

**CF ENERGY CORP.**  
**Management's Discussion and Analysis**  
**for the year ended**  
**December 31, 2021**

Dated April 29, 2022

## **Advisory**

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial position and operations of CF Energy Corp., (hereafter referred to as "CF Energy", "we" or the "Company") and its subsidiaries (collectively referred to as the "Group" or "our Group") as at and for the year ended December 31, 2021. This information should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2021. "CF Energy" includes CF Energy Corp. and its subsidiaries, unless otherwise indicated. Additional information related to CF Energy is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on its website at <http://www.cfenergy.com>.

The preparation of the audited consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") or Generally Accepted Accounting Practices ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosed contingent assets and liabilities at the date of the financial statements, and reported amounts of sales and expenses during the reporting period. CF Energy bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

This MD&A contains certain non-IFRS financial measures to assist users in assessing the Company's performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-IFRS Financial Measures".

Amounts are stated in Renminbi (RMB), the official currency of the People's Republic of China (the "PRC" or "China") and the functional currency of the principal operating subsidiaries in the PRC, and Canadian dollars (CAD) unless otherwise indicated.

## **Caution Regarding Forward-Looking Information**

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward looking statements, such as significant changes in market conditions, the inability of the Company to realize sales and the inability of the Company to attract sufficient financing and the risk factors summarized below under the heading "Risks and Uncertainties". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

## **Overview**

CF Energy is a Canadian public company currently listed on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". CF Energy is primarily involved in natural gas distribution and sustainable energy utilization, serving residential, commercial and industrial users as well as electric vehicle battery swap service in the PRC.

Our existing business model comprises three main segments: (i) Gas distribution utility segment, which comprises of natural gas transmission and sales, including (a) Pipeline Natural Gas ("PNG") sales and Liquefied Natural Gas ("LNG") supply distribution sales and related service pipeline installation and connection sub-segments; (b) Compressed natural gas ("CNG") vehicle refueling stations; and (c) Natural gas direct transmission; (ii) Integrated smart energy segment, which comprises of integrated smart energy system and integrated district energy distribution and (iii) Smart mobility segment, which comprises of the operation of electric vehicle ("EV") battery swap stations. This segment presentation is first adopted in the unaudited condensed interim consolidated financial statements of the Group for the three-month and nine-month periods ended September 30, 2021 and continued in the audited consolidated financial statements of the Group for the year ended December 31, 2021 for the purpose of resource allocations and assessment of each segment performance.

### **Gas Distribution Utility Segment**

#### ***Pipeline PNG Sales and LNG Supply Distribution Sales***

Major pipeline PNG sales projects are based in Sanya City, Hainan Province and Pingxiang City, Jiangxi Province. The Company has been granted a 30-year exclusive concession right (2007 to 2037) in Sanya to operate the PNG sales as well as the construction and maintenance of the required facilities and pipelines which makes the Company the dominant participant in the Sanya PNG gas distribution market. The Company also distributes PNG to users in the ceramic industry base of Xiangdong District, Pingxiang City, Jiangxi Province under a 30-year distribution right (2010 to 2040) granted to its 40% owned associate.

#### ***CNG Vehicle Refueling***

The Company operates two refueling stations respectively in Sanya City, Hainan Province and Changsha City, Hunan Province which provide refueling services for vehicles such as household cars, taxicabs, buses and trucks. The Company offers two types of natural gas to customers for vehicle refueling: CNG and LNG.

#### ***Natural Gas Direct Transmission***

This is the transportation of natural gas via the Company's 2.0 kilometers (1.4 miles) of pipeline connecting the provincial natural gas trunk lines to the Gaoyao Combined Heat, Power and Cold Natural Gas Power Plant owned by Guangdong Datang International Zhaoqing Heat & Power Co., Ltd. in Zhaoqing City, Guangdong Province.

### **Integrated Smart Energy Segment**

Currently there are two projects under this segment, namely the integrated smart energy project (the "Haitang Bay Integrated Smart Energy Project") and the integrated district energy distribution project (the "Meishan Project").

#### **The Haitang Bay Integrated Smart Energy Project**

The Haitang Bay Integrated Smart Energy Project (the "Project"), which combines the use of multiple clean energy sources, including solar, hydro, electricity, and natural gas (CCHP/Co-Gen), is to supply cooling, heating, as well as hot water to the hotels, shopping centers, and households in the Haitang Bay area of Sanya City, Hainan Province, the PRC. This project is conducted through the Group's 70% held (30% held by the EDF Group) subsidiary company, EDF Changfeng (Sanya) Energy Co., Ltd. ("EDF CF") with authorized capital of RMB119.1 million fully paid up in 2021. Under a 30-year concession right agreement (2017 to 2047), EDF CF has the right to build, own and operate the project in Haitang Bay, Hainan Province.

The Project has been recognized as a low carbon energy utilization project in the tropical resort city of Sanya,

China's Hainan Province, to provide air-conditioning with reduced emissions for public facilities in the Haitang Bay area. The Project will have four (4) central energy stations, 30km of district cooling and heating distribution networks, and 38 end user stations by the end of 2023. Once fully implemented, the system will distribute cooling, heating and hot water to serve 4.7 million square meters of commercial space, including large scale hotels, shopping malls, entertainment parks and buildings, hospitals and other commercial complexes. The Project uses optimized multi-energy integration program to distribute cooling, heating and hot water to customers. The system will apply many advanced technologies, i.e. multi-level compressed high-efficient refrigeration units, "ice battery" technology, hydro heat pump technology, distributed photovoltaic technology and AI data management to provide more efficient energy supply. The Project integrates advanced energy-saving technologies, such as ice storage, water-source heating pumping. It is expected to save about 30,000 tons of standard coal and reduce about 100,000 tons of carbon dioxide, sulfur dioxide and nitrogen oxide emissions every year once fully implemented.

Construction of the first energy station and the 18,900m of pipeline for the integrated smart energy network (6,000m of pipeline laid through land reclamation bypassing a river) was completed and commenced commercial operation in September 2021. The first group of commercial customers includes the Sanya Edition Hotel, Fairmont Sanya Haitang Bay, and Westin Sanya Haitang Bay Resort. The Company has signed up ten (10) commercial customers in Haitang Bay as of the date of this MD&A. The first energy station can provide services to 350,052 square meters of cooling space.

#### The Meishan Project

The Meishan Project is a joint investment, construction and operation of an integrated district energy distribution project in the New Economic Development Zone of Meishan City, Sichuan Province (the "Meishan New Economic Development Zone") to be operated by Meishan Hengtai Tianzhiyuan Energy Limited ("Meishan Hengtai"), a company which the Group holds an effective interest of 72%. The Meishan New Economic Development Zone, situated next to the central urban area of Meishan City, Sichuan Province, with a planned development area of 50.5 square kilometers, is to be the hub for manufacturers of drugs, supplements, medical equipment, and other medical related supplies. The year-round constant demand for steam is necessary to produce drugs that makes the Meishan New Economic Development Zone an ideal platform for integrated district energy distribution.

The project commenced trial operation in April 2021 and commercial operation officially in mid-May 2021 and has signed up seven (7) commercial customers with three (3) customers under service as of the date of this MD&A. In addition, the Sichuan provincial government has approved the pipeline construction plan for the second phase of the integrated district energy distribution project in Meishan City which will commence construction in 2022.

The project is expected to significantly improve the district's energy consumption efficiency and reduce local air pollution in line with state policy as more customers connect to the program.

#### Smart Mobility Segment

##### ***EV Battery Swap Station***

The EV battery swap station business is a segment of the Group to build and operate battery swap service to electric vehicles. EDF CF has invested, built and operated two (2) EV battery swap stations in Sanya City to serve BAIC Qingxiang Technology Co., Ltd.'s ("BAIC QX") 200 swap-battery EVs for its network taxi hiring business (the "Network Taxis") currently operating in Sanya City and its additional 200 EV Network Taxis planned for Hainan Province in the near term with Blue Valley Smart (Beijing) Energy Technology Co., Ltd. ("Blue Valley"). The two (2) battery swap stations have started commercial operations in August 2020 and January 2021 respectively. In September 2020, the Company and EDF (China) Holding Ltd. ("EDF (China)") jointly established Hainan Huapu Smart Mobility Company Limited ("Huapu SM"), which signed an 8-year exclusive co-operating agreement with BAIC QX and Blue Valley to provide EV battery swap services in the city of Haikou City, provincial capital of Hainan Province. The first battery swap station in Haikou City commenced operation in August 2021, and the second station commenced operation in January 2022. Concurrently, a memorandum of understanding was also signed among the Company, EDF (China) and Blue Valley to jointly develop the battery swap project in Zhuhai City, Guangdong Province. The first battery swap station of Zhuhai City completed construction near the end of 2021, and it had an opening ceremony on January 11, 2022. The station was under trail run in February 2022 and officially commenced operation in March 2022.

### **Results for year ended December 31, 2021**

For the year ended December 31, 2021, the Group reported net profit from continuing operations of RMB21.7 million, a decrease of RMB31.0 million, or 59%, from RMB52.7 million (restated) in 2020. On a comparable basis, after excluding fair value loss of RMB4.8 million (2020 gain: RMB11.4 million) on derivative financial instrument of loan discharge agreement (see "Related Party Transactions" section on pages 21 and 22 of this MD&A), recognition of share-based payments of RMB0.8 million (2020:RMB 1.7 million) and non-recurring government financial assistance of RMB1.8 (2020:RMB5.0 million), the non-IFRS adjusted net profit from continuing operations for 2021 was RMB25.5 million, a decrease of RMB12.5 million, or 33% from RMB38.0 million as reported for the year ended December 31, 2020.

### **Chairman's Message**

Ann Siyin Lin, CEO and Chair of the Board, states that:

Our revenues have taken a big hit this year as COVID-19 loomed over the Chinese and global economy for a second year running. In addition, the lower net profit was also caused by the decreasing gas selling price which was regulated by the government, even though the volume of gas sold in Sanya City increased by 12% compared to that of 2020.

On the smart energy front, the Haitang Bay Integrated Smart Energy Project has commenced commercial operation in early third quarter of 2021 as planned, and is now in implementation stage. Three (3) of the hotels in Haitang Bay are currently using the system and connection of two other hotels are under construction. In 2022, we are anticipating additional hotels will be connecting and using our system as the economy slowly recovers. However, the growth of hotel clients will be slow since most hotels are not operating at their normal capacities due to low volume of visitors in Sanya, and hence their incentive to connect to our cooling system, which is more cost-effective, is diminished. Our EV battery swap business is still facing some difficulties in the operating cities since most public transportation companies have postponed their plans to replace their taxis due to reduced travelling requirement during the pandemic. However, as the market gradually recovering from the post-pandemic effect, we are hoping to see a positive momentum of in EV battery swap service.

Now more than ever we need to make strategic changes and plans to navigate through this crisis and prepared for a prolonged period of uncertainty and new crises to come. This includes improving efficiencies and productivities via leaning out the processes across all functions in the Group, and implementing organizational labor restructuring to minimize operational & human resources costs. We aim to upgrade and transition the management team into a more commercialized standard in the coming year. We believe this change management will set new goals and directions for the Company to drive up the profitability and transition towards healthier, more sustainable stage.

### **Major Highlight for the year ended December 31, 2021 and up to the date of this MD&A**

#### **Termination of a subsidiary's operation / Discontinued operation**

The Group's non-wholly owned subsidiary, Hebei Riheng Clean Energy Co., Ltd. ("Riheng"), in Shijiazhuang City, Hebei Province, has been providing point-to-point supply of natural gas in the form of LNG under various LNG supply distribution contracts to ceramic factories and industrial parks in Hebei Province since its establishment in 2018.

In the 2020 year, the Group realigned its future business strategies with major focus on the development of clean energy solutions with high growth potential, including the integrated smart energy and electric vehicle. As Riheng's business and operating model no longer aligned with the Group's new business focus and growth expectations, in the best interests of the Group, the Group made the decision to terminate the operation of Riheng and direct its future resources toward key projects that are with higher growth potentials and in line with the China Central government's future development policy focus going forward. For reporting purposes for the 2021 year, Riheng was considered as a discontinued operation and accordingly, the comparative figures of Riheng for 2020 have been presented and restated separately as a discontinued operation.

### **Enhancement of existing gas distribution business**

As part of our natural gas distribution business and for the purpose of transmitting PNG from our gas stations to our customers in Sanya City, the Group is responsible for the installation of the gas pipeline networks and connecting them to the end-users. For enhancement of existing gas distribution business, in addition to our existing Nanshan Primary Station, a second gas station will be built. Land use right for the second gas station was obtained in April of 2021.

### **Abolishment of Certain Pipeline Connection Related Services Charges to Customers in Sanya**

The Company was notified by the Sanya City Development and Reform Commission ("SYDRC") that, with retroactive effective to March 1, 2021, certain service charges relating to the connection services for the distribution of natural gas to customers in Sanya will be abolished. The new rules will impact certain of the Company's pipeline connection fees and meter upgrade fees chargeable to our customers going forward.

### **Gas Selling Price Adjustment**

The Group's natural gas business is a price regulated industry in China, where its business and operations are susceptible to risks associated with government pricing policy and regulation changes. The Group needs to enter into discussions and negotiations with local governments on pricing from time to time. Over the past years, the Group had been able to increase the selling price several times. In July 2020, as the government natural gas price regulating body in Sanya City, the SYDRC finalized the City's natural gas utility pricing formula adjustment (the "Pricing Formula"), which is based on and adjusted with reference to the pricing formula adjustment of gas purchase price (the "Gas Purchasing Price") plus gas distribution cost (the "Gas Distribution Cost"), became the guideline for the Group to follow on its gas selling prices starting from August 1, 2020 (the "New Gas Selling Price") for both residential and commercial customers. The Pricing Formula is part of the pricing control strategy of China's National Development and Reform Commission for the whole of China. The New Gas Selling Price is to be reviewed (semi-annually) and adjusted periodically based on the Pricing Formula.

Following the price adjustments to the Gas Selling Price with effect from September 1, 2021, the New Gas Selling Price per m<sup>3</sup> to commercial customers in Sanya City has been adjusted from RMB4.0 to RMB3.83 while the price to social welfare units such as schools, government facilities, and other not-for-profit organizations which are classified under commercial customers remain unchanged at RMB3.23. The New Gas Selling Price per m<sup>3</sup> to residential customers, which is based on 3 levels of consumption, with the 3rd level price to be adjusted from RMB3.96 to RMB3.82 while the 1st and 2nd level prices remain unchanged at RMB 2.94 and RMB3.53 respectively.

Going forward, as the pricing control policy is being further implemented by the SYDRC, the Group expects the New Gas Selling Price would significantly and adversely impact the profitability of its natural gas distribution business segment.

### **Investment in a Leading EV Battery Swap Technology Company in the PRC**

The Group has entered into an agreement to acquire approximately 3.43% of the total equity shares of Blue Valley, a privately held EV battery technology development and service company in China. Consideration of a total of RMB14,670,000 was paid and business registration of share transfer was completed in May 2021.

Blue Valley primarily develops advanced EV battery swap and energy storage/redistribution technologies for the Chinese EV market. Blue Valley's key investors include BAIC BluePark New Energy Technology Co., Ltd., SK Innovation Co., Ltd. and Contemporary Amperex Technology Co., Ltd. (the largest EV battery manufacturer in China). Blue Valley is currently CF Energy's business partner and equipment supplier of the EV Battery Swap Stations and the investment in Blue Valley will further enhance the Group's involvement in the fast-growing EV battery swap business in China.

The China Automobile Industry Association ("CAIA") projects that 18.26 million EVs will be on-road in China by 2024. Moreover, CAIA projects that 13.7 million EV owners in China will likely not have private charging units. Finally, Blue Valley estimates that there may be 4.0 million battery-swap-type EVs on-road in China by 2024.

### **Non-Brokered Private Placement Financing**

The Company completed a non-brokered private placement of unsecured convertible debentures in the aggregate principal amount of CAD600,000 (the "Convertible Debenture") in May 2021. The Convertible Debentures have a term of two years ending on May 19, 2023 (the "Maturity Date") with 7% interest per annum to be paid semi-annually, with an option of the holders of the debenture (the "Debenture Holders") to convert the principal amount outstanding under the Convertible Debenture into common shares of the Company ("Shares") at a conversion price of CAD0.66 (the "Conversion Price") per Share. Under the terms of the Convertible Debenture, the Company has the right to require the Debenture Holders to convert all principal amounts outstanding under the Convertible Debenture at the Conversion Price if, for any fifteen consecutive trading days prior to the Maturity Date, the daily volume-weighted average price of the Shares on the TSX-V equals or exceeds CAD0.85 per Share. The subscribers to the Convertible Debentures are Oakwest Capital and Oak Hill Financial Inc.. The proceeds of the Convertible Debentures are for general working capital and to support the Company's new energy business development of the Group.

### **COVID-19 impact on our business in the Hainan Province**

With the resurgence of the outbreak of COVID-19 confirmed cases in China around the end of July 2021, to combat this, the Central Government re-instated certain travel restrictions previously adopted across China restricting residence in major cities with recent confirmed cases of COVID-19 to travel outside of these cities and likewise, for travelers to travel to the restricted cities, unless traveling is deemed essential. These restrictions were also applicable to the Hainan Province until they were uplifted on August 19, 2021 as there were a few recent confirmed COVID-19 infected cases in Hainan Province.

As a result of these restrictions, the demand for natural gas for the months of August, September and November 2021 experienced significant drop from the daily average consumption and an overall drop in revenue in the gas distribution utility segment of the Group. Such drop had impacted both the third and fourth quarters of 2021 resulting in the erosion of much of the increase of revenue brought forward from the first half of 2021.

The restrictions have also affected our other business segments, including the Haitang Bay Integrated Smart Energy Project and the EV battery swap station business. Commencement of operation for some of the hotels in Haitang Bay which were planned to convert to our system were temporarily closed and the schedules for new hotel customers tapping into our system have been delayed. The significant drop in visitors to Sanya has also impacted our EV battery swap station business as demand for network taxi has also reduced.

### **Outlook**

As communicated in the Chairman's message, the Company will be making strategic and directional changes in 2022 to drive the Company's performance back on track. With the new strategy and stronger, more efficient management team, the Company will continue to strive to make meaningful progress despite the COVID-19 pandemic and grow across our business segments. We will continue to look for new opportunities in the energy sector, including gas procurements, alternative energy resources to ensure multi-dimensional growth of the Company and further mitigate potential risks as the world navigate through the energy and resource transition.

As part of the plan to contribute to the carbon neutrality plan in China, the Company has started planning around this goal and making contribution to help achieve net-zero carbon emissions. Therefore, the Company will continue to invest in the integrated smart energy and smart mobility business segments. For the smart mobility segment, we have been working with local taxi and ride-sharing companies, municipal public transportation ministries in various cities in different provinces, and we have signed several new agreements with some of those companies in Haikou, Sanya and Zhuhai cities with execution targeted in 2022. In addition, we are also exploring opportunities to expand the EV battery swap service into light and heavy trucks in China as well.

## **Selected yearly Financial Information**

The following tables provide selected financial information for the year ended December 31, 2021 and 2020 in Chinese RMB and Canadian dollars. Presentation in Canadian dollars is for information purpose only.

|   | RMB'000       |                    |                 |             | For information purposes and unaudited<br>CAD'000 |                    |                |             |
|---|---------------|--------------------|-----------------|-------------|---|--------------------|----------------|-------------|
|   | 2021          | 2020<br>(Restated) | Change          | %           | 2021  | 2020<br>(Restated) | Change         | %           |
| <i>except percentages and per share amounts</i>                             |               |                    |                 |             |   |                    |                |             |
| <b>Continuing Operations</b>  |               |                    |                 |             |   |                    |                |             |
| Revenue   | 355,233       | 340,300            | 14,933          | 4%          | 69,022  | 66,154             | 2,868          | 4%          |
| Gross profit  | 134,032       | 139,040            | (5,008)         | -4%         | 26,042  | 27,029             | (987)          | -4%         |
| % of revenue  | 37.7%         | 40.9%              | -3.2%           |             | 37.7%   | 40.9%              | -3.2%          |             |
| Other income  | 3,371         | 7,300              | (3,929)         | -54%        | 655   | 1,419              | (764)          | -54%        |
| Other losses, net   | (1,062)       | (1,378)            | 316             | -23%        | (206)   | (268)              | 62             | -23%        |
| Impairment losses under expected credit loss model, net of reversal         | (1,301)       | (284)              | (1,017)         | 358%        | (253)   | (55)               | (198)          | 358%        |
| Fair value change on derivative financial instrument                        | (4,827)       | 11,367             | (16,194)        | -142%       | (938)   | 2,210              | (3,148)        | -142%       |
| Selling and marketing expenses  | (38,994)      | (37,789)           | (1,205)         | 3%          | (7,577)   | (7,346)            | (231)          | 3%          |
| % of revenue  | 11.0%         | 11.1%              | -0.1%           |             | 11.0%   | 11.1%              | -0.1%          |             |
| General and administrative expenses   | (47,789)      | (45,961)           | (1,828)         | 4%          | (9,285)   | (8,935)            | (350)          | 4%          |
| % of revenue  | 13.5%         | 13.5%              | -0.1%           |             | 13.5%   | 13.5%              | -0.1%          |             |
| Share-based compensation expenses (note 4)                                  | (781)         | (1,678)            | 897             | -53%        | (152)   | (326)              | 174            | -53%        |
| Share of results of associates  | 4,794         | 5,319              | (525)           | -10%        | 931   | 1,034              | (103)          | -10%        |
| Finance costs   | (10,092)      | (6,942)            | (3,150)         | 45%         | (1,961)   | (1,350)            | (611)          | 45%         |
| <b>Profit before tax</b>  | <b>37,351</b> | <b>68,994</b>      | <b>(31,643)</b> | <b>-46%</b> | <b>7,256</b>                                      | <b>13,412</b>      | <b>(6,156)</b> | <b>-46%</b> |
| % of revenue  | 10.5%         | 20.3%              |                 |             | 10.5%   | 20.3%              |                |             |
| Income tax expense  | (15,670)      | (16,295)           | 625             | -4%         | (3,045)   | (3,168)            | 123            | -4%         |
| % of revenue  | 4.4%          | 4.8%               |                 |             | 4.4%  | 4.8%               |                |             |
| <b>Profit for the year from continuing operations</b>                       | <b>21,681</b> | <b>52,699</b>      | <b>(31,018)</b> | <b>-59%</b> | <b>4,211</b>                                      | <b>10,244</b>      | <b>(6,033)</b> | <b>-59%</b> |
| % of revenue  | 6.1%          | 15.5%              |                 |             | 6.1%  | 15.5%              |                |             |
| <b>Discontinued operation (note 1)</b>                                      |               |                    |                 |             |   |                    |                |             |
| Loss for the year from a discontinued operation                             | (2,217)       | (7,123)            | 4,906           | -69%        | (431)   | (1,385)            | 954            | -69%        |
| <b>Profit for the year</b>  | <b>19,464</b> | <b>45,576</b>      | <b>(26,112)</b> | <b>-57%</b> | <b>3,780</b>                                      | <b>8,859</b>       | <b>(5,079)</b> | <b>-57%</b> |
| <b>Other comprehensive expense</b>  |               |                    |                 |             |   |                    |                |             |
| <i>Item that will not be reclassified to profit or loss:</i>                |               |                    |                 |             |   |                    |                |             |
| Fair value loss on investments in equity instruments                        |               |                    |                 |             |   |                    |                |             |
| at fair value through other comprehensive income                            | (2,749)       | -                  | (2,749)         | 100%        | (534)   | -                  | (534)          | 100%        |
| Income tax relating to item that will not be reclassified to profit or loss | 687           | -                  | 687             | 100%        | 133   | -                  | 133            | 100%        |
| Other comprehensive expense for the year, net of income tax                 | (2,062)       | -                  | (2,062)         | 100%        | (401)   | -                  | (401)          | 100%        |
| <b>Total comprehensive income for the year</b>                              | <b>17,402</b> | <b>45,576</b>      | <b>(28,174)</b> | <b>-62%</b> | <b>3,379</b>                                      | <b>8,859</b>       | <b>(5,480)</b> | <b>-62%</b> |
| <b>Profit (loss) for the year attributed to owner of the Company</b>        |               |                    |                 |             |   |                    |                |             |
| - from continuing operations  | 23,011        | 52,826             | (29,815)        | -56%        | 4,471   | 10,269             | (5,798)        | -56%        |
| - from discontinued operation   | (1,330)       | (4,274)            | 2,944           | -69%        | (258)   | (831)              | 573            | -69%        |
|   | 21,681        | 48,552             | (26,871)        | -55%        | 4,213   | 9,438              | (5,225)        | -55%        |
| <b>Loss for the year attributed to non-controlling interests</b>            |               |                    |                 |             |   |                    |                |             |
| - from continuing operations  | (1,330)       | (127)              | (1,203)         | 947%        | (258)   | (25)               | (233)          | 947%        |
| - from discontinued operation   | (887)         | (2,849)            | 1,962           | -69%        | (175)   | (554)              | 379            | -69%        |
|   | (2,217)       | (2,976)            | 759             | -26%        | (433)   | (579)              | 146            | -26%        |
|   | 19,464        | 45,576             | (26,112)        | -57%        | 3,780   | 8,859              | (5,079)        | -57%        |
| <b>Total comprehensive income (expense) attributable to</b>                 |               |                    |                 |             |   |                    |                |             |
| - Owners of the Company   | 19,619        | 48,552             | (28,933)        | -60%        | 3,812   | 9,438              | (5,626)        | -60%        |
| - Non-controlling interests   | (2,217)       | (2,976)            | 759             | -26%        | (433)   | (580)              | 147            | -25%        |
|   | 17,402        | 45,576             | (28,174)        | -62%        | 3,379   | 8,858              | (5,479)        | -62%        |
| <b>Total comprehensive income (expense) attributable to</b>                 |               |                    |                 |             |   |                    |                |             |
| - from continuing operations  | 20,949        | 52,826             | (31,877)        | -60%        | 4,070   | 10,269             | (6,199)        | -60%        |
| - from discontinued operation   | (1,330)       | (4,274)            | 2,944           | -69%        | (258)   | (831)              | 573            | -69%        |
|   | 19,619        | 48,552             | (28,933)        | -60%        | 3,812   | 9,438              | (5,626)        | -60%        |
| <b>EBITDA from continuing operations (note 2)</b>                           | <b>77,436</b> | <b>98,631</b>      | <b>(21,195)</b> | <b>-21%</b> | <b>15,046</b>                                     | <b>19,174</b>      | <b>(4,128)</b> | <b>-21%</b> |
| % of revenue  | 21.8%         | 29.0%              |                 |             | 21.8%   | 29.0%              |                |             |
| <b>From continuing and discontinued operations</b>                          |               |                    |                 |             |   |                    |                |             |
| Basic EPS   | 0.33          | 0.74               |                 |             | 0.06  | 0.14               |                |             |
| Diluted EPS   | 0.32          | 0.74               |                 |             | 0.06  | 0.14               |                |             |
| <b>From continuing operations</b>   |               |                    |                 |             |   |                    |                |             |
| Basic EPS   | 0.35          | 0.81               |                 |             | 0.07  | 0.16               |                |             |
| Diluted EPS   | 0.34          | 0.81               |                 |             | 0.07  | 0.16               |                |             |
| <b>From discontinued operation</b>  |               |                    |                 |             |   |                    |                |             |
| Basic EPS   | (0.02)        | (0.07)             |                 |             | (0.01)  | (0.02)             |                |             |
| Diluted EPS   | (0.02)        | (0.07)             |                 |             | (0.01)  | (0.02)             |                |             |

Note 1: Discontinued operation is in respect of the termination of the operation of Riheng (Please refer to page 5 of this MD&A for more details).

Note 2: EBITDA is identified and defined under the section "Non-IFRS Financial Measures".

Note 3: Canadian dollars were converted from RMB at the respective average rates of RMB 1 to CAD 0.1943 for 2021 and CAD 0.1944 for 2020.

Note 4: Share-based compensation expenses are included in general administrative expenses for the purpose of presentation in the consolidated financial statements.

## **Result of Operations**

### **Total Revenue and Sales Volume sold**

#### **Continuing Operations**

| <b>Revenue (Summary table)</b>         |                |                            |               |             |
|--|----------------|----------------------------|---------------|-------------|
| <b>Total Revenue<br/>(in RMB'000)</b>  | <b>2021</b>    | <b>2020<br/>(Restated)</b> | <b>Change</b> | <b>%</b>    |
| <b>Gas Distribution Utility</b>        |                |                            |               |             |
| - Gas supply                           | 174,042        | 170,424                    | 3,618         | 2%          |
| - Pipeline installation and connection | 126,734        | 123,327                    | 3,407         | 3%          |
| - CNG vehicle refueling                | 45,836         | 46,498                     | (662)         | -1%         |
| <b>Integrated Smart Energy</b>         | <b>8,330</b>   | <b>-</b>                   | <b>8,330</b>  | <b>100%</b> |
| <b>Smart Mobility</b>                  | <b>291</b>     | <b>51</b>                  | <b>240</b>    | <b>5</b>    |
| <b>Total Revenue in RMB'000</b>        | <b>355,233</b> | <b>340,300</b>             | <b>14,933</b> | <b>4%</b>   |
| <b>Total Revenue in CAD'000</b>        | <b>69,022</b>  | <b>66,154</b>              | <b>2,868</b>  | <b>4%</b>   |

Located in an international tourist destination in the PRC's only tropical province, Sanya City, our business is affected by demand of natural gas generated by tourists in hotel stay and travelling activities such as catering in restaurants.

Total revenue from continuing operations for the year ended December 31, 2021 was RMB355.2 million, an increase of RMB14.9 million, or 4%, from RMB340.3 million (restated) for the year ended December 31, 2020. Revenue from gas supply in 2021 was RMB174.0 million, an increase of RMB3.6 million, or 2% as compared to RMB170.4 million (restated) in 2020. Revenue from pipeline installation and connection in 2021 was RMB126.7 million, an increase of RMB3.4 million, or 3% as compared to RMB123.3 million in 2020. CNG vehicle refueling revenue in 2021 was RMB45.8 million, a slight decrease of RMB0.7 million, or 1% as compared to RMB46.5 million in 2020.

The Haitang Bay Smart Energy Project commenced operation in September 2021 and began contributing revenue to the Integrated Smart Energy segment alongside the Meishan Project. Revenue from the Integrated Smart Energy segment in 2021 was RMB8.3 million.

Revenue from EV battery swap included in the Smart Mobility segment was RMB0.3 million.

With the resurgence of the outbreak of COVID-19 confirmed cases in China around the end of July 2021, the Central Government had re-instated certain travel restrictions previously adopted across China, restricting residence in major cities with recent confirmed cases of COVID-19 to travel outside of these cities and likewise, for travelers to travel to the restricted cities, unless traveling was deemed essential. With these restrictions, the demand for natural gas in Sanya City began to drop in the month of August 2021 and worsened in September 2021. Such drop in sales volume from commercial customers and the resultant decrease in gas sales revenue for the third quarter of 2021 had carried forward to impact the last quarter of 2021, which eroded part of the increase of revenue in the first half of 2021. This resulted in an overall marginal increase in commercial customers and total revenue of gas sales for the whole of 2021 as compared to 2020.

On a comparable basis, total revenue in 2021 has not achieved full recovery to pre-COVID-19 level in 2019. Total revenue from continuing operations decreased RMB49.7 million, or 12% from RMB404.9 million in 2019 to RMB355.2 million in 2021. The slow recovery was mainly attributed to the reduction in selling price of gas supply since August 2020 which was further reduced in September 2021 and the adverse effect of resurgence of the outbreak of COVID-19 which affected the second half of 2021.

**Sales volume sold**

| <b>Gas sales</b>                               | <b>2021</b>       | <b>2020</b>       | <b>Change</b>      | <b>%</b>    |
|--|-------------------|-------------------|--------------------|-------------|
| <b>Sales volume sold (m<sup>3</sup>)</b>       |                   | <b>(Restated)</b> |                    |             |
| Sanya City, Hainan Province                    | 51,417,885        | 46,037,842        | 5,380,043          | 12%         |
| Other cities                                   | 1,839             | 69,071            | (67,232)           | -97%        |
| <b>Total gas sales volume (m<sup>3</sup>)</b>  | <b>51,419,724</b> | <b>46,106,913</b> | <b>5,312,811</b>   | <b>12%</b>  |
| <b>CNG refueling</b>                           |                   |                   |                    |             |
| Sanya CNG/LNG                                  | 8,100,222         | 9,362,308         | (1,262,086)        | -13%        |
| Changsha CNG                                   | 3,275,773         | 3,357,770         | (81,997)           | -2%         |
| <b>Total CNG/LNG volume (m<sup>3</sup>)</b>    | <b>11,375,995</b> | <b>12,720,078</b> | <b>(1,344,083)</b> | <b>-11%</b> |
| <b>Total sales volume sold (m<sup>3</sup>)</b> | <b>62,795,719</b> | <b>58,826,991</b> | <b>3,968,728</b>   | <b>7%</b>   |

Total sales volume from continuing operations in 2021 was 62.8 million m<sup>3</sup>, an increase of 4.0 million m<sup>3</sup>, or 7% as compared to 58.8 million m<sup>3</sup> (restated) in 2020. The overall increase in 2021 was mainly attributable to the increase in gas sales volume in Sanya City of 5.4 million m<sup>3</sup>, or 12% from 46.0 million m<sup>3</sup> in 2020 to 51.4 million m<sup>3</sup> in 2021 due to recovery of consumption of gas attributable to the increase of commercial activities in the first half of 2021, partially offset by the downturn in consumption of gas due to the temporary government travel restriction measures being implemented to combat the resurgence of the outbreak of COVID-19 in the second half of the year.

On a comparable basis against 2019, total sales volume recorded a decrease of 4.1 million m<sup>3</sup>, or 6% from 66.9 million m<sup>3</sup> in 2019 to 62.8 million m<sup>3</sup> in 2021. Gas volume in Sanya City remained at similar level as that of 2019, with a modest increase of RMB0.8 million, or 2% from RMB50.6 million in 2019 to RMB51.4 million in 2021.

Gas Sales volume by nature of customers

**Gas sales**

| <b>Sanya City, Hainan Province</b>     | <b>2021</b>       | <b>2020</b>       | <b>Change</b>    | <b>%</b>   |
|--|-------------------|-------------------|------------------|------------|
| <b>Gas volume sold (m<sup>3</sup>)</b> |                   | <b>(Restated)</b> |                  |            |
| Residential customers                  | 16,882,321        | 16,197,400        | 684,921          | 4%         |
| Commercial customers                   | 34,535,564        | 29,840,442        | 4,695,122        | 16%        |
|  | <b>51,417,885</b> | <b>46,037,842</b> | <b>5,380,043</b> | <b>12%</b> |
| <b>Other cities</b>                    |                   |                   |                  |            |
| <b>Gas volume sold (m<sup>3</sup>)</b> |                   |                   |                  |            |
| Commercial customers                   | 1,839             | 69,071            | (67,232)         | -97%       |
| <b>Total</b>                           | <b>51,419,724</b> | <b>46,106,913</b> | <b>5,312,811</b> | <b>12%</b> |

Gas sales volume of residential customers in 2021 was 16.9 million m<sup>3</sup>, a slight increase of 0.7 million m<sup>3</sup>, or 4% as compared to 16.2 million m<sup>3</sup> in 2020. Gas sales volume for commercial customers in 2021 was 34.5 million m<sup>3</sup>, an increase of 4.7 million m<sup>3</sup>, or 16% as compared to 29.8 million m<sup>3</sup> in 2020.

With the resurgence of the outbreak of COVID-19 in Sanya City during August 2021 and in the northern part of China in November 2021, the Central Government had re-instated certain travel restrictions previously adopted across China, restricting residence in major cities with recent confirmed cases of COVID-19 to travel outside of these cities and likewise, for travelers to travel to the restricted cities, unless traveling is deemed essential. As a result of these restrictions, the demand for natural gas from commercial customers in Sanya City began to drop in August 2021 and worsen in September 2021. Despite sales volume picked up in October 2021, with the number of confirmed cases of COVID-19 found in the northern region of China in November 2021, cross-province seasonal residences who habitually return to stay in Sanya City to enjoy the warm weather in the winter had not returned. As these cross-province seasonal residences usually come as family to Sanya City in the winter, their return would generally increase the commercial business in Sanya City during the winter months. The lack of patronage from these residences had affected both sales revenue of commercial and residential customers.

Sales volume from commercial customers dropped 6% and 19% in August and September 2021 respectively as compared to the corresponding months in 2020. Sales volume continued to decrease in October 2021 to 19% and further dropped to 21% in November 2021 as compared to the corresponding months in 2020. The decrease in sales volume of commercial customers for the second half of 2021 was partially offset by the increase in the first half of 2021 and resulted in an overall increase of 4.7 million m<sup>3</sup>, or 16% to 34.5 million m<sup>3</sup> in 2021 as compared to 29.8 million m<sup>3</sup> in 2020.

Such adverse effect was evidenced by the Sanya City Bureau of Statistics where the number of overnight visitors to Sanya City in August and September 2021 were 0.7 million times and 1.1 million times respectively, significantly decreased by 61% and 34% as compared to the same months in 2020. Number of overnight visitors to Sanya city in October 2021 bounced back to 1.5 million times but dropped again to 1.3 million times in November 2021 and recorded a 44% decrease in November 2021 as compared to the same months in 2020. The overall average number of overnight visitors in 2021 was 1.8 million times, an increase of 0.4 million times, or 26% as compared to 1.4 million times in 2020 but still 0.3 million times lower, or 16% as compared to 2.1 million times in 2019 when benchmarked to pre-COVID level.

According to Sanya City Bureau of Statistics, the hotel occupancy rates of Sanya City in August and September 2021 were 21% and 36% respectively, a significant decrease of 48 and 27 percentage points as compared to the corresponding months in 2020. Hotel occupancy rate bounced back to 50% in October 2021 but dropped again to 41% in November 2021. The overall average hotel occupancy rate in 2021 was 56%, a slight increase of 5 percentage point as compared to 51% in 2020 but still 16 percentage point lower as compared to 72% in 2019 when benchmarked to hotel occupancy rate in pre-COVID level of 2019.

As an international tourist destination and the only tropical province in the PRC, Sanya City's travelling activities has a direct impact on gas revenue from commercial customers with travelling activities as a large portion of gas revenue was generated from this sub-segment.

On a comparable basis against 2019, gas sales volume for residential customers in Sanya City increased 2.9 million m<sup>3</sup>, or 21% from 14.0 million m<sup>3</sup> in 2019 to 16.9 million m<sup>3</sup> in 2021. The increase was explained by the habituation of staying home since the COVID-19 pandemic in 2020 and the continued increase in new customers, a trend which has not been affected by the pandemic. Gas volume for commercial customers decreased 2.1 million m<sup>3</sup>, or 6% from 36.6 million m<sup>3</sup> in 2019 to 34.5 million m<sup>3</sup> in 2021.

Commercial customers in Sanya City include non-residential customers such as hotels, resorts and restaurants and attributed approximately 85.0% of total volume from commercial customers, whereas social welfare units such as schools, government facilities, and other not-for-profit organizations attributed approximately 15.0% of total volume from commercial customers. Customers outside of Sanya City are all commercial customers which mainly come from brick manufacturers in Wenchang City, Hainan Province.

#### Gas sales by number of customers

| Sanya City, Hainan Province               | 2021    | 2020    | Change | %    |
|---|---------|---------|--------|------|
| <b>Customers newly started gas supply</b> |         |         |        |      |
| Residential customers                     | 20,725  | 17,494  | 3,231  | 18%  |
| Commercial customers                      | 119     | 55      | 64     | 116% |
| <b>Total customers</b>                    |         |         |        |      |
| Residential customers                     | 262,970 | 242,245 | 20,725 | 9%   |
| Commercial customers                      | 1,293   | 1,174   | 119    | 10%  |

Despite the imposition of temporary travelling restrictions in certain months of the second half of 2021, the overall commercial sector recorded 119 new commercial customers in 2021 as compared to 55 and 80 new commercial customers in 2020 and 2019 respectively. These new commercial customers are small business owners and many of which are owners of catering establishments.

20,725 new residential customers were obtained in 2021, as compared to 17,494 and 23,842 new residential customers obtained in 2020 and 2019.

There was a total of 262,970 residential customers and 1,293 commercial customers as at December 31, 2021, as compared to 242,245 residential customers and 1,174 commercial customers as at December 31, 2020.

Gas sales revenue by customers

| <b>Gas sales</b>                    |                |                   |               |           |
|-------------------------------------|----------------|-------------------|---------------|-----------|
| <b>Sanya City, Hainan Province</b>  |                |                   |               |           |
| <b>Gas sales revenue</b>            | <b>2021</b>    | <b>2020</b>       | <b>Change</b> | <b>%</b>  |
| <b>(in RMB'000)</b>                 |                | <b>(Restated)</b> |               |           |
| Residential customers               | 46,224         | 47,520            | (1,296)       | -3%       |
| Commercial customers                | 122,444        | 118,146           | 4,298         | 4%        |
|                                     | <b>168,668</b> | <b>165,666</b>    | <b>3,002</b>  | <b>2%</b> |
| <b>Other cities</b>                 |                |                   |               |           |
| <b>Gas sales revenue</b>            |                |                   |               |           |
| <b>(in RMB'000)</b>                 |                |                   |               |           |
| Commercial customers                | 5,374          | 4,758             | 616           | 13%       |
| <b>Total gas sales by customers</b> | <b>174,042</b> | <b>170,424</b>    | <b>3,618</b>  | <b>2%</b> |

Gas sales revenue from residential customers in Sanya City in 2021 was RMB46.2 million, a decrease of RMB1.3 million, or 3% from RMB47.5 million in 2020. Gas sales revenue from commercial customers in Sanya City in 2021 was RMB122.4 million, an increase of RMB4.3 million, or 4%, from RMB118.1 million in 2020. Sales revenue from commercial customers in Sanya City was driven by the increase in sales volume, partially offset by the reduction in selling prices due to the New Gas Selling Price adjustments imposed by SYDRC which began to take effect from September 1, 2021.

With effect from September 1, 2021, the New Gas Selling Price per m<sup>3</sup> to commercial customers in Sanya City was adjusted from RMB4.0 to RMB3.83 while the price to social welfare units such as schools, government facilities, and other not-for-profit organizations which are classified under commercial customers remained unchanged at RMB3.23. The New Gas Selling Price to residential customers, which is based on 3 levels of consumption, with the 3rd level price adjusted from RMB3.96 to RMB3.82 while the 1st and 2nd level prices remained unchanged at RMB 2.94 and RMB3.53 respectively. Impact of price reduction led to a decrease in weighted average selling price of approximately of 11% and 7% for commercial customers and residential customers respectively in 2021 as compared to 2020.

On a comparable basis against 2019, gas sales revenue from residential customers in Sanya City recorded an increase of RMB5.6 million, or 14% from RMB40.6 million in 2019 to RMB46.2 million in 2021. Gas sales revenue from commercial customers in Sanya City recorded a decrease of RMB43.1 million, or 26% from RMB165.5 million in 2019 to RMB122.4 million in 2021. Impact of price reduction led to a decrease in weighted average selling price of 22% and 6% for commercial customers and residential customers respectively in 2021 as compared to 2019.

Gas sales revenue in other cities included gas transmission fee charged for natural gas transmitted to the Datang Gaoyao Plant in Zhaoqing City, Guangdong Province which amounted to RMB5.3 million in 2021, an increase of RMB0.8 million, or 17% as compared to RMB4.5 million in 2020. Production of Datang Gaoyao Plant has not been affected by the COVID-19 pandemic with steady gas volume being transmitted.

Pipeline installation and connection

**Sanya City, Hainan Province**

**Pipeline connection**

| <b>by number of customers</b>                             | <b>2021</b>    | <b>2020</b>    | <b>Change</b> | <b>%</b>  |
|---|----------------|----------------|---------------|-----------|
| <b>Customers newly connected</b>                          |                |                |               |           |
| Residential customers                                     | 20,273         | 35,059         | (14,786)      | -42%      |
| Commercial customers                                      | 148            | 87             | 61            | 70%       |
| <b>Total customers connected</b>                          |                |                |               |           |
| Residential customers                                     | 341,219        | 320,946        | 20,273        | 6%        |
| Commercial customers                                      | 1,365          | 1,217          | 148           | 12%       |
| <b>Pipeline connection revenue</b><br><b>(in RMB'000)</b> |                |                |               |           |
| Residential customers                                     | 109,437        | 109,044        | 393           | 0%        |
| Commercial customers                                      | 17,297         | 14,283         | 3,014         | 21%       |
| <b>Total</b>  | <b>126,734</b> | <b>123,327</b> | <b>3,407</b>  | <b>3%</b> |

Pipeline installation and connection revenue from residential customers in 2021 was RMB109.4 million remained at the same level as 2020. Pipeline installation and connection revenue from commercial customers in 2021 was RMB17.3 million, an increase of RMB3.0 million, or 21% from RMB14.3 million in 2020.

On a comparable basis against 2019, pipeline installation and connection revenue from residential customers in Sanya City recorded an increase of RMB9.6 million, or 10% from RMB99.8 million in 2019 to RMB109.4 million in 2021. Pipeline installation and connection revenue from commercial customers in Sanya City decreased by RMB14.0 million, or 45% from RMB31.3 million in 2019 to RMB17.3 million in 2021.

Pipeline installation and connection revenue from residential customers returned to the pre-COVID level was attributed to the revenue from connection of gas supply from residential customers in temporary housing under city redevelopment plan. However, the pipeline installation and connection revenue from commercial customers is still being affected by COVID-19 where fewer large commercial projects were undertaking in 2021.

Revenue from residential customers recovered faster than revenue from commercial customers under COVID-19. Sales revenue from residential customers continued to increase which mainly attributed to the connection of gas supply to the temporary housing for relocating residences of certain old residential areas in Sanya city under the government policy of city planning. Revenue from commercial customers recovery was more gradual in 2021.

There were 20,273 new residential customers in 2021 as compared to 35,059 new customers in 2020. There were 341,219 residential customers and 320,946 commercial customers as at December 31, 2021, as compared to 320,946 residential customers and 1,217 commercial customers as at December 31, 2020.

**CNG Vehicle refueling**

| <b>CNG refueling</b>                      |                   |                   |                    |             |
|---|-------------------|-------------------|--------------------|-------------|
| <b>Vehicles refueling stations</b>        |                   |                   |                    |             |
| <b>CNG Sales Volume</b>                   |                   |                   |                    |             |
| <b>(in m<sup>3</sup>)</b>                 | <b>2021</b>       | <b>2020</b>       | <b>Change</b>      | <b>%</b>    |
| Sanya CNG/LNG                             | 8,100,222         | 9,362,308         | (1,262,086)        | -13%        |
| Changsha CNG                              | 3,275,773         | 3,357,770         | (81,997)           | -2%         |
| <b>Total Sales Volume (m<sup>3</sup>)</b> | <b>11,375,995</b> | <b>12,720,078</b> | <b>(1,344,083)</b> | <b>-11%</b> |
| <b>Total Revenue</b>                      |                   |                   |                    |             |
| <b>(in RMB'000)</b>                       | <b>2021</b>       | <b>2020</b>       | <b>Change</b>      | <b>%</b>    |
| <b>CNG Sales Revenue</b>                  |                   |                   |                    |             |
| Sanya CNG/LNG                             | 31,489            | 31,952            | (463)              | -1%         |
| Changsha CNG                              | 14,347            | 14,546            | (199)              | -1%         |
| <b>Total Revenue (RMB'000)</b>            | <b>45,836</b>     | <b>46,498</b>     | <b>(662)</b>       | <b>-1%</b>  |

Total sales volume of vehicle refueling stations in Sanya and Changsha decreased 1.3 million m<sup>3</sup>, or 11% from 12.7 million m<sup>3</sup> in 2020 to 11.4 million m<sup>3</sup> in 2021. Decrease in sales volume in 2021 was attributed to the reduction in gas demand under travel restrictions imposed by the Central government to combat with the resurgence of the outbreak of COVID-19 in certain months of the second half of 2021.

Drop in revenue from Sanya station was severe than that of Changsha station as there were a few recent confirmed COVID-19 infected cases in Hainan Province which caused a reduction of daily commutes and social events in Sanya City in August, September and November of 2021.

In fact, on a comparable basis against 2019, total sales volume of two vehicle refueling stations decreased 4.6 million m<sup>3</sup>, or 29% from 16.0 million m<sup>3</sup> in 2019 to 11.4 million m<sup>3</sup> in 2021. Sales revenue of two vehicle refueling stations decreased RMB17.4 million, or 27% from RMB63.2 million in 2019 to RMB45.8 million in 2021.

**Integrated Smart Energy**

| <b>Integrated smart Energy</b>                 |              |             |               |             |
|--|--------------|-------------|---------------|-------------|
| <b>Integrated Smart Energy System</b>          |              |             |               |             |
| <b>Sanya City, Hainan Province</b>             |              |             |               |             |
| <b>(in RMB'000)</b>                            | <b>2021</b>  | <b>2020</b> | <b>Change</b> | <b>%</b>    |
| Commerical customers                           | 6,448        | -           | 6,448         | 100%        |
| <b>Integrated district energy distribution</b> |              |             |               |             |
| <b>Meishan City, Sichuan Province</b>          |              |             |               |             |
| <b>(in RMB'000)</b>                            |              |             |               |             |
| Commerical customers                           | 1,882        | -           | 1,882         | 100%        |
| <b>Total</b>                                   | <b>8,330</b> | <b>-</b>    | <b>8,330</b>  | <b>100%</b> |

The integrated smart energy segment is a newly created segment which comprises the Haitang Bay Integrated Smart Energy Project (integrated smart energy system) which commenced commercial operation in September 2021 and the Meishan Project (integrated district energy distribution project) which commenced commercial operation in May 2021. The Haitang Bay Integrated Smart Energy Project was in implementation stage. Three of the hotels in Haitang Bay are currently using the system and connection of two other hotels are under construction.

With the resurgence of the outbreak of COVID-19 in Sanya City during August and September of 2021 and in the northern part of China in November 2021, tourism industry in Sanya City and surrounding area was heavy affected with noticeable drop in occupancy rate which led to a reduction in usage of integrated smart energy system as projected.

### Smart Mobility

| <b>Smart Mobility</b>          |             |             |               |             |
|--------------------------------|-------------|-------------|---------------|-------------|
| <b>EV Battery Swap Revenue</b> |             |             |               |             |
| <b>(in RMB'000)</b>            | <b>2021</b> | <b>2020</b> | <b>Change</b> | <b>%</b>    |
| Sanya City, Hainan Province    | 249         | 51          | 198           | 388%        |
| Haikou City, Hainan Province   | 42          | -           | 42            | 100%        |
| <b>Total Revenue (RMB'000)</b> | <b>291</b>  | <b>51</b>   | <b>240</b>    | <b>471%</b> |

The smart mobility is a newly created segment which comprises the EV battery swap business. There are a total of three (3) EV battery swap stations with the first station located by the Sanya airport which commenced operation in August 2020, the second station located in Haitang Bay which commenced operation in January 2021 and the third one in Haikou which commenced operation in August 2021.

### Foreign exchange rates

CF Energy reports its financial results in Renminbi (RMB), its functional currency as it earns all its revenues and incurs most of its expenses in RMB. As the Company is listed in TSX-V Canada, certain financial information and/or comparative analysis are also presented in Canadian dollars (CAD), fluctuations in the exchange rates between RMB and CAD should also be considered.

The exchange rate between the RMB and the CAD is summarized below.

| <b>One Chinese RMB to Canadian dollars</b> | <b>2021</b> | <b>2020</b> | <b>% change</b> |
|--|-------------|-------------|-----------------|
| Spot rate at the end of the year           | 0.1955      | 0.1949      | 0.3%            |
| Average rate for the year                  | 0.1943      | 0.1944      | -0.1%           |

### Gross margin

Gross profit from continuing operations in 2021 was RMB134.0 million, a decrease of RMB5.0 million, or 4%, from RMB139.0 million (restated) in 2020. Gross profit margin in 2021 was 37.7%, a decrease of 3.2 percentage points as compared to 40.9% (restated) in 2020.

On a comparable basis against 2019, the gross profit in 2019 was RMB172.6 million (restated) and gross profit margins in 2019 was 42.6%.

With the gas selling price adjustments, the weighted average gas selling price of residential customers in Sanya City decreased RMB0.19, or 7% from RMB2.93 in 2020 to RMB2.74 in 2021. Weighted average selling price for commercial customers in Sanya City in 2021 decreased RMB0.41, or 11% from RMB3.96 in 2020 to RMB3.55 in 2021.

Drop in gross profit margin from continuing operations in 2021 as compared to that in 2020 was mainly attributable to the higher gross profit margin for revenue from commercial customers in pipeline connection which was more than offset by the raise in purchase price of LNG which could not be fully transferred to our customers in Sanya CNG vehicle station and partially offset by the implementation of the SYDRC gas selling price adjustments from September 1, 2021. Average purchase price of LNG was over RMB3.0 per m<sup>3</sup> in the last quarter of 2021 which drove the overall LNG purchase price to a high level averaging RMB2.81 per m<sup>3</sup> in 2021 as compared to RMB2.14 per m<sup>3</sup> in 2020 and RMB2.56 per m<sup>3</sup> in 2019. LNG cost contributed approximately 21% and 12% of total cost of gas purchase and cost of goods sold in both years of 2021 and 2020. LNG purchase volume contributed 15% and 18% of total gas purchase volume in 2021 and 2020 respectively.

### Operating expenses

**Selling and marketing expenses** of continuing operations in 2021 were RMB39.0 million, an increase of RMB1.2 million, 3% from RMB37.8 million (restated) in 2020. Selling and marketing expenses as a percentage of sales in 2021 was 11.0%, consistent with that in 2020. The increase in selling and marketing expenses in 2021 was mainly attributable to the normal level of social security provident fund expenses on salaries in 2021 as compared to the reduction in statutory social security provident fund expenses under a one-off relaxation policy imposed by the government of Sanya City in the first half of 2020.

**General and administrative expenses** of continuing operations in 2021 were RMB47.8 million, an increase of RMB1.8 million, or 4% from RMB46.0 million (restated) in 2020. General and administrative expenses as a percentage of sales in 2021 was 13.5%, remained constant as compared to 2020. The increase was mainly attributable to government's one-off reduction in statutory social security provident fund payments in 2020 as mentioned in "Selling and marketing expenses" above, and the general and administrative expenses incurred for projects under development which ceased to be capitalized upon commencement of operations in 2021. Unlike sales and marketing expenses, general and administrative expenses by nature will not always fluctuate in line with the level of sales activities.

#### **Finance Costs**

Finance costs from continuing operations in 2021 were RMB10.1 million, an increase of RMB3.2 million, or 45% from RMB6.9 million in 2020. Finance costs reflected interests on lease liabilities and interest on Convertible Debentures, short-term bank borrowings and long-term bank financing for the development of the Group's projects under development, net of RMB8.3 million (2020: RMB6.9 million) capitalized on projects under development.

#### **Share of profit of associates**

Share of profit of associates of RMB4.8 million in 2021, mainly represents the share of profit of the Group's 40% held associate, Pingxiang Xinao Changfeng Gas Co., Ltd. ("Pingxiang Xinao CF").

#### **EBITDA from continuing operations**

EBITDA from continuing operations (non-IFRS measure as identified and defined under section "Non-IFRS Measures") in 2021 was RMB77.4 million, a decrease of RMB21.2 million, or 21%, from RMB98.6 million (restated) in 2020.

EBITDA from continuing operations in 2021 included the recognition of share-based payments of RMB0.8 million (2020: RMB1.7 million), non-recurring government financial assistance of RMB1.8 million (2020: RMB5.0 million) and a loss of RMB4.8 million (2020: gain of RMB11.4 million) in fair value change on derivative financial instrument of loan discharge agreement relating to the commitment of the estate of Mr. Huajun Lin to subscribe for the common shares of the Company in the amount of RMB 36.0 million (please refer to the section headed "Related Party Transactions" on pages 21 and 22 of the MD&A for more details), which is in line with IFRS, has been classified as a "derivative financial instrument", subject to periodic fair value assessment and adjustment (as applicable). The derivative financial instrument in question was initially recognized at fair value at the date when the derivative contract was entered into and is subsequently remeasured to its fair value at the end of each reporting period. Market price of the common shares of the Company was CAD0.54 as at December 31, 2021 and CAD0.45 as at December 31, 2020 respectively. A loss of RMB4.8 million in fair value change on derivative financial instrument of loan discharge agreement was recognized in 2021 which arose from the difference between the market price of the Company between December 31, 2021 and December 31, 2020. On contrast, a gain of RMB11.4 million in fair value change on derivative financial instrument of loan discharge agreement was recognized in 2020 as the market price of the Company as at December 31, 2020 and 2019 had a downward difference of RMB0.22.

On a comparable basis, the adjusted EBITDA from continuing operations in 2021 was RMB81.3 million, a decrease of RMB2.7 million, or 3%, from RMB84.0 million (restated) in 2020.

#### **Profit for the year from continuing operations**

The Group reported net profit from continuing operations of RMB21.7 million in 2021, a decrease of RMB31.0 million, or 59%, from RMB52.7 million (restated) in 2020.

Earnings per share ("EPS") from continuing operations was RMB0.35 (CAD0.07) and RMB0.34 (CAD0.07) per share (basic and diluted) for 2021 as compared to RMB0.81 (CAD0.16) (basic and diluted) per share for 2020.

**Adjusted net profit for the year from continuing operations (non-IFRS)**

| In RMB thousands<br>(except for % figures)                                    | 2021          | 2020<br>(Restated) | Change          | %           |
|---|---------------|--------------------|-----------------|-------------|
| <b>Continuing operations</b>  |               |                    |                 |             |
| Net profit for the year from continuing operations                            | 21,681        | 52,699             | (31,018)        | -59%        |
| Non-recurring items   |               |                    |                 |             |
| Fair value change on derivative financial instrument                          | 4,827         | (11,367)           | 16,194          | 142%        |
| Recognition of share-based payments   | 781           | 1,678              | (897)           | -53%        |
| Government financial assistance   | (1,777)       | (4,955)            | 3,178           | -64%        |
| <b>Adjusted net profit for the year from continuing operations (non-IFRS)</b> | <b>25,512</b> | <b>38,055</b>      | <b>(12,543)</b> | <b>-33%</b> |

All non-GAAP measures have been identified. On a comparable basis (please refer to the section headed "EBITDA from continuing operations" above for more details), after excluding the loss in fair value change on derivative financial instrument of loan discharge agreement, recognition of share-based payments and non-recurring government financial assistance, the Company reported an adjusted net profit of RMB25.5 million in 2021, a decrease of RMB12.5 million, or 33% from that of RMB38.0 million as reported in 2020.

Adjusted EPS was derived from the adjusted net profit for the year from continuing operations (non-IFRS) divided by weighted average number of ordinary shares for the purpose of diluted earnings per share. Adjusted EPS from continuing operations was RMB0.38 (CAD0.07) per share (basic and diluted) for in 2021 as compared to adjusted EPS from continuing operations of RMB0.58 (CAD0.11) (basic and diluted) for 2020.

**Loss for the year from a discontinued operation**

Loss from a discontinued operation in 2021 was RMB2.2 million (2020: RMB7.1 million) related to the termination of the operation of Riheng as part of the Group's policy to realign its future business strategies with major focus on clean energy solutions with high growth potential (Please refer to page 5 of this MD&A for more details).

**Selected quarterly results**

The following set out the Company's unaudited consolidated quarterly results for the most recent eight quarters:

In thousands of RMB, except per share amounts

| Quarterly data (RMB '000)<br>except per share amounts                                       | 2021    |        |        |        | 2020             |                  |                  |                  |
|---|---------|--------|--------|--------|------------------|------------------|------------------|------------------|
|   | Q4      | Q3     | Q2     | Q1     | Q4<br>(Restated) | Q3<br>(Restated) | Q2<br>(Restated) | Q1<br>(Restated) |
| Revenue   | 105,239 | 82,612 | 86,177 | 81,205 | 109,007          | 89,970           | 76,386           | 64,937           |
| Gross profit  | 32,182  | 33,757 | 34,474 | 33,619 | 44,626           | 39,907           | 27,376           | 27,131           |
| Profit (loss) for the period from continuing operations                                     | (5,689) | 9,521  | 14,854 | 2,995  | 14,860           | 22,955           | (2,156)          | 17,040           |
| Profit (loss) for the period attributed to owners of the Company from continuing operations | (4,151) | 9,664  | 14,397 | 3,101  | 15,388           | 22,709           | (2,315)          | 17,044           |
| EPS (loss) of continuing and discontinued operations  |         |        |        |        |                  |                  |                  |                  |
| - basic (RMB)   | (0.07)  | 0.15   | 0.21   | 0.04   | 0.18             | 0.34             | (0.04)           | 0.26             |
| - diluted (RMB)   | (0.06)  | 0.14   | 0.20   | 0.04   | 0.18             | 0.34             | (0.04)           | 0.26             |
| EPS (loss) from continuing operations   |         |        |        |        |                  |                  |                  |                  |
| - basic (RMB)   | (0.06)  | 0.15   | 0.22   | 0.04   | 0.24             | 0.35             | (0.04)           | 0.26             |
| - diluted (RMB)   | (0.05)  | 0.14   | 0.21   | 0.04   | 0.25             | 0.34             | (0.04)           | 0.26             |

## **Selected Financial Data**

| <b>(RMB000's)</b>                | <b>December 31, 2021</b> | <b>December 31, 2020</b> |
|----------------------------------|--------------------------|--------------------------|
| Bank balances and cash           | 127,595                  | 138,602                  |
| Net current liabilities          | (133,480)                | (63,749)                 |
| Adjusted working capital (note1) | 1,555                    | 38,729                   |
| Property and equipment           | 755,050                  | 565,962                  |
| Right-of-use of assets           | 77,637                   | 26,538                   |
| Total assets                     | 1,195,344                | 992,010                  |
| Non-current liabilities          | 383,726                  | 263,216                  |
| Shareholders' equity             | 418,144                  | 388,948                  |

note 1: This financial measure is identified and defined under the section "Non-IFRS Financial Measures"

Bank balance and cash decreased by RMB11.0 million to RMB127.6 million as at December 31, 2021 from RMB138.6 million as at December 31, 2020, primarily resulted from the net effect of the increase in net cash generated from operating activities of RMB10.1 million, cash used for acquisition of property and equipment of RMB114.1 million, purchase of equity interests mainly in Blue Valley which classified as equity instrument at fair value through other comprehensive income (FVTOCI) of RMB15.2 million and net draw down of new short-term borrowings and long-term debt of RMB162.5 million of which RMB91.9 million was raised for EDF CF, a long-term convertible debentures of RMB3.1 million was raised by the Group in the second quarter of 2021 and an additional capital contribution from non-controlling interests of EDF CF amounted to RMB11.1 million.

### **Adjusted Working Capital**

The adjusted working capital (see "Non-IFRS Financial Measures") was RMB1.6 million as at December 31, 2021, a decrease of RMB37.2 million, from adjusted working capital of RMB38.7 million as at December 31, 2020. Adjusted working capital excludes the receipt in advance from customers included in contract liabilities of RMB74.2 million related to receipts received in advance from customers from pipeline installation and connection project prior to commencement and natural gas sales and short-term bank borrowings of RMB60.9 million.

### **Liquidity and Capital Resources**

The Group's principal sources of short-term funding are existing bank and cash balances, operating cash flows and borrowings under its lines of credit and long-term funding are bank term loan facilities provided to the Group which amounted to RMB60.9 million and RMB409.7 million respectively as at December 31, 2021.

The Company's principal sources of liquidity are cash provided from operation, including advance payments from residential and commercial and industrial customers related to construction contracts for gas connection included in contract liabilities, refund liabilities and access to credit facilities and capital resources.

The Company's primary short-term cash requirement is to fund working capital and repay the remainder of its outstanding withdrawal on its lines of credit as they fall due.

The Company's medium and long-term cash goals are to fund construction of its pipeline networks and gas distribution facilities and projects under development, to acquire capital and intangible assets for its growth initiatives in China and to repay its long-term loan facilities from bank.

In the short term, management does not expect to face any liquidity problems considering its current bank and cash position, available undrawn bank facilities and, despite the impact of COVID-19 pandemic, the expectation to continue to generate cash flows from operations in the short and long term. During the year and as at December 31, 2021, the Group was in compliance with all of its debt covenants.

The net gearing ratio is calculated by dividing interest-bearing borrowings, Convertible Debentures and lease liabilities, net of cash and cash equivalents, by total equity attributable to equity shareholders of the Company. The Group's net gearing ratio was approximately 84.3% as at December 31, 2021, an increase of 38.9 percentage points as compared to 45.4% as at December 31, 2020. Higher gearing ratio was mainly attributable to the further draw down of banking facilities to finance the Group's projects under development.

## **Capital Commitments**

As at December 31, 2021, capital expenditure in respect of the acquisition of property and equipment and the construction of pipelines under development contracted for but not provided in the audited consolidated financial statements amounted to RMB140.8 million, a decrease of RMB113.8 million as compared to RMB254.6 million as at December 31, 2020. The significant reduction of capital commitment was attributable to the advancement of the development of the Haitang Bay Integrated Smart Energy Project as much of the unspent capital commitments brought forward from December 31, 2020 were utilized during 2021 upon the project's commenced of operation in September 2021. Capital commitments as at December 31, 2021 also included a remaining initial investment of RMB0.9 million for the 2% equity interests in Hainan Shanglian Investment Co., Ltd. and remaining capital injection in respective of investment in EDF CF of RMB23.9 million.

## **Share Capital**

As at December 31, 2021, the Company has 65,885,155 common shares and 4,450,000 stock options outstanding. On November 24, 2021, the Company bought back 100,500 shares of its common shares with consideration of RMB225,000 (CAD44,677). Such shares were cancelled after they were bought back.

During the year ended December 31, 2021, 150,000 share options had either expired or had been forfeited. Further 950,000 share options granted on April 10, 2017 have expired/forfeited on April 9, 2022. The Company has no warrants outstanding as of the date of this MD&A.

On December 18, 2020, the Company awarded a total of 2,090,000 shares to senior management and employees of the Group under the Employee Stock Award Plan, of which 25% of the Award Shares, 522,500 shares at the price of CAD0.43 per common share which are not subject to any conditions have been issued. During the year ended December 31, 2021, 547,500 shares award rights expired/forfeited as the participants failed to satisfy the agreed performance condition and service condition. The remaining 1,020,000 shares award rights which are subject to the fulfilment of certain considerations remained un-issued as at December 31, 2021.

## **Non-IFRS Financial Measures**

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other companies or issuers. Investors are cautioned that these measures should not be construed as alternatives to net income or to cash provided by operating, investing, and financing activities determined in accordance with IFRS, as indicators of its performance. The Group provides these measures to assist investors in determining its ability to generate income and cash provided by operating activities and to provide additional information on how these cash resources are used. These measures are listed and defined below.

### **EBITDA from continuing operations**

EBITDA is defined herein as earnings before income tax expense, finance costs, depreciation and amortization. EBITDA does not have any standardized meaning prescribed by IFRS and therefore may not conform to the definition used by other companies or issuers. A reconciliation of net profit from continuing operations to EBITDA and adjusted EBITDA for 2021 and 2020 are presented in the MD&A as follows:

| In RMB thousands<br>(except for % figures)            | 2021          | 2020<br>(Restated) | Change          | %           |
|---|---------------|--------------------|-----------------|-------------|
| <b>Continuing operation</b>                           |               |                    |                 |             |
| Net profit for the year from continuing operations    | 21,681        | 52,699             | (31,018)        | -59%        |
| Add:  |               |                    |                 |             |
| Finance costs   | 10,092        | 6,942              | 3,150           | 45%         |
| Income tax expense                                    | 15,670        | 16,295             | (625)           | -4%         |
| Depreciation and amortization                         | 29,993        | 22,695             | 7,298           | 32%         |
| <b>EBITDA for the year from continuing operations</b> | <b>77,436</b> | <b>98,631</b>      | <b>(21,195)</b> | <b>-21%</b> |
| Non-recurring items                                   |               |                    |                 |             |
| Fair value change on derivative financial instrument  | 4,827         | (11,367)           | 16,194          | 142%        |
| Recognition of share-based payments                   | 781           | 1,678              | (897)           | -53%        |
| Government financial assistance                       | (1,777)       | (4,955)            | 3,178           | -64%        |
| <b>Adjusted EBITDA from continuing operations</b>     | <b>81,267</b> | <b>83,987</b>      | <b>(2,720)</b>  | <b>-3%</b>  |

### Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding the receipts in advance from customers from pipeline installation and connection project prior to commencement and natural gas sales, included in contract liabilities which represented the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customers. Receipt in advance from customers from pipeline installation and connection will be recognized as income upon the performance obligations are fulfilled and receipt in advance from customers for natural gas sales will be recognized as income upon the consumption of natural gas. Both amounts are deferred income in nature and non-refundable to customers, hence are excluded in the calculation of adjusted current liabilities. Adjusted current liabilities also excluded the short-term bank loan as lines of credit in the PRC are typically renewable when due.

The Group believes that the working capital as a supplemental measure, as adjusted based on the above parameters, provides a more appropriate indication of the Group's ability to settle its debt obligations as they fall due.

The calculation of adjusted working capital is provided in the table below.

| In RMB thousands                        |      |                   |                   |
|---|------|-------------------|-------------------|
| As at                                   | Note | December 31, 2021 | December 31, 2020 |
| Current assets                          |      | 259,994           | 276,097           |
| Less: Current liabilities               |      | (393,474)         | (339,846)         |
| <b>Net current liabilities</b>          |      | <b>(133,480)</b>  | <b>(63,749)</b>   |
| Add: Receipts in advance from customers | 1    | 74,175            | 62,478            |
| Add: Short-term bank borrowings         |      | 60,860            | 40,000            |
| <b>Adjusted working capital</b>         |      | <b>1,555</b>      | <b>38,729</b>     |

Note 1: Receipts in advance from customers in respect of pipeline installation and connection projects prior to commencement and natural gas sales are included in contract liabilities.

As at December 31, 2021, the Group's current liabilities exceeded its current assets by RMB133.5 million. The increase in net current liabilities as compared to December 31, 2020 was mainly attributed to the drawdown of current portion of long-term debt of RMB20.9 million based on the negotiations with the bank which successfully raised the overall limit of existing facilities granted by the bank and reduced in bank balances and cash of RMB11.0 million.

In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including capital commitments. Taking into account the Group's cash flow projections, including the term facilities, unutilized bank facilities, the Group's ability to renew or refinance existing banking facilities upon maturity and the Group's future capital expenditure

in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the audited consolidated financial statements have been prepared on a going concern basis.

### Free Cashflow from continuing operations

Free cash flow is calculated as earnings before interest, net of tax, add/minus non-cash expense and income and reduced/increased by the change in net current assets (liabilities) and capital expenditure of the Company.

The calculation of free cash flow is provided in the table below.

| In RMB thousands                                     | 2021             | 2020<br>(Restated) |
|--|------------------|--------------------|
| Net profit for the year from continuing operations   | 21,681           | 52,699             |
| Add: Finance costs                                   | 10,092           | 6,942              |
| Income tax expense                                   | 15,670           | 16,295             |
| EBIT   | 47,443           | 75,936             |
| Effective tax rate                                   | 42%              | 24%                |
| <b>EBIT net of tax</b>                               | <b>27,539</b>    | <b>58,001</b>      |
| <i>Non-cash income and expense</i>                   |                  |                    |
| Depreciation and amortization                        | 29,993           | 22,695             |
| Impairment losses under expected loss model, net     | 1,301            | 284                |
| Share of profit of associates                        | (4,794)          | (5,319)            |
| Recognition of share-based payments                  | 781              | 1,678              |
| Loss on disposals of property and equipment          | 5                | 456                |
| Gain on modification of leases                       | (30)             | -                  |
| Fair value change on derivative financial instrument | 4,827            | (11,367)           |
| Unrealized exchange loss on monetary items           | 20               | 444                |
| Change in net current liabilities                    | 69,731           | 74,950             |
| Less: Capital expenditures                           | (230,990)        | (149,385)          |
| <b>Free Cash Flow</b>                                | <b>(101,617)</b> | <b>(7,563)</b>     |

Negative free cash flow from continuing operations for 2021 amounted to RMB101.6 million, a decrease of RMB94.0 million as compared to the negative free cash flow of RMB7.6 million in 2020.

### Related Party Transactions

During the year, the Group entered into the following transactions and balances with related parties:

The following balances were outstanding from related parties at the end of the reporting period:

| <u>Name of related party</u> | <u>Relationship</u> | <u>Terms</u>  | <u>2021</u><br>RMB'000 | <u>2020</u><br>RMB'000 |
|------------------------------|---------------------|---|------------------------|------------------------|
| <b><u>Balances</u></b>       |                     |   |                        |                        |
| Pingxiang Xiao CF            | Associate           | Non-trade, unsecured and interest bearing (note a)                      | 12,423                 | 12,423                 |
|                              |                     | Trade, unsecured, non-interest bearing and repayable on demand (note b) | -                      | 1,410                  |

notes:

- (a) The balance represented a loan of RMB11.0 million to Pingxiang Xinao CF plus interest accrued until October 16, 2019 when the Group entered a supplemental agreement with Ping Xiang Xinao CF to pay additional interest which had been bearing interest at 4.35% per annum until October 16, 2019.
- (b) The balance as at December 31, 2020 represented amount due from Pingxiang Xinao CF amounted of RMB1.41 million after signing of the Concessionary Agreement with Xiangdong District Government of Pingxiang, Jiangxi province and obtain the concessionary right for natural gas pipeline distribution. The balance was fully settled in May 2021.

The loan discharge agreement (the "Loan Discharge Agreement") dated May 25, 2017 entered among Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China") and Mr. Lin, provided that if the HKIPO of the Company's common shares on The Stock Exchange of Hong Kong Limited has not been completed on or prior to June 28, 2019, the Group shall have the right for a period of 90 days following June 28, 2019 to require Mr. Lin, directly or indirectly, to subscribe for common shares of the Company on the TSX-V, in the amount of RMB36.0 million or its CAD equivalent.

On July 26, 2019, the Company announced that the Board of the Company has determined to exercise the Company's option pursuant to the Loan Discharge Agreement dated May 25, 2017 among the Company, CF China and Mr. Lin to require the Estate to invest an aggregate amount of RMB36.0 million (approximately CAD6,861,587) in common shares of the Company (the "Investment"). Accordingly, the Estate will make the Investment at a price of CAD0.68 per common share representing a premium of approximately 6.3% over the closing price of the common shares of the Company on July 24, 2019. Following the Investment, based on the prevailing exchange rate, the Estate will hold approximately 44,774,068 common shares or approximately 59.43% of the total outstanding common shares of the Company.

Notices for the Investment (the "Notices") were sent to the four beneficiaries of the Estate. Among the four beneficiaries of the Estate, Siyin Lin (Ann) and Siqin Lin had provided written statements to the Company, respectively, that they were in full agreement to honor the Investment. The remaining two beneficiaries of the Estate, namely Mingfei He and Zhipei (Trevor) Lin, however, have not agreed to honor the Investment. On June 2, 2021, Ann Lin sent in her letter to the Company and CF China reiterated her consent to honor the Investment. Since the issuance of the Notices, the Board and management of the Company have made continuous effort of communication with Mingfei He and Trevor Lin requesting and persuading them to honor the Investment. However, given the time that has passed for the Estate to subscribe for shares, the Company is left with no alternative but to take legal action to enforce the Loan Discharge Agreement and the Investment.

On June 21, 2021, the Company together with CF China filed a contract dispute case (the "Claim") against the Estate in the Sanya Intermediate People's Court, Sanya City, Hainan Province, the PRC to enforce the execution of the Loan Discharge Agreement and the Investment. Subsequent to the filing of the Claim, on June 23, 2021, Ann Lin sent in her letter to the Company and CF China reiterated her consent to honor the Investment, and on June 24, 2021, the Court issued the subpoena requiring all parties related to the Claim to attend the court hearing scheduled to be held on August 31, 2021 in Sanya City, Hainan Province, the PRC.

## **Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Group's accounting policies, management of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **KEY SOURCES OF ESTIMATION UNCERTAINTY**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## **Revenue recognition**

The Group applies input method in estimating the performance obligations satisfied of IFRS 15. The Group recognizes contract revenue and profit of gas connection contracts according to the management's estimation of the total outcome of the project as well as the percentage of completion of construction works. Estimated construction revenue is determined in accordance with the terms set out in the relevant contract. Construction cost which mainly comprise sub-contracting charges and costs of materials are estimated by the management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and the experience of the management. The management of the Company reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses. For the year ended December 31, 2021, pipeline installation and connection revenue from continuing operations is RMB126.7 million (2020: RMB123.3 million).

## **Provision of ECL for trade receivables and contract assets**

The Group uses a provision matrix to calculate ECL for trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar credit risk characteristics. The provision matrix is based on the Group's historical default rates taking into consideration of reasonable and supportable forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates.

## **Risks and Uncertainties**

The Company is exposed to a variety of risks in the normal course of operations that could significantly affect its operating cash flows and profitability of operations and could cause its actual results to differ in material respects from its anticipated results. These risks may include, but are not limited to, those listed below. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control. The future effect of these risks and uncertainties cannot be quantified or predicted.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

#### **Any future change in laws, regulations, governmental policies or initiatives could materially and adversely affect our business, financial condition and results of operations**

All of our business operations are located in the PRC. As such, our financial position, profitability and prospects are prone to economic, political and legal developments in the PRC. Any adverse changes, variations or adjustments could materially affect the business of our Group.

Despite the tremendous growth of the Chinese economy in the past 30 years, China is still considered as a developing economy. The structure, level of government involvement, level of development, foreign exchange control, capital investment control, growth rate and allocation of resources continue to be the key factors of separation from the developed countries. The PRC government, over the past years, implemented various measures to strengthen economic development, reduce ownership of state assets and guide the allocation of resources. While some of these measures may be beneficial to the PRC economy as a whole, it may have a negative impact on our Group. For example, we may be affected by changes in tax regulations and control over capital investments. In addition, as China is becoming progressively integrated with the global economy, major events such as economic recessions will adversely affect the economic conditions in the PRC. Such adverse condition may, in turn affect market demand of our services and our competitive position.

As a natural gas distributor in the PRC, we operate under the supervision of a number of national government ministries and departments, including the Ministry of Commerce, the Ministry of Labor and Social Security and the Ministry of Housing and Urban-Rural Development, as well as local provincial or city authorities where our Group's projects are located. Our Group is also obligated to comply with the relevant requirements of certain regulations, such as the Regulation on the Administration of Urban Gas and Regulations on the Safety Supervision of Special Equipment. Provision of natural gas are granted by the local government through the awarding of exclusive concession rights, pursuant to the policies of promoting environmental protection and encouraging the use of natural gas as a cleaner energy source. We cannot assure you that the above regulatory regime and policies (including the granting of exclusive concession rights) will not be amended. Any unfavorable amendments could materially and adversely affect our business operations and our financial condition.

**Fluctuations in the value of the Renminbi may have a material and adverse impact on your investment**

Most of our revenues and expenses were denominated in RMB, while dividends, if any, will be distributed in Canadian dollars. Any significant revaluation or devaluation of the RMB may materially and adversely affect our cash flows and financial position. The fluctuation in the value of RMB against other foreign currencies is affected by China's political and economic conditions and China's foreign exchange regime and policy.

The PRC government has adopted a managed floating exchange rate system in July 2005 to allow the value of Renminbi to fluctuate within a regulated range based on market supply and by reference to a basket of currencies. Since the adoption of this policy, the PRC government has made, and in the future may make, further adjustments to the exchange rate system. Under significant international pressure, the PRC government may proceed further with the reform of the Renminbi exchange rate system and to enhance the flexibility of the Renminbi exchange rate.

We cannot predict how the exchange rate of RMB against other currencies will fluctuate in the future. Any appreciation or depreciation of the RMB against Canadian dollars may have an impact on the value and any dividends payable.

**The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our Shares**

The RMB is not a freely convertible currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the existing PRC foreign exchange regulations, payment of current account items, including the payment of dividends, do not require prior approval from the State Administration of Foreign Exchange, subject to compliance with certain procedural requirements. However, approval from appropriate government authorities is required when Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as repayment of loans denominated in foreign currency.

The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt and equity financing, including by means of loans and capital contributions from us. The PRC government may in the future and at its discretion restrict access to foreign currencies for current account transactions. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue to be come into effect in the future.

**RISKS RELATING TO BUSINESS AND OPERATIONS OF OUR GROUP**

**We are affected by risks arising from the PRC government's price control regime for natural gas**

The Group's natural gas business is a price regulated industry in China, where its business and operations are susceptible to risks associated with government pricing policy and regulation changes. The Group needs to enter into discussions and negotiations with local governments on pricing from time to time.

In July 2020, the Sanya City Development and Reform Commission ("SYDRC") has finalized the City's natural gas utility pricing formula adjustment which became the guideline for the Group to follow on its gas selling prices starting from August 1, 2020 (the "New Gas Selling Price"). SYDRC is the government natural gas price regulating body in Sanya City, and this pricing formula adjustment (the "Pricing Formula") is part of the pricing control strategy of China's National Development and Reform Commission for the whole of China. The Development and Reform Commissions at the local level have gradually introduced specific regulations in line with such guiding principle.

Effective from August 1, 2020, the Group's New Gas Selling Price commenced to be regulated by the Pricing Formula based on gas purchase price (the "Gas Purchasing Price") plus gas distribution cost (the "Gas Distribution Cost"). The New Gas Selling Price are applicable to both residential and commercial customers. The New Gas Selling Price are to be reviewed and adjusted periodically (semi-annually) based on changes to the Gas Purchasing Price and the Gas Distribution Cost. As the Price Formula uses historical Gas Purchasing Price and Gas Distribution Cost to determine future selling price, and the actual New Gas Purchase Price and Gas Distribution Cost will be different, therefore its impact on the Group's net profit could not be readily quantified.

Following the price adjustments to the Gas Selling Price with effect from September 1, 2021, the New Gas Selling Price per m<sup>3</sup> to commercial customers in Sanya City has been adjusted from RMB4.0 to RMB3.83 while the price to social welfare units such as schools, government facilities, and other not-for-profit organizations which are classified under commercial customers remain unchanged at RMB3.23. The New Gas Selling Price per m<sup>3</sup> to residential customers, which is based on 3 levels of consumption, with the 3rd

level price to be adjusted from RMB3.96 to RMB3.82 while the 1st and 2nd level prices remain unchanged at RMB 2.94 and RMB3.53 respectively.

Partly due to the new prices, for the 2021 year (covering 4 months of the new prices), the Group's gas distribution business segment's profit dropped during that period as compared to the corresponding in 2020. With decreased in sales volume due to the resurgence of the outbreak of COVID-19 in the second half year of Price would continue to significantly and adversely impact the profitability of its natural gas distribution business segment.

**PNG sales segment and service pipeline installation and connection segment are operated pursuant to concession rights granted by the local governments and early termination of our concession rights or failure to renew or secure new concession rights will materially affect our operation**

For the year ended December 31, 2021, revenue from gas sales and pipeline installation and connection accounted for approximately 85% of our total revenue. Such businesses are operated under the concession rights granted by the relevant local governments with a fixed term and area of operation. Currently, our Group has obtained three concession rights, including a 30-year exclusive concession right (2007 to 2037) in Sanya City obtained by CF China, a 30-year operation right (2010 to 2040) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park obtained by one of our associates, Pingxiang CF and a 30-year concession right (2017 to 2047) to build, own and operate four energy processing stations in Haitang Bay obtained by EDF CF. Under the relevant concession agreements, we are required to comply with continuing obligations during the concession period. If the grantor of the concession right is satisfied with our compliance with the continuing obligations during the concession period, it may, one year prior to the expiration of the concession right, negotiate with us on the extension of the concession period or grant us with a preferential right for the renewal of the concession agreement. On the other hand, any failure to meet such obligations may lead to early termination of the concession rights.

In addition, the concession rights may be terminated before the expiration date under various circumstances which include: (i) the occurrence of force majeure events; (ii) by mutual agreement between the signing parties; (iii) cancellation of the concession rights; and (iv) the occurrence of any serious incidents caused by our default which materially affected public welfare and safety.

There is no guarantee that our concession rights will not be terminated before the contracted expiration date nor that we could ascertain the renewal of such concession rights to be granted upon their expiration. Upon the expiration of the concession rights or early termination of any of the concession rights, if we are unable to negotiate for a renewal or obtain concession rights in other new operating areas, our business, operations and financial results will be materially and adversely affected and, in the worst situation, the sustainability of our operation may not be assured.

**We are exposed to risks relating to our business relationship with our major supplier, China National Offshore Oil Corporation ("CNOOC")**

In June 2019, the Group entered into a purchase contract with CNOOC for the supply of PNG from the new gas field "Eastern 13-2" of CNOOC. The purchase contract stipulated the price and the amount of PNG committed to be purchased by and made available to the Group for the June 17, 2019 to December 31, 2020 period. Prior the expiry of the purchase contract, the Group signed a further purchase contract with CNOOC for the continuing supply of PNG to the Group for the 2021 year. Two-year purchase contract with CNOOC for 2022 and 2023 is under negotiation and no change in price for the first four months in 2022 is expected. PNG constitutes the major raw material for our business. CNOOC is currently our single PNG supplier and any instability in, shortages of supply of PNG to us from CNOOC could significantly and adversely affect our business operations and financial results.

Any dispute between us and CNOOC or any material disagreements in the interpretation of any of the terms under the purchase contract, or if we fail to comply with the terms under the purchase contract in a timely manner, our relationship with CNOOC may be adversely affected, which in turn, would result in disruption or insufficient supply of natural gas to our customers and consequently, loss of business opportunities. In any case, if CNOOC decides to terminate the purchase contract, or we fail to renew or secure a new purchase contract upon expiry of existing purchase contract under similar or more commercially favorable terms, we may be faced with shortage of natural gas or higher purchase cost as more expensive LNG may have to be sourced to supplement shortage of PNG supply, our business operation and financial conditions may be adversely affected.

**We require various licenses and permits to commence, operate and expand our operations. Any failure to obtain or renew any or all of these licenses and permits or any enforcement action taken against us for non-compliance incident may materially and adversely affect our business and expansion plans**

In accordance with the applicable PRC laws and regulations, our business operations required us to obtain prerequisite local government approval and granting of licenses and permits from relevant government authorities. As our operation required licenses and permits granted by the local government authorities, we are subject to their annual inspections for compliance issues. Failure to pass these inspections or any breach in compliance could result in the temporary suspension or revocation of our licenses and permits which could significantly disrupt our operation and may materially and adversely affect our business and financial condition.

**Our business is subjected to seasonality**

As a substantial portion of our revenue is derived from Sanya City, our business is subjected to seasonality. Sanya City, being a famous tropical tourist city, attracts more tourists between November and February than the rest of the year. Large amount of the total sales volume of our natural gas occurred in the first and fourth quarter of a year. During this peak season, the increase in the number of seasonal residents will cause a higher demand for the usage of natural gas for cooking and heating purposes, and in any case if we are unable to source sufficient natural gas from our suppliers, a shortage of gas supply may be resulted.

**Our business relies on the continuous normal functioning of our gas transmission and any unexpected breakdown or malfunction of our gas pipeline networks or gas leakage would materially affect our business operation**

Our gas distribution business requires normal functioning of the pipeline networks in order to sell and transmit natural gas to our customers. The functioning of pipeline networks can be affected by factors such as natural disasters and damage inflicted by an independent third party. Any unexpected malfunctioning or leakage of the pipeline network would require us to perform restoration or replacement works which might take time, and we may have to temporarily shut down our gas supply to our affected customers due to safety issue. As a result, our business operation and financial condition may be adversely affected.

**We may not have adequate insurance to cover all hazards common to the natural gas industry to which our operations are subjected to**

Due to the flammable and explosive nature of natural gas, we are exposed to various risks and hazards, including equipment failures, industrial accidents, environmental hazards and natural disasters, etc. These inherent risks and hazards, if not managed or mitigated with due care, could adversely affect our business operation, financial condition and reputation. Such hazards may lead to (i) suspension or disruption in our operations; (ii) contamination to the surrounding environment; (iii) personal injuries or death; and (iv) severe damage to property, plant and equipment. We may also be accountable for civil liabilities or fines or criminal charges as a result of third parties' injuries.

We have obtained various insurance policies to cover certain risks associated with our business. We can neither guarantee nor assure you on the adequacy of our insurance policies' coverage to ensure us fully against all risks and losses that may arise. Furthermore, our insurance policies are subjected to regular review by our insurers. If we fail to renew our insurance policies on similar or acceptable terms, and if, in the case of material loss that exceeded the limits or coverage of our insurance policies, our business operations and financial condition may be materially and adversely affected.

**We engage third parties to undertake our service pipeline installation and connection work and construction of pipeline networks and any defects on works carried out by such third parties may materially affect our business**

We typically engage third party contractors to perform our pipeline installation and connection works and construction of pipeline networks. We cannot guarantee the work carried out by third parties will not contain any defects as we have limited control over their operations. We also cannot assure you that we will be able to continually engage third party contractors under commercially acceptable terms. Any loss of their services or increase costs of their engagement, or failure to find a suitable replacement in a timely manner, will materially disrupt our business operations and adversely affect our financial condition.

**Our future plans are subject to uncertainties and risks and could result in fluctuations in our financial performance**

Our growth is closely associated with the successful implementation of our future plans. There is no guarantee that we can efficiently and accurately implement our future plans as we may encounter unexpected obstacles and unforeseeable changes which could be beyond our control, such as macro-economic changes, fluctuations in market conditions, difficulties in dealing with local regulatory and governmental authorities,

changes in governmental policies and initiatives and complications in negotiating with our contractual counterparts. There is also no assurance that the outcome of such future plans will be satisfactory. Such obstacles and changes may restrain us from achieving the expected results.

**Our financial condition and results of operations can be affected by the occurrence of epidemics or pandemics and natural disasters as well as political instability**

As a result of the COVID-19 pandemic affecting China, quarantine and travel restriction measures were implemented in China to compact the pandemic. As a result, the Group experienced a significant drop in its business across all business segments in 2021. Despite recovery has been experienced with the pandemic under control and the availability and administration of vaccines in China, it remains uncertain as to the extent of the impact the pandemic may possibly have on our business moving forward as it is dependent on the continuing containment status of the pandemic and the availability and the effect of vaccines against the pandemic in China and across the globe.

As a substantial portion of our revenue is generated by our business operation in Sanya City and despite having business operations in other locations within the PRC, the geographic concentration of our business operation exposes us to natural disasters, epidemics or pandemics such as the COVID-19 pandemic and other acts of God, which are beyond our control and could adversely affect the local economy, infrastructure and livelihood of the people in the Sanya City. Our business, operating results and financial condition may be adversely and materially affected if such natural disasters occur in Sanya City and/or in the regions in which we have operations.

**Our business and financial performance may be affected if we are unable to attract or retain experienced professionals**

The ability to retain or attract experienced professionals is also a crucial factor in our sustainable growth. Our continuing success is largely attributable to our experienced management team who possess rich industry experience and profound knowledge and vision. Our business, financial performance and prospects depend on our ability to recruit, train and retain qualified and registered technical personnel, including engineers and safety personnel. As our business operation require various licenses to be obtained, we are obligated under relevant regulations to maintain a certain number of qualified personnel in order to satisfy the minimum requirement as a license holder. In any event, if we lose a number of our key management members or qualified personnel and are unable to find a suitable replacement with equivalent qualifications in a timely manner, our business operation and profitability could be adversely affected.

**RISKS RELATING TO OUR INDUSTRY**

**Any changes in laws, regulations or government policies in relation to our industry could materially and adversely affect our business, financial condition and results of operations**

Our business operations are subject to a broad range of laws and regulations in the PRC, such as environmental protection and fire control, safety and foreign investment. We may incur extra compliance costs and be required to make timely adjustments to our operations as a result of any changes in existing laws and regulations, either of which could be materially and adversely affect our business operations and financial condition. We cannot predict any future changes nor can we assure you that there will be no future change in such laws and regulations. We may be adversely affected as a result of the continuing changes in the existing laws and regulations.

**We compete with other alternative energy sources**

Energy sources such as coal gas and electricity can be used as an alternative energy source by the end-users. When an end-user chooses the type of energy to be used, they will consider various factors such as cost, convenience, reliability and safety. As such, comparison with these alternative energy sources will affect the demand for natural gas. In addition, the change of government policy to other substitute energy sources will also affect the demand for natural gas. There is no guarantee that end-users will shift to use natural gas as their primary energy source. If the end-users refuse to use natural gas as their primary energy source, or other alternative energy sources are seen as more cost-efficient, our operation and financial position will be adversely affected.

**Technological advancement of and the increasing governmental support for the use of electric vehicles may reduce the demand for natural gas refueling services**

Electricity is considered as an alternative for natural gas as vehicle fuels. With the sustained and rapid development of China's economy and the acceleration of urbanization, energy shortage and environmental pollution has become more prominent. As such, the development of new energy automobile is crucial to alleviate energy and environmental pressure. The Government has implemented transformative strategies to upgrade the automobile industry in attempt to strengthen energy conservation and reduce emission.

Governmental policies have encouraged and promoted the manufacture and usage of electric vehicles by placing more resources into research and development of core technologies to enhance the functionality of the electric vehicles such as higher driving range and faster recharging time as well as better designs and to increase the number of recharging stations nationally. In addition, the PRC government also promoted the usage of new energy vehicles by means of government subsidies and tax exemption on both national and provincial level. Subsidies and tax exemption can be enjoyed by purchasers of electric vehicles.

In view of the aforesaid, if the PRC government continues to implement supportive policies on new energy vehicles, the demand for natural gas vehicles and our natural gas refueling services will slow down, which will adversely affect our operating results.

**Natural gas operation requires substantial initial capital investment and any significant increase in the cost of constructing or developing natural gas facilities may materially and adversely affect our planned expansion and prospects**

Natural gas operators are required to make substantial initial capital investments to construct new gas pipelines and natural gas facilities. Upon the raise in its equity interest in EDF CF from 50% to 70% in 2019, the Company expects to have to inject a substantial capital investment to meet the construction funding requirements of the phase 2 of Haitang Bay Smart Energy Project.

The capital investment required to develop and construct natural gas facilities varies based on the cost of fixed assets and the cost of construction. The price of such equipment and/or construction may increase if market demand for such equipment or construction is greater than the available supply, or if the prices of key components, commodities and raw materials necessary to build such equipment increase. A significant increase in the costs of developing and constructing natural gas facilities could materially and adversely affect the business, financial condition, results of operations and cost of implementation of the planned expansion.

**Increasing coverage of city natural gas may cause gas shortage**

The increasing demand for natural gas will tighten the natural gas supply and may cause shortages if the large demand is not met by upstream suppliers. There is no guarantee that the upstream suppliers will be able to continually provide sufficient natural gas supply to meet with the increasing demand driven by the government policies. Our business and financial condition will be adversely affected if such gas shortage problem occurs in Sanya City or in the regions in which we have operations.

**Government policy regulation in the real estate market will affect our business growth**

The PRC government has issued a series of policies to control housing price of the real estate market. Policies such as restricted loan and purchase policies may significantly hinder the growth of China's real estate market, which in turn affect the business growth of city natural gas operators. There is no guarantee that relevant policies will not be amended. Any unfavorable amendments could adversely affect our business operations and financial condition.

**Government policy regulation in Pipeline Connection Related Services Charges to Customers in Sanya will affect our business growth**

The Company was notified by the regulatory officials in Hainan Province that, with retroactive effective to March 1, 2021, certain service charges relating to the connection services for the distribution of natural gas to customers in Sanya will be abolished. The new rules will impact certain of the Company's pipeline connection fees and meter upgrade fees chargeable to their customers going forward as a result of this regulatory change.

The Company continues to expand its marketing and sales efforts in anticipation of high regional economic growth driven by the government's International Free Trade Zone development policy which if successful are expected to offset the anticipated revenue reduction resulting from the recent regulatory change. By growing its customer base, optimizing district gas supply and operational costs, the Company remains its focus on achieving healthy growth in Sanya's natural gas distribution business for the coming years. However, despite such counter measures are being undertaken by the Group, there is no guarantee that such measures would successfully alleviate all the impact which the new policy might bring. Furthermore, there is no guarantee that additional more stringent policy measures would not be implemented by the government in Hainan Province and if such additional policy measures were being implemented, revenue from the pipeline connection and related services business segment may be further impacted.

## **Business risk in EV battery swap operation**

### Market Non-Acceptance for Battery Swap Cars

The pioneers of swap station technology such as Better Place trialed its battery swap technology in Tel Aviv, Israel between 2007 and 2013, and managed to only sell 500 cars. While China has government support and a large EV market, there is a similar risk of market non-acceptance for the battery swap technology.

In 2021, on average, prices for public fast-charging were between RMB 1 to 1.8/kWh, only 1-2 times more expensive than home charging, making electric fueling relatively affordable for all citizens regardless of their housing situation.<sup>1</sup> With the relatively lower cost and high market penetration of EV charging stations, there is no guarantee that the battery swap technology will become a popular alternative to EV charging.

In addition, since the pandemic of COVID-19, a lot of taxi/ride-sharing companies have been taking a big revenue hit for the past several years due to lockdowns, traveling-bans, and other related restrictions. The demand of transportations has decreased significantly and hence taxi companies are not looking to purchase taxis with swappable EV batteries. This will negatively affect the demand for EV battery swap services.

### Risk of EV Market Competition

BAIC swap stations can only perform battery swap services for Beijing Auto EV and is not currently compatible with other EV car brands. Until there is further collaboration between BAIC and the other EV brands, the swap station services of the Company are tied with the sales of Beijing Auto EV. In recent years, there are many automakers, startups, and technology companies entering the electric vehicle market, providing fierce competition for BJEV.

### Decline of Electric Vehicle Usage

The Chinese government continue to provide state subsidies for electric vehicle sales. The government cannot be expected to indefinitely provide subsidies for the EV market and the cancellation of subsidies may negatively impact the growth of the EV and swap station market in China.

### Alternative Clean Energy Vehicles

Hydrogen is seen as a viable alternative to diesel and petrol vehicles and does not require investment in battery recharging or swap infrastructure. Hydrogen can be pumped like petrol and diesel using existing network of petrol stations. Electric vehicles will not remain the only clean energy alternative for the automotive sector and may face competition from other clean energy sources. Government orders for hydrogen powered vehicles in China have reached 690 by the end of February 2021, a 79% increase compared to the same period in 2020.

## **Principal Accounting Policy**

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair value, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the preparation of the Group's consolidated financial statements for the year ended December 31, 2021.

### **Amendments to IFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standard Board ("IASB") for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2021 for the preparation of the consolidated financial statements:

|  |  |
|--|--|
| Amendments to IFRS 16                                      | Covid-19-Related Rent Concessions        |
| Amendments to IFRS 9, IAS 39<br>IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 |

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<sup>1</sup> <https://www.greenbiz.com/article/what-china-can-teach-us-about-ev-fast-charging-rollouts>

In addition, the Group has early applied the Amendment to IFRS 16 Covid-19-Related Rent Concessions beyond June 30, 2021.

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### **Impacts on application of Amendment to IFRS 16 Covid-19-Related Rent Concessions and early application of Amendment to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021**

The Group has applied the Amendment to IFRS 16 Covid-19-Related Rent Concessions for the first time and early applied the Amendment to IFRS 16 Covid-19-Related Rent Concessions beyond June 30, 2021 in the current year retrospectively. The amendments introduce a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions that occurred as a direct consequence of the Covid-19 pandemic that meets all of the following conditions:

- 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;
- any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 Leases ("IFRS 16") if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application has had no impact to the opening retained profits at January 1, 2021.

In addition, during the year, a certain lessor agreed to waive lease payments on one lease of office premises as a direct consequence of the Covid-19 pandemic which were originally due on or before June 30, 2021. The Group has derecognised the part of lease liabilities that have been extinguished using the discount rates originally applied to these leases respectively, resulting in a decrease in lease liabilities of RMB215,000, which have been recognised as variable rent expense in profit or loss for the current year.

#### **Impacts on application of Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2**

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying IFRS 7 Financial Instruments: Disclosures ("IFRS 7").

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year as none of the Group's financial instruments are subject to the interest rate benchmark reform.

#### **Impacts on application of the agenda decision of the Committee – Cost necessary to sell inventories (IAS 2 Inventories)**

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories

taking into consideration both incremental costs and other non-incremental costs which the Group must incur to sell inventories. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

#### **New and amendments to IFRSs in issue but not yet effective**

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

|   |  |
|---|--|
| IFRS 17   | Insurance Contracts and the related Amendments <sup>2</sup>  |
| Amendments to IFRS 3                              | Reference to the Conceptual Framework <sup>1</sup>   |
| Amendments to IFRS 10 and IAS 28                  | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup> |
| Amendments to IAS 1                               | Classification of Liabilities as Current or Non-current <sup>2</sup>                               |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of Accounting Policies <sup>2</sup>   |
| Amendments to IAS 8                               | Definition of Accounting Estimates <sup>2</sup>  |
| Amendment to IFRS 12                              | Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>2</sup>      |
| Amendments to IAS 16                              | Property, Plant and Equipment: Proceeds before Intended Use <sup>1</sup>                           |
| Amendments to IAS 37                              | Onerous Contracts - Cost of Fulfilling a Contract <sup>1</sup>                                     |
| Amendments to IFRS Standards                      | Annual Improvements to IFRS Standards 2018 – 2020 <sup>1</sup>                                     |

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

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

3 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to IFRSs mentioned below, management of the Company anticipates that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

#### **Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies**

IAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 Making Materiality Judgements (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

### **Amendments to IAS 8 Definition of Accounting Estimates**

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in IAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

### **Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use**

The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with IAS 2 Inventories.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

### **Amendments to IFRSs Annual Improvements to IFRSs 2018-2020**

The annual improvements make amendments to the following standards.

#### IFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

#### IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

## **Financial instruments and other instruments**

The Company holds a number of financial instruments, the most significant of which are derivative financial instrument, convertible debentures, equity instrument at fair value through other comprehensive income, trade receivables, trade payables, cash and loans. The financial instruments are recorded at either fair values or amortized amount on the statements of financial position of consolidated financial statements. Please refer to note 43 of the consolidated financial statements for more details.