving to HBIS not less than thirty (30) business days' prior written notice. We may from time to time enter into operational agreement(s) with members of the HBIS Group in relation to any Utilities and Related Services Transaction(s) upon, and subject to, the terms and conditions of the Master Utilities and Related Services Agreement (the "**Operational Utilities and Related Services Agreements**"). Each of the Company and HBIS agreed to procure their respective members to comply with the terms of the Master Utilities and Related Services Agreement.

The following table sets out the major existing Operational Utilities and Related Services Agreements as at 31 December 2020:

| Counterparty | Relationship with the Group | Nature of the transaction | Term |
|---|---|---|---|
| HBIS Tangshan Branch (Note 1) | Branch of HBIS Company | Procurement of utilities, including electricity, water, steam and COG | March 2007 to February 2037 |
| Tangshan Stainless Steel (Note 2) | Subsidiary of HBIS Tangsteel | Procurement of utilities, including electricity, water and steam | March 2007 to February 2037 |
| Tangshan Plate (Note 1) | Subsidiary of HBIS Company | Procurement of utilities, including electricity, water and steam | January 2015 to December 2029 and further extended to May 2033 |
| HBIS Laosteel (Note 3) | a wholly-owned subsidiary of HBIS | Procurement of utilities, including electricity, water, steam and COG | 15 years from date of commencement of operations of the Zhongqi Investment plant, or a date to be agreed by both parties |

Notes:

1. HBIS Company is a Controlling Shareholder indirectly holding 35.99% of the issued share capital of the Company and therefore is a connected person of the Company. HBIS Tangshan Branch is a branch company of HBIS Company and Tangshan Plate is a subsidiary of HBIS Company and therefore are connected persons of the Company under the Listing Rules.

2. HBIS, through its subsidiaries, indirectly holds approximately 62.22% equity interest in HBIS Company. HBIS Company indirectly holds 35.99% of the issued share capital of the Company. Each of HBIS and HBIS Company is a Controlling Shareholder and a connected person of the Company under the Listing Rules. Tangshan Stainless Steel is a subsidiary of HBIS Tangsteel which is a non-wholly owned subsidiary of HBIS. Accordingly, Tangshan Stainless Steel is a connected person of the Company under the Listing Rules.

3. HBIS Laosteel is a wholly-owned subsidiary of HBIS. Accordingly, HBIS Laosteel is a connected person of the Company under the Listing Rules.

Despite that the Master Utilities and Related Services Agreement has an initial term of three years, the major existing Operational Utilities and Related Services Agreements were entered into on a long-term basis as set out above. The terms including the renewal arrangements of the major existing Operational Utilities and Related Services Agreements are in line with the terms of the major existing Operational Gas Products and Related Services Agreements with the respective members of the HBIS Group. For further details of the terms of the major existing Operational Utilities and Related Services Agreements, please refer to the section headed "Business — Our business — Raw materials, utilities and suppliers" in the Prospectus.

Each of the Operational Utilities and Related Services Agreements is and will be subject to the terms and conditions of the Master Utilities and Related Services Agreement. Upon expiration of the Master Utilities and Related Services Agreement and the annual caps and in the event that the approval from the independent shareholders for its renewal or new annual caps is not granted, the Company will re-comply with the relevant Listing Rules or apply for waivers in respect of each of the Operational Utilities and Related Services Agreements, where applicable.

*Pricing guidelines*

The pricing of each of the Utilities and Related Services provided under the Master Utilities and Related Services Agreement shall be determined with reference to the following principles in ascending order:

(i) *government-prescribed price*: if at any time, the government-prescribed price is applicable to any particular type of the Utilities and Related Services, such type of Utilities and Related Services shall be provided at the applicable government-prescribed price, whether national or local, such as the electricity price prescribed by the Development and Reform Commission of Hebei Province and water price prescribed by the Development and Reform Commission of Tangshan;

(ii) *government-guided price*: if at any time, the government-guided price is applicable to any particular type of the Utilities and Related Services, such type of Utilities and Related Services shall be provided within the range of such government-guided price, whether national or local;

(iii) *tendering process (where applicable)*: where the above two price standards are not available for a particular type of the Utilities and Related Services and any of the Utilities and Related Services Transactions is subject to tendering process in accordance with the relevant internal policies and procedures of members of the Group, the price of such type of the Utilities and Related Services shall be determined by tendering process in accordance with the relevant internal policies and procedures of members of the Group; and

(iv) *market price*: where the above price standards are not available for a particular type of the Utilities and Related Services, the price of such type of Utilities and Related Services shall be determined with reference to the market price. In determining the market price, both parties shall take into consideration the following key factors:

    (a) the prevailing market prices charged by independent third parties for providing the same or similar type of Utilities and Related Services in the region where the type of the Utilities and Related Services is provided by relevant members of the HBIS Group;

    (b) the prices charged by relevant members of the HBIS Group for providing the same or similar type of Utilities and Related Services to the Independent Third Parties; and

(c) the prices charged by relevant members of the HBIS Group for providing the same or similar type of Utilities and Related Services to other members of the HBIS Group.

*Implications under the Listing Rules*

Since one or more of the applicable percentage ratios for the Utilities and Related Services Transactions contemplated under the Master Utilities and Related Services Agreement is more than 5%, the Utilities and Related Transactions contemplated under the Master Utilities and Related Services Agreement constitute non-exempted continuing connected transactions and are subject to annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the Utilities and Related Services Transactions contemplated under the Master Utilities and Related Services Agreement.

## PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

### (1) Master Lease Agreement

*Description and Principal Terms*

On 17 June 2020, the Company and HBIS entered into a lease framework agreement (the "**Master Lease Agreement**"), pursuant to which, members of the HBIS Group shall lease to the Group the land use rights of certain parcels of land and certain buildings and common facilities thereon or in the proximity to the production sites of certain members of the HBIS Group for the operation of the Group's industrial gas production facilities (the "**Lease Transactions**") for a term commencing from the Listing Date and ending on 31 December 2022. The Master Lease Agreement will be automatically renewed for a successive period of three years thereafter subject to compliance with the Listing Rules and provided always that the Company shall have the right to terminate at any time by giving to HBIS not less than thirty (30) business days' prior written notice. The Group may from time to time enter into separate operational agreement(s) with members of the HBIS Group in relation to any Lease Transaction(s) under the Master Lease Agreement (the "**Operational Lease Agreements**") and therefore the Lease Transactions under the Master Lease Agreement will be treated as continuing connected transactions of the Company. The Operational Lease Agreements will be subject to the terms and conditions of the Master Lease Agreement. Each of the Company and HBIS agreed to procure their respective members to comply with the terms of the Master Lease Agreement.

*Pricing guidelines*

Each of the Operational Lease Agreements will set out the annual fees payable by the Group to the relevant members of the HBIS Group in respect of the lease of relevant land use rights and use of the relevant buildings with reference to the respective prevailing market rates per square meter of the surrounding comparable premises in the vicinity of such lands and buildings, taking into account their respective sizes.

*Implications under the Listing Rules*

Since one or more of the applicable percentage ratios for the Lease Transactions contemplated under the Master Lease Agreement is more than 0.1% and all the applicable percentage ratios are less than 5%, the Lease Transactions contemplated under the Master Lease Agreement are subject to annual review, reporting and announcement requirements, but exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the Lease Transactions contemplated under the Master Lease Agreement.

## (2) Master Miscellaneous Services Agreement

*Description and principal terms*

On 17 June 2020, the Company and HBIS entered into a miscellaneous services framework agreement (the "**Master Miscellaneous Services Agreement**"), pursuant to which, the Group agreed to outsource certain services (the "**Miscellaneous Services**") including, among others, the maintenance of utilities facilities, canteen, healthcare, parking for the staff and visiting personnel, transportation of hazardous chemicals, labour despatch, project design and mapping, the maintenance of vehicles and greenery services (the "**Miscellaneous Services Transactions**") to the HBIS Group for a term commencing from the Listing Date and ending on 31 December 2022. The Master Miscellaneous Services Agreement will be automatically renewed for a successive period of three years thereafter subject to the compliance with the Listing Rules and provided always that the Company shall have the right to terminate at any time by giving to HBIS not less than thirty (30) business days' prior written notice. The Group may from time to time enter into operational agreement(s) with the members of the HBIS Group in relation to any Miscellaneous Services Transaction(s) upon, and subject to, the terms and conditions of the Master Miscellaneous Services Agreement (the "**Operational Miscellaneous Services Agreements**"). Each of the Company and HBIS agreed to procure their respective members to comply with the terms of the Master Miscellaneous Services Agreement.

*Pricing guidelines*

The pricing of each of the Miscellaneous Services provided under the Master Miscellaneous Services Agreement shall be determined with reference to the following principles in ascending order:

(i) *tendering process (where applicable)*: where any of the Miscellaneous Services Transactions is subject to tendering process in accordance with relevant internal policies and procedures of members of the Group, the price of such type of Miscellaneous Services shall be determined by tendering process in accordance with relevant internal policies and procedures of members of the Group; and

(ii) *market price*: where the above price standard is not available for a particular type of Miscellaneous Services, the price of such type of Miscellaneous Services shall be determined with reference to the market price. In determining the market price, both parties shall take into consideration the following key factors:

(a) the prevailing market prices charged by independent third parties for providing the same or similar type of Miscellaneous Services in the region where the type of Miscellaneous Services is provided by relevant members of the HBIS Group;

(b) the prices charged by relevant members of the HBIS Group for providing the same or similar type of Miscellaneous Services to independent third parties; and

(c) the prices charged by relevant members of the HBIS Group for providing the same or similar type of Miscellaneous Services to other members of the HBIS Group.

*Implications under the Listing Rules*

Since one or more of the applicable percentage ratios for the Miscellaneous Services Transactions contemplated under the Master Miscellaneous Services Agreement is more than 0.1% and all the applicable percentage ratios are less than 5%, the Miscellaneous Services Transactions contemplated under the Master Miscellaneous Services Agreement are subject to annual review, reporting and announcement requirements, but exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the Miscellaneous Services Transactions contemplated under the Master Miscellaneous Services Agreement.

## Transaction amounts and annual caps

The following sets forth the annual caps and actual transaction amounts for the non-exempt continuing connected transactions and partially exempt continuing connected transactions for the Reporting Period:

| | Annual cap for the year ended 31 December 2020 RMB' million | Actual transaction amount for the year ended 31 December 2020 RMB' million |
|---|---|---|
| **Non-exempt continuing connected transactions** | | |
| Master Gas Products and Related Services Agreement | 1,084.9 | 1,046.1 |
| Master Utilities and Related Services Agreement | 887.8 | 747.9 |
| **Partially exempt continuing connected transactions** | | |
| Master Lease Agreement | Nil | Nil |
| Master Miscellaneous Services Agreement | 19.0 | 15.9 |

For further details regarding the Master Gas Products and Related Services Agreement, Master Utilities and Related Services Agreement, Master Lease Agreement and Master Miscellaneous Services Agreement, please refer to the section headed "Continuing Connected Transactions" of the Prospectus.

### Confirmation from Independent Non-executive Directors

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the transactions under each of the Master Gas Products and Related Services Agreement, Master Utilities and Related Services Agreement, Master Lease Agreement and Master Miscellaneous Services Agreement (the "**Master Agreements**"), and confirmed that the transactions under the Master Agreements have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

### Confirmations from the Company's Independent Auditor

In accordance with Rule 14A.56 of the Listing Rules, the Group has engaged its auditor to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued its unqualified letter containing its findings and conclusions in respect of the aforesaid continuing connected transactions conducted by the Group for the Reporting Period.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 37 to the consolidated financial statements on pages 65 to 146 of this annual report.

The related party transactions set out in 37 to the consolidated financial statements on pages 65 to 146 of this annual report include related party transactions disclosed under accounting standards and related party transactions which also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of Directors constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than directors and chief executives) of the Company did not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Unless otherwise disclosed in this annual report, the Directors believe, all other related party transactions set out in note 37 to the consolidated financial statements on pages 65 to 146 of this annual report do not fall within the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules (as the case may be). The Company confirmed that it was in compliance with the disclosure requirements in Chapter 14A of the Listing Rules for the Reporting Period or a waiver from such provisions has been obtained from the Stock Exchange.

## CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this annual report.

## REVIEW BY AUDIT COMMITTEE

The Audit Committee currently comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Zhang Aimin, Mr. Siu Chi Hung and Mr. Xiao Huan Wei. The Audit Committee has reviewed with the management of the Company the audited Consolidated Financial Statements for the Reporting Period.

## INDEPENDENT AUDITOR

PricewaterhouseCoopers resigned as the auditor of the Group on 29 November 2021. BDO Limited was appointed as the Group's auditor on 3 December 2021 to fill the vacancy following PricewaterhouseCoopers' resignation.

The Consolidated Financial Statements for the Reporting Period have been audited by BDO Limited who will retire and, being eligible, offer itself for re-appointment at the AGM. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of BDO Limited as the independent auditor for the ensuing year will be put to the AGM for Shareholder's approval.

## COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Board and management are aware, save as disclosed below, the Group is in compliance in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

The non-fully compliance with the PRC laws and regulations during the Reporting Period and the relevant internal control measures for continued compliance are summarised below. Details of the situation regarding the Group's properties with defective titles are set out in the section headed "Business — Our Properties — Properties with Defective Titles" in the Prospectus. Unless otherwise defined in this annual report, capitalised terms used below shall have the same meanings as those defined in the Prospectus.

1. **Absence of the land use right certificate to be obtained for our other occupied land as well as title defects relating to the buildings and structures we constructed on our land with land use right certificates and our other occupied land with the land use right certificates to be obtained**

   A. TTG Yutian Branch did not hold the land use right certificates for part of Yutian plant, and failed to obtain the subsequent necessary construction permits or to submit the requisite completion and acceptance filing materials for the buildings and structures constructed on such properties

   As Yutian county government did not have any land use quota, land certificate cannot be executed temporarily, and thus land use planning permit, construction project planning permit and other permits were unable to be executed.

   B. Luanxian Tangsteel Gases Co., Ltd. has acquired the land use right certificate of a parcel of land in Luanxian Industrial Cluster with a site area of 95 mu (approximately 63,999 sq.m.) on 8 July 2020, and obtained construction land planning permit on 29 December 2021, while the execution of construction work permit is still under process.

2. **Title defects relating to our leased land and the buildings and structures we constructed on such leased land**

   As the Group was not the owner of the land, the Group failed to obtain/complete the necessary construction permits and procedure to construct certain buildings and structures on the parcels of leased land at the TTG headquarters plant, the TTG Ironmaking Branch plant, the TTG Stainless Steel Branch plant, the TTG Laoting Branch plant and CNG and LNG gas station. Also, the lessors failed to obtain the construction land use planning permits (建設用地規劃許可證) for such leased land. The Group failed to complete the registrations for five parcels of leased land and obtain certificates of other rights over land (土地他項權利證明書) to be issued after completion of such registrations. However, the lessors of the parcels of leased land at TTG headquarters plant, the TTG Ironmaking Branch plant, the TTG Stainless Steel Branch plant, the TTG Laoting Branch plant and CNG and LNG gas station agreed to indemnify for the losses incurred if the Group unable to continue to use the leased land.

As the production facilities at the TTG headquarters plant were no longer in use for production purpose following the cessation of the operation due to the implementation of the exit and relocation agreement entered into between HBIS Company and the People's Government of Tangshan on 19 August 2020, the Group was not required to obtain the certificates of other rights over land and the completion of Construction Permits in relation to TTG headquarters plant.

As the TTG Ironmaking Branch plant has ceased production and some equipment has been relocated to the plant of Zhongqi Investment (Tangshan) Gases Co., Ltd., we have obtained the required construction land use planning permit and the construction permits for the plant, and have submitted the required completion and acceptance documents, which is in line with relevant Chinese laws and regulations.

Save for the production facilities at the TTG headquarters plant and the TTG Ironmaking Branch plan which were no longer in use for production purpose following the cessation of the operation due to the exit and relocation agreement, the government has transferred approval authority for construction project planning permit and other permits of the leased land of the TTG Stainless Steel Branch plant, the TTG Laoting Branch plant and the gas station to the administrative approval center, which led to a slow progress. The Company has conducted close coordination with the land lessor to speed up adjustment for application documents, and endeavoured to procure the lessor's completion of approval for construction land planning permit as soon as possible.

3. **Title defects relating to our leased buildings and structures**

   As the leased buildings and structures at the TTG headquarters plant were no longer in use for production purpose due to the implementation of the exit and relocation agreement entered into between HBIS Company and the People's Government of Tangshan on 19 August 2020, the leasing registration will not be granted for the time being; In addition, due to the slow progress in the approval of stainless steel house leasing record formalities by the government, we failed to complete house leasing registrations with respect to the leased buildings and structures for offices buildings at the TTG headquarters plant, the TTG Ironmaking Branch plant and office building for TTG Stainless Steel Branch plant. Tangsteel Gases will continue to try its best to impel lessors to cooperate in completing house leasing registrations.

As of the date of this annual report, we are not aware of any actual or anticipated action, claim or investigation by any government agency or third party against us in relation to the above matters. We will continue to monitor the situation, and the situation updating will be disclosed in the annual reports of the Company until the Group's complete rectification of such title defects has been fully disclosed therein.

## SUBSEQUENT EVENTS

Please refer to the paragraph headed "Important Events After The End of The Reporting Period " in the "Management Discussion and Analysis" in this annual report.

On behalf of the Board
**Mr. Yao Li**
Vice Chairman of the Board

Tangshan, 31 March 2022

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**TO THE SHAREHOLDERS OF CHINA GAS INDUSTRY INVESTMENT HOLDINGS CO., LTD.**
*(Incorporated in the Cayman Islands with limited liability)*

## QUALIFIED OPINION

We have audited the consolidated financial statements of China Gas Industry Investment Holdings Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 65 to 146, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect and effect of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Qualified Opinion

On 30 November 2020 and 1 December 2020, the Company entered into three loan agreements with Company A, Company B and Company C (collectively "the Borrowers") with principal amounts of RMB50,000,000, RMB53,522,000 and RMB14,478,000 respectively (the "Loan Agreements"). On 7 December 2020 and 10 December 2020, the Company transferred the funds stipulated in the Loan Agreements to the Borrowers. Pursuant to the Loan Agreements, the loans were interest bearing at 2% per annum and the principal amounts would mature on 30 December 2020. The principal amounts and the interest thereon would become repayable on 30 December 2020 (hereinafter referred to as the "Loan Transactions"). The Company accounted for the transfers of funds to the Borrowers as Loans Receivables in the consolidated financial statements for the year ended 31 December 2020.

The loan receivables ("Loan Receivables") were measured at amortised cost less allowance for expected credit loss according to the accounting policies set out in note 4(g) to the consolidated financial statements. At the reporting date, repayment of the principal balances and interests thereon under the Loan Agreements were overdue for one day. Repayments of these balances remained outstanding up to the date of this report. The board of directors of the Company (the "Board") determined that full loss allowance of the outstanding principal balances of RMB118,000,000 in aggregate should be provided due to the long overdue. Accordingly, a loss allowance of RMB118,000,000 was recognised in the consolidated statement of comprehensive income and disclosed in note 11 to the consolidated financial statements. After offsetting the loss allowance, the carrying amount of the Loan Receivables became RMB Nil as at 31 December 2020.

Subsequent to the end of the reporting period, on 18 January 2021, the Company entered into a loan notes agreement with Company D (the "Loan Note Agreement"). Pursuant to the Loan Note Agreement, the Company agreed to provide Company D with a loan of principal amount of HK$80,000,000 (approximately RMB66,400,000). The loan was interest bearing at 4.5% per annum. Both the principal amount and the interests thereon would become repayable on 17 December 2021. On 28 January 2021, the Company transferred the fund stipulated in the Loan Note Agreement (hereinafter referred to as the "Note Investment") to Company D. The Note Investment was disclosed in note 41 "Events after the reporting period" to the consolidated financial statements and was not recognised in the consolidated financial statements. Note 3(d) to the consolidated financial statements also contains details of the Note Investment.

During our audit of the financial statements for the year ended 31 December 2020, we have obtained knowledge relating to the Loan Transactions and the Note Investment ("our Knowledge") including:

(i) the Group engaged in the production and sales of industrial gases. The Loan Transactions and the Note Investment are transactions outside the normal course of business of the Group;

(ii) the Loan Transactions and the Note Investment were approved by the Chairman of the Board who was also an executive director of the Company (the "Chairman"). According to the Company's internal control policies and procedures, due to the amounts of the Loan Transactions and the Note Investment, the Loan Transactions and the Note Investment should have been approved by the Board;

(iii) the Company had not performed background check and due diligence on the Borrowers and Company D before entering into the Loan Transactions and the Note Investment;

(iv) the Company had set aside funds in a bank account for distributions to its shareholders to settle the dividends payable to them. To change the use of these designed funds would need the approval by the Board. Without prior approval by the Board, the Chairman instructed the transfer of these designated funds to the Borrowers and Company D to fulfil the Company's commitment in the Loan Agreements and the Loan Note Agreement; and

(v) as at the date of this report, there were no repayments from the Borrowers and the balance due from Company D was substantially outstanding.

## Scope limitation on our work to ascertain the nature of the Loan Transactions and the Note Investment

Given our Knowledge obtained in the audit relating to the Loan Transactions and the Note Investment, we concerned about the commercial substance and business rationale of these transactions. And whether it is appropriate to recognise the Loan Transactions as the Group's Loan Receivables and disclose the Note Investment as the Group's Note Investment in the consolidated financial statements. We have communicated our concern to the Board and requested explanations from the Board how our concern has been considered in their determination that the Loan Transactions were recognised as Loan Receivables of the Group and the Note Investment was disclosed as Note Investment in the consolidated financial statements. However, we have not received explanations from the Board that would satisfy ourselves as to the commercial substance and business rationale of the Loan Transactions and Note Investment.

There were no alternative audit procedures that we could perform to satisfy ourselves on the above concerns. As a result, we were unable to conclude whether the Loan Transactions were properly accounted for and the Note Investment was properly disclosed in the consolidated financial statements, and the consolidated financial statements for the year ended 31 December 2020 are free from material misstatement.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the HKICPA, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Impairment assessment of property, plant and equipment

Refer to summary of significant accounting policies in note 4(d), critical accounting estimates and judgements in Note 5(c) and disclosure of property, plant and equipment in note 17 to the consolidated financial statements.

The carrying amount of the Group's property, plant and equipment as at 31 December 2020 amounted to RMB1,495,555,815 (2019: RMB1,392,908,593). Impairment loss recognised in respect of the property, plant and equipment was RMB15,634,719 during the year ended 31 December 2020 (2019: Nil).

We identified impairment assessment of property, plant and equipment as a key audit matter due to its significance to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the value in use based on future cash flow of each asset group and the discount rate of the Group's property, plant and equipment at the end of the year.

Management performed an impairment assessment when indicators of impairment were identified. Management determined the recoverable amounts of the Group's property, plant and equipment based on the higher of fair value less costs of disposal and value in use. When performing an impairment assessment, management makes assumptions and estimates on future operating profit, growth rate and discount rate to calculate expected value in use and compared the carrying values of property, plant and equipment, to determine the impairment loss which should be recognised for the year, if any.

Our procedures on the impairment assessment of property, plant and equipment included:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to the impairment assessment of property, plant and equipment.
- Understanding of management's basis and assessment in relation to the impairment assessment of property, plant and equipment.
- Assessing the reasonableness of management's assumptions and judgements in relation to the impairment assessment of property, plant and equipment.

## OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the "Basis for Qualified Opinion" section above, we were unable to obtain sufficient appropriate evidence to satisfy ourselves the nature of the Loan Transactions and the Note Investment and whether the Loan Transactions and the Note Investment have been appropriately accounted for during our audit of the Group's consolidated financial statements for the year ended 31 December 2020. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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 our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated 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 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.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**BDO Limited**
*Certified Public Accountants*

Amy Yau Shuk Yuen
Practising Certificate Number P06095

Hong Kong, 31 March 2022

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2020**

| | Notes | 2020 RMB | 2019 RMB |
|---|---|---|---|
| Revenues | 7 | **1,186,823,618** | 1,305,152,146 |
| Cost of revenues | 11 | **(917,808,883)** | (1,022,922,225) |
| **Gross profit** | | **269,014,735** | 282,229,921 |
| Selling and marketing expenses | 11 | **(1,357,221)** | (1,633,735) |
| Administrative expenses | 11 | **(53,964,873)** | (40,188,840) |
| Credit loss allowance for loan receivables | 11 | **(118,000,000)** | – |
| Research and development expenses | 11 | **(50,073,460)** | (50,834,019) |
| Other income | 8 | **1,791,411** | 2,246,795 |
| Other losses, net | 9 | **(20,997,283)** | (421,300) |
| **Operating profit** | | **26,413,309** | 191,398,822 |
| Finance income | 10 | **1,200,226** | 399,142 |
| Finance costs | 10 | **(23,925,880)** | (19,772,320) |
| Finance costs, net | | **(22,725,654)** | (19,373,178) |
| **Profit before income tax** | | **3,687,655** | 172,025,644 |
| Income tax expense | 14 | **(31,385,006)** | (38,188,131) |
| **(Loss)/profit for the year attributable to owners of the Company** | | **(27,697,351)** | 133,837,513 |
| **Other comprehensive income, net of tax** | | | |
| *Item that may be subsequently reclassified to profit or loss:* | | | |
| Currency translation differences | | **2,542,266** | (950,815) |
| **Total comprehensive income for the year** | | **(25,155,085)** | 132,886,698 |
| **Total comprehensive income attributable to owners of the Company** | | **(25,155,085)** | 132,886,698 |
| | | | (Restated) |
| **(Loss)/earnings per share – Basic and Diluted** | 16 | **(0.03)** | 0.15 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## As at 31 December 2020

| | Notes | 2020 RMB | 2019 RMB |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *17* | **1,495,555,815** | 1,392,908,593 |
| Right-of-use assets | *18* | **49,471,040** | 29,071,145 |
| Intangible assets | *19* | **881,921** | 1,494,494 |
| Deferred tax assets | *31* | **2,345,208** | – |
| Other assets | *20* | **45,998,945** | 14,126,961 |
| | | **1,594,252,929** | 1,437,601,193 |
| **Current assets** | | | |
| Inventories | *21* | **9,882,628** | 11,115,886 |
| Trade receivables | *22* | **277,926,097** | 277,809,582 |
| Loan receivables | *23* | **–** | – |
| Prepayments, deposits and other receivables | *24* | **83,999,393** | 134,904,731 |
| Financial assets at fair value through other comprehensive income ("FVOCI") | *26* | **46,823,190** | 51,316,794 |
| Restricted cash | *25* | **–** | 196 |
| Cash and cash equivalents | *25* | **511,834,079** | 139,790,488 |
| | | **930,465,387** | 614,937,677 |
| **Current liabilities** | | | |
| Trade and other payables | *28* | **576,584,216** | 320,144,883 |
| Contract liabilities | *7* | **6,313,165** | 7,093,539 |
| Borrowings | *29* | **323,690,000** | 258,000,000 |
| Lease liabilities | *30* | **9,540,023** | 7,408,441 |
| Income tax payable | | **4,403,278** | 4,793,048 |
| | | **920,530,682** | 597,439,911 |
| **Net current assets** | | **9,934,705** | 17,497,766 |
| **Total assets less current liabilities** | | **1,604,187,634** | 1,455,098,959 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at 31 December 2020**

| | Notes | 2020 RMB | 2019 RMB |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | *29* | **270,806,401** | 110,000,000 |
| Lease liabilities | *30* | **3,763,709** | 7,596,445 |
| Deferred tax liabilities | *31* | **11,124,144** | 33,469,108 |
| | | **285,694,254** | 151,065,553 |
| **NET ASSETS** | | **1,318,493,380** | 1,304,033,406 |
| **Capital and reserves** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *32* | **836,016** | 76,298 |
| Other reserves | *33* | **1,320,361,813** | 993,537,465 |
| (Accumulated losses)/retained earnings | | **(2,704,449)** | 310,419,643 |
| **TOTAL EQUITY** | | **1,318,493,380** | 1,304,033,406 |

The consolidated financial statements were approved and authorised for issued by Board of Directors on 31 March 2022 and are signed on its behalf by:

**Yao Li**
*Director*

**Gao Guimin**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## For the year ended 31 December 2020

| | Attributable to the owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB | Share premium RMB Note 33(a) | Statutory surplus reserve RMB Note 33(b) | Currency translation differences RMB Note 33(c) | Others RMB Note 33(d) | Retained earnings/ (accumulated losses) RMB | Total RMB |
| **Balance at 1 January 2019** | 73,309 | 769,863,510 | 98,767,125 | 8,946,421 | 33,428,253 | 192,134,984 | 1,103,213,602 |
| Profit for the year | – | – | – | – | – | 133,837,513 | 133,837,513 |
| Other comprehensive income | | | | | | | |
| – Currency translation differences | – | – | – | (950,815) | – | – | (950,815) |
| Total comprehensive income for the year | – | – | – | (950,815) | – | 133,837,513 | 132,886,698 |
| **Transaction with owners in their capacity as owners:** | | | | | | | |
| Appropriation to statutory surplus reserves | – | – | 15,552,854 | – | – | (15,552,854) | – |
| Capitalisation of shareholder loan *(Note 32(ii))* | 2,989 | 67,930,117 | – | – | – | – | 67,933,106 |
| | 2,989 | 67,930,117 | 15,552,854 | – | – | (15,552,854) | 67,933,106 |
| **Balance at 31 December 2019 and 1 January 2020** | 76,298 | 837,793,627 | 114,319,979 | 7,995,606 | 33,428,253 | 310,419,643 | 1,304,033,406 |
| Loss for the year | – | – | – | – | – | (27,697,351) | (27,697,351) |
| Other comprehensive income | | | | | | | |
| – Currency translation differences | – | – | – | 2,542,266 | – | – | 2,542,266 |
| Total comprehensive income for the year | – | – | – | 2,542,266 | – | (27,697,351) | (25,155,085) |
| **Transaction with owners in their capacity as owners:** | | | | | | | |
| Appropriation to statutory surplus reserves | – | – | 17,683,741 | – | – | (17,683,741) | – |
| Capitalisation issue *(Note 32(iii))* | 562,519 | (562,519) | – | – | – | – | – |
| Issues of shares upon IPO *(Note 32(iv))* | 197,199 | 307,160,860 | – | – | – | – | 307,358,059 |
| Dividend declared *(Note 15)* | – | – | – | – | – | (267,743,000) | (267,743,000) |
| | 759,718 | 306,598,341 | 17,683,741 | – | – | (285,426,741) | 39,615,059 |
| **Balance at 31 December 2020** | 836,016 | 1,144,391,968 | 132,003,720 | 10,537,872 | 33,428,253 | (2,704,449) | 1,318,493,380 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended 31 December 2020**

| | Notes | 2020 RMB | 2019 RMB |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax expenses | | **3,687,655** | 172,025,644 |
| Adjustments for: | | | |
| Amortisation of intangible assets | *19* | **612,573** | 343,224 |
| Amortisation of right-of-use assets | *18* | **4,348,446** | 4,084,906 |
| Depreciation of property, plant and equipment | *17* | **97,931,779** | 94,850,557 |
| Expected credit losses on loan receivables | *23* | **118,000,000** | – |
| Finance costs - net | | **22,725,654** | 19,592,363 |
| Investment income of bank wealth management products | | **–** | (345,312) |
| Impairment on property, plant and equipment | *17* | **15,634,719** | – |
| Loss on disposal of property, plant and equipment | | **1,160,764** | 392,446 |
| Written off on inventories | *21* | **307,063** | – |
| *Operating profit before working capital changes* | | **264,408,653** | 290,943,828 |
| Decrease/(increase) in inventories | | **926,195** | (4,281,463) |
| Increase in trade receivables | | **(116,515)** | (45,973,371) |
| Decrease in financial assets at FVOCI | | **4,493,604** | 55,980,175 |
| Decrease/(increase) in other assets and prepayments, deposits and other receivables | | **50,851,715** | (54,651,865) |
| Decrease in restricted cash | | **196** | – |
| (Decrease)/increase in trade and other payables | | **(39,924,623)** | 10,092,271 |
| Decrease in contract liabilities | | **(780,374)** | (3,379,058) |
| *Cash generated from operations* | | **279,858,851** | 248,730,517 |
| Interest paid | | **(23,640,558)** | (18,673,345) |
| Income tax and withholding tax paid | | **(56,464,948)** | (24,196,742) |
| Net cash generated from operating activities | | **199,753,345** | 205,860,430 |
| **Cash flows from investing activities** | | | |
| Cash received on maturity of bank wealth management products | | **–** | 29,500,000 |
| Cash payments for purchase of bank wealth management products | | **–** | (25,000,000) |
| Investment income from bank wealth management products | | **–** | 345,312 |
| Loans to third parties | | **(118,000,000)** | – |
| Purchase of property, plant and equipment and other long-term assets | | **(203,586,611)** | (321,350,737) |
| Proceeds from disposal of property, plant and equipment | | **67,740** | 18,096 |
| Net cash used in investing activities | | **(321,518,871)** | (316,487,329) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## For the year ended 31 December 2020

| | *Notes* | **2020 RMB** | 2019 RMB |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **470,496,401** | 264,340,855 |
| Repayments of borrowings | | **(244,000,000)** | (218,000,000) |
| Principal elements of lease payments | | **(123,364)** | (114,802) |
| Payment of listing expenses | | **–** | (3,686,761) |
| Dividends paid to the Company's shareholders | *15* | **(33,200,000)** | – |
| Net proceeds from issues of share upon IPO | | **298,093,814** | – |
| Net cash generated from financing activities | | **491,266,851** | 42,539,292 |
| **Net increase/(decrease) in cash and cash equivalents** | | **369,501,325** | (68,087,607) |
| **Cash and cash equivalents at beginning of year** | | **139,790,488** | 206,820,872 |
| **Effect of foreign exchange rate changes** | | **2,542,266** | 1,057,223 |
| **Cash and cash equivalents at end of year** | | **511,834,079** | 139,790,488 |

## 1. GENERAL INFORMATION

China Gas Industry Investment Holdings Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 4 August 2006 as an exempted company with limited liability. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of its subsidiaries is the People's Republic of China (the "PRC").

The Company is an investment holding company. The Company and its subsidiaries (together "the Group") are engaged in the production and sales of industrial gases in the PRC.

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### (a) Adoption of new or amended IFRSs

The adoption of IFRSs and International Accounting Standards ("IASs") which are effective for the financial year beginning on 1 January 2020 and 1 June 2020 has been consistently applied in the consolidated financial statements for the year ended 31 December 2020.

| | |
|---|---|
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IAS 39, IFRS 7 and IFRS 9 | Interest Rate Benchmark Reform |
| Amendments to IFRS 16 | Covid-19-Related Rent Concessions |

The impact of the adoption of Amendments to IFRS 16 Covid-19-Related Rent Concessions has been summarised below. The other new or amended IFRSs and IASs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

*Amendments to IFRS 16, Covid-19-Related Rent Concessions*

IFRS 16 was amended to provide a practical expedient to lessees in accounting for rent concessions arising as a result of the Covid-19 pandemic, by including an additional practical expedient in IFRS 16 that permits entities to elect not to account for rent concessions as modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 pandemic and only if all of the following criteria are satisfied:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### (a) Adoption of new or amended IFRSs *(Continued)*

*Amendments to IFRS 16, Covid-19-Related Rent Concessions (Continued)*

(b) the reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) there is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with this practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of lease modification. Lessees shall apply other requirements of IFRS 16 in accounting for the rent concession.

Accounting for rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria.

In accordance with the transitional provisions, the Group has applied the amendments retrospectively, and has not restated prior periods figures. As the rent concessions have arisen during the current financial period, there is no retrospective adjustment to opening balance of retained earnings at 1 January 2020 on initial application of the amendment.

### (b) New or amended IFRSs that have been issued but are not yet effective

The following new or amended IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

| | |
|---|---|
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[4] |
| Amendments to IAS 16 | Proceeds before Intended Use[2] |
| Amendments to IAS 37 | Onerous Contracts - Cost of Fulfilling a Contract[2] |
| IFRS 17 | Insurance Contracts[4] |
| Amendments to IFRS 3 | Reference to the Conceptual Framework[3] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |
| Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2[1] |
| Annual Improvements to IFRSs 2018-2020 | Amendments to IFRS 9, Illustrative Examples according IFRS 16[1] |

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### (b) New or amended IFRSs that have been issued but are not yet effective *(Continued)*

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for annual periods beginning on or after 1 January 2022.

3 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

4 Effective for annual periods beginning on or after 1 January 2023.

5 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

*Amendments to IAS 1, Classification of Liabilities as Current or Non-current, Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

*Amendments to IAS 16, Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

*Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract*

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### (b) New or amended IFRSs that have been issued but are not yet effective *(Continued)*

*IFRS 17, Insurance Contracts*

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

*Amendments to IFRS 3, Reference to the Conceptual Framework*

The amendments update IFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC-Int 21 Levies, the acquirer applies IFRIC-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

*Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

## 2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

### (b) New or amended IFRSs that have been issued but are not yet effective *(Continued)*

*Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16, Interest Rate Benchmark Reform – Phase 2*

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have an impact on the consolidated financial statements.

*Annual Improvements to IFRSs 2018-2020*

The annual improvements amends a number of standards, including:

- IFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- IFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The directors of the Group do not anticipate that the application of the amendments and revision in the future will have a significant impact on the consolidated financial statements.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable IFRSs, IASs and Interpretations (hereinafter collectively referred as the "IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income ("FVOCI") which is carried at fair value.

### (c) Functional and presentation currency

The functional currency of the Company is United States dollars ("USD") and the subsidiaries incorporated in the PRC considered Renminbi ("RMB") as their functional currency. The consolidated financial statements are presented in RMB as in the opinion of the directors of the Group, it presents more relevant information to the management who monitors the performance and financial position of the Group based on RMB.

### (d) Investigation

On 24 March 2021, the Board was informed by the previous auditor that they required additional information and documentation on (i) three overdue receivables of the Company as at 31 December 2020 (as disclosed in sub-notes II. (i) to (iii) below as Transaction 1, Transaction 2 and Transaction 3 and also in note 23); and (ii) the investment in a loan note by the Company in January 2021 (as disclosed below the sub-heading "Summary of key finds of the Independent Investigation") in this note as Transaction 4) during the course of the consolidation financial statements for the current year. According to the resignation letter of the previous auditor, the management provided preliminary explanation that the Transaction 1, Transaction 2 and Transaction 3 were entered into in order to attract the counter-parties who intended to subscribe for the Company's shares (the "Shares") upon the Company's initial public offering and Transaction 4 was entered into purely for the purpose of managing the Company's free cash to earn a higher return and was not associated with Transactions 1, 2 and 3.

*I. Scope of the Investigation and the Expanded Investigation*

Upon receiving the previous auditor's notification, on 24 March 2021, an independent investigation committee then comprising certain Directors, including all the independent non-executive Directors (the "Investigation Committee") was established to carry out an independent investigation (the "Investigation") on the matters raised by the previous auditor. On 12 April 2021, an accounting firm that is not the Company's auditor (the "Forensic Accountant") was appointed as the independent forensic accountant to assist the Investigation Committee in conducting the Investigation.

On 8 May 2021, Mr David Chen ("Mr Chen") (an executive Director and the chairman of the Board) upon the request of the Investigation Committee and in order to facilitate the Investigation, agreed to have all his day-to-day duties, powers and authorities suspended pending outcome of the Investigation.

## 3. BASIS OF PREPARATION *(Continued)*

### (d) Investigation *(Continued)*

#### *I. Scope of the Investigation and the Expanded Investigation* *(Continued)*

The primary scope of the Investigation is to conduct an independent fact-finding in respect of Transaction 1, 2, 3 and 4 (the "Transactions"), so to help assess whether or not there were reasonable commercial substance and business rationale behind the Transactions. The major investigation procedures conducted by the Forensic Accountant included, but not limited to, the following:

(i) obtaining and reviewing documents and correspondence relating to the Transactions (including but not limited to the Loan Agreement 1, Loan Agreement 2 and Loan Agreement 3 and Investment Agreement (all of which were defined in the sub-heading "Summary of the Key findings of the Investigation") correspondences between the Group and the counterparties to the Transactions or others with respect to the Transactions, internal records of the Company, bank documentation, payment proof of listing expenses incurred for the Company's initial public offering (the "IPO") by the Company and the list of investors during the IPO and the corresponding subscription records;

(ii) reviewing the internal control policies and procedures of the Group in relation to the entering of the Transactions and conducting interviews with relevant personnel of the Group who are responsible for carrying out such procedures;

(iii) conducting interview with relevant personnel of the Group (including Directors, management, employees from the finance department and other relevant personnel) to understand, among others, the circumstances leading to the entering of the Transactions (including the approval procedures), as well as its business rationale and commercial substance;

(iv) conducting interviews with relevant representatives of two of the underwriters to the IPO to understand, among others, the circumstances leading to the entering of the Transactions, as well as to ascertain whether they took any role in the entering of the Transactions and whether they have any relationships with the counterparties to the Transactions; and

(v) performing preservation on electronic data under the custody of relevant personnel of the Group, developing search terms pertaining to the Transactions and reviewing electronic data with responsive hits of the search terms.

On 22 July 2021, have considered the then state of findings from the Investigation, and with agreement from the previous auditor, the Investigation Committee decided to and did expand the scope of the Investigation to cover certain business activities of the Group conducted by Mr Chen and Mr Bai Xueping ("Mr Bai") (the then chief financial controller of the Company) for the period between 1 January 2021 to 30 April 2021 (the "Expanded Investigation", together with the Investigation, the "Independent Investigation") pursuant to the recommendation of the previous auditor. The primary scope of the Expanded Investigation focused on a review period from 1 January 2020 to 30 April 2021 to understand the involvement of Mr Chen and Mr Bai in the management of the Group, including as to day-to-day business operations, investment or fund-raising activities, chop and contract management process and conducting sample testing to investigate whether Mr Chen and Mr Bai had engaged in conduct which overrode the Group's existing corporate governance mechanisms.

## 3. BASIS OF PREPARATION *(Continued)*

### (d) Investigation *(Continued)*

#### I. *Scope of the Investigation and the Expanded Investigation (Continued)*

The Independent Investigation was completed in March 2022 with the following key findings:

#### II. *Summary of the Key Findings of the Investigation*

The Independent Investigation had certain limitations in respect of the nature and extent of the procedures conducted. During the course of the preparation of the consolidated financial statements of the Company for the year ended 31 December 2020, the Board took into account the following findings of the Independent Investigation, considered the relevant information and supporting evidence available and had used their best effort to estimate the relevant financial impact of the matters identified in the Independent Investigation.

(i) Transaction 1 – RMB50,000,000 advanced by the Company to Company A on 7 December 2020 pursuant to a loan agreement dated 30 November 2020 (the "Loan Agreement 1") signed by the Company as lender and Company A as borrower, purporting to set out the terms for a loan of RMB50,000,000 from the Company to Company A at an interest rate of 2 % per annum, repayable on 30 December 2020.

(ii) Transaction 2 – RMB53,522,000 advanced by the Company to Company B") on 10 December 2020 pursuant to a loan agreement dated 1 December 2020 (the "Loan Agreement 2") signed by the Company as lender and Company B as borrower, purporting to set out the terms for a loan of RMB53,522,000 from the Company to Company B at an interest rate of 2 % per annum, repayable on 30 December 2020.

(iii) Transaction 3 – RMB14,478,000 advanced by the Company to Company C") (Company C and together with Company A and Company B, the "Borrowers") on 10 December 2020 pursuant to a loan agreement dated 1 December 2020 (the "Loan Agreement 3" and together with Loan Agreement 1 and Loan Agreement 2, the "Loan Agreements")) signed by the Company as lender and Company C as borrower, purporting to set out the terms for a loan of RMB14,478,000 from the Company to Company C at an interest rate of 2 % per annum, repayable on 30 December 2020.

(iv) Transaction 4 – HK$80,000,000 (approximately RMB66,400,000) paid by the Company on 28 January 2021 pursuant to a subscription agreement dated 18 January 2021 (the "Investment Agreement") in respect of HK$80,000,000 secured loan note ("Investment") issued by Company D with a fixed return of 4.5% per annum, due on 17 December 2021.

## 3. BASIS OF PREPARATION *(Continued)*

### (d) Investigation *(Continued)*

*Findings of the Investigation*

(i) Between 30 November 2020 and 1 December 2020, Mr Chen on behalf of the Company entered into the Loan Agreements with the Borrowers for the advancement of short term loans in an aggregate sum of RMB118,000,000 (the "Loans").

(ii) On 7 December 2020, the Company transferred RMB50,000,000 from RMB sub-account (the "Bank A RMB Sub-Account") of a bank account held by the Company at a bank (the "Bank A Account") to Company A. On 10 December 2020, the Company transferred RMB 53,522,000 and RMB 14,778,000 from the Bank A RMB Sub-Account to Company B and Company C respectively.

(iii) The telegraphic transfers of the Loans from the Company's Bank A RMB Sub-Account to each of the Borrowers were approved by Mr Chen and Mr Bai (at the behest of Mr Chen).

(iv) The Loan Agreements were not tabled before the Board for discussion or approval. The Board had not approved the Loan Agreements. Mr Chen admitted that the Loan Agreements were entered into without the Board's prior approval and any background check on the Borrowers and that no guarantee was provided as security for the Loans.

(v) Mr Chen contended that the aggregate sum of RMB118,000,000 paid out from the Company's Bank A RMB Sub-Account were dividend payable to China Gas Investors Ltd. (a controlling shareholder of the Company) ("CGI") and were therefore funds belonging to CGI. Mr Chen had not sought consent from CGI in relation to the change of use of the said funds and the change of use of the said funds had not been approved in compliance with the articles of association of the Company (the "Articles"). The Directors interviewed by Forensic Accountant considered that the funds in the Bank A RMB Sub-Account were dividends payable to the shareholders of the Company and belonged to the Company and that any change of the use of the funds in the Bank A RMB Sub-Account must comply with the provisions of the Articles and the relevant procedure of the Company.

(vi) The Bank A Account is held in the name of and is owned by the Company. The Bank A RMB Sub-Account was set up to hold dividend payable to the shareholders of the Company before completion of the IPO. In the financial statements of the Company published during the IPO and audited by the previous auditors, the asset of the Company comprised such Bank A Account.

(vii) According to Mr Chen, the business rationale for making the Loans was to obtain confidence and good impression from the investors and fulfil their financial needs, so as to attract investors to make investment in the Company in the IPO and the making of the Loans had no direct connection with the IPO. According to Mr Chen, it was after the IPO that one of the underwriters of the IPO notified him that a subscriber who subscribed for the Shares for the sum of US$18,000,000 at the IPO is the sole director and sole shareholder of Company A, the sole director and sole shareholder of Company D, and a former director and shareholder of Company C. Based on the IPO share allocation list, such subscriber subscribed for 13,138,000 Shares.

(viii) Notwithstanding the fact that the Borrowers were three different companies, the Borrowers were potentially associated with one another given that the form and content of the Loan Agreements were highly similar and that certain direct and indirect connections among the Borrowers were identified through desktop internet searches conducted by the Forensic Accountant.

## 3. BASIS OF PREPARATION *(Continued)*

### (d) Investigation *(Continued)*

*Findings of the Investigation (Continued)*

(ix) On 18 January 2021, Mr Chen on behalf of the Company entered into the Investment Agreement with Company D. On 28 January 2021 the Company paid HK$80,000,000 to Company D via a bank account maintained, with another bank ("Bank B")(the "Bank Account") which held the IPO proceeds. The Investment Agreement was not tabled before the Board for discussion and the Investment was not approved by the Board contrary to the Company's policy on financial management and control. The telegraphic transfer of the Investment from the Bank B Account was approved by Mr Chen and Mr Bai (at the behest of Mr Chen).

(x) In a board preparatory meeting held on 13 January 2021, Mr Chen made brief reference to potential investments with IPO proceeds. As the information provided by Mr Chen was limited, the Directors who participated in the meeting required that the use of the IPO proceeds must comply with law and regulations and save for a portion of the IPO proceeds allocated for use for the Company's Hong Kong office, the remaining IPO proceeds should be remitted back to Mainland China and be applied for the purposes set out in the IPO prospectus of the Company. According to the Company's policy on financial management and control, absent an applicable pre-approved budget item, if the Company enters into, amends or terminates a transaction or a series of transactions under any agreement involving an amount exceeding RMB1,000,000, prior approval from the Board shall be required. No resolution was passed in such meeting in relation to the investment products proposed by Mr Chen.

(xi) According to Mr Chen, the purpose of the Investment was to earn a higher return. Mr Chen admitted that the Investment Agreement was entered into (i) contrary to legal advice he had obtained from the Company's then legal advisers, and (ii) before any due diligence was conducted and before any security documents were obtained.

(xii) Mr Bai expressed the view that he personally did not agree to the Transactions and suspected that the counterparties of the Transactions were potentially associated with one another, and that there was a possibility that the Investment Agreement was entered into for the purpose of expediting the repayment of the Loans. According to Mr Bai, the telegraphic transfer was signed by him at the behest of Mr Chen.

(xiii) On 31 March 2021, Mr Chen told a number of Directors that if the Company agreed to a "put option" agreement (the "Proposed Option Agreement"), Company A would procure immediate repayment of the Loans to the Company. Mr. Chen alleged that the Proposed Option Agreement was proposed by Company A but to be entered into with another subscriber of the IPO in respect of not more than 100,000,000 Shares at an option price of HK$1.5 per Share, with an exercise period of 5 to 31 days after the signing of the Proposed Option Agreement. The Proposed Option Agreement was in draft form and did not bear a signatory block for Company A or any known representative of Company A. Mr. Chen did not proffer a reasonable explanation as to why Company A was willing to procure immediate repayment of all three loans if the Proposed Option Agreement was entered. Mr. Chen also did not provide relevant background information about the proposed counterparty. The Proposed Option Agreement was voted down by the Board.

## 3. BASIS OF PREPARATION *(Continued)*

### (d) Investigation *(Continued)*

*Findings of the Investigation (Continued)*

(xiv) The Forensic Accountant conducted an analysis of the top 38 investors in the international offering tranche of the IPO and found that as at 15 November 2021, ten of such investors (representing shareholdings of 96,178,000 shares in aggregate) were potentially connected of which: (i) three investors (representing shareholdings of 36,110,000 Shares in aggregate) appeared to have direct connection with the counter-parties of the Transactions and (ii) seven investors (representing shareholdings of 60,068,000 Shares in aggregate) appeared to have indirect connections with the counter-parties of the Transactions.

*Findings of the Expanded Investigation*

(i) On 20 February 2021, the Company and Xijie'ai (Shanghai) Investment Management Co., Ltd ("Xijie'ai") entered into an agreement ("Xijie'ai Agreement") whereby the Company agreed to reimburse Xijie'ai a sum of HK$2,000,000 for expenses paid by Xijie'ai for the Company in relation to the preparation of the IPO. Mr. Chen was involved in the signing of the Xijie'ai Agreement on behalf of the Company as well as for Xijie'ai.

(ii) On 7 April 2021, a sum of HK$2,000,000 was paid to Xijie'ai via a bank account of the Company maintained with Bank B.

(iii) Xijie'ai is a wholly-owned company established in the PRC on 9 May 2007 by OxyChina Limited (a company incorporated in the British Virgin Islands and is 70% owned by Mr Chen, 10% by Mr Bai and by two independent third parties of the Company each holding 10%). The legal representative of XIjie'ai is Mr. Chen.

(iv) According to the Company's policy on financial management and control, absent an applicable pre-approved budget item, if the Company enters into, amends or terminates a transaction or a series of transactions under any agreement involving an amount exceeding RMB1,000,000, prior approval from the Board shall be required. There are no documents (such as board meeting minutes or board resolutions) to support that Xijie'ai Agreement was approved by the Board.

(v) According to the Articles, a director who to his knowledge is, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists or in any other case at the first meeting of the board after he knows that he is or has become so interested. None of the supporting documents or representations provided by the Company to the Forensic Accountant shows that Mr Chen or Mr Bai has declared his interest to the Board.

## 3. BASIS OF PREPARATION *(Continued)*

### (d) Investigation *(Continued)*

*Findings of the Expanded Investigation (Continued)*

(vi) Save and except for the Xijie'ai Agreement entered into with Xijie'ai, the Expanded Investigation has not uncovered direct evidence of management override of Mr Chen and Mr Bai.

The Board has reviewed the content and the findings, of the Investigation and the Expanded Investigation. The Board is of the view that the Investigation and the Expanded Investigation have comprehensively investigated into the matters raised by the previous auditor. The Board is of the view that, based on its review of the findings of the Independent Investigation and on balance, the nature of Transactions is likely to be as stated in the Loan Agreements that they are loans from the Company to the Borrowers, and the nature of Transaction 4 is likely to be as stated in the Investment Agreement that it is an investment in loan note made by the Company for the purpose of managing free cash to earn higher return. None of the Transactions was approved by the Board. Notwithstanding the Forensic Accountant's conclusion that save and except for the Xijie'ai Agreement, the Expanded Investigation has not uncovered direct evidence of management override by Mr Chen and Mr Bai, given that none of the Transactions were approved by the Board, and that, in particular, the telegraphic transfers made pursuant to the Loan Agreements and the Investment Agreement were approved by Mr Chen and Mr Bai by themselves, the Board considered that there was management override by Mr Chen and Mr Bai.

Although the Company had continuously demanded for settlement with Borrowers, the Company has not received any repayment up to date. After taking into account that the Loans became long overdue and recoverability of the balances, the Group has considered it is unlikely to recover the outstanding loan balances of RMB118,000,000 and hence an impairment provision on loan receivables of RMB118,000,000 has been made and recorded it separately as a line item on the consolidated statement of comprehensive income during the year ended 31 December 2020.

On 17 December 2021 when the Investment became due, the Company did not receive any repayment, and the Company has not received any repayment since then. Although the Company had continuously demanded for settlement with the counter party, the Company has not received any repayment up to date. There is no financial impact to the Group for the year ended 31 December 2020 because the investment were made in January 2021. The Group considered it would have a financial impact for the year ended 31 December 2021 which an impairment provision of RMB66,400,000 will be made.

# 4. SIGNIFICANT ACCOUNTING POLICIES

## (a) Subsidiaries

*Consolidation*

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains/losses on transactions between the companies within the Group are eliminated on consolidation.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Subsidiaries *(Continued)*

*Consolidation (Continued)*

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

*Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The board of directors of the Company, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision-maker ("CODM"). The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The Group has determined that it has two reportable segments as follows:

– Supply of industrial gas

– Liquefied natural gas ("LNG") and gas transmission service

## (c) Foreign currency translation

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is USD, and the subsidiaries are incorporated in the PRC and these entities considered RMB as their functional currency. Since the majority of assets and operations of the Group are located in the PRC, the Historical Financial Information is presented in RMB, which is the Group's presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within "other losses, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Foreign currency translation *(Continued)*

*Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position

– income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

– all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

### (d) Property, plant and equipment

Property, plant and equipment ("PP&E") is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Property, plant and equipment *(Continued)*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | Residual value rate | Estimated useful lives |
|---|---|---|
| Buildings | 3% | 30 years |
| Machinery | 3% | 20 years |
| Electronic equipment | 0% | 5 years |
| Instruments and other equipment | 0% | 10 years |
| Vehicles | 10% | 10 years |
| Leasehold improvements | 0% | Shorter of remaining term of the lease and the estimated useful lives of assets |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in "Other gains or losses, net" in the consolidated statement of comprehensive income.

Construction in progress ("CIP") represents leasehold improvements, production line and manufacturing plants under construction. Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition, and capitalised costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in above.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Intangible assets

Intangible assets represent the computer software purchased from a third party. They are initially recognised and measured at cost. Intangible assets are amortised over their estimated useful lives (generally 3 years) using the straight-line method which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

*Research and development expenses*

The Group recognised costs associated with the Group's research and development as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique projects controlled by the Group are recognised as intangible assets when the following criteria are met: (i) it is technically feasible to complete the project so that it will be available for use, (ii) the management intends to complete the project and use or sell it, (iii) there is an ability to use or sell the project, (iv) it can be demonstrated how the project will generate probable future economic benefits, (v) adequate technical, financial, and other resources to complete the development, and to use or sell the project are available, and (vi) the expenditure attributable to the project during its development can be reliably measured.

Other development costs that do not meet these criteria are recognised as an expense as incurred. The Group has no development costs meeting these criteria and capitalised as intangible assets during the year.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

### (f) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units which are largely independent of the cash inflows from other assets or group of assets). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Financial assets

*Classification*

The Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value through other comprehensive income,

– those to be measured subsequently at fair value through profit or loss, and

– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or other comprehensive income (OCI). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

*Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

*Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Financial assets *(Continued)*

*Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

*Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

*Fair value through other comprehensive income ("FVOCI"):* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains/(losses), net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "Other losses, net" and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

*Fair value through profit or loss ("FVPL"):* Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other losses in the period in which it arises.

*Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in "Other income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets measured at FVPL are recognised in "Other losses, net" as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at FVOCI are not reported separately from other changes in fair value.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Financial assets *(Continued)*

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

*Impairment of financial assets*

The Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost and financial assets at fair value through profit or loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

### (h) Inventories

Inventories, mainly consisting of finished goods and spare parts, are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Trade and other receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

### (j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (k) Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### (l) Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at, amortised cost using the effective interest method.

### (m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

### (o) Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company and its subsidiaries, on or before the end of the reporting period but not distributed at the end of the reporting period.

### (p) Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

*Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*Deferred income tax*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable profit will be available to utilise those temporary differences and losses.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Current and deferred income tax *(Continued)*

*Deferred income tax (Continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

### (q) Employee benefits

*Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

*Pension obligations*

Full-time employees in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no further payment obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined contribution pension plans even if the employee leaves.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Employee benefits *(Continued)*

*Housing funds, medical insurances and other social insurances*

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

*Bonus entitlements*

The expected cost of bonus payments is recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

### (r) Earnings per share

*Basic earnings per share*

Basic earnings per share is calculated by dividing:

– the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and

– by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

– the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

– the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for further operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for industrial gas generated and supplied or services provided, stated net of value added taxes.

Revenue is recognised when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point of time. The following is a description of the accounting policy for our principle revenue streams:

*Supply of industrial gas*

Sales and distribution of natural gas are recognised at a point in time when control is transferred to customers, which generally coincides with the time when gas is transmitted and used by the customers, and is based on the gas consumption data derived from meter readings. Payment of the transaction price is due immediately at the point the customer consume the gas.

*Supply of liquefied industrial gas and liquefied natural gas ("LNG")*

For supply of liquefied industrial gas and liquefied natural gas for which the control of products is transferred to customer on delivery, revenue is recognised at a point in time when the customer obtains the physical possession of products and the Group has present right to payment and the collection of the consideration is probable.

*Gas transmission service*

For gas transmission service for which the obligation of service is satisfied on transmission of gas, revenue is recognised for each reporting period based on the volume of gas transmitted and the unit service fee as agreed in the service contract.

*Others*

Others consist of income from sales of compressed natural gas and LNG for vehicles at natural gas station, and other special gas etc., which are recognised when the relevant items are delivered to the buyers.

*Contract liabilities*

A contract liability is recorded when the Group's obligation to transfer goods to a customer has not yet occurred but for which the Group has received consideration from the customer. The Group presents such advances from customers as contract liabilities on the consolidated statement of financial position.

### (u) Leases

The Group leases land, office and buildings as lessee. Rental contracts are typically made for fixed periods of 1 to 20 years and may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortised over the shorter of the asset's useful life and the lease term on a straight-line basis.

# 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (u) Leases *(Continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received any initial direct costs, and
- restoration costs.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less and leases with a remaining term of 12 months or less as of the date of initial adoption of IFRS 16.

The right-of-use assets and the lease liabilities are present separately on the consolidated statement of financial position.

## (v) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Deferred taxation

The Group's operating subsidiaries in the PRC are subject to Enterprise Income Tax. Significant judgement is required in determining the deferred tax relating to certain temporary differences and tax losses in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises assets or liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the deferred income tax assets and liabilities in the period in which such determination is made.

### (b) Useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives and residual values of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives or residual values are less than previously estimated values. Actual economic lives and residual values may differ from estimated useful lives and residual values. Periodic review could result in a change in depreciable and amortisable lives and residual values, which therefore affect the depreciation and amortisation charges in future periods.

### (c) Impairment of property, plant and equipment

The Group evaluates the impairment risks of property, equipment and leasehold improvements in accordance with the accounting policies stated in Note 4(d). Recoverable amounts of property, plant and equipment is the value in use, which is higher than the asset's fair value less costs of disposal. When calculating the value in use, the Group is required to estimate and evaluate the future cash flow of each assets group and the discount rate to determine the current value. As at 31 December 2020, the net carrying amounts of property, plant and equipment are RMB1,495,555,815 (2019: RMB1,392,908,593).

### (d) Impairment of trade, notes and other receivables

The loss allowances for trade, notes and other receivables are based on assumptions about risk of default and expected credit loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 4(g).

## 6. SEGMENT INFORMATION

The executive directors of the Company have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance of the Group on a regular basis and allocate resources.

The Group is principally engaged in the production and supply of industrial gas in the PRC. The Group is also engaged in production and supply of liquefied natural gas and related gas transmission service. The chief operating decision-maker assesses performance of the business based on a measure of operating results and consider the business from the product perspective. Information reported to the chief operating decision-makers for the purposes of resources allocation and performance assessment focuses on the operation results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified two operating segments as follows:

– Supply of industrial gas

– Liquefied natural gas ("LNG") and gas transmission service

**(i)** The Group reportable segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

| | **Year ended 31 December 2020** | | | |
|---|---|---|---|---|
| | **Supply of industrial gas (pipeline and liquefied) RMB** | **LNG and gas transmission service RMB** | **Elimination RMB** | **Group RMB** |
| Segment revenue | **1,116,274,950** | **81,223,653** | **(10,674,985)** | **1,186,823,618** |
| Gross profit | **268,345,600** | **669,135** | | **269,014,735** |

| | Year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Supply of industrial gas (pipeline and liquefied) RMB | LNG and gas transmission service RMB | Elimination RMB | Group RMB |
| Segment revenue | 1,213,558,830 | 104,268,851 | (12,675,535) | 1,305,152,146 |
| Gross profit | 277,059,036 | 5,170,885 | – | 282,229,921 |

## 6. SEGMENT INFORMATION *(Continued)*

### (ii) Geographic information

The Company is domiciled in the Cayman Islands while the Group operates its business in mainland China and all its revenue is derived in mainland China. Accordingly, no geographical information on the total revenues is presented.

### (iii) Information about major customers

The customers which contributed more than 10% of the total revenue of the Group are as follows:

| | 2020 | 2019 |
|---|---|---|
| Customer A | 88% | 84% |

## 7. REVENUE

All the Group's revenue is derived from contracts with customers.

The Group is principally engaged in the production and supply of industrial gases, liquefied natural gas and related gas transmission service in the PRC. An analysis of the Group's revenue by category for the year ended 31 December 2020 is disclosed as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Recognised at a point in time | | |
| Supply of pipeline industrial gas | 877,510,419 | 931,635,716 |
| Supply of liquefied industrial gas | 214,981,944 | 255,195,947 |
| Supply of LNG and gas transmission service | 81,223,653 | 103,598,975 |
| Others | 13,107,602 | 14,721,508 |
| | 1,186,823,618 | 1,305,152,146 |

## 7. REVENUE *(Continued)*

### Contract liabilities

The Group presents advances from customers as contract liabilities on the consolidated statement of financial position.

The Group has recognised the following contract liabilities:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| *Contract liabilities arising from:* | | |
| – Supply of liquefied industrial gas | **4,607,004** | 4,542,522 |
| – Supply of LNG | **717,250** | 1,290,269 |
| – Others | **988,911** | 1,260,748 |
| | **6,313,165** | 7,093,539 |

### Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in each of the year relates to carried-forward contract liabilities at the beginning of the year.

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Supply of liquefied industrial gas | **1,857,602** | 3,368,200 |
| Supply of LNG | **542,817** | 2,382,864 |
| Others | **754,503** | 489,288 |
| | **3,154,922** | 6,240,352 |

## 8. OTHER INCOME

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Investment income from bank wealth management products | – | 345,312 |
| Government grants *(note)* | 1,787,307 | 1,900,783 |
| Others | 4,104 | 700 |
| | 1,791,411 | 2,246,795 |

Note: Government grants are all income related and there exists no unfulfilled conditions or other contingencies attaching to these government grants.

## 9. OTHER LOSSES, NET

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Net foreign exchange losses | 2,962,394 | 28,854 |
| Losses on disposal of property, plant and equipment | 1,160,764 | 392,446 |
| Impairment of property, plant and equipment | 15,634,719 | – |
| Others | 1,239,406 | – |
| | 20,997,283 | 421,300 |

## 10. FINANCE COSTS, NET

| | 2020 RMB | 2019 RMB |
|---|---|---|
| *Finance income:* | | |
| Interest income from bank deposits | 1,200,226 | 399,142 |
| *Finance costs:* | | |
| Interest expenses on bank borrowings | (23,747,059) | (18,627,367) |
| Interest expense on discount of notes receivable | – | (179,957) |
| Interest expense on lease liabilities | (467,701) | (964,996) |
| Add: amount capitalised | 288,880 | – |
| Finance costs expensed | (23,925,880) | (19,772,320) |
| **Finance costs, net** | (22,725,654) | (19,373,178) |

Finance costs have been capitalised on qualifying assets at average interest rates of 4.99% per annum for the year ended 31 December 2020 (2019: Nil).

Interest and related expenses mainly arise from the borrowings disclosed in Note 29.

## 11. EXPENSES BY NATURE

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Auditor's remuneration – BDO Limited* | **5,280,000** | – |
| Consumption of utilities | **744,539,486** | 822,480,271 |
| Consumption of raw materials and low value consumables | **30,440,112** | 54,756,552 |
| Changes in inventories of finished goods | **1,920,520** | (3,842,341) |
| Depreciation of property, plant and equipment *(Note 17)* | **97,931,779** | 94,850,557 |
| Amortisation of right-of-use assets *(Note 18)* | **4,348,446** | 4,084,906 |
| Employee benefits expenses *(Note 12)* | **40,041,260** | 46,735,749 |
| Freight expenses | **21,113,329** | 22,066,944 |
| Equipment maintenance expenses | **23,385,136** | 24,484,219 |
| Operating service charges | **13,365,867** | 13,365,867 |
| Tax surcharges | **7,342,272** | 8,049,486 |
| Outsourcing labour costs | **1,800,547** | 2,128,964 |
| Amortisation of intangible assets *(Note 19)* | **612,573** | 343,224 |
| Professional service fee | **159,227** | 973,603 |
| Listing expenses | **24,434,456** | 19,886,446 |
| Credit loss allowance for loan receivables | **118,000,000** | – |
| Others | **6,489,427** | 5,214,372 |
| | **1,141,204,437** | 1,115,578,819 |

* This amount excluded RMB2,800,000 of former auditor remuneration for the year ended 31 December 2020 (2019: Nil).

## 12. EMPLOYEE COSTS

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Wages, salaries, bonuses | **32,310,161** | 32,932,573 |
| Housing funds, medical insurance and other social welfare contributions *(note(i))* | **5,562,428** | 6,587,719 |
| Pension costs – defined contribution plans *(note(ii))* | **416,635** | 5,224,535 |
| Other benefits | **1,752,036** | 1,990,922 |
| | **40,041,260** | 46,735,749 |

Notes:

(i) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 15.5% to 24% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(ii) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 0% to 20% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

## 13. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments (including chief executives)

Directors' and chief executives' remuneration for both years, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinances is as follows:

| | Wages, salaries, bonuses RMB | Pension costs-defined contribution plans RMB | Housing funds, medical insurance and other social welfare contributions RMB | Director's fees RMB | Discretionary bonus RMB | Total RMB |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2020** | | | | | | |
| *Executive directors* | | | | | | |
| David T Chen *(note(i))* | – | – | – | 8,486 | – | 8,486 |
| Yao Li | – | – | – | 8,486 | – | 8,486 |
| Gao Guimin | – | – | – | 8,486 | – | 8,486 |
| *Non-executive directors* | | | | | | |
| Zhang Aimin | – | – | – | 4,243 | – | 4,243 |
| Lai Yui | – | – | – | 4,243 | – | 4,243 |
| Ng Shuk Ming | – | – | – | 4,243 | – | 4,243 |
| *Independent non-executive directors* | | | | | | |
| Siu Chi Hung *(note(ii))* | – | – | – | 4,243 | – | 4,243 |
| Xiao Huan Wei *(note(ii))* | – | – | – | 4,243 | – | 4,243 |
| Li Chun Elsy *(note(ii))* | – | – | – | 4,243 | – | 4,243 |
| | – | – | – | 50,916 | – | 50,916 |

## 13. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

*(Continued)*

### (a) Directors' emoluments (including chief executives) *(Continued)*

| | Wages, salaries, bonuses RMB | Pension costs- defined contribution plans RMB | Housing funds, medical insurance and other social welfare contributions RMB | Director's fees RMB | Discretionary bonus RMB | Total RMB |
|---|---|---|---|---|---|---|
| Year ended 31 December 2019 | | | | | | |
| *Executive directors* | | | | | | |
| David T Chen | – | – | – | – | – | – |
| Yao Li | – | – | – | – | – | – |
| Gao Guimin *(note (iii))* | – | – | – | – | – | – |
| *Non-executive directors* | | | | | | |
| Zhang Aimin | – | – | – | – | – | – |
| Lai Yui | – | – | – | – | – | – |
| Ng Shuk Ming | – | – | – | – | – | – |
| *Other director* | | | | | | |
| Tian Chuan *(note (iv))* | – | – | – | – | – | – |
| | – | – | – | – | – | – |

Notes:

(i) David T Chen was suspended his duties since 11 May 2021.

(ii) Siu Chi Hung, Xiao Huan Wei, and Li Chun Elsy commenced their service as the Company's independent non-executive directors since 29 December 2020.

(iii) Gao Guimin was appointed as the Company's executive director since December 2019.

(iv) Tian Chuan resigned as Company's director since December 2019.

(v) No directors received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the reporting period. No directors waived or agreed to waive any emoluments during the reporting period.

(vi) None of the directors received or receive any retirement benefits or termination benefits during the reporting period.

(vii) The Group did not pay consideration to any third parties for making available directors' services during the reporting period.

(viii) As at 31 December 2020, there are no loans, quasi-loans and other dealings arrangement in favour of directors, controlled bodies corporate by and controlled entities with such directors.

## 13. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

*(Continued)*

### (b) The five highest paid individuals

The five individuals whose remunerations were the highest in the Group for the reporting period were executives of the Group, none of them was a director of the Group. Details of the emoluments of the five highest paid individuals of the Group during the reporting period are as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Wages, salaries, bonuses | **2,817,442** | 2,118,865 |
| Pension costs - defined contribution plans | **27,210** | 263,120 |
| Housing funds, medical insurance and other social welfare contributions | **224,209** | 238,777 |
| | **3,068,861** | 2,620,762 |

The emoluments of the above five highest paid individuals were within the following bands:

| | 2020<br>Number of<br>individuals | 2019<br>Number of<br>individuals |
|---|---|---|
| Emolument band | | |
| Nil to HKD1,000,000 | **4** | 5 |
| HKD1,500,001 to HKD2,000,000 | **1** | – |
| | **5** | 5 |

During the year, no emoluments were paid by the Group to any directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any emolument during the year.

Remunerations for one of the five highest paid individuals were paid by the Group through the payment of service charges to its related party with the amount of RMB1,606,740, and RMB433,140 for the years ended 31 December 2020 and 2019 respectively.

## 14. INCOME TAX EXPENSE

The income tax expense of the Group is analysed as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Current tax | | |
| – PRC Corporate Income Tax | 22,612,978 | 23,403,348 |
| Deferred tax (Note 31) | | |
| – Charged to profit or loss for the year | 8,772,028 | 14,784,783 |
| Income tax expense | 31,385,006 | 38,188,131 |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Profit before income tax expense | 3,687,655 | 172,025,644 |
| Tax thereon at domestic rates applicable to profit or loss in the jurisdictions concerned | 921,914 | 43,006,411 |
| Effect of different tax rates in other jurisdictions (note(a)) | 37,906,888 | 4,986,829 |
| Preferential income tax rates applicable to subsidiaries and branches (note(b)) | (15,127,371) | (19,353,134) |
| Tax effect of expenses not deductible for tax purposes | 1,121,294 | 14,009 |
| Withholding tax on profits made in China (note(c)) | 11,117,236 | 14,784,783 |
| Utilisation of previously unrecognised deductible temporary differences | (254,041) | – |
| Tax losses for which no deferred income tax assets were recognised | 1,197,065 | 659,982 |
| Super deduction for research and development (note(d)) | (5,633,264) | (5,718,827) |
| Income not subject to tax (note(e)) | (264,953) | (281,808) |
| Tax filing difference (note(f)) | 395,894 | 163,073 |
| Others | 4,344 | (73,187) |
| Income tax expense | 31,385,006 | 38,188,131 |

## 14. INCOME TAX EXPENSE *(Continued)*

Notes:

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law and is not subject to income tax. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

(b) PRC enterprise income tax

Income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the period, based on the existing legislation, interpretations and practises in respect thereof. The general corporate income tax rate in the PRC is 25%. Tangshan Tangsteel Gases Co., Ltd, a subsidiary of the Group, was approved as High and New Technology Enterprise in the PRC in 2016, and was entitled to a preferential income tax rate of 15% in the years of 2016, 2017 and 2018. In 2019, Tangshan Tangsteel Gases Co., Ltd renewed this qualification and will continue to enjoy this preferential tax rate of 15% in the years of 2019, 2020 and 2021. Luanxian Tangsteel Gases Co., Ltd., a subsidiary of the Group, was approved as High and New Technology Enterprise in the PRC in 2018, and was entitled to a preferential income tax rate of 15% in the years of 2018, 2019 and 2020.

(c) PRC withholding tax

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% withholding income tax. The Company has recognised deferred tax liabilities for undistributed profits of its subsidiaries in the PRC.

(d) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Tax Bureau of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that period ("Super Deduction"). According to regulations promulgated by the State Tax Bureau of the People's Republic of China that was effective from 2018 to 2020, later extended to 2023, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that period ("Super Deduction").

(e) Income not subject to tax

According to the relevant laws and regulations promulgated by the State Tax Bureau of the People's Republic of China, the Group's subsidiaries in Mainland China are entitled to deduct 10% of their revenue generated from supply of self-produced industrial hydrogen gas when determining their assessable profits during the period.

(f) Tax filing differences

The Group's tax filing differences mainly represented tax adjustments of deductible expenditures under PRC tax jurisdiction, which mainly included business entertainment expenses and disabled employees benefits, and the differences were not material during the period.

## 15. DIVIDENDS

| | **2020**<br>**RMB** | 2019<br>RMB |
|---|---|---|
| Declared dividends | **267,743,000** | – |

## 15. DIVIDENDS *(Continued)*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Dividends payable at beginning of the year | **14,900,000** | 14,900,000 |
| Declaration of dividends during the year | **267,743,000** | – |
| Dividends paid during the year | **(33,200,000)** | – |
| | **249,443,000** | 14,900,000 |

At a meeting of the Directors held on 31 March 2022, the Directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2020 (2019: RMB0.957 per share in an aggregate amount of RMB101,046,000).

The dividend for the year ended 31 December 2017, 2018, and 2019 was approved at the Board meeting held on 20 October 2019. The divided paid during the year ended 31 December 2020 amounted to RMB33,200,000.

## 16. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the following data.

| | 2020 RMB | 2019 RMB |
|---|---|---|
| **(Loss)/Earnings** | | |
| (Loss)/profit for the year attributable to owners of the Company | **(27,697,351)** | 133,837,513 |

| | 2020 Number | 2019 Number (Restated) |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares | **902,465,753** | 896,173,240 |

Note:

Weighted average number of ordinary shares in issue and basic (loss)/earnings were stated after taking into account the effect of the share capitalisation. Comparative figures have also been restated on the assumption that the share capitalisation had been effective in prior year.

Diluted (loss)/earnings per share were the same as the basic earnings per share as the Group had no potential dilutive ordinary shares during the years ended 31 December 2020 and 2019.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB | Leasehold improvements RMB | Machinery RMB | Electronic equipment RMB | Instruments and other equipment RMB | Vehicles RMB | Construction in progress RMB | Total RMB |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2019** | | | | | | | | |
| Cost | 85,176,343 | 54,068,343 | 1,727,954,014 | 2,640,827 | 55,912,651 | 17,711,271 | 13,427,971 | 1,956,891,420 |
| Accumulated depreciation | (7,386,841) | (30,114,953) | (667,683,049) | (2,555,506) | (36,753,230) | (12,311,609) | – | (756,805,188) |
| **Net book amount** | 77,789,502 | 23,953,390 | 1,060,270,965 | 85,321 | 19,159,421 | 5,399,662 | 13,427,971 | 1,200,086,232 |
| **Year ended 31 December 2019** | | | | | | | | |
| Opening net book amount | 77,789,502 | 23,953,390 | 1,060,270,965 | 85,321 | 19,159,421 | 5,399,662 | 13,427,971 | 1,200,086,232 |
| Additions | – | – | 533,101 | – | 6,466,938 | 2,155,922 | 194,152,587 | 203,308,548 |
| Transfer from prepayments for construction in progress and equipment | – | – | – | – | – | – | 84,774,912 | 84,774,912 |
| Internal transfer | – | – | 3,942,260 | – | – | – | (3,942,260) | – |
| Disposals | – | – | – | – | – | (410,542) | – | (410,542) |
| Depreciation charge | (2,811,099) | (2,103,320) | (84,985,625) | (27,385) | (3,617,550) | (1,305,578) | – | (94,850,557) |
| **Closing net book amount** | 74,978,403 | 21,850,070 | 979,760,701 | 57,936 | 22,008,809 | 5,839,464 | 288,413,210 | 1,392,908,593 |
| **At 31 December 2019** | | | | | | | | |
| Cost | 85,176,343 | 54,068,343 | 1,732,429,375 | 2,640,827 | 62,379,589 | 15,761,777 | 288,413,210 | 2,240,869,464 |
| Accumulated depreciation | (10,197,940) | (32,218,273) | (752,668,674) | (2,582,891) | (40,370,780) | (9,922,313) | – | (847,960,871) |
| **Net book amount** | 74,978,403 | 21,850,070 | 979,760,701 | 57,936 | 22,008,809 | 5,839,464 | 288,413,210 | 1,392,908,593 |

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Buildings RMB | Leasehold improvements RMB | Machinery RMB | Electronic equipment RMB | Instruments and other equipment RMB | Vehicles RMB | Construction in progress RMB | Total RMB |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2020** | | | | | | | | |
| Cost | 85,176,343 | 54,068,343 | 1,732,429,375 | 2,640,827 | 62,379,589 | 15,761,777 | 288,413,210 | 2,240,869,464 |
| Accumulated depreciation | (10,197,940) | (32,218,273) | (752,668,674) | (2,582,891) | (40,370,780) | (9,922,313) | – | (847,960,871) |
| **Net book amount** | 74,978,403 | 21,850,070 | 979,760,701 | 57,936 | 22,008,809 | 5,839,464 | 288,413,210 | 1,392,908,593 |
| **Year ended 31 December 2020** | | | | | | | | |
| Opening net book amount | 74,978,403 | 21,850,070 | 979,760,701 | 57,936 | 22,008,809 | 5,839,464 | 288,413,210 | 1,392,908,593 |
| Additions | – | – | 546,903 | – | 674,425 | 1,035,168 | 212,672,537 | 214,929,033 |
| Transfer from prepayments for construction in progress and equipment | – | – | – | – | – | – | 2,513,191 | 2,513,191 |
| Internal transfer | – | – | 356,076,079 | 327,096 | – | – | (356,403,175) | – |
| Impairment | (12,001,171) | – | (3,633,548) | – | – | – | – | (15,634,719) |
| Disposals | – | – | – | – | – | (1,228,504) | – | (1,228,504) |
| Depreciation charge | (4,937,043) | (2,103,320) | (86,053,833) | (61,187) | (3,575,230) | (1,201,166) | – | (97,931,779) |
| **Closing net book amount** | 58,040,189 | 19,746,750 | 1,246,696,302 | 323,845 | 19,108,004 | 4,444,962 | 147,195,763 | 1,495,555,815 |
| **At 31 December 2020** | | | | | | | | |
| Cost | 112,091,677 | 54,068,343 | 2,066,200,164 | 5,975,086 | 56,282,048 | 10,585,632 | 147,195,763 | 2,452,398,713 |
| Accumulated depreciation | (54,051,488) | (34,321,593) | (819,503,862) | (5,651,241) | (37,174,044) | (6,140,670) | – | (956,842,898) |
| **Net book amount** | 58,040,189 | 19,746,750 | 1,246,696,302 | 323,845 | 19,108,004 | 4,444,962 | 147,195,763 | 1,495,555,815 |

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Cost of sales | **85,765,974** | 85,502,078 |
| Administrative expenses | **3,467,922** | 165,440 |
| Research and development expenses | **8,697,883** | 9,183,039 |
| | **97,931,779** | 94,850,557 |

As at 31 December 2020, the Group is still in the process of applying for the building ownership certificates of certain of its buildings, and the aggregated carrying amounts of these buildings amounted to approximately RMB 58,040,189 (2019: RMB 74,978,403). The Group is in the process of obtaining land use rights for the land at Yutian Branch of Tangshan Tangsteel Gases Co., Ltd.

In preparation for the Group's future development on its industrial gas business, the management has performed an impairment assessment on the Group's related property, plant and equipment during the current year, taking into account the Group's future operating plans and the outlook of the industry. The assessment was performed on the relevant assets or cash generating unit ("CGU") level when there are indicators of possible impairment of that assets or CGU. The recoverable amount has been determined based on the higher of value-in-use and fair value less costs of disposal.

The assets that were impaired by the Group during the year included buildings and machinery used specifically to serve a particular customer within one of the Group's CGU. Following the customer's relocation, the relevant assets held no further alternative use and could not be transferred to a different CGU. Accordingly, management of the Group assessed their recoverable amount with reference to their fair value less cost of disposal as level 3 measurement using the market approach. Given there was no available market for the relevant assets, management determined the fair value to be RMBNil.

Based on the assessment result, the Group recognised an impairment loss for some property, plant and equipment amounted to RMB15,634,719 (2019: Nil) for the year and recorded it under the line item of "Other losses, net" on the consolidated statement of comprehensive income. As a result of technological obsolescence, certain assets were written off to its fair value less cost of disposal which was RMBNil as at 31 December 2020 and the amount written off was RMB15,634,719 (2019: Nil) for the year.

## 18. RIGHT-OF-USE ASSETS

| | Land use rights RMB | Leased properties RMB | Total RMB |
|---|---|---|---|
| **Year ended 31 December 2019** | | | |
| Opening net book amount | 938,428 | 6,128,688 | 7,067,116 |
| Additions | 17,976,137 | 8,112,798 | 26,088,935 |
| Amortisation charge (Note 11) | (322,328) | (3,762,578) | (4,084,906) |
| **Closing net book amount** | 18,592,237 | 10,478,908 | 29,071,145 |
| **At 31 December 2019** | | | |
| Cost | 18,998,797 | 16,137,173 | 35,135,970 |
| Accumulated amortisation | (406,560) | (5,658,265) | (6,064,825) |
| **Net book amount** | 18,592,237 | 10,478,908 | 29,071,145 |
| **Year ended 31 December 2020** | | | |
| Opening net book amount | **18,592,237** | **10,478,908** | **29,071,145** |
| Additions | **24,748,341** | **–** | **24,748,341** |
| Amortisation charge (Note 11) | **(629,732)** | **(3,718,714)** | **(4,348,446)** |
| **Closing net book amount** | **42,710,846** | **6,760,194** | **49,471,040** |
| **At 31 December 2020** | | | |
| Cost | **43,747,138** | **16,137,173** | **59,884,311** |
| Accumulated amortisation | **(1,036,292)** | **(9,376,979)** | **(10,413,271)** |
| **Net book amount** | **42,710,846** | **6,760,194** | **49,471,040** |

| | **2020 RMB** | 2019 RMB |
|---|---|---|
| Amortisation of right-of-use assets | **4,348,446** | 4,084,906 |
| Interest expenses | **467,701** | 964,996 |
| The cash outflow relating to short-term leases | **38,000** | 38,000 |
| The cash outflow for leases as operating activities | **42,740** | 51,302 |
| The cash outflow for leases as financing activities | **123,364** | 114,802 |

## 19. INTANGIBLE ASSETS

| | Computer software RMB |
|---|---|
| **Year ended 31 December 2019** | |
| Opening net book amount | – |
| Additions | 1,837,718 |
| Amortisation charge (Note 11) | (343,224) |
| **Closing net book amount** | 1,494,494 |
| **At 31 December 2019** | |
| Cost | 1,837,718 |
| Accumulated amortisation | (343,224) |
| **Net book amount** | 1,494,494 |
| **Year ended 31 December 2020** | |
| Opening net book amount | **1,494,494** |
| Amortisation charge (Note 11) | **(612,573)** |
| Closing net book amount | **881,921** |
| **At 31 December 2020** | |
| Cost | **1,837,718** |
| Accumulated amortisation | **(955,797)** |
| **Closing net book amount** | **881,921** |

Amortisation expenses with the amount of RMB612,573 and RMB343,224 have been charged to administrative expenses in the consolidated statement of comprehensive income in the years ended 31 December 2020 and 2019 respectively.

## 20. OTHER ASSETS

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Prepayments for construction in progress and equipment | **45,998,945** | 2,513,191 |
| Prepayments for land use rights | **–** | 11,613,770 |
| | **45,998,945** | 14,126,961 |

## 21. INVENTORIES

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Finished goods | **6,128,003** | 7,649,786 |
| Spare parts | **4,061,688** | 3,466,100 |
| Less: provisions | **(307,063)** | – |
| | **9,882,628** | 11,115,886 |

During the year ended 31 December 2020, a provision of RMB 307,063 (2019: Nil) was made against the carrying value of inventories.

## 22. TRADE RECEIVABLES

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Trade receivables | **277,926,097** | 277,809,582 |
| Less: allowance for impairment | **–** | – |
| | **277,926,097** | 277,809,582 |

As at 31 December 2020 and 2019, fair values of the trade receivables of the Group approximated their carrying amounts.

## 22. TRADE RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis of trade receivables based on the invoice date is as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Up to 6 months | **252,713,343** | 254,735,103 |
| 6 months to 1 year | **24,765,344** | 16,700,926 |
| 1 to 2 years | **285,952** | 6,373,553 |
| Over 2 years | **161,458** | – |
| | **277,926,097** | 277,809,582 |

The Group's trade receivables are generally collectible within 180 days from the invoice date. No interest is charged on the trade receivables. The overdue balances were due from certain frequent customers and management considers that these receivables are recoverable with no significant credit losses.

(b) As at 31 December 2020 and 2019, the carrying amount of the Group's gross trade receivables are denominated in RMB.

(c) The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which requires expected lifetime losses to be recognised from initial recognition. The expected loss rates are based on the payment profiles of related customers and the corresponding historical credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

As at 31 December 2020 and 2019, the expected credit loss was minimal as the receivables were mainly due from HBIS Group Co., Ltd. ("HBIS") and its subsidiaries and their respective associates.

HBIS is a wholly-owned subsidiary of State-owned Assets Supervision and Administration Commission ("SASAC") of Hebei Provincial People's Government and one of the Company's controlling shareholders, with whom the Company has strong business relationship. Customers other than the HBIS Group are also subject to the Group's stringent admission criteria and risk management measures. These receivables had limited history of default, certain amount of receivables were subsequently settled, and there was no significant unfavourable current conditions and forecast future economic conditions identified as at 31 December 2020 and 2019. The Group considered the impact of COVID-19 and incorporated related forward-looking factors to measure expected credit losses as at 31 December 2020, and determined that the expected credit loss retained to be minimal as at 31 December 2020.

## 23. LOAN RECEIVABLES

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Unsecured and non-guaranteed, fixed-rate loan receivables | **118,000,000** | – |
| Less: allowance for impairment | **(118,000,000)** | – |
| | **–** | – |

## 23. LOAN RECEIVABLES *(Continued)*

During the year 2020, the Group has entered into three loan agreements with the aggregate principal amount of RMB 118,000,000. Details of these transactions are listed as below:

(a) On 30 November 2020, the Group entered into the Loan Agreement 1 with Company A. Pursuant to the agreement, the Group provided a loan with the principal amount of RMB50,000,000 to Company A and the loan would mature and the aggregate principal amount outstanding and all accrued and unpaid interest shall be immediately due and payable on 30 December 2020. As of 31 December 2020, the total amount of RMB50,000,000 was outstanding and was recorded as loan receivables on the Group's consolidated statement of financial position.

(b) On 1 December 2020, The Group entered into the Loan Agreement 2 with Company B. Pursuant to the agreement, the Group provided a loan with the principal amount of RMB53,522,000 to Company B, and the loan would mature and the aggregate principal amount outstanding and all accrued and unpaid interest shall be immediately due and payable on 30 December 2020. As of 31 December 2020, the total amount of RMB53,522,000 was outstanding and was recorded as loan receivables on the Group's consolidated statement of financial position.

(c) On 1 December 2020, the Group entered into the Loan Agreement 3 with Company C. Pursuant to the agreement, the Group provided a loan with the principal amount of RMB14,478,000 to Company C, and the loan would mature and the aggregate principal amount outstanding and all accrued and unpaid interest shall be immediately due and payable on 30 December 2020. As of 31 December 2020, the total amount of RMB14,478,000 was outstanding and was recorded as loan receivables on the Group's consolidated statement of financial position.

The Group recorded an impairment loss of RMB118,000,000 separately as a line item on the consolidated statement of comprehensive income which represent the aggregate amount of principal outstanding as at 31 December 2020.

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2020**<br>**RMB** | 2019<br>RMB |
|---|---|---|
| Value-added tax ("VAT") recoverable | **78,387,498** | 62,645,366 |
| Receivables due from related parties (Note 37) | **1,308,451** | 63,444,073 |
| Utilities and other prepayments | **1,167,760** | 1,222,588 |
| Deferred listing expenses | **–** | 6,327,647 |
| Deposits | **2,410,920** | 400,000 |
| Others | **724,764** | 865,057 |
| | **83,999,393** | 134,904,731 |

As at 31 December 2020 and 2019, the carrying amounts of other receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates. Other receivables that are measured at amortised costs included receivables due from a related party, deposits and others were considered to be of low credit risk, and thus the impairment provision recognised during the years ended 31 December 2020 and 2019 was limited to 12 months expected losses. The expected credit losses was minimal as these receivables were mainly due from a related party within the HBIS Group, these receivables also had no history of default, certain amount of receivables were subsequently settled, and there was no significant unfavourable current conditions and forecast future economic conditions identified as at 31 December 2020 and 2019.

## 25. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

### (a) Cash and cash equivalents comprise:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Cash on hand | – | 794 |
| Cash at banks | 511,834,079 | 139,789,694 |
| | 511,834,079 | 139,790,488 |

Denominated in:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| RMB | 161,359,740 | 84,411,081 |
| USD | 30,284,741 | 55,379,407 |
| HKD | 320,189,598 | – |
| | 511,834,079 | 139,790,488 |

## 25. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH *(Continued)*

### (b) Reconciliation of liabilities arising from financing activities:

| | Borrowings<br>RMB | Lease liabilities<br>RMB | Total<br>RMB |
|---|---|---|---|
| **At 1 January 2019** | 388,000,000 | 6,516,225 | 394,516,225 |
| **Change from financing cash flows:** | | | |
| Additions of new borrowings | 264,340,855 | – | 264,340,855 |
| Repayment of borrowings | (218,000,000) | – | (218,000,000) |
| Lease payments | – | (166,104) | (166,104) |
| **Other changes:** | | | |
| Additions to new leases | – | 8,112,798 | 8,112,798 |
| Capitalisation of shareholder loan | (66,340,855) | – | (66,340,855) |
| Finance costs | – | 964,996 | 964,996 |
| Other non-cash movement | – | (423,029) | (423,029) |
| **At 31 December 2019 and 1 January 2020** | 368,000,000 | 15,004,886 | 383,004,886 |
| **Change from financing cash flows:** | | | |
| Additions of new borrowings | **470,496,401** | **–** | **470,496,401** |
| Repayment of borrowings | **(244,000,000)** | **–** | **(244,000,000)** |
| Lease payments | **–** | **(166,104)** | **(166,104)** |
| **Other changes:** | | | |
| Finance costs | **–** | **467,701** | **467,701** |
| Other non-cash movement | **–** | **(2,002,751)** | **(2,002,751)** |
| **At 31 December 2020** | **594,496,401** | **13,303,732** | **607,800,133** |

## 26. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

The financial assets at FVOCI comprise the following investments in notes receivables:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Notes receivables | 46,823,190 | 51,316,794 |

These assets are classified as current assets due to their short maturity.

On disposal of these financial assets, any related balance within the FVOCI reserve is reclassified to profit or loss.

## 27. FINANCIAL INSTRUMENTS BY CATEGORY

The following table shows the carrying amounts of financial assets and liabilities:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| **Financial assets** | | |
| ***Financial assets at amortised cost*** | | |
| – Trade receivables | 277,926,097 | 277,809,582 |
| – Deposits, prepayments and other receivables (excluding recoverable VAT, prepaid utilities and other prepayments and deferred listing expenses) | 4,444,135 | 64,709,130 |
| – Restricted cash | – | 196 |
| – Cash and cash equivalents | 511,834,079 | 139,790,488 |
| **Financial assets at FVOCI** | | |
| – Note receivables | 46,823,190 | 51,316,794 |
| **Financial liabilities** | | |
| ***Financial liabilities at amortised cost*** | | |
| – Borrowings (principal and accrued interest) | 595,498,129 | 368,852,487 |
| – Trade and other payables (excluding salaries and bonus payables and taxes payable and interests payable) | 571,750,204 | 315,447,742 |
| – Lease liabilities - current | 9,540,023 | 7,408,441 |
| – Lease liabilities - non-current | 3,763,709 | 7,596,445 |

## 28. TRADE AND OTHER PAYABLES

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Trade payables | **179,203,227** | 245,822,293 |
| Payables for construction and equipment | **108,792,000** | 27,387,966 |
| Dividend payable | **249,443,000** | 14,900,000 |
| Payables for operating service fee | **–** | 8,709,000 |
| Taxes payable | **1,594,138** | 1,658,375 |
| Salaries and bonus payable | **2,238,146** | 2,186,279 |
| Payables for professional service fee | **26,179,218** | 14,635,666 |
| Deposits | **1,512,219** | 1,627,917 |
| Interests payable | **1,001,728** | 852,487 |
| Others | **6,620,540** | 2,364,900 |
| | **576,584,216** | 320,144,883 |

Ageing analysis of the trade payables based on invoice date are as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Less than 1 year | **142,870,758** | 146,349,523 |
| 1 to 2 years | **16,615,342** | 35,185,793 |
| 2 to 3 years | **18,020,112** | 28,982,485 |
| Over 3 years | **1,697,015** | 35,304,492 |
| | **179,203,227** | 245,822,293 |

As at 31 December 2020 and 2019, the carrying amount of the Group's trade payables were denominated in RMB.

## 29. BORROWINGS

| | 2020 RMB | 2019 RMB |
|---|---|---|
| **Non-current:** | | |
| Long-term borrowings due after one year (note i) | **270,806,401** | 110,000,000 |
| **Current:** | | |
| Long-term borrowings due within one year (note i) | **174,690,000** | 60,000,000 |
| Short-term borrowings (note ii) | **149,000,000** | 198,000,000 |
| | **594,496,401** | 368,000,000 |

Note (i):

In October 2018, the Group entered into a three-year loan facility with an aggregate principal amount not exceeding RMB200,000,000 from Zunhua Rural Credit Cooperatives Association. In December 2018, a three-year loan of RMB190,000,000 with an annual interest rate of 5.23% was drawn down from the facility. As at 31 December 2020 and 2019, the principal amount of RMB130,000,000 and RMB170,000,000 was outstanding among which RMB130,000,000 and RMB60,000,000 was due within one year respectively. The borrowings are unsecured and unguaranteed.

In December 2019, the Group entered into a five-year loan facility with an aggregate principal amount not exceeding RMB560,000,000 from Bank of Communication. Borrowings drawn down from the loan facility are collateralized by the fixed assets of Zhongqi Investment (Tangshan) Gases Co., Ltd, a subsidiary of the Group, and shall be used in the construction of the industrial gas production plant of Zhongqi Investment (Tangshan) Gases Co., Ltd. In September 2020, a five-year loan of RMB 21,496,401 with an annual interest rate 4.9875% was drawn down from the facility. As at 31 December 2020, RMB 2,690,000 was due within one year according to repayment schedule. The net book value of the pledged assets was RMB 17,317,012 as at 31 December 2020.

In April 2020, the Group entered into three three-year loan facility with an aggregate principal amount not exceeding RMB100,000,000 from Bank of Cangzhou. Three three-year loans of RMB100,000,000 with an annual interest rate of 5.13% were drawn down from the facility in March 2020, June 2020 and October 2020 respectively. As at 31 December 2020, RMB 42,000,000 was due within one year according to repayment schedule. The borrowings are unsecured and unguaranteed.

Note (ii):

In January 2019, the Group entered into a two-year revolving loan facility with an aggregate principal amount not exceeding RMB100,000,000 from Bank of Communications. In June 2020, the loan facility has been extended to December 2022. As at 31 December 2019 and 2020, short-term bank borrowings of RMB80,000,000 with floating rate based on the LPR along with RMB20,000,000 with a fixed rate of 4.785%, and short-term bank borrowings of RMB20,000,000 with floating rate based on the LPR along with RMB40,000,000 with a fixed rate of 4.785%, RMB 40,000,000 with a fixed rate 4.568% per annum were drawn down from such revolving loan facility respectively. The borrowings are unsecured and unguaranteed.

In December 2019, the Group entered into a one-year revolving loan facility with an aggregate principal amount not exceeding RMB98,000,000 from Industrial and Commercial Bank of China. As at 31 December 2019, short-term bank borrowings of RMB98,000,000 with floating rate based on the LPR was drawn down from such revolving loan facility. The borrowings are unsecured and unguaranteed.

In September 2020, the Group entered into a one-year revolving loan agreement with an aggregate principal amount RMB49,000,000 from Industrial and Commercial Bank of China. As at 31 December 2020, short-term bank borrowings of RMB49,000,000 with annual interest rate 4.35% was drawn down from such revolving loan agreement. The borrowings are unsecured and unguaranteed.

As of 31 December 2020 and 2019, the Group's borrowings were denominated in following currencies:

| | 2020 RMB | 2019 RMB |
|---|---|---|
| RMB | **594,496,401** | 368,000,000 |

## 29. BORROWINGS *(Continued)*

Note (ii): (Continued)

As of 31 December 2020 and 2019, the maturities of the Group's borrowings are set out as follows:

| | **2020 RMB** | 2019 RMB |
|---|---|---|
| Within 1 year | **323,690,000** | 258,000,000 |
| Between 1 and 2 years | **85,840,000** | 110,000,000 |
| Between 2 and 3 years | **184,966,401** | – |
| | **594,496,401** | 368,000,000 |

As of 31 December 2020 and 2019, the effective interest rates are as follows:

| | **2020** | 2019 |
|---|---|---|
| Short-term bank borrowings | **4.55%** | 4.57% |
| Long-term bank borrowings | **5.26%** | 5.23% |

## 30. LEASE LIABILITIES

| | **2020 RMB** | 2019 RMB |
|---|---|---|
| Minimum lease payment due | | |
| – Within 1 year | **9,822,540** | 8,254,945 |
| – Between 1 to 2 years | **832,104** | 4,292,193 |
| – Between 2 to 5 years | **2,496,311** | 2,496,311 |
| – Over 5 years | **998,604** | 1,830,708 |
| | **14,149,559** | 16,874,157 |
| Less: future finance charges | **(845,827)** | (1,869,271) |
| Present value of lease liabilities | **13,303,732** | 15,004,886 |
| – Within 1 year | **9,540,023** | 7,408,441 |
| – Between 1 to 2 years | **651,098** | 3,832,736 |
| – Between 2 to 5 years | **2,157,042** | 2,052,821 |
| – Over 5 years | **955,569** | 1,710,888 |
| | **13,303,732** | 15,004,886 |

## 31. DEFERRED INCOME TAXES

The deferred income taxes are analysed as follows:

| | **2020**<br>**RMB** | 2019<br>RMB |
|---|---|---|
| Deferred tax assets | **2,345,208** | – |
| Deferred tax liabilities | **(11,124,144)** | (33,469,108) |
| | **(8,778,936)** | (33,469,108) |

Details of the deferred tax assets and liabilities recognised and movements during the current and prior year is as follows:

| | **Impairment on property, plant and equipment**<br>RMB | **Withholding tax on profit to be distributed**<br>RMB | **Total**<br>RMB |
|---|---|---|---|
| **As at 1 January 2019** | – | 18,684,325 | 18,684,325 |
| Debited to the consolidated statement of comprehensive income | – | 14,784,783 | 14,784,783 |
| **At 31 December 2019 and 1 January 2020** | – | 33,469,108 | 33,469,108 |
| (Credit)/debited to the consolidated statement of comprehensive income | **(2,345,208)** | **11,117,236** | **8,772,028** |
| Payment during the year | **–** | **(33,462,200)** | **(33,462,200)** |
| **At 31 December 2020** | **(2,345,208)** | **11,124,144** | **8,778,936** |

Note:

According to the PRC CIT Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC or earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Since, the Group controls the dividend policy of the Group's PRC subsidiaries, deferred tax liability arising from the undistributed profits of the Group's PRC subsidiaries is only provided to the extent that such profits are expected to be distributed in the foreseeable future.

Deferred income tax assets are recognised for tax losses carrying forwards and deductible temporary differences to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at 31 December 2020 and 2019, the Group did not recognise deferred income tax assets in respect of losses of RMB73,128,942 and RMB66,251,120 respectively. These tax losses will expire from 2021 to 2030.

## 32. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| **Authorised** | | |
| **Ordinary shares of USD0.0001 each:** | | |
| At 1 January 2019, 31 December 2019 and 1 January 2020 | 500,000,000 | USD50,000 (Equivalent to RMB347,173) |
| Creation of additional new Share of par value of USD0.0001 each (i) | 1,500,000,000 | USD150,000 (Equivalent to RMB1,041,518) |
| At 31 December 2020 | 2,000,000,000 | USD200,000 (Equivalent to RMB1,388,691) |

| | Number of shares | RMB |
|---|---|---|
| **Ordinary shares, issued and fully paid:** | | |
| At 1 January 2019 | 101,329,956 | 73,309 |
| Capitalisation of shareholders loan (ii) | 4,245,494 | 2,989 |
| At 31 December 2019 and 1 January 2020 | 105,575,450 | 76,298 |
| Capitalisation issue (iii) | 794,424,550 | 562,519 |
| Issue of shares upon the IPO (iv) | 300,000,000 | 197,199 |
| At 31 December 2020 | 1,200,000,000 | 836,016 |

## 32. SHARE CAPITAL *(Continued)*

(i) On 17 June 2020, the shareholders passed resolutions in writing and approved, among others, the increase of the authorised share capital from USD50,000 divided into 500,000,000 shares of par value USD0.0001 each to USD200,000 divided into 2,000,000,000 shares of par value USD0.0001 each by the creation of additional 1,500,000,000 new shares of par value USD0.0001 each, each ranking pari passu in all respects with the shares in issue at the date of passing of these resolutions.

(ii) In June 2019, the Group entered into an interest-free loan agreement with China Gas Investors Ltd. ("CGI"), one of its shareholders, with the principal amount of USD9,650,000. In November 2019, CGI capitalised such shareholder loan into 4,245,494 shares of the Company, of which RMB2,989 and RMB67,930,117 were recorded as share capital and other reserves, respectively.

(iii) Pursuant to the resolutions of the shareholders of the Company passed on 17 June 2020, subject to the share premium account of the Company being credited as a result of the allotment and issue of Offer Shares by the Company pursuant to the Global Offering, the Company's directors have been authorised to capitalise an amount of US$79,442,455 standing to the credit of the share premium account of the Company by applying such sum in paying up in full 794,424,550 shares at par for allotment of issue to the shareholders whose names appeared on the register of members of the Company at the close of business on 17 June 2020 (or as they may direct) in proportion to its/their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a share). The Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

(iv) Pursuant to a written resolution of the shareholders of the Company passed on 17 June 2020, a total of 300,000,000 Offer Shares comprising (a) initially 30,000,000 Offer Shares (subject to reallocation) for subscription by the public in Hong Kong and (b) an aggregate of 270,000,000 Offer Shares (subject to reallocation and the Over-allotment Option) offered under the International Offering were allotted and issued at par value to the shareholders as of the date immediately before the listing date.

## 33. RESERVES

### The Group

Details of the movements of the Group's reserves for the years ended 31 December 2020 and 2019 are presented in the consolidated statement of changes in equity.

The nature and purposes of reserves within equity as follows:

(a) Share premium is arising from the issuance of new shares at price in excess of the par value of the shares. In June 2019, the Group entered into an interest-free loan agreement with CGI with the principal amount of USD9,650,000. In November 2019, CGI capitalised such shareholder loan into 4,245,494 shares of the Company, of which RMB 2,989 and RMB 67,930,117 were recorded as share capital and other reserves, respectively.

(b) Statutory surplus reserves represented the amount transferred from net profit for the year of the subsidiaries established in the PRC (based on the subsidiaries PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory surplus reserves reach 50% of the registered capital of the subsidiaries. The statutory surplus reserves cannot be reduced except either in setting off the accumulated losses or increasing capital, provided the remaining balance of this reserve is not less than 25% registered capital of the subsidiaries.

In addition, in accordance with the Law of the PRC on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in the PRC, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective Reserve Fund. The percentage of net profit to be appropriated to the Reserve Fund is not less than 10% of the net profit. When the balance of the Reserve Fund reaches 50% of the registered capital, such transfer needs not be made.

(c) Currency translation differences comprise all relevant translation differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 4(c).

## 33. RESERVES *(Continued)*

### The Group *(Continued)*

(d) Tangshan Tangsteel Gases Co., Ltd. ("TTG"), the major operating company of the Group, was established in 2007 as a joint venture company owned as to 50% by the Company and 50% by HBIS Company Limited ("HBIS Company"). In 2015, pursuant to a series of corporate restructuring agreements, HBIS Company transferred its 50% equity interests in TTG to the Company in exchange for 50% of the Company's issued shares which were held by Shanghai Huitang Zhihe Investment Co., Ltd. ("SH Huitang Zhihe"), a wholly owned subsidiary of HBIS Company. Following this corporate restructuring, TTG became a wholly owned subsidiary of the Company and the Company became owned as to 50% by SH Huitang Zhihe and 50% by CGI.

Upon establishment of TTG in 2007, each of the Company and the HBIS Company agreed to make additional capital contributions into TTG in the same proportion with the amount of RMB 72,068,600, respectively. With respect to HBIS Company's contribution, HBIS Company entered into an agreement with TTG to grant TTG the rights to use certain of HBIS Company's plants and buildings ("Building Use Agreement") for a period of 30 years, same as official joint venture period of 30 years of TTG. The Building Use Agreement also specified that the plants and buildings should be transferred to TTG as HBIS Company's capital contribution when the property certificates are obtained. Based on a valuation report issued by a third party appraiser, both parties agreed that the value of such use rights as at the agreement date was RMB 72,068,600. TTG recorded this amount as right of use assets in its statement of financial position, and amortized them on a straight-line basis over the 30-year period, and correspondingly credited "other reserves" under equity since the use rights were considered as HBIS Company's capital contribution to TTG.

With respect to the Company, the Company made cash contribution and entered into an interest free long-term loan arrangement with TTG in 2007, with a total principal amount of RMB 72,068,600. The term of the loan was 30 years and shall be automatically converted into TTG's paid-in capital upon the transfer of HBIS Company's plants and buildings to TTG as described above. In the Group's corporate restructuring in 2015, the Company transferred its right on the loan to CGI at Nil consideration. Based on the contractual terms and the commitment made by CGI, management concluded that the loan did not meet the definition of financial liability and recorded the amount in "other reserves" in equity in the consolidated statement of financial position as at 31 December 2015.

In December 2018, the Group entered into agreement with CGI to early terminate the above loan agreement and both parties agreed that the loan would be fully settled with a cash repayment of USD 9.65 million (equivalent to RMB 66,667,025) by TTG to CGI. The repayment was recorded as a reduction in the balance of other reserves.

Concurrent with the early termination of the loan agreement between CGI and TTG, TTG and HBIS Company entered into an agreement to early terminate the above Building Use Agreement and entered into a new Assets Use Agreement whereby TTG will pay rental fees to HBIS Company for the use of the plants and buildings going forward. Accordingly, TTG wrote off the unamortised balance of the right of use assets with the amount of RMB 44,041,922 at the time of the termination, with the same amount being reduced from the balance of other reserves.

## 34. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION

| | *Notes* | **2020** **RMB** | 2019 RMB |
|---|---|---|---|
| **Non-current asset** | | | |
| Investment in a subsidiary | | **920,668,379** | 920,668,379 |
| **Current assets** | | | |
| Deposits, prepayments and other receivables | | **133,063,200** | 6,327,647 |
| Loan receivables | *23* | **–** | – |
| Cash and cash equivalents | | **380,414,522** | 68,263,914 |
| Total current assets | | **513,477,722** | 74,591,561 |
| **Current liability** | | | |
| Trade and other payables | | **274,862,248** | 27,665,666 |
| **Net current assets** | | **238,615,474** | 46,925,895 |
| **NET ASSETS** | | **1,159,283,853** | 967,594,274 |
| **Capital and reserves** | | | |
| Share capital | *32* | **836,016** | 76,298 |
| Reserves | | **1,219,041,877** | 909,901,270 |
| (Accumulated losses)/retained earnings | | **(60,594,040)** | 57,616,706 |
| **TOTAL EQUITY** | | **1,159,283,853** | 967,594,274 |

## 34. HOLDING COMPANY'S STATEMENT OF FINANCIAL POSITION *(Continued)*

The movements of the Company's reserves during the reporting period are as follows:

| | Share premium RMB | Currency translation differences RMB | Retained earnings/ (accumulated losses) RMB | Total RMB |
|---|---|---|---|---|
| **At 1 January 2019** | 833,975,547 | 8,946,421 | 77,564,024 | 920,485,992 |
| Loss for the year | – | – | (19,947,318) | (19,947,318) |
| Capitalisation of shareholder loan | 67,930,117 | – | – | 67,930,117 |
| Exchange differences arising on translation of the Company | – | (950,815) | – | (950,815) |
| **At 31 December 2019 and 1 January 2020** | 901,905,664 | 7,995,606 | 57,616,706 | 967,517,976 |
| Profit for the year | – | – | 149,532,254 | 149,532,254 |
| Dividend declared | – | – | (267,743,000) | (267,743,000) |
| Issue of shares upon the IPO | 307,160,860 | – | – | 307,160,860 |
| Capitalisation issue | (562,519) | – | – | (562,519) |
| Exchange differences arising on translation of the Company | – | 2,542,266 | – | 2,542,266 |
| **As 31 December 2020** | **1,208,504,005** | **10,537,872** | **(60,594,040)** | **1,158,447,837** |

## 35. INTEREST IN SUBSIDIARIES

Details of the subsidiaries are as follows:

| Name of subsidiary | Place of incorporation and kind of legal entity | Paid up capital/ registered capital | Proportion of equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Tangshan Tangsteel Gases Co., Ltd.* (唐山唐鋼氣體有限公司)(note) | PRC, limited liability company# | RMB777,965,404 | 100% | – | Production and sales of industrial gases |
| Luanxian Tangsteel Gases Co., Ltd.* (灤縣唐鋼氣體有限公司)(note) | PRC, limited liability company | RMB12,000,000 | – | 100% | Production and sales of LNG |
| Tangshan Tangsteel Dongxin Village Gases Refuelling Station Co., Ltd.* (唐山唐鋼東新村加氣站有限公司)(note) | PRC, limited liability company | RMB3,000,000 | – | 100% | An automobile LNG filling station |
| Zhongqi Investment (Tangshan) Gases Co., Ltd.* (中氣投(唐山)氣體有限公司) (note) | PRC, limited liability company | RMB72,000,000 | – | 100% | Production and sales of industrial gases |

Notes: All companies have adopted 31 December as their financial year end date.

# Registered as wholly foreign owned enterprises under PRC law.

* The English is for identification purposes only.

## 36. CAPITAL COMMITMENTS

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Commitments for the acquisition of: | | |
| – Property, plant and equipment | 184,272,661 | 223,233,987 |

## 37. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, common significant influence or joint control.

The following companies are related parties of the Group that had balances and/or transactions with the Group.

### (a) Names and relationships with related parties

| Name | Relationship |
|---|---|
| China Gas Investors Ltd. ("CGI") | Shareholder |
| Shanghai Huitang Zhihe Investment Co., Ltd. ("SH Huitang Zhihe") | Shareholder |
| HBIS Company Limited ("HBIS Company") | Parent company of SH Huitang Zhihe |
| Tangshan Iron and Steel Group Co., Ltd. ("HBIS Tangsteel") | Shareholder of HBIS Company |
| Tangshan Middle and Heavy Plate Co., Ltd. | Subsidiary of HBIS Company |
| Tangsteel Qinglong Furnace Charge Co., Ltd | Subsidiary of HBIS Company |
| Tangshan Stainless Steel Co., Ltd. | Subsidiary of HBIS Tangsteel |
| Tangshan Iron and Steel Group Heavy Machinery and Equipment Co., Ltd. | Subsidiary of HBIS Tangsteel |
| Tangshan Iron and Steel Group High-strength Car Plate Co., Ltd. | Subsidiary of HBIS Tangsteel |
| Tangshan Chuangyuan Fangda Electric Co., Ltd. | Subsidiary of HBIS Tangsteel |
| Hebei Tangyin Iron and Steel Co., Ltd. | Subsidiary of HBIS Tangsteel |
| Tangshan Iron and Steel Group Weir Automation Ltd. | Subsidiary of HBIS Tangsteel |
| Tangsteels Veolia (Tangshan) Water Co., Ltd. | Associate of HBIS Tangsteel |
| HBIS Tangsteel Meijin (Tangshan) Coal Chemical Co., Ltd. ("Tangshan Meijin") | Associate of HBIS Tangsteel |
| Tangshan Hongci Hospital | Associate of HBIS Tangsteel |
| Tangsteel International Engineering Technology Corp | Associate of HBIS Tangsteel |
| CGII (Shanghai) Investment Management Co., Ltd. | Subsidiary of an indirect shareholder |
| Tangshan Huitang New Business Co., Ltd. | Subsidiary of HBIS Tangsteel |
| Tangshan Iron and Steel Group Jinheng Enterprise Development Corporation ("Tangshan Jinheng") | Subsidiary of HBIS Tangsteel |
| Tangshan Iron and Steel Group City Service Co., Ltd | Subsidiary of HBIS Tangsteel |
| Tangshan Jinheng Human Resource Management Co., Ltd | Subsidiary of Tangshan Jinheng |
| HBIS Laoting Iron and Steel Co., Ltd | Subsidiary of HBIS Group Co., Ltd |

## 37. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Significant transactions with related parties

*(i) Purchases of utilities, property, plant and equipment*

| | **2020** **RMB** | 2019 RMB |
|---|---|---|
| HBIS Company Limited | **265,606,126** | 391,907,055 |
| Tangshan Stainless Steel Co., Ltd | **177,374,234** | 182,989,487 |
| Tangshan Middle and Heavy Plate Co., Ltd. | **229,886,186** | 206,579,587 |
| Tangshan Meijin | **17,744,144** | 46,799,587 |
| Tangsteels Veolia (Tangshan) Water Co., Ltd. | **10,145,612** | 11,129,655 |
| HBIS Laoting Iron and Steel Co., Ltd | **40,755,474** | – |
| Tangshan Chuangyuan Fangda Electric Co., Ltd | **353,805** | 14,434,194 |
| | **741,865,581** | 853,839,565 |

*(ii) Sales of products*

| | **2020** **RMB** | 2019 RMB |
|---|---|---|
| HBIS Company Limited | **301,142,105** | 481,361,890 |
| Tangshan Stainless Steel Co., Ltd | **221,421,102** | 207,465,419 |
| Tangshan Middle and Heavy Plate Co., Ltd. | **351,157,240** | 285,543,745 |
| Tangshan Iron and Steel Group High-strength Car Plate Co., Ltd. | **26,855,494** | 21,990,543 |
| Tangshan Meijin | **4,577,394** | 5,555,374 |
| Tangshan Iron and Steel Group Heavy Machinery and Equipment Co., Ltd. | **1,055,280** | 1,170,508 |
| Hebei Tangyin Iron and Steel Co., Ltd. | **2,738,224** | 8,038,657 |
| Tangshan Hongci Hospital | **166,425** | 137,782 |
| Tangshan Iron and Steel Group Co., Ltd. | **387,032** | 472,792 |
| Tangshan Chuangyuan Fangda Electric Co., Ltd. | **44,148** | 19,168 |
| HBIS Laoting Iron and Steel Co., Ltd | **60,288,031** | 740,535 |
| Tangsteel Qinglong Furnace Charge Co., Ltd | **65,438** | – |
| | **969,897,913** | 1,012,496,413 |

## 37. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Significant transactions with related parties *(Continued)*

*(iii) Gas transmission and other services provided to related parties*

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| HBIS Company Limited | **79,617,163** | 83,930,363 |
| Tangshan Iron and Steel Group Co., Ltd. | **191,150** | 189,915 |
| Tangsteel Qinglong Furnace Charge Co., Ltd | **210,000** | – |
| | **80,018,313** | 84,120,278 |

*(iv) Provision of services*

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| HBIS Laoting Iron and Steel Co., Ltd | **301,239** | – |

*(v) Receipt of services*

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| CGII (Shanghai) Investment Management Co., Ltd. | **7,075,471** | 7,075,471 |
| HBIS Company Limited | **6,962,476** | 6,290,396 |
| Tangshan Chuangyuan Fangda Electric Co., Ltd | **19,379,030** | – |
| Tangsteel International Engineering Technology Corp | **8,801,622** | 2,905,660 |
| Tangshan Huitang New Business Co., Ltd. | **247,840** | 257,040 |
| Tangshan Iron and Steel Group Co., Ltd. | **257,418** | 514,630 |
| Tangshan Iron and Steel Group Jinheng Enterprise Development Corporation | **288,766** | 90,969 |
| Tangshan Jinheng Human Resource Management Co., Ltd | **686,446** | 839,479 |
| Tangshan Iron and Steel Group Weir Automation Ltd. | **169,810** | 169,810 |
| Tangshan Iron and Steel Group City Service Co., Ltd | **197,950** | 395,901 |
| | **44,066,829** | 18,539,356 |

## 37. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Significant transactions with related parties *(Continued)*

*(vi) Right-of-use assets acquired from related parties*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| HBIS Company Limited | – | 8,112,798 |

*(vii) Interest expenses on lease liabilities due to related parties*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| HBIS Company Limited | 79,809 | 893,620 |
| Tangshan Middle and Heavy Plate Co., Ltd. | 27,935 | 20,074 |
| | 107,744 | 913,694 |

### (c) Balances with related parties

*(i) Trade receivables*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| HBIS Company Limited | 127,013,583 | 171,788,309 |
| HBIS Laoting Iron and Steel Co., Ltd | 18,391,281 | – |
| Tangshan Meijin | 5,172,455 | 12,794,510 |
| Tangshan Middle and Heavy Plate Co., Ltd. | 58,298,843 | 42,201,746 |
| Tangshan Stainless Steel Co., Ltd. | 22,934,401 | 8,403,116 |
| Tangshan Iron and Steel Group High-strength Car Plate Co., Ltd. | 26,078,459 | 21,045,429 |
| Tangshan Iron and Steel Group Heavy Machinery and Equipment Co., Ltd. | 1,433,923 | 789,335 |
| Hebei Tangyin Iron and Steel Co., Ltd. | – | 339,682 |
| Tangshan Iron and Steel Group Co., Ltd | – | 370,461 |
| Tangsteel Qinglong Furnace Charge Co., Ltd | 296,545 | – |
| Tangshan Iron and Steel Group Co., Ltd | 579,306 | – |
| Tangshan Hongci Hospital | 5,700 | – |
| | 260,204,496 | 257,732,588 |

## 37. RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Balances with related parties *(Continued)*

*(ii) Other receivables*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Tangshan Iron and Steel Group Co., Ltd | 451 | – |
| Tangshan Meijin | 1,308,000 | 63,444,073 |
| | 1,308,451 | 63,444,073 |

Other receivables due from related parties are unsecured, non-interest bearing and repayable on demand.

*(iii) Contract liabilities*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Tangshan Chuangyuan Fangda Electric Co., Ltd. | 4,305 | 10,443 |
| HBIS Laoting Iron and Steel Co., Ltd | – | 542,817 |
| | 4,305 | 553,260 |

## 37. RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Balances with related parties *(Continued)*

#### (iv) *Trade payables*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| HBIS Company Limited | **80,350,143** | 78,684,716 |
| Tangshan Meijin | **40,955,148** | 112,206,098 |
| Tangshan Middle and Heavy Plate Co., Ltd. | **932,412** | – |
| Tangsteels Veolia (Tangshan) Water Co., Ltd. | **8,117,246** | 8,652,704 |
| Tangshan Stainless Steel Co., Ltd. | **–** | 1,294,375 |
| Tangshan Huitang New Business Co., Ltd. | **490,861** | 1,110,802 |
| Tangshan Iron and Steel Group Co., Ltd | **1,081,514** | 819,736 |
| Tangshan Chuangyuan Fangda Electric Co., Ltd. | **689,001** | 289,201 |
| Tangshan Iron and Steel Group City Service Co., Ltd | **–** | 16,073 |
| Tangshan Iron and Steel Group Jinheng Enterprise Development Corporation | **106,173** | 150,225 |
| | **132,722,498** | 203,223,930 |

#### (v) *Other payables*

| | 2020 RMB | 2019 RMB |
|---|---|---|
| CGI | **100,671,500** | – |
| HBIS Company Limited | **2,704,800** | 7,511,002 |
| Tangshan Chuangyuan Fangda Electric Co., Ltd. | **12,145,799** | 3,243,895 |
| Tangshan Iron and Steel Group Co., Ltd | **1,013,351** | 1,013,811 |
| Tangshan Stainless Steel Co., Ltd. | **700** | 700 |
| Shanghai Huitang Zhihe Investment Co., Ltd. | **148,771,500** | 14,900,000 |
| CGII (Shanghai) Investment Management Co., Ltd. | **–** | 1,875,000 |
| Tangsteel International Engineering Technology Corporation | **5,855,639** | – |
| | **271,163,289** | 28,544,408 |

## 37. RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Balances with related parties *(Continued)*

*(vi) Lease liabilities*

| | **2020** | 2019 |
|---|---|---|
| | **RMB** | RMB |
| HBIS Company Limited | **12,168,397** | 13,420,588 |
| Tangshan Middle and Heavy Plate Co., Ltd. | **253,918** | 579,517 |
| | **12,422,315** | 14,000,105 |

The balances which are trading in nature will be settled in accordance with respective normal commercial credit terms, and the balances of lease liabilities are expected to be settled according to the payment schedule prescribed in the lease contracts.

### (d) Compensation of key management personnel

The remuneration of members of key management during the year was as follows:

| | **2020** | 2019 |
|---|---|---|
| | **RMB** | RMB |
| Wages, salaries, bonuses | **2,939,453** | 1,727,297 |
| Housing funds, medical insurance and other social welfare contributions | **166,387** | 233,241 |
| Pension costs – defined contribution plans | **115,146** | 185,606 |
| | **3,220,986** | 2,146,144 |

## 38. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which result from the use of financial instruments in its ordinary course of operations. The financial risks include market risks (mainly foreign currency risk and interest rate risk), credit risk and liquidity risk. Details of these financial instruments are disclosed in the notes below. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The directors meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks on timely and effective manner. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below.

### (a) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The Group's credit risk is primarily attributable to its trade receivables, other receivables and cash and cash equivalents. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group does not obtain collateral from the counterparties. At the end of reporting period, the Group has a certain concentration of credit risk as 92% (2019: 88%) and 96% (2019: 96%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

*Trade receivables*

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. To measure the ECLs, the trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor, current market condition in relation to each debtor's exposure. The ECLs also incorporated forward-looking information with reference to general macroeconomic conditions that may affect the ability of the debtors to settle receivables.

No provision for impairment loss for trade receivables was made at 31 December 2020 as the trade receivables were considered to be of low credit risk and the expected credit loss of these trade receivables was minimal.

The management of the Group has also assessed all available forward-looking information, including but not limited to expected growth rate of the industry and expected subsequent settlement, and concluded that there no significant increase in credit risk.

## 38. FINANCIAL RISK MANAGEMENT *(Continued)*

### (a) Credit risk *(Continued)*

*Trade receivables (Continued)*

As at 31 December 2020 and 2019, approximately 94% and 93% of the Group's trade receivables were due from HBIS Group Co., Ltd. and its subsidiaries and their respective associates (collectively the "HBIS Group"). Given the strong business relationship with the HBIS Group and its good reputation, management does not expect that there will be any significant losses from non-performance by HBIS Group. The credit period granted to the Group's customers, including the HBIS Group, is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivables balances due from them is not significant. In addition, there was no significant unfavourable current conditions and forecast future economic conditions identified as at 31 December 2020 and 2019. The Group considered the impact of COVID-19 and incorporated related forward-looking factors to measure expected credit losses as at 31 December 2020, and determined that the expected credit loss retained to be minimal as at 31 December 2020.

*Other receivables*

ECLs model for other receivables are summarised below:

Other receivables that are not credit-impaired on initial recognition are classified in "Stage 1" and have their credit risk continuously monitored by the Group. The ECLs are measured on a 12-month basis.

— If a significant increase in credit risk (as define below) since initial recognition is identified, the financial instrument is moved to "Stage 2" but it not yet deemed to be credit-impaired. The ECLs are measured on lifetime basis.

— If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3". The ECLs are measured on lifetime basis.

— At Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial instrument subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortised cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

As at 31 December 2020 and 2019, no provision was made against the gross amount of other receivables because the Group considered the impact of the impairment of other receivables to be insignificant based on past credit history and the nature of the other receivables.

In respect of bank balances, the credit risk is limited because majority of the deposits are placed with reputable financial institutions.

The credit policies have been consistently applied and are considered to be effective in managing the Group's exposure.

## 38. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The liquidity policy has been followed by the Group during the year and is considered by the directors to have been effective in managing liquidity risks.

The following table summarises the Group's remaining contractual maturity for its financial liabilities based on the undiscounted cash flows of financial liabilities and the earliest date the Group can be required to pay.

| | Less than 1 year RMB | More than 1 year but less than 2 years RMB | More than 2 years but less than 5 years RMB | More than 5 years RMB | Total RMB | Carrying Amount RMB |
|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | |
| Borrowings (principal and accrued interest) | 348,965,720 | 99,525,982 | 188,709,152 | – | 637,200,854 | 595,498,129 |
| Trade and other payables (excluding salaries and bonus payables and tax payables and interests payable) | 571,750,204 | – | – | – | 571,750,204 | 571,750,204 |
| Lease liabilities | 9,822,540 | 832,104 | 2,496,311 | 998,604 | 14,149,559 | 13,303,732 |
| | 930,538,464 | 100,358,086 | 191,205,463 | 998,604 | 1,223,100,617 | 1,180,552,065 |

## 38. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Liquidity risk *(Continued)*

| | Less than 1 year RMB | More than 1 year but less than 2 years RMB | More than 2 years but less than 5 years RMB | More than 5 years RMB | Total RMB | Carrying Amount RMB |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Borrowings (principal and accrued interest) | 273,130,905 | 115,827,327 | – | – | 388,958,232 | 368,852,487 |
| Trade and other payables (excluding salaries and bonus payables and tax payables and interests payable) | 315,447,742 | – | – | – | 315,447,742 | 315,447,742 |
| Lease liabilities | 8,254,945 | 4,292,193 | 2,496,311 | 1,830,708 | 16,874,157 | 15,004,886 |
| | 596,833,592 | 120,119,520 | 2,496,311 | 1,830,708 | 721,280,131 | 699,305,115 |

### (c) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk primarily arose from borrowings with floating rate (details of which have been disclosed in Note 29), financial assets at FVOCI, and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the years ended 31 December 2020, and 2019 would have been approximately RMB 207,482 and RMB 855,469 lower/higher, respectively. This analysis doesn't include the effect of interest capitalised.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the years ended 31 December 2020 and 2019 would have been approximately RMB 2,559,170 and RMB 698,952 higher/lower, respectively.

## 38. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through operation outside PRC which give rise to other payables and cash and cash equivalents that are denominated in a currency other than the functional currency of the operations to which they relate.

The currencies giving rise to this risk are primarily USD and HKD. The Group does not use derivative financial instruments to hedge its foreign currency risk. The Group reviews its foreign currency exposures regularly and considers no significant exposure on its foreign exchange risk.

The following table indicates the approximate change in the Group's profit before income tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the USD strengthens against the relevant currency. For a weakening of the USD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | Increase/ (decrease) in foreign exchange rate RMB | Effect on profit before income tax RMB |
|---|---|---|
| **2020** | | |
| USD | **5%** | **1,335,875** |
| | **(5%)** | **(1,335,875)** |
| HKD | **5%** | **15,374,054** |
| | **(5%)** | **(15,374,054)** |
| **2019** | | |
| USD | 5% | 2,386,799 |
| | (5%) | (2,386,799) |
| HKD | 5% | (349,996) |
| | (5%) | 349,996 |

## 38. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Foreign currency risk *(Continued)*

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

### (e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividends payment to shareholders, return capital to shareholders or obtain new bank borrowings. No changes were made in the objectives, policies or processes for managing capital during the year.

As part of this review, the directors of the Group consider the cost of capital and the risk associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through issuance of new shares as well as the addition of new borrowings.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt consists of total borrowings, as well as lease liabilities (including "current and non-current" items as shown in the consolidated statement of financial position).

The gearing ratios at 31 December 2020 and 2019 were as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Total debt | **607,800,133** | 383,004,886 |
| Total equity | **1,318,493,380** | 1,304,033,406 |
| Gearing ratio | **46%** | 29% |

## 39. FAIR VALUE MEASUREMENT

### (a) Fair value hierarchy

Financial instruments carried at fair value or where fair value was disclosed can be categorized by levels of the inputs to valuation techniques used to measure fair value. The inputs are categorized into three levels within a fair value hierarchy as follows:

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs;

Level 3: Unobservable inputs (i.e. not derived from market data).

The carrying amounts of the Group's financial assets, including cash and cash equivalents, trade receivables and prepayments, deposits and other assets and financial liabilities including trade and other payables, interest-bearing bank borrowings, and lease liabilities, approximate their fair values due to their short maturities. The carrying amount of the Group's non-current borrowings approximate their fair values as they are carried at interest rate close to market rate at each year end.

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2020 and 2019:

| | *Note* | **Level 1 RMB** | **Level 2 RMB** | **Level 3 RMB** | **Total RMB** |
|---|---|---|---|---|---|
| As at 31 December 2020 | | | | | |
| Financial assets at fair value through other comprehensive income | *26* | **–** | **–** | **46,823,190** | **46,823,190** |
| As at 31 December 2019 | | | | | |
| Financial assets at fair value through other comprehensive income | *26* | – | – | 51,316,794 | 51,316,794 |

The level 3 instruments include notes receivable. As these instruments are not traded in an active market, their fair values have been determined based on discounted cash flow using the expected return based on management judgement and estimates. Fair value of notes receivables (Note 26) are considered approximate to their carrying amount.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

## 39. FAIR VALUE MEASUREMENT *(Continued)*

### (b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments of financial assets at fair value through other comprehensive income for the years ended 31 December 2020 and 2019:

| | 2020 RMB | 2019 RMB |
|---|---|---|
| As the beginning of the year | 51,316,794 | 107,296,969 |
| Acquisitions | 315,426,156 | 328,400,509 |
| Disposals | (319,919,760) | (384,380,684) |
| Change in fair value | – | – |
| As the end of the year | 46,823,190 | 51,316,794 |
| Net unrealised gain for the year | – | – |

### (c) Valuation process and techniques

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least one a year, the team uses valuation techniques to determine the fair value of the Group's level 3 instruments.

As the16se instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

– the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and

– a combination of observable and unobservable inputs, including discount rate etc..

There were no changes to valuation techniques during year.

| Description | 2020 RMB | 2019 RMB | Unobservable inputs | 2020 | 2019 | Relationship of unobservable inputs to fairvalue |
|---|---|---|---|---|---|---|
| Note receivables | 46,823,190 | 51,316,794 | Risk-adjusted discount rate | 3.05%-3.33% | 2.90%-3.07% | The higher the risk-adjusted discount rate, the lower the fair value |

Key assumptions used in the valuation of the fair value of notes receivables include risk-adjusted discount rate, if the risk-adjusted discount rate had decreased or increased by 3% with all other variables held constant, the fair value of notes receivables would have been increased or decreased by approximately RMB 528,476 or RMB 528,476 and RMB 489,858 or RMB 479,005 as of 31 December 2020 and 2019.

## 40. SHARE OPTION SCHEME

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules. The Share Option Scheme was conditionally adopted and effective upon Listing by the written resolutions of its then shareholders passed on 17 June 2020. The Company is thus entitled to issue a maximum of 120,000,000 Shares upon exercise of the share options to be granted under the Share Option Scheme limit, representing 10% of the Shares in issue immediately after the completion of the Global Offering and as at the date of the Listing (i.e. 29 December 2020). The purpose of the Share Option Scheme is to motivate any director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group (an "Employee"), any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (an "Executive"), a director or proposed director (including an independent non-executive director) of any member of the Group, a general staff of any member of the Group, a consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group, a person or entity that provides advisory, consultancy, professional or other services to any member of the Group, or a close associate (as defined under the Listing Rules) of any of the foregoing persons (collectively, the "Eligible Persons") to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

During the year ended 31 December 2020, no option was granted by the Company under the Share Option Scheme. The Company did not have any outstanding share options as at 31 December 2020.

## 41. EVENTS AFTER THE REPORTING PERIOD

Except Transaction 4 as mentioned in Note 3, there is no other material subsequent event undertaken by the Company or the Group after 31 December 2020 and up to the date of this report.