

**CF ENERGY CORP.**  
**Management's Discussion and Analysis**  
**for the year ended**  
**December 31, 2022**

Dated April 28, 2023

## **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, 2022. This information should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2022. "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 of the Company 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 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 the integrated smart energy system and integrated district energy distribution; and
- (iii) Smart mobility segment, which comprises the operation of electric vehicle ("EV") battery swap stations.

### **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 City 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) 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, 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 an 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, 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 an 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 a more efficient energy supply. The Project integrates advanced energy-saving technologies, such as ice storage and 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 31.318km of a doubled-lined pipeline for the integrated smart energy network has been completed and commenced commercial operation in September 2021. The first group of commercial customers includes the Sanya Edition Hotel, Fairmont Sanya Haitang Bay, Westin Sanya Haitang Bay Resort and China Taiping Qube Hotel. The Company has signed up ten (10) commercial customers in Haitang Bay as of the date of this MD&A. The first phase of the first energy station can provide services to 400,000 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 which 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 four (4) customers under service as of the date of this MD&A. Pipeline construction for the remaining three (3) customers have been completed and pending completion of installing of their own equipment. Trial operation is expected to commence in 2023. Eight (8) potential new customers are under negotiation and expected to commence operations in 2024.

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 for electric vehicles. Two (2) EV battery swap stations in Sanya City commenced operation in August 2020 and January 2021 respectively 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 additional 200 EV Network Taxis planned for Hainan Province in the near term with Blue Valley Smart (Beijing) Energy Technology Co., Ltd. ("Blue Valley"). In September 2020, the Company and EDF (China) Holding Ltd. ("EDF (China)") jointly established Hainan EDF 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 Haikou City, the 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 officially commenced operation in March 2022. The second station of Haikou City was relocated to Sanya City in April 2023 as the third station there to cope with the additional traffic of EV taxis in the city.

Following the acquisition of a 70% equity stake in the local Beihai City EV battery swap station operator, Beihai Brighton Road New Energy Ltd. (the "Beihai Company") in Beihai City, Gangxi Province in October 2022. The Beihai Company currently operates two (2) EV battery swap stations and has 344 registered active taxis as its EV battery swap users with an estimated 87 more battery swap EV taxis expected to be added in 2023 to a total of 431 taxis. There is a total of 600 taxis in Beihai City and our clientele accounts for approximately 72% of the market. All of the taxis in Beihai City are battery swap cars, only Beijing Electric Vehicle Co., Ltd. and Dongfeng Electric Vehicle Co., Ltd. are within the government's supplier list for taxis.

### **Results for the year ended December 31, 2022**

For the year ended December 31, 2022, the Group reported a net profit from continuing operations of RMB4.0 million, a decrease of RMB17.7 million, or 81%, from RMB21.7 million in 2021. On a comparable basis, after excluding the fair value gain of RMB11.4 million (2021 loss: RMB4.8 million) on the derivative financial instrument of the loan discharge agreement (see "Related Party Transactions" section on pages 21 and 22 of this MD&A), reversal of share-based payments of RMB0.8 million (2021: recognition of RMB 0.8 million) and non-recurring government financial assistance of RMB0.3 (2021: RMB1.8 million), the non-IFRS adjusted net loss from continuing operations for 2022 was RMB8.5 million, a decrease of RMB34.0 million, or 133% from an adjusted net profit of RMB25.5 million as reported for the year ended December 31, 2021.

### **Chairman's Message**

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

As the COVID-19 situation continued to worsen across China and affect all sectors and industries, the Company reported an adjusted net loss of RMB8.5 million as compared to an adjusted net profit of RMB25.5 million in 2021. This was mainly due to two periods of outbreaks of COVID-19 in 2022, of which the lockdown measures severely affected the demand for our natural gas and clean energy utilities in Sanya. However, notwithstanding that the economy was at the bottom since the pandemic started, the Company made some remarkable progress and solid growth in the integrated smart energy and smart mobility segments. The Haitang Bay Integrated Smart Energy Project signed more new clients this year. In addition, the Company signed and secured new EV taxis customers in Sanya City, and expanded the battery swap business in the Beihai City of Guangxi Province. This, in time, could help to improve the financial performance of the smart mobility segment.

Following the Government's policy to remove all COVID-19 restrictions and control measures at the end of 2022, it was anticipated that the market would start to recover from the economic downturn, and people would return to their normal daily activities. I believe this could help with our initiative to work towards a turn-around and to this end, we have made strategic plans to reposition our clean energy segment to continue to grow in this energy transition era.

### **Major Highlight for the year ended December 31, 2022 and up to the date of this MD&A**

#### **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 Sanya City Development and Reform Commission ("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 the gas purchase price (the "Gas Purchasing Price") plus gas distribution cost became the guideline for the Group to follow on its gas selling prices starting from August 1, 2020 (the "2020 Gas Selling Price") for both residential and commercial customers. The Pricing Formula is part of the pricing control strategy of the SYDRC for the whole of China.

With effect from May 1, 2022, the 2020 Gas Selling Price per m<sup>3</sup> to commercial customers in Sanya City has been adjusted from RMB3.83 to RMB4.12 (the "2022 Gas Selling Price") 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 2022 Gas Selling Price per m<sup>3</sup> to residential customers is based on three (3) levels of consumption, with the third level price to be adjusted from RMB3.82 to RMB4.10 while the first and second level prices remain unchanged at RMB2.94 and RMB3.53 respectively.

On April 11, 2023, SYDRC informed the Company by way of a notification letter that the 2022 Gas Selling Price for commercial and third level price for residential customers have been recalculated according to the previously adopted Pricing formula (the "2023 Gas Selling Price"). With effect from the April 2023 meter reading cycle, the 2023 Gas Selling Price per m<sup>3</sup> to commercial customers will increase from RMB4.12 in 2022 to RMB4.31 and third level price to residential customers will increase from RMB4.10 in 2022 to RMB4.30, while the gas selling price for the remaining categories of customers remains unchanged.

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.

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

Sanya City experienced two periods of lockdown due to outbreaks of COVID-19 in 2022. Deployment of the travel restrictions and lockdown measures severely impacted Sanya City's tourism and retail sector which affected the demand for natural gas in the city. The pandemic first hit demand for natural gas in late March 2022, right after the peak season of the Chinese New Year holiday. Such decrease in demand partially offset the increase in revenue and sales volume gained in the first quarter of 2022 attributed to the recovery of the economy from the traditional peak season of tourist activity in the city. The pandemic affected the demand for natural gas again in August 2022 with the second city lockdown. These measures came at the height of the summer tourism season which severely affected the tourist industry and the travel retail sectors in August 2022 from recovery since the lifting of the lockdown in June 2022. Demand for natural gas from commercial customers in Sanya City did not pick up for the rest of the year until Chinese government loosened its COVID policy and restrictions in December 2022.

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 taxis has also reduced.

Chinese government loosened its COVID policy and restrictions in December 2022, including home quarantine for those with mild symptoms, scrapping of the health QR code and the abolishment of cross-regional travelers requiring a negative test result upon arrival, making domestic travel within China easier. Commercial activities gradually resumed, the tourism market turned from negative to positive, and the economic benefits of tourism became obvious.

### **Government's Policy Measures to Support Small Enterprises Recovering Business**

The Company has been advised of the announced policy measures from the State Department and Sanya City (the "Policy Measures") that aimed to stabilize the economy in China. One of the items in the Policy Measures recommended that utility companies should allow small and micro enterprises and individual business owners (the "Small Companies") to delay their utility payments from June to November 2022 to December 2022 without being charged delaying payment penalties. CF Energy has fully followed the Policy Measures and made appropriate adjustments to the delayed gas payment arrangements accordingly. In January 2023, all delayed utility payments were received.

### **Award of “Zero-Carbon Hotel” Demonstrative Project Status from The Investment Association of China**

Haitang Bay Integrated Smart Energy Project has been awarded as a “Zero-Carbon Hotel” Demonstrative Project in 2021 by the Energy Investment Committee of The Investment Association of China (“EICIAC”). EICIAC evaluated 87 carbon-reduction projects being selected from the whole of China and issued one “Zero-Carbon” demonstrative project status in each of the ten categories. The final results of the ten “Zero-Carbon” demonstrative projects were announced at the Carbon Neutrality, Zero Carbon China Summit 2022, and the 5th China International Energy Investment Forum. EICIAC regarded the Haitang Bay Integrated Smart Energy Project as a reproducible and scalable “Zero-Carbon” hotel demonstrative project that can help promote the green and low-carbon development of energy in China.

### **CF Energy’s CEO Buys Common Shares of the Company in Open Market**

Ms Ann Lin, the Chair of the board and CEO of the Company purchased 89,000 common shares of the Company in her personal investment account by way of market purchases from July 12 to July 14, 2022, to increase her personal holding in the Company’s common shares from approximately 1.37% to approximately 1.50%.

### **CF Energy Adds 232 Battery Swap Electric Vehicle Taxis As Customers In Sanya City**

In August 2022, following a successful bidding process, the Group signed a three-party exclusive battery swap type EV purchase and EV battery swap service cooperating agreement (the “Agreement”) with Sanya Feima Vehicle Operating Management Ltd. Co. (“Feima”) and Hainan Huacheng Minghong New Energy Vehicle Sale and Service Ltd. Co. (“Huacheng”) in Sanya City. Under the Agreement, Feima is to purchase 232 BAIC EU5 battery swap-type EVs excluding batteries from Huacheng to be used as taxis in Sanya City and these taxis will exclusively use the batteries procured by the Group and its EV battery swap station network in Sanya City for swapping of their batteries with a limited number of times of fast charging per month allowed. As of the date of this MD&A, the first batch of 197 EV taxis were delivered and the rest is expected to be delivered in 2023.

### **Expansion of Battery Swap Business in Beihai City**

In October 2022, the Group acquired a 70% stake in a profitable local Beihai City EV battery swap station operator, Beihai Brighton Road New Energy Ltd. (the “Beihai Company”) in Beihai City, Guangxi Province, the PRC.

The Company provided strategic advice and support to the Beihai Company in establishing the first two EV battery swap stations in Beihai City, and only completed the acquisition when the Beihai Company met all pre-set goals of the development plan.

The Company’s EV battery swap business development strategy in the Beihai City expansion has delivered successful results. This reported case may be viewed as evidence to show that CF Energy has the ability to capitalize on its early mover advantage with accumulated extensive market development and operating experience. Many cities of similar size and characters in China may present fresh new opportunities in the early development stage of the EV battery swap markets to the Company. While the Company will continue to grow its established EV battery swap markets in Sanya, Haikou, and Beihai City, it will keep its eyes open for good new opportunities in other cities.

### **Long-term Incentive Plan**

The long-term incentive plan (the “LTIP”) was approved by the shareholders of the Company on December 23, 2022 for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees that are valuable to the Group. Upon approval, the LTIP superseded and replaced both the Option Scheme and the Award Scheme. Under the LTIP, the Board may grant stock options (“Stock Options”), performance share units (“PSUs”), restricted share units (“RSUs”) and deferred share units (“DSUs”) to eligible participants including employees, senior officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

The aggregate number of shares to be reserved and set aside for issue upon the exercise or redemption and settlement for all stock options granted under the LTIP, together with all other established security-based compensation arrangements of the Company's (being options and/or awards granted under the Option Scheme, the Award Scheme and the LTIP), shall not exceed 10% of the issued and outstanding shares in issue of the Company at the time of granting the award (on a non-diluted basis). The Stock Options component of the LTIP is an "evergreen" plan, thus if the Company issues additional shares in the future, the number of the shares issuable under the LTIP will increase accordingly.

## **Outlook**

As we expect the economy will start to recover after the Chinese government lifted the COVID-19 restrictions completely at the end of 2022, our Group will return back to business-as-usual stage. We believe we could see gradual improvements in our financial performance in the coming years. Meanwhile, we will focus on the integrated smart energy segment and smart mobility segment of the Company and continue to expand the businesses in China and transition clean energy business as an integrated energy player. This will be achieved via cooperating with our strategic partners and valuable resources in the related sector.

We will continue to step up to our commitment to look for new opportunities in the energy sector to ensure we have a sustainable growth.

## **Selected yearly Financial Information**

The following table provides selected financial information for the year ended December 31, 2022 and 2021 in Chinese RMB. Presentation in Canadian dollars is for information purposes only.

	RMB'000				For information purposes and unaudited CAD'000			
	2022	2021	Change	%	2022	2021	Change	%
<i>except percentages and per share amounts</i>								
<b>Continuing Operations</b>								
Revenue	334,239	355,233	(20,994)	-6%	64,675	69,022	(4,347)	-6%
Gross profit	107,668	134,032	(26,364)	-20%	20,834	26,042	(5,208)	-20%
% of revenue	32.2%	37.7%	-5.5%		32.2%	37.7%	-5.5%	
Other income	6,706	3,371	3,335	99%	1,298	655	643	98%
Other losses, net	(4,214)	(1,062)	(3,152)	297%	(815)	(206)	(609)	296%
Impairment losses reversed (recognized) under expected credit loss model, net	1,176	(1,301)	2,477	-190%	228	(253)	481	-190%
Fair value change on derivative financial instrument	11,424	(4,827)	16,251	-337%	2,211	(938)	3,149	-336%
Selling and marketing expenses	(32,164)	(38,994)	6,830	-18%	(6,224)	(7,577)	1,353	-18%
% of revenue	9.6%	11.0%	-1.4%		9.6%	11.0%	-1.4%	
General and administrative expenses (note 3)	(47,322)	(48,570)	1,248	-3%	(9,158)	(9,437)	279	-3%
% of revenue	14.2%	13.7%	0.5%		14.2%	13.7%	0.5%	
Share of results of associates	(4,538)	4,794	(9,332)	-195%	(878)	931	(1,809)	-194%
Finance costs	(18,024)	(10,092)	(7,932)	79%	(3,488)	(1,961)	(1,527)	78%
Profit before tax	20,712	37,351	(16,639)	-45%	4,008	7,256	(3,248)	-45%
% of revenue	6.2%	10.5%	-4.3%		6.2%	10.5%	-4.3%	
Income tax expense	(16,684)	(15,670)	(1,014)	6%	(3,228)	(3,045)	(183)	6%
% of revenue	5.0%	4.4%	0.6%		5.0%	4.4%	0.6%	
Profit for the year from continuing operations	4,028	21,681	(17,653)	-81%	780	4,211	(3,431)	-81%
% of revenue	1.2%	6.1%	-4.9%		1.2%	6.1%	-4.9%	
<b>Discontinued operation (note 1)</b>								
Profit (loss) for the year from discontinued operation	62	(2,217)	2,279	-103%	12	(431)	443	-103%
Profit for the year	4,090	19,464	(15,374)	-79%	792	3,780	(2,988)	-79%
<b>Other comprehensive expense</b>								
<i>Items that will not be reclassified to profit or loss</i>								
Fair value gain (loss) on investments in equity instruments								
at fair value through other comprehensive income	2,565	(2,749)	5,314	-193%	496	(534)	1,030	-193%
Income tax relating to item that will not be reclassified to profit or loss	(641)	687	(1,328)	-193%	(124)	133	(257)	-193%
Other comprehensive income (expense) for the year, net of income tax	1,924	(2,062)	3,986	-193%	372	(401)	773	-193%
Total comprehensive income for the year	6,014	17,402	(11,388)	-65%	1,164	3,379	(2,215)	-66%
<b>Profit (loss) for the year attributed to owners of the Company</b>								
- from continuing operations	16,981	23,011	(6,030)	-26%	3,286	4,471	(1,185)	-27%
- from discontinued operation	37	(1,330)	1,367	-103%	7	(258)	265	-103%
	17,018	21,681	(4,663)	-22%	3,293	4,213	(920)	-22%
<b>Profit (loss) for the year attributed to non-controlling interests</b>								
- from continuing operations	(12,953)	(1,330)	(11,623)	874%	(2,506)	(258)	(2,248)	871%
- from discontinued operation	25	(887)	912	-103%	5	(175)	180	-103%
	(12,928)	(2,217)	(10,711)	483%	(2,501)	(433)	(2,068)	478%
	4,090	19,464	(15,374)	-79%	792	3,780	(2,988)	-79%
<b>Total comprehensive income (expenses) attributable to</b>								
- Owners of the Company	18,942	19,619	(677)	-3%	3,665	3,812	(147)	-4%
- Non-controlling interests	(12,928)	(2,217)	(10,711)	483%	(2,501)	(433)	(2,068)	478%
	6,014	17,402	(11,388)	-65%	1,164	3,379	(2,215)	-66%
<b>Total comprehensive income (expense) attributable to</b>								
- from continuing operations	18,905	20,949	(2,044)	-10%	3,658	4,070	(412)	-10%
- from discontinued operation	37	(1,330)	1,367	-103%	7	(258)	265	-103%
	18,942	19,619	(677)	-3%	3,665	3,812	(147)	-4%
EBITDA from continuing operations (note 2)	76,012	77,436	(1,424)	-2%	14,708	15,046	(338)	-2%
% of revenue	22.7%	21.8%			22.7%	21.8%		
<b>Earnings (loss) per share</b>								
<i>From continuing and discontinued operations</i>								
- Basic	RMB 0.26	RMB 0.33			CAD 0.05	CAD 0.06		
- Diluted	0.25	0.32			0.05	0.06		
<i>From continuing operations</i>								
- Basic	0.26	0.35			0.05	0.07		
- Diluted	0.25	0.34			0.05	0.07		
<i>From discontinued operation</i>								
- Basic	0.00	(0.02)			0.00	(0.01)		
- Diluted	0.00	(0.02)			0.00	(0.01)		

Note 1: Discontinued operation is in respect of the termination of the operation of Hebei Riheng Clean Energy Co., Ltd. ("Riheng")

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

Note 3: Reversal of share-based payment expenses of RMB781,000 (2021: recognition of RMB781,000) are included in general administrative expenses for the purpose of presentation in the audited consolidated financial statements.

Note 4: Canadian dollars were converted from RMB at the respective average rates of RMB1.000 to CAD0.1935 and RMB1.000 to CAD 0.1943 for 2022 and 2021 respectively.

## **Result of Operations**

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

#### **Continuing Operations**

<b>Revenue (Summary table)</b>				
<b>Total Revenue</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>(in RMB'000)</b>				
<b>Gas Distribution Utility</b>				
- Gas supply	151,888	174,042	(22,154)	-13%
- Pipeline installation and connection	145,306	126,734	18,572	15%
- CNG vehicle refueling	25,000	45,836	(20,836)	-45%
<b>Integrated Smart Energy</b>	10,187	8,330	1,857	22%
<b>Smart Mobility</b>	1,858	291	1,567	538%
<b>Total Revenue in RMB'000</b>	<b>334,239</b>	<b>355,233</b>	<b>(20,994)</b>	<b>-6%</b>
<b>Total Revenue in CAD'000</b>	<b>64,675</b>	<b>69,022</b>	<b>(4,347)</b>	<b>-6%</b>

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

Total revenue from continuing operations for the year ended December 31, 2022 was RMB334.2 million, a decrease of RMB21.0 million, or 6%, from RMB355.2 million for the year ended December 31, 2021. Revenue from gas supply in 2022 was RMB151.9 million, a decrease of RMB22.1 million, or 13% as compared to RMB174.0 million in 2021. Revenue from pipeline installation and connection in 2022 was RMB145.3 million, an increase of RMB18.6 million, or 15% as compared to RMB126.7 million in 2021. CNG vehicle refueling revenue in 2022 was RMB25.0 million, a decrease of RMB20.8 million, or 45% as compared to RMB45.8 million in 2021.

This is the second year of operation for the Haitang Bay Smart Energy Project which began contribution of revenue to the Integrated Smart Energy segment in September 2021. Alongside the Meishan Project, revenue from the Integrated Smart Energy segment in 2022 was RMB10.2 million, an increase of RMB1.9 million, or 22% as compared to RMB8.3 million.

Smart mobility segment comprises the EV battery swap business in various cities. Revenue from the smart mobility segment in 2022 was RMB1.9 million, an increase of RMB1.6 million, or 538% as compared to RMB0.3 million in 2021.

Sanya City experienced two periods of lockdown due to outbreaks of COVID-19 in 2022. Deployment of the lockdown measure severely impacted Sanya City's tourism and travel retail section by decreasing the demand for natural gas in the city. The pandemic first hit the demand of natural gas in late March 2022, right after the golden week of the Chinese New Year holiday of 2022. Revenue from gas supply and CNG refueling in Sanya City decreased by 33% in the second quarter of 2022 as compared to the same quarter in 2021. Such decrease partially offset the increase in revenue and sales volume gained in the first quarter of 2022 attributed to this traditional peak season in tourism of the city. The pandemic took a hit on demand for natural gas again in August 2022 with the second city lockdown. These restrictions and lockdown measures came at the height of the summer tourism season and severely affected the tourist industry and the travel retail sectors in August 2022 from recovery since the lifting of the last lockdown in June 2022, which was evidenced by the gradual pick up of demand for natural gas from commercial customers in the city since July 2022.

Despite the decrease in revenue from natural gas in Sanya City from commercial customers throughout the year, revenue from residential customers recorded an accumulated increase in 2022 attributed to the return of cross-province seasonal residents who habitually stay in Sanya City to enjoy the warm weather in the first quarter and new homeowners under city re-development plan was not affected by the resurgence of outbreak.

Pipeline installation and connection as the activities of construction of temporary housing under activation of city redevelopment plan was not affected during the static management period in Sanya City.

### Sales volume sold

Gas sales	2022	2021	Change	%
<b>Sales volume sold (m<sup>3</sup>)</b>				
Sanya City, Hainan Province	45,736,739	51,417,885	(5,681,146)	-11%
Other cities	-	1,839	(1,839)	-100%
<b>Total gas sales volume (m<sup>3</sup>)</b>	<b>45,736,739</b>	<b>51,419,724</b>	<b>(5,682,985)</b>	<b>-11%</b>
<b>CNG refueling</b>				
Sanya CNG/LNG	3,233,591	8,100,222	(4,866,631)	-60%
Changsha CNG	1,753,847	3,275,773	(1,521,926)	-46%
<b>Total CNG/LNG volume (m<sup>3</sup>)</b>	<b>4,987,438</b>	<b>11,375,995</b>	<b>(6,388,557)</b>	<b>-56%</b>
<b>Total sales volume sold (m<sup>3</sup>)</b>	<b>50,724,177</b>	<b>62,795,719</b>	<b>(12,071,542)</b>	<b>-19%</b>

Total sales volume from continuing operations in 2022 was 50.7 million m<sup>3</sup>, a decrease of 12.1 million m<sup>3</sup>, or 19% as compared to 62.8 million m<sup>3</sup> in 2021. The decrease in gas sales volume in Sanya City is mainly attributed to the downturn in the consumption of gas due to the temporary government travel restriction measures being implemented to combat the resurgence of the outbreak of COVID-19 which took place twice in 2022.

The reduction in consumption of CNG in Changsha was attributed to the continuous common usage of EV taxis as a replacement for the traditional CNG taxis.

### Gas Sales volume by nature of customers

#### Gas sales

Sanya City, Hainan Province	2022	2021	Change	%
<b>Gas volume sold (m<sup>3</sup>)</b>				
Residential customers	19,146,623	16,882,321	2,264,302	13%
Commercial customers	26,590,116	34,535,564	(7,945,448)	-23%
	<b>45,736,739</b>	<b>51,417,885</b>	<b>(5,681,146)</b>	<b>-11%</b>
<b>Other cities</b>				
<b>Gas volume sold (m<sup>3</sup>)</b>				
Commercial customers	-	1,839	(1,839)	-100%
<b>Total</b>	<b>45,736,739</b>	<b>51,419,724</b>	<b>(5,682,985)</b>	<b>-11%</b>

Gas sales volume of residential customers for in 2022 was 19.1 million m<sup>3</sup>, an increase of 2.2 million m<sup>3</sup>, or 13% as compared to 16.9 million m<sup>3</sup> for in 2021. Gas sales volume for commercial customers in 2022 was 26.6 million m<sup>3</sup>, a decrease of 7.9 million m<sup>3</sup>, or 23% as compared to 34.5 million m<sup>3</sup> in 2021.

With the resurgence of the outbreak of COVID-19 in May and August 2022, the demand for natural gas from commercial customers in Sanya City dropped 46% and 22% in the second quarter and the second half year of 2022 as compared to the same period in 2021. In contrast, demand for natural gas from residential customers recorded an accumulated increase in 2022.

The adverse effect of resurgence of the outbreak of COVID-19 was obvious and evidenced by the Sanya City Bureau of Statistics which showed a significant drop in overnight visitors to Sanya City in the second and third quarter of 2022. Tourists went almost extinct in April and September 2022 which saw the number of overnight visitors to Sanya City dropped to a record low of 0.4 million times and 0.1 million times respectively representing a significant decrease of 80% and 87% as compared to 2.3 million times and 1.1 million times in April and September 2021 respectively. Also, according to the Sanya City Bureau of Statistics, the hotel occupancy rates of Sanya City followed the decreasing trend of overnight visitors and recorded a single digit

of 8.0% in the month of September 2022, a significant decrease of 28.0 percentage points from 36.0% in September 2021.

More small catering businesses could not survive under the second time of static management of the city and closed down in the third quarter of 2022, which contributed to part of the decrease in gas sales volume for commercial customers in 2022.

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

Commercial customers in Sanya City include non-residential customers such as hotels, resorts and restaurants and attributed to approximately 85.0% of the total volume from commercial customers, whereas social welfare units such as schools, government facilities, and other not-for-profit organizations attributed to approximately 15.0% of the 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

<b>Sanya City, Hainan Province</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>Customers newly started gas supply</b>				
Residential customers	22,306	20,725	1,581	8%
Commercial customers	82	119	(37)	-31%
<b>Total customers</b>				
Residential customers	285,276	262,970	22,306	8%
Commercial customers	1,375	1,293	82	6%

Despite the imposition of temporary traveling restrictions, the overall residential sector recorded 22,306 new customers in 2022. The increase in new residential customers is 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 and organic growth of residential customers. 82 new commercial customers in 2022 were recorded. Those new commercial customers gained were small business owners and many of whom are owners of catering establishments.

There was a total of 285,276 residential customers and 1,375 commercial customers as at December 31, 2022, as compared to 262,970 residential customers and 1,293 commercial customers as at December 31, 2021.

### Gas sales revenue by customers

<b>Gas sales</b>				
<b>Sanya City, Hainan Province</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>Gas sales revenue</b>				
<b>(in RMB'000)</b>				
Residential customers	52,487	46,224	6,263	14%
Commercial customers	95,212	122,444	(27,232)	-22%
	<b>147,699</b>	<b>168,668</b>	<b>(20,969)</b>	<b>-12%</b>
<b>Other cities</b>				
<b>Gas sales revenue</b>				
<b>(in RMB'000)</b>				
Commercial customers	4,189	5,374	(1,185)	-22%
<b>Total gas sales by customers</b>	<b>151,888</b>	<b>174,042</b>	<b>(22,154)</b>	<b>-13%</b>

Gas sales revenue from residential customers in Sanya City in 2022 was RMB52.5 million, an increase of RMB6.3 million, or 14% as compared to RMB46.2 million in 2021. Gas sales revenue from commercial customers in Sanya City in 2022 was RMB95.2 million, a decrease of RMB27.2 million, or 22%, from RMB122.4 million in 2021.

Sales revenue in Sanya City was driven by the sales volume and gas selling price. As mentioned earlier in this MD&A, the 2020 Gas Selling Price impacts the profitability of the Group's natural gas distribution business segment. The 2020 Gas Selling Price per m<sup>3</sup> to commercial customers in Sanya City was RMB3.83 for the first four months of January to April 2022 and increased to RMB4.12 under the 2022 Gas Selling Price from May 2022 to the rest of the year. The impact of the 2022 Gas Selling Price was even out throughout the year and did not have a significant impact on the revenue.

The 2022 Gas Selling Price to the third level of consumption for residential customers in Sanya City was RMB3.82 for the first four months of January to April 2022 and increased to RMB4.1 from May 2022. Third level of consumption in residential customers was less than 5% of total sales to residential customers and its effect on selling price was minor.

While the price for 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 2022 Gas Selling Price for the first and second level of consumption in residential customers remained unchanged at RMB2.94 and RMB3.53 respectively in 2022.

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 RMB4.2 million in 2022, a decrease of RMB1.2 million, or 22% as compared to 2021. Production of Datang Gaoyao Plant has not been affected by the COVID-19 pandemic with the steady gas volume being transmitted.

Pipeline installation and connection

**Sanya City, Hainan Province**

**Pipeline connection**

<b>by number of customers</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>Customers newly connected</b>				
Residential customers	27,177	20,273	6,904	34%
Commercial customers	110	148	(38)	-26%
<b>Total customers connected</b>				
Residential customers	363,158	335,981	27,177	8%
Commercial customers	1,475	1,365	110	8%
<b>Pipeline connection revenue</b> <b>(in RMB'000)</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
Residential customers	126,571	109,437	17,134	16%
Commercial customers	18,735	17,297	1,438	8%
<b>Total</b>	<b>145,306</b>	<b>126,734</b>	<b>18,572</b>	<b>15%</b>

Pipeline installation and connection revenue from residential customers in 2022 was RMB126.6 million, an increase of RMB17.2 million, or 16% from RMB109.4 million in 2021. Pipeline installation and connection revenue from commercial customers in 2022 was RMB18.7 million, an increase of RMB1.4 million, or 8% from RMB17.3 million 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 was 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 continued despite the lockdown in Sanya. The pipeline installation and connection revenue from commercial customers is still being affected by COVID-19 as fewer large commercial projects were undertaken in 2022.

There were 27,177 and 110 new residential and commercial customers in 2022 respectively as compared to 20,273 and 148 new residential and commercial customers in 2021 respectively. There were 363,158 residential customers and 1,475 commercial customers as at December 31, 2022, as compared to 335,981 residential customers and 1,365 commercial customers as at December 31, 2021 respectively. No star-rated hotel was connected in 2022 and the commercial customers connected are all small catering business owners.

**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>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
Sanya CNG/LNG	3,233,591	8,100,222	(4,866,631)	-60%
Changsha CNG	1,753,847	3,275,773	(1,521,926)	-46%
<b>Total Sales Volume (m<sup>3</sup>)</b>	<b>4,987,438</b>	<b>11,375,995</b>	<b>(6,388,557)</b>	<b>-56%</b>
<b>Total Revenue</b>				
<b>(in RMB'000)</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
<b>CNG Sales Revenue</b>				
Sanya CNG/LNG	16,112	31,489	(15,377)	-49%
Changsha CNG	8,888	14,347	(5,459)	-38%
<b>Total Revenue (RMB'000)</b>	<b>25,000</b>	<b>45,836</b>	<b>(20,836)</b>	<b>-45%</b>

Total sales volume of vehicle refueling stations in Sanya and Changsha in 2022 was 5.0 million m<sup>3</sup>, a decrease of 6.4 million m<sup>3</sup>, or 56% from 11.4 million m<sup>3</sup> in 2021.

Decrease in sales volume in 2022 was attributed to the reduction in gas demand under the deployment of lockdown measures imposed by the Central government to combat the resurgence of the outbreak of COVID-19 in Sanya City and the reduction in consumption of CNG due to common usage of EV taxis in Changsha City. Decrease of revenue in Sanya CNG/LNG station was in line with the decrease in volume but not in the same magnitude as part of the increasing cost of LNG during 2022 has been transferred to customers during the year which led to an increase in the average selling price of RMB1.1 per m<sup>3</sup>, from RMB3.89 per m<sup>3</sup> in 2021 to RMB4.98 per m<sup>3</sup> in 2022.

**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>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
Commerical customers	6,506	6,448	58	1%
<b>Integrated district energy distribution</b>				
<b>Meishan City, Sichuan Province</b>				
<b>(in RMB'000)</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
Commerical customers	3,681	1,882	1,799	96%
<b>Total</b>	<b>10,187</b>	<b>8,330</b>	<b>1,857</b>	<b>22%</b>

The integrated smart energy segment 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 is in its implementation stage. Five of the hotels in Haitang Bay are currently using the system and the connection of two other hotels is under construction.

With the resurgence of the outbreak of COVID-19 in Sanya City in the second and third quarters of 2022, the tourism industry in Sanya City and the surrounding area were heavily affected with a noticeable drop in occupancy rates which led to a reduction in usage of the integrated smart energy system as projected.

**Smart Mobility**

**Smart Mobility**

**EV Battery Swap Revenue**

<b>(in RMB'000)</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>%</b>
Sanya and Haikou City, Hainan Province	941	249	692	278%
Beihai City, Guangxi Province	895	-	895	100%
Zhuhai City, Guangdong Province	22	42	(20)	-48%
<b>Total Revenue (RMB'000)</b>	<b>1,858</b>	<b>291</b>	<b>1,567</b>	<b>538%</b>

The smart mobility segment comprises the EV battery swap business. There are a total of seven (7) EV battery swap stations currently in operation, two (2) stations in Sanya City which are located at the Sanya airport and Haitang Bay respectively, two (2) stations located in Haikou City which commenced operation in August 2021 and January 2022 respectively and one (1) station located in Zhuhai City commenced operation in March 2022. Following the acquisition of a local EV battery swap station operator in Beihai City of Guangxi Province in November 2022, the Beihai Company operates two (2) EV battery swap stations and contributed RMB0.9 million of revenue to the segment for the last three months in 2022.

**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), and 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>2022</b>	<b>2021</b>	<b>% change</b>
Spot rate at the end of the year	0.1963	0.1955	0.4%
Average rate for the year	0.1935	0.1943	-0.4%

**Gross margin**

Gross profit from continuing operations in 2022 was RMB107.7 million, a decrease of RMB26.3 million, or 20.0%, from RMB134.0 million in 2021. Gross profit margin in 2022 was 32.2%, a decrease of 5.5 percentage points as compared to 37.7% in 2021.

With the gas selling price adjustments, the weighted average gas selling price of residential customers of the Group in Sanya City remained the same in 2022 as compared to 2021 since the price adjustment only affected the third level of consumption in residential customers where the gas volume for this type of customers has not been significant. The weighted average selling price for commercial customers of the Group in Sanya City in 2022 increased RMB0.07 per m<sup>3</sup>, or 2.0% from RMB3.55 per m<sup>3</sup> in 2021 to RMB3.62 per m<sup>3</sup> in 2022. Such increase was mainly attributed to the increase in the 2022 Gas Selling Price in May 2022.

The drop in gross profit margin from continuing operations in 2022 as compared to 2021 was mainly as a result of the drop in margin of gas supply and the negative margin for the Integrated Smart Energy segment.

The drop in gross profit margins for gas supply from continuing operations in 2022 were attributable to lower gross profit margin for revenue from residential customers as compared to commercial customers in gas supply, continuing rise in purchase price of LNG in 2022 which could not be fully transferred to our customers in Sanya CNG vehicle station and the increase in the purchase price of pipeline gas which attributed to the renewal of two-year gas purchase contracts with China National Offshore Oil Corporation ("CNOOC") which became effective on April 1, 2022.

The drop in margin of gas supply was attributable to the increasing composition of revenue from residential customers from 27.4% in 2021 to 35.5% in 2022 with relatively lower margin.

Average purchase price of LNG raised to a record high of approximately RMB4.36 per m<sup>3</sup> in 2022 as compared to RMB2.76 per m<sup>3</sup> in 2022. LNG cost contributed approximately 11.9% of the total cost of gas

purchased in 2022. Increase in the purchase price of LNG which could not be fully transferred to our customers in Sanya CNG vehicle station.

The negative gross profit margin for the Integrated Smart Energy segment from continuing operations in 2022 as compared to 2021 was mainly attributable to fixed costs such as depreciation which comprised approximately 41.5% (2021: 25.3%) of cost of sales in the Integrated Smart Energy segment that could not be fully absorbed with the decrease in revenue due to the outbreak of COVID.

### **Operating expenses**

**Selling and marketing expenses** of continuing operations in 2022 were RMB32.2 million, a decrease of RMB6.8 million, or 18% from RMB39.0 million in 2021. Selling and marketing expenses as a percentage of sales in 2022 was 9.6%, a decrease of 1.4 percentage points as compared to 11.0% in 2021. The decrease in 2022 was mainly attributable to the continuous reduction in selling and marketing activities as compared to 2021.

**General and administrative expenses** of continuing operations in 2022 were RMB47.3 million, a decrease of RMB1.3 million as compared to RMB48.6 million in 2021. General and administrative expenses as a percentage of sales in 2022 was 14.2%, an increase of 0.5 percentage points as compared to 13.7% in 2021. The decrease in general and administrative was attributed to the reversal of share-based payment expenses which was recognized in 2021 as participants failed to satisfy the agreed performance condition for the year ended December 31, 2022.

### **Other losses, net**

Other losses, net include impairment loss recognized in respect of property and equipment of RMB3.7 million as a result of the release of upgraded model taxi fleet by BAIX QX, batteries for the older model became obsolete and had to be written off.

### **Finance Costs**

Finance costs from continuing operations in 2022 were RMB18.0 million, an increase of RMB7.9 million, or 79% from RMB10.1 million in 2021. 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 RMB4.7 million (2021: RMB8.3 million) capitalized on projects under development. Borrowing cost for Haitang Bay Integrated Smart Energy Project stopped capitalization subsequent to the project's completion and commenced operation in September 2021.

### **Share of results of associates**

Share of results of associates represents the Group's share of loss of RMB4.5 million of its associates, a decrease of RMB9.3 million, or 195% as compared to a share of profit of RMB4.8 million in 2021. The share of loss mainly represents the share of loss of the Group's 40% held associate, Pingxiang Xinao Changfeng Gas Co., Ltd. ("Pingxiang Xinao CF") as its business was heavily impacted by the increasing LNG purchase prices in the first half of the year which cannot be transferred to customers. From the third quarter of 2022, benefiting from the successful connection of gas pipelines in Xiangdong District, Pingxiang City, Pingxiang Xinao CF's reliance on LNG reduced and resulted in net profit in the second half year of 2022.

### **EBITDA from continuing operations**

EBITDA from continuing operations (non-IFRS measure as identified and defined under section "Non-IFRS Measures") in 2022 was RMB76.0 million, a decrease of RMB1.4 million, or 2%, from RMB77.4 million in 2021.

EBITDA from continuing operations included a gain of RMB11.4 million in 2022 (2021: loss of RMB4.8 million) on 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 RMB36.0 million (please refer to the section headed "Related Party Transactions" on page 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.

The market price of the common shares of the Company was CAD0.32 as at December 31, 2022 and CAD0.54 as at December 31, 2021 respectively. A gain of RMB11.4 million in fair value change on derivative financial instrument of loan discharge agreement was recognized in 2022 which arose from a downward difference of RMB0.22 between the market price of the Company between December 31, 2022 and December 31, 2021. In contrast, a loss of RMB4.8 million in fair value change on derivative financial instrument of loan

discharge agreement was recognized in 2021 as the market price of the Company as at December 31, 2021 and 2020 had an upward difference of RMB0.09.

On a comparable basis, after excluding the effects of the above-mentioned fair value change on derivative financial instrument and reversal of share-based payments, the adjusted EBITDA from continuing operations in 2022 was RMB63.5 million, a decrease of RMB17.7 million, or 22%, from RMB81.2 million in 2021.

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

The Group reported a net profit from continuing operations of RMB4.0 million in 2022, a decrease of RMB17.7 million, or 81%, from RMB21.7 million in 2021.

Earnings per share ("EPS") from continuing operations was RMB0.26 (CAD0.05) and RMB0.25 (CAD0.05) (basic and diluted) in 2022 as compared to RMB0.35 (CAD0.07) and RMB0.34 (CAD0.07) (basic and diluted) per share in 2021.

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

In RMB thousands (except for % figures)	2022	2021	Change	%
<b>Continuing operations</b>				
<b>Net profit for the year from continuing operations</b>	4,028	21,681	(17,653)	-81%
<b>Adjusting items</b>				
Fair value change on derivative financial instrument	(11,424)	4,827	(16,251)	-337%
(Reversal) recognition of share-based payment expenses	(781)	781	(1,562)	-200%
Government financial assistance	(333)	(1,777)	1,444	-81%
<b>Adjusted net profit (loss) for the year from continuing operations (non-IFRS)</b>	<b>(8,510)</b>	<b>25,512</b>	<b>(34,022)</b>	<b>-133%</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 gain in fair value change on derivative financial instrument of loan discharge agreement and reversal of share-based payments, the Company reported an adjusted net loss of RMB8.5 million in 2022, a decrease of RMB34.0 million, or 133% from an adjusted net gain of RMB25.5 million as reported in 2021.

Adjusted EPS (loss per share) was derived from the adjusted net profit (loss) for the year from continuing operations (non-IFRS) divided by the weighted average number of ordinary shares for the purpose of diluted earnings per share. Adjusted loss per share from continuing operations was RMB0.13 (CAD0.03) per share (basic and diluted) in 2022 as compared to adjusted EPS from continuing operations of RMB0.38 (CAD0.07) (basic and diluted) in 2021.

#### **Profit (loss) for the year from discontinued operation**

Discontinued operation 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. Profit from discontinued operation in 2022 was RMB62,000 (2021: loss of RMB2.2 million) which was attributed to a recovery of the accounts receivable amount that was written off in the previous period.

## **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) except per share amounts	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	93,270	61,590	84,000	95,379	105,239	82,612	86,177	81,205
Gross profit	29,260	17,865	23,194	37,349	32,182	33,757	34,474	33,619
Profit (loss) for the period from continuing operations	(6,973)	(426)	90	11,337	(5,689)	9,521	14,854	2,995
Profit (loss) for the period attributed to owners of the Company from continuing operations	(1,513)	1,927	2,688	13,879	(4,151)	9,664	14,397	3,101
EPS (loss) of continuing and discontinued operations								
- basic (RMB)	(0.03)	0.03	0.04	0.21	(0.07)	0.15	0.21	0.04
- diluted (RMB)	(0.03)	0.03	0.04	0.21	(0.06)	0.14	0.20	0.04
EPS (loss) from continuing operations								
- basic (RMB)	(0.03)	0.03	0.04	0.21	(0.06)	0.15	0.22	0.04
- diluted (RMB)	(0.03)	0.03	0.04	0.21	(0.05)	0.14	0.21	0.04

## **Selected Financial Data**

(RMB000's)	December 31, 2022	December 31, 2021
Bank balances and cash and fixed term bank deposits	115,116	127,595
Net current liabilities	(128,171)	(133,480)
Adjusted working capital (note1)	(33,288)	1,555
Property and equipment	805,716	755,050
Right-of-use of assets	74,830	77,637
Total assets	1,245,108	1,195,344
Non-current liabilities	419,766	383,726
Shareholders' equity	434,143	418,144

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

Bank balance and cash and fixed term bank deposit decreased by RMB12.5 million from RMB127.6 million as at December 31, 2021 to RMB115.1 million as at December 31, 2022, primarily resulting from the net effect of the increase in net cash generated from operating activities of RMB39.2 million, cash used for acquisition of property and equipment of RMB75.3 million, and net repayment of new short-term borrowings and long-term debt of RMB4.6 million and an additional capital contribution from non-controlling interests of a subsidiary of the Group amounted to RMB10.5 million.

### **Adjusted Working Capital**

The adjusted working capital (see "Non-IFRS Financial Measures") was negative RMB33.3 million as at December 31, 2022, a decrease of RMB34.9 million, from the positive adjusted working capital of RMB1.6 million as at December 31, 2021. Adjusted working capital excludes the receipt in advance from customers included in contract liabilities of RMB52.3 million related to receipts received in advance from customers from pipeline installation and connection projects prior to commencement and natural gas sales and short-term bank borrowings of RMB42.6 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 RMB42.6 million and RMB423.4 million respectively as at December 31, 2022.

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 the 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 banks.

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 ended and as at December 31, 2022, 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, less cash and cash equivalents, by total equity attributable to equity shareholders of the Company. The Group's net gearing ratio was approximately 83.1% as at December 31, 2022, a decrease of 1.4 percentage points as compared to 84.5% as at December 31, 2021.

## **Capital Commitments**

As at December 31, 2022, 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 RMB110.7 million, a decrease of RMB30.1 million as compared to RMB140.8 million as at December 31, 2021. The significant decrease in 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, 2021 were utilized during 2022 following its commencement of operation in September 2021. Capital commitments as at December 31, 2022 also included a remaining initial investment of RMB0.8 million for the 2% equity interests in Hainan Shanglian Investment Co., Ltd.

## **Share Capital**

As at December 31, 2021, the Company has 65,885,155 common shares and 3,450,000 stock options outstanding.

950,000 share options granted on April 10, 2017 and 50,000 share options granted on August 10, 2017 expired/forfeited in the second quarter of 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 were not subject to any conditions were issued. 547,500 shares award rights expired/forfeited in 2021 as participants failed to satisfy the agreed financial performance condition and service condition for the year ended December 31, 2021. The remaining 1,020,000 shares award rights was forfeited in 2022 as participants failed to satisfy the agreed performance condition for the year ended December 31, 2022.

## **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 are presented in the MD&A as follows:

In RMB thousands (except for % figures)	2022	2021	Change	%
<b>Continuing operation</b>				
Net profit for the year from continuing operations	4,028	21,681	(17,653)	-81%
Add:				
Finance costs	18,024	10,092	7,932	79%
Income tax expense	16,684	15,670	1,014	6%
Depreciation and amortization	37,276	29,993	7,283	24%
<b>EBITDA for the year from continuing operations</b>	<b>76,012</b>	<b>77,436</b>	<b>(1,424)</b>	<b>-2%</b>
Adjusting items				
Fair value change on derivative financial instrument	(11,424)	4,827	(16,251)	-337%
(Reversal) recognition of share-based payment expenses	(781)	781	(1,562)	-200%
Government financial assistance	(333)	(1,777)	1,444	-81%
<b>Adjusted EBITDA from continuing operations</b>	<b>63,474</b>	<b>81,267</b>	<b>(17,793)</b>	<b>-22%</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, 2022	December 31, 2021
Current assets		263,028	259,994
Less: Current liabilities		(391,199)	(393,474)
<b>Net current liabilities</b>		<b>(128,171)</b>	<b>(133,480)</b>
Add: Receipts in advance from customers	1	52,283	74,175
Add: Short-term bank borrowings		42,600	60,860
<b>Adjusted working capital</b>		<b>(33,288)</b>	<b>1,555</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, 2022, the Group's current liabilities exceeded its current assets by RMB128.2 million, a decrease of RMB5.3 million in net current liabilities as compared to RMB133.5 million as at December 31, 2021 was mainly attributed to the decrease of cash and bank balance of RMB12.5 million and net repayment in short-term borrowing of RMB18.3 million in 2022 as compared to December 31, 2021.

In view of these circumstances, the 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 liabilities and capital expenditure of the Company.

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

In RMB thousands	2022	2021
Net profit for the year from continuing operations	4,028	21,681
Add: Finance costs	18,024	10,092
Income tax expense	16,684	15,670
EBIT	38,736	47,443
Effective tax rate	81%	42%
<b>EBIT net of tax</b>	<b>7,533</b>	<b>27,539</b>
<i>Non-cash income and expense</i>		
Depreciation and amortization	37,276	29,993
Impairment losses reversed (recognized) under expected credit loss model, net	(1,176)	1,301
Impairment loss, net of reversal on property and equipment	3,717	-
Share of results of associates	4,538	(4,794)
(Reversal) recognition of share-based payment expenses	(781)	781
Loss on disposals of property and equipment	317	5
Gains on early termination of leases	7	(30)
Fair value change on derivative financial instrument	(11,424)	4,827
Unrealized exchange loss on monetary items	(6)	20
Change in net current liabilities	(5,309)	69,731
Less: Capital expenditures	(83,332)	(230,990)
<b>Free Cash Flow</b>	<b>(48,639)</b>	<b>(101,617)</b>

Negative free cash flow from continuing operations in 2022 amounted to RMB48.6 million, a significant improvement of RMB53.0 million as compared to the negative free cash flow of RMB101.6 million in 2021 which attributed to the reduction in capital expenditure subsequent to the completion of projects under development.

### Related Party Transactions

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>	Dec 31, 2022 RMB'000	Dec 31, 2021 RMB'000
<b>Balances</b>				
Pingxiang Xiao CF	Associate	Non-trade, unsecured and interest bearing (Note)	12,423	12,423

Note: 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 2019.

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 Zhipai (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 a 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 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. The decision of the court is still pending.

## **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 the 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 costs 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, 2022, pipeline installation and connection revenue from continuing operations is RMB140.3 million (2021: RMB120.9 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 conditions may, in turn, affect market demand for 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 is 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 the 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 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 the payment of dividends in foreign currencies will continue to 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, including the Sanya City Development and Reform Commission ("SYDRC") on pricing from time to time.

In July 2020, the SYDRC laid down the City's natural gas utility pricing adjustment formula 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 adjustment formula (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 principles.

Effective August 1, 2020, the Group's New Gas Selling Price commenced being regulated by the Pricing Formula based on the 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 based on changes to the Gas Purchasing Price and the Gas Distribution Cost.

Since the adoption of Pricing Formula in August 2020, as a result of further changes in Gas Distribution Price, several price adjustments have taken place resulting in Gas Selling Prices adjusted both up and down in line with changes to the Gas Distribution Price. As a result of Gas Selling Price adjusted downwards in August 2020 and September 2021 and the decrease in sales volume due to the resurgence of the outbreak of COVID-19 in 2021 and most of 2022, the profitability of the Company's natural gas distribution business segment was negative impacted.

As the Price Formula uses historical Gas Purchasing Price and Gas Distribution Cost to determine the future selling price, and the actual New Gas Purchase Price and Gas Distribution Cost will vary, going forward, such impact on the Group's future operating results could not be readily quantified.

**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, 2022, 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 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 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 and made available to the Group from 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. A two-year purchase contract with CNOOC for 2022 and 2023 is signed in April 2022. 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 the existing purchase contract under similar or more commercially favorable terms, we may be faced with a shortage of natural gas or higher purchase cost as more expensive LNG may have to be sourced to supplement the 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 permit 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. A 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 issues. 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 of 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**

With COVID-19 pandemic affecting China, quarantine and travel restriction measures were implemented in China to compact the pandemic resulting in the Group experiencing a significant drop in its business across all business segments during 2020 to 2022.

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 resurgence of 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 requires 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 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 sources 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 fuel. With the sustained and rapid development of China's economy and the acceleration of urbanization, energy shortage and environmental pollution have become more prominent. As such, the development of new energy automobiles is crucial to alleviate energy and environmental pressure. The Government has implemented transformative strategies to upgrade the automobile industry in an attempt to strengthen energy conservation and reduce emissions. 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 levels. Subsidies and tax exemptions 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 Integrated 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 the 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 2022, 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, during the COVID-19 control measures across China, a lot of taxi/ride-sharing companies have been taking a big revenue hit for the past several years. The demand for transportation 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 Increasing 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 a 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.

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

### Decline of Electric Vehicle Usage

The Chinese government will phase out state subsidies for electric vehicle sales in the coming years which 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 an 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 3,626 by the end of 2022, a 112.3% increase compared to 2021.

## **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, 2022.

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

In the current year, the Group has applied the following amendment to IFRSs issued by the International Accounting Standard Board ("IASB") for the first time, which is mandatorily effective for the annual period beginning on or after January 1, 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3                      Reference to the Conceptual Framework

The application of the amendment 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 the consolidated financial statements.

### **Impacts on application of Amendment to IFRS 3 Reference to the Conceptual Framework**

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. The amendments update a reference in IFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting issued by IASB in March 2018 (the "Conceptual Framework") instead of the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010), add a requirement that, for transactions and events within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, an acquirer applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

### **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 <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>2</sup>
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 1	Non-current Liabilities with Covenants <sup>3</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendment to IFRS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>

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

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

3 Effective for annual periods beginning on or after 1 January 2024.

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 Classification of Liabilities as Current or Non-current (the "2020 Amendments") and Amendments to IAS 1 Non-current Liabilities with Covenants ('the 2022 Amendments')**

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 Financial Instruments: Presentation.

specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classifies liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

#### **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.

#### **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 IFRS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB73,835,000 and RMB6,831,000 respectively, in which the Group will recognise the related deferred tax assets and deferred tax liabilities of RMB18,456,000 and RMB1,708,000 respectively. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings at the beginning of the earliest comparative period presented.