THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION

眾誠能源

UNITED STRENGTH POWER HOLDINGS LIMITED
眾 誠 能 源 控 股 有 限 公 司

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

(Stock Code: 2337)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC CS MANDATE;
(2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ENTRUSTED MANAGEMENT AGREEMENT;
(3) CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS – BUSINESS AGREEMENTS AND REFINED OIL PRODUCTS SUPPLY AGREEMENT;
(4) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION;
(5) PLACING OF THE PLACING SHARES UNDER SPECIFIC PLACING MANDATE;
(6) APPOINTMENT OF EXECUTIVE DIRECTOR; AND
(7) NOTICE OF EXTRAORDINARY GENERAL MEETING

Joint Sponsors to the new listing application of the Company

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A letter from the Board is set out on pages 50 to 103 of this circular, and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 106 to 154 of this circular.

A notice convening an extraordinary general meeting of United Strength Power Holdings Limited to be held at Room C, theDesk, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 24 July 2020 at 3:00 p.m. is set out on pages EGM-1 to EGM-5 of this circular. A proxy form for use at the extraordinary general meeting is enclosed with the notice of the extraordinary general meeting. Such proxy form is also published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.united-strength.com). Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the completed proxy form to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish and in such event, the proxy form shall be deemed to be revoked.

Considering the outbreak of the novel coronavirus (COVID-19), certain measures will be implemented at the EGM with a view to addressing the risk to attendees of infection, including the following: a) all attendees will be required to undergo body temperature check; b) any attendees who are subject to health quarantine prescribed by the Government of Hong Kong will not be admitted to the venue of the EGM; c) all attendees will be required to wear surgical face masks throughout the EGM; d) each attendee will be assigned a designated seat at the time of registration to ensure social distancing; e) any person who does not comply with the measures above may be denied entry into, or be required to leave, the venue of the EGM; f) no refreshments or beverages will be provided, and there will be no corporate gifts.

The Company reminds Shareholders that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. The Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and **strongly recommends that Shareholders appoint the Chairman of the EGM as their proxy and submit their form of proxy as early as possible**. In light of the risks posed by the COVID-19 Pandemic, the Company **strongly encourages Shareholders NOT to attend the EGM in person**. The Company will keep the evolving COVID-19 situation under review and may implement additional measures (which it will announce closer to the date of the EGM.)

30 June 2020

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The following expected timetable is indicative only and is subject to change. If necessary, further announcements in relation to any revised timetable will be published as and when appropriate.

Events	Time and Date(Note 1)
Latest time for lodging transfer of shares for the purpose of ascertaining shareholders' entitlements to attend and vote at the EGM	4:30 p.m. on Monday, 20 July 2020
Latest time for lodging forms of proxy for the EGM	3:00 p.m. on Wednesday, 22 July 2020
EGM	3:00 p.m. on Friday, 24 July 2020
Announcement of the results of the EGM to be published	Friday, 24 July 2020
Latest Time for Termination of the Placing Agreement	8:00 a.m. on Wednesday, 30 September 2020
Completion of the Acquisition on or before	Wednesday, 30 September 2020(Note 2)
Completion and issue of the Consideration Shares and the Placing Shares on or before	Wednesday, 30 September 2020(Note 2)
Announcement of completion of the Acquisition and the issue of the Consideration Shares and Placing Shares to be published on or before	Wednesday, 30 September 2020(Note 2)
Long Stop Date	Wednesday, 30 September 2020(Note 3)

Notes:

1. All times and dates in this circular refer to Hong Kong local time and dates unless otherwise specified.

2. Assuming all Conditions are fulfilled or waived (where applicable). Please also refer to Note 3 below for the Long Stop Date.

3. Provided that if on 30 September 2020, the conditions set out under the sections headed "Letter from the Board – The Acquisition – Conditions Precedent" and "Letter from the Board – Placing of the Placing Shares – Conditions" in this circular cannot be fulfilled or waived by the Company in writing (except for the Conditions set out in paragraphs (iii) to (ix) under the section headed "Letter from the Board – The Acquisition – Conditions Precedent", which cannot be waived), then the Long Stop Date shall be extended to such date as the Company and the Vendors shall discuss and agree (in each party's sole discretion) in good faith.

This summary aims at giving you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision as to how you would cast your votes at the EGM in relation to the transactions and the appropriate course of action for yourself. There are risks associated with any business. You should read the section headed "Risk Factors" in this circular carefully before making a decision on the transactions.

BACKGROUND

Reference is made to the announcement of the Company dated 18 September 2019, in which the Company announced that on 18 September 2019 (after trading hours), the Company, as the Purchaser, and the Vendors, the Guarantors and Mr. Zhang Guoguang, entered into the SP Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at the Consideration of HK$650 million.

The Consideration for the Acquisition shall be HK$650 million, comprising (a) 100,000,000 Consideration Shares in aggregate at the Issue Price of HK$5.00 per Consideration Shares; and (b) cash consideration of HK$150 million, which shall be paid to the Vendors at the Acquisition Completion in the following manners:

(a) 71.78% of such Consideration shall be paid to Propitious Peak;

(b) 14.55% of such Consideration shall be paid to Immense Ocean;

(c) 9.70% of such Consideration shall be paid to Amber Heyday;

(d) 0.97% of such Consideration shall be paid to Triumphal Diligent; and

(e) 3.00% of such Consideration shall be paid to Harvest Day.

The Consideration was determined after arm's length negotiation between the Company and the Vendors having considered, among other things, (i) the nature and prospects of the Target Business comprising the Petroleum Refuelling Business and the Petroleum Wholesale Business including principally the ownership of 27 petroleum refuelling stations and two petroleum storage facilities (at the time of the SP Agreement), the operation and management rights through 40 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility (at the time of the SP Agreement) pursuant to the Entrusted Management Agreement, and the related transportation services; and (ii) the unaudited combined net profit after taxation of the Target Business for the year ended 31 December 2018 attributable to the equity shareholders of the Company of approximately RMB72.9 million (having been adjusted for the financial impact attributable to the reorganisation of the Target Business prior to the Acquisition Completion, with the assumption that the Entrusted Management Agreement became effective on 1 January 2018. The adjustment represents the exclusion of certain assets and liabilities of the Target Business which will not be acquired by the Target Group under the terms of the SP Agreement as set out in the section headed "Letter from the Board" in this circular. For details of the adjustment, please refer to the section headed "A. Pro Forma Financial Information of the Enlarged Group – 6. Notes to the Pro Forma Financial Information of the Enlarged Group" in Appendix III to this circular and the price-earning ratio of approximately 9 times.

For further details of the background of the Acquisition, please refer to the section headed "Letter from the Board – Very Substantial Acquisition and Connected Transaction" in this circular.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules are over 100%, the Acquisition constitutes a very substantial acquisition under Chapter 14 of the Listing Rules. As (i) Mr. Zhao is a Controlling Shareholder and an executive Director; (ii) Ms. Xu is a substantial Shareholder; (iii) Mr. Liu is an executive Director; and (iv) Mr. Wang was an executive Director of the Company up to 27 November 2018, they are regarded as connected persons of the Company pursuant to Chapter 14A of the Listing Rules and thus the Acquisition and the issue of the Consideration Shares constitute non-exempt connected transactions for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. In addition, the Acquisition constitutes a reverse takeover for the Company under Rule 14.06B (as referred to as Rule 14.06(6)(a) prior to 1 October 2019) of the Listing Rules, and as such the Company will be treated as if it were a new listing applicant and the Acquisition is subject to approval of the Listing Committee.

REASONS OF THE ACQUISITION

As disclosed in the announcement of the Company dated 27 November 2018, 90% of net proceeds from the Company's Listing in October 2017 were originally intended to apply for financing the expansion of the Group's CNG refuelling station network through acquisition of CNG refuelling stations. However, due to the change in government direction (the "**Government Direction**") to encourage the approval of mixed stations instead of pure gas refuelling stations, the relevant authorities are now tightening the approval of pure gas refuelling stations, and are more inclined to approve oil and gas mixed refuelling stations or adding gas refuelling facilities to existing petroleum refuelling stations. As such, it is increasingly cumbersome and difficult for the Group to apply for new gas refuelling stations, as evidenced by that the last pure gas refuelling station, of which the Group had obtained all approvals, has to be traced back to March 2017. At the same time, it is also difficult to identify suitable independent gas refuelling stations for equity acquisition or entrusted operation. The Company has attempted to apply for new pure gas refuelling stations with the competent authorities on several occasions, but the application procedures were not completed as at the Latest Practicable Date. As advised by Frost & Sullivan, there were no approval granted for new pure gas refuelling stations in Jilin Province in 2018 and 2019 and the number of newly approved pure gas refuelling stations in Jilin Province was 20, 10, 5, 0 and 0 for the years ended 31 December 2015, 2016, 2017, 2018 and 2019. Since 1 January 2020 and up to the Latest Practicable Date, there was a state-owned enterprise which has successfully obtained approval for one new pure gas station project in the Jilin Province. As advised by the PRC Legal Advisor and Frost & Sullivan, based on the publicly available information published by the Changchun Municipal Bureau of Planning and Natural Resources (長春市規劃和自然資源局), save for the one new pure gas station project applied by the state-owned enterprise, all of the six new gas station projects that were granted approval from the local authority in Changchun City since 2018 and up to the Latest Practicable Date were mixed gas and petroleum station projects. As further advised by F&S, the number of newly approved pure petroleum refuelling stations in Jilin Province was 50, 55, 55, 45 and 45 for the years ended 31 December 2015, 2016, 2017, 2018 and 2019. Based on the above, our Directors and the Target Company Directors consider that the Government Direction aimed at tightening the approval of new pure gas refuelling stations instead of petroleum refuelling stations.

Our Directors consider that the rationale behind the Government Direction arose from the government's consideration on how to better utilize the limited land resources in constructing refuelling stations for satisfying need from vast public. Notwithstanding there was a steady growth in the gas refuelling industry in Northeast China over the past years and it is expected that the growth will continue in the future, the portion of gas vehicles users was still small as compared with gasoline vehicles users in Northeast China. According to F&S, as at 31 December 2019, over 97.0% of the vehicle users were driving with gasoline vehicles while only 2.6% of vehicle users were driving with gas vehicles. In light of the above, building a pure gas refuelling station alone could only cater the demand of a small portion of users, and construction of pure gas refuelling station does not align with the Government Direction aiming for better and more efficient land use. On the contrary, a pure petroleum refuelling station or a mixed refuelling station can serve sufficient number of vehicles users. Therefore, considering the overall land use planning and the Government Direction to make use of the land more efficiently, our Directors believed that the Government Direction would have limited the possible distribution network of pure gas refuelling station and thus the cycle for approval a pure gas refuelling station had been longer than previously expected.

The Government Direction served as an indication that our Company could no longer rely on pure gas refuelling station and thus our Company explored way out for future corporate development. The Government Direction also served as an alarm to the Board that if our Company confined ourselves in a single line of business, there would be a possibility that our business performance will be seriously hampered by sudden policy change. It is not just necessarily about following the Government Direction to construct mixed refuelling station, but rather it is more about the Board's ability to avoid adverse policy impact and choose to diversify its business portfolio. Hence, although the Board did not rule out the possibility of acquiring mixed refuelling stations from independent third party, the Board also looked into other business opportunities including the potential Acquisition. Notwithstanding that the Gas Refuelling Business has higher gross profit margin than the Petroleum Refuelling Business, our Directors consider the potential Acquisition was appropriate given:

- the Target Group is a leading private petroleum station operator (i.e. gasoline and diesel) in Northeast China. According to the F&S Report, the Target Group is the largest private petroleum refuelling station operator in Northeast China in terms of refined oil products sales volume in 2019, and the Target Group took up approximately 1.1% of the total market share (including both private and state-owned petroleum refuelling station operators) or approximately 8.4% of the private market share in Northeast China in 2019; and

- it is also natural for our Company to accord priority in considering the potential Acquisition given that there is a strong urge for the business expansion of our Company in view of the change of the government directions to avoid bearing substantial risks associated with the single line of current business. There is no reason to deliberately exclude considering the possibility of purchasing the Petroleum Refuelling Business and Petroleum Wholesale Business in our Group through the Acquisition.

Our Company had not engaged in petroleum refuelling business and currently did not possess the relevant experience and expertise in running day-to-day operations of the petroleum refuelling business, i.e. from procurement to sales of refined oil products and quality control which require essential input from the operational team of the Target Business, it might not be feasible for our Company to run the entire mixed refuelling stations on our own. On the other hand, through the Acquisition, our Company could, not only acquire the relevant petroleum refuelling business, but also the entire management and operation team of petroleum refuelling business, which render our Company with the expertise and personnel to engage in the petroleum refuelling segment of the mixed refuelling station. As compared to individual third party mixed refuelling stations or third party petroleum refuelling stations, the Target Group ranked 1st place in Northeast China in terms of retail volume, taking up approximately 8.4% of total private market share with refined oil retail volume of 270.1 thousand tonnes. Also, according to the F&S Report, the refined oil retail market of private petroleum refuelling station operators in Northeast China is relatively fragmented with top five players taking up approximately 14.7% of the market share and the Target Group captured more than half of such market shares from the top five players. The Target Group also possesses storage facilities and refined petroleum transportation vehicle fleet which enables a stable and timely supply of refined oil to its extensive network of petroleum refuelling stations.

Having considered that (i) the scale of the other top players (whether alone or in aggregate) is smaller than the Target Business, (ii) more time is needed in negotiating with the acquisitions of those petroleum refuelling stations held by other top players to reach a scale comparable to the Target Business, (iii) it would further secure the employee retention after the Acquisition as they are and will continue to work for the same controlling shareholder, and (iv) the potential acquisition target of mixed refuelling stations in two major operation areas of the Target Business, namely Changchun City of Jilin Province and Dandong City of Liaoning Province, is rather limited as there were only approximately 10 mixed refuelling stations owned by several private players in Changchun City and none was found in Dandong City apart from mixed refuelling stations of the Target Group as advised by F&S, our Directors are of the view that the Acquisition represents a precious opportunity for the Group to acquire the largest private petroleum refuelling station operator in Northeast China, enabling the Group to tap into the petroleum retail market and becomes the largest private petroleum refuelling station operator in Northeast China in a swift and effective manner and is more beneficial to the Company than acquiring mixed refuelling stations from independent third parties.

On the other hand, our executive Director and Controlling Shareholder, Mr. Zhao, as a veteran businessman, seeing the successful Listing of the Company in October 2017, was in mind of exploring the possibility of enhancing his assets portfolio and creating further investment opportunities in capital market. Although at that moment Mr. Zhao and the Company considered that it might not be in the best interest for the Company to include the petroleum refuelling business for the Listing in October 2017 with its gas refuelling business given that and as disclosed in the Prospectus under section headed "Relationship with our controlling shareholders — delineation of businesses and competition — Reasons for not including the Petroleum Refuelling Business of Yitonghe Group in our Group", (i) the competition in the market of the Petroleum Refuelling Business is more intense than the competition faced by our Group for the Gas Refuelling Business; (ii) the business prospects and risk profile of Petroleum Refuelling Business are different from the Gas Refuelling Business; and (iii) the Gas Refuelling Business has higher gross profit margin than Petroleum Refuelling Business and also a higher growth potential while the Petroleum Refuelling Business is more mature and sizeable, Mr. Zhao has from time to time considered whether it is viable to list the petroleum refuelling business on its own via a standalone IPO and has commenced informally exploring the idea of such IPO in April 2018. The change of Government Direction in June 2018 led to his further thought to explore the opportunity to include the petroleum refuelling business through an acquisition.

In view of the changing market conditions and to ensure the business growth and diversification of the Group, the Board agreed to further study the viability regarding the investment, development, promotion or collaboration in, amongst others, certain potential new business market, with a view to diversifying the Group's source of income, increasing the Group's customer base, generating additional income and in return, bringing reasonable returns to the Shareholders. The Acquisition is considered to be the first step for the Group to tap into the potential new business, and is expected to further enhance the Company's presence in the energy market in the Northeast China as well as to facilitate the Company to lay a solid foundation for its expansion roadmap in other parts of the PRC. It also allows the Group to make full use of the existing petroleum refuelling station network of the Target Group and Changchun Yitonghe for expansion of the Group's refuelling business. As far as the Entrusted Petroleum Refuelling Stations, Entrusted Petroleum Storage Facility and mixed refuelling stations operated under Changchun Yitonghe and its affiliated companies are concerned, in view that (i) Changchun Yitonghe and its subsidiaries carry on businesses including petroleum exploitation and refining, upstream petroleum supplies and research and development of petroleum products, etc. and other business, with assets unrelated to the Petroleum Refuelling Business and the Petroleum Wholesale Business; and (ii) the complicated structure of Yitonghe Group, acquisition of the equity interest of Yitonghe Group by the Group may not be in the best interest of the Company and its shareholders as a whole in the current stage, as it is not the Company's current intention to acquire business other than the Target Business. For details, please refer to the section headed "Letter from the Board — Reasons and Benefits of the Acquisition and the Entrusted Management Agreement" in this circular.

FINANCIAL IMPACT OF THE ACQUISITION ON THE ENLARGED GROUP'S FINANCIAL PERFORMANCE

Assets and liabilities

For preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III to this circular, assuming that the Acquisition Completion took place on 31 December 2019, as at 31 December 2019, the unaudited pro forma total assets of the Enlarged Group would be RMB1,317.9 million (representing an increase of RMB890.2 million when compared with the audited consolidated total assets of the Group of RMB427.7 million as at 31 December 2019) and total liabilities of the Enlarged Group would be RMB829.7 million (representing an increase of RMB676.8 million when compared with the audited consolidated total liabilities of the Group of RMB152.9 million as at 31 December 2019).

Earnings

For preparation of the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group as set out in Appendix III to this circular, assuming that the Acquisition Completion took place on 1 January 2019, the unaudited pro forma net profit of the Enlarged Group attributable to equity shareholders of the Company for the year ended 31 December 2019 would be RMB107.0 million (representing an increase of RMB71.4 million when compared with the consolidated net profit attributable to equity shareholders of the Company of RMB35.6 million for the year ended 31 December 2019).

BUSINESS OF THE TARGET GROUP

The Target Group is a leading private petroleum station operator (i.e. gasoline and diesel) in Northeast China. According to the F&S Report, assuming the Acquisition Completion has taken place, the Target Group is the largest private petroleum refuelling station operator in Northeast China in terms of refined oil products sales volume in 2019, and the Target Group took up approximately 1.1% of the total market share (including both private and state-owned petroleum refuelling station operators) in Northeast China in 2019.

Business Segments

The Target Group operates in two principal business segments, namely (i) sale of refined oil products and (ii) petroleum transportation services. For the years ended 31 December 2016, 2017, 2018 and 2019, approximately 99.6%, 99.5%, 99.6% and 99.5% of its total revenue was derived from the sale of refined oil products, respectively; while approximately 0.4%, 0.5%, 0.4% and 0.5% of its total revenue was derived from petroleum transportation services, respectively. The sale of refined oil products segment is further divided into (a) Petroleum Refuelling Business and (b) Petroleum Wholesale Business.

Petroleum Refuelling Business

As at the Latest Practicable Date, the Target Group's Petroleum Refuelling Business was operated through its petroleum refuelling station network of a total of 67 petroleum refuelling stations comprising (i) 28 self-owned petroleum refuelling stations; (ii) 37 Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself); and (iii) two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion) covering certain prominent cities in Northeast China, mainly Changchun City of Jilin Province and Dandong City of Liaoning Province, of which 43 were located in Jilin Province, 23 were located in Liaoning Province and one was located in Heilongjiang Province. The Target Group operates all these petroleum refuelling stations under the trademark “ ” and the trade name “眾誠連鎖”. The Target Group sourced refined oil from third party suppliers and a related party supplier primarily, and sells such refined oil products primarily to vehicle users through petroleum refuelling stations. The Target Group also possesses storage facilities and refined petroleum transportation vehicle fleet which enables a stable and timely supply of refined oil to its extensive network of petroleum refuelling stations. The refined oil products that they sell to retail customers are gasoline and diesel.

Petroleum Wholesale Business

To support the Petroleum Refuelling Business, the Target Group, after sourcing refined oil from suppliers (including independent third parties and a related party), stored the refined oil products, which include, amongst others, gasoline and diesel in the two petroleum storage facilities owned by the Target Group and one Entrusted Petroleum Storage Facility entrusted to the Target Group upon Acquisition Completion. With such storage facilities with an aggregate volume of approximately 63,600 m^3 (equivalent to capacity of approximately 50,000 tonnes) that are located in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province, the PRC, the Target Group is able to provide wholesaling of refined oil products mainly to third party refuelling stations mostly in Northeast China. The Target Group also serves the logistics needs of its wholesale customers. Leveraging its strong capabilities in securing stable refined oil supply that is underpinned by their long-term and stable relationships with suppliers of refined oil and their storage capabilities, the Target Group is able to cater for the demand for large quantities of refined oil from its wholesale customers.

Petroleum Transportation Services

Alongside with the Petroleum Refuelling Business and the Petroleum Wholesale Business, the Target Group also owns a refined oil transportation vehicle fleet, which serves the logistic needs of its petroleum refuelling stations and wholesale customers. As at the Latest Practicable Date, the Target Group owns 5 trucks, 18 tractor units and 18 trailers for delivering refined oil products.

COMPETITIVE STRENGTHS OF THE TARGET GROUP

The Target Group believes the following competitive strengths have contributed, and will continue to contribute to their success and will continue to drive its future growth:

- the Target Group is one of the leading private petroleum refuelling station operators in Northeast China
- the "眾誠連鎖" brand under the Target Group has strong customer recognition which has been shared with the Group's existing business
- the Petroleum Wholesale Business and the transportation services serve a solid foundation for the Petroleum Refuelling Business
- the Target Group developed an advanced and standardised management system that can guarantee quality control, workplace safety management and other aspects of its operations and facilitates its business expansion.

For details of the Target Group's competitive strengths, please refer to the section headed "Business of the Target Group – Competitive Strengths" in this circular.

BUSINESS STRATEGIES

The Target Group's business objective is to reinforce its leading position in the refined oil products distribution market in Northeast China. To accomplish this objective, we plan to:

- expand the petroleum refuelling station network mainly through acquisitions of private petroleum refuelling station operators, organic growth and/or exploring entrustment arrangements;
- strengthen the Target Group's marketing efforts and broaden its customer base; and
- explore new growth opportunities associated with technology evolution.

For details of the Target Group's business strategies, please refer to the section headed "Business of the Target Group – Business Strategies" in this circular.

CUSTOMERS AND SUPPLIERS

The Target Group has a diverse customer base, including drivers of public transportation vehicles and private vehicle users, third party petroleum refuelling stations and other industrial users. The Target Group generates all of its revenue in the PRC. For the years ended 31 December 2016, 2017, 2018 and 2019, the five largest customers accounted for approximately 14.4%, 11.8%, 7.3% and 8.8% of the Target Business's total revenue during the same periods, respectively; the single largest customer accounted for approximately 9.1%, 6.3%, 1.8% and 3.2% of its total revenue during the same periods, respectively. To the best knowledge of the Target Group, save for United Strength Vehicle Service, which is one of the major customers of the Target Group during the Track Record Period and also a jointly controlled entity of Changchun Yitonghe, all other five largest customers during the Track Record Period are Independent Third Parties, and none of the Target Group's directors, their respective close associates or any shareholders who, to the best knowledge of the Target Group, own more than 5% of the Target Group's issued shares as at the Latest Practicable Date, have any interest in any of the five largest customers. The transactions with United Strength Vehicle Service shall constitute non-exempt continuing connected transactions on the Company upon Acquisition Completion. For further details of the terms of the proposed transaction, please refer to the section headed "Connected Transactions – D. Non-Exempt Continuing Connected Transactions – 2. Supply of Refined Oil Products by Target Group to United Strength Vehicle Service" in this circular.

The Target Business's sales of refined oil products primarily incurs costs for procuring refined oil and other costs incurred in transporting the petroleum to the relevant stations/customers. Procurement of refined oil represented approximately 99.4%, 99.4%, 99.5% and 99.5% of our total cost of sales for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. As the Target Group procures refined oil products from upstream suppliers and the purchase price of refined oil products is subject to fluctuation beyond control, the Target Group faces risks associated with fluctuation in fuel costs.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's five largest suppliers accounted for approximately 97.4%, 90.0%, 89.4% and 75.9% of its total purchases during the same periods, respectively. Songyuan Petrochemical, a connected person of the Company, accounted for approximately 83.7%, 59.4%, 43.6% and 23.3% of its total purchases during the same periods, respectively. During the Track Record Period, the Target Group did not experience any shortage of supply of refined oil products from its suppliers.

For details of the Target Group's customers and suppliers, please refer to the sections headed "Business of the Target Group — Customers" and "Business of Target Group — Raw Materials and Suppliers" in this circular.

SUMMARY OF MATERIAL RISK FACTORS

The major risks involved in the Target Business are:

– any instability in or shortages of supply of refined oil products from its major suppliers could significantly and adversely affect the Target Group's business;

– the gross profit margin and growth in profit may fluctuate in the future as the purchase price and selling price of the refined oil products are sensitive to factors beyond control;

– stable refined oil products supply and petroleum transportation services are crucial to the Target Group's business and its operation may be significantly interrupted if it fails to secure stable refined oil products supply and petroleum transportation services;

– the Target Group's business is subject to the development of PRC government policies and any future unfavourable policies may materially and adversely affect its business development and performance;

– the Target Group's business operations and financial results may be materially and adversely affected by the outbreak of COVID-19 in PRC.

A detailed discussion of the aforesaid and other risk factors is set out in the section headed "Risk Factors" in this circular.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, none of the members of the Target Group, any of its subsidiaries or any of the Target Group's directors or the Entrusted Petroleum Refuelling Stations was involved in any material litigation, arbitration or administrative proceedings or claims that could have a material adverse effect on its financial condition or results of operations of the Target Group. To the best of the Target Group's knowledge, no such material litigation, arbitration or administrative proceedings or claims have been threatened against the Target Group or any of its subsidiaries.

SUMMARY OF FINANCIAL INFORMATION OF THE TARGET BUSINESS

The tables below set forth summary of financial information of the Target Business for the periods indicated and should be read in conjunction with our historical financial information in Appendix I to this circular.

Highlights of combined statements of profit or loss

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
– Petroleum Refuelling Business	1,388,445	1,712,913	1,809,492	1,814,976
– Petroleum Wholesale Business	2,025,133	1,902,275	2,003,754	1,771,544
– Transportation services	14,871	17,988	14,328	16,456
Total	3,428,449	3,633,176	3,827,574	3,602,976
Gross profit *(Note)*				
– Petroleum Refuelling Business	210,321	270,398	257,081	273,094
– Petroleum Wholesale Business	3,046	14,576	44,225	34,238
– Transportation services	12,349	12,958	11,057	10,148
Profit from operations	74,425	110,566	122,109	154,904
Profit for the year	46,342	71,058	80,298	102,447

Note: Excluding the wastage of refined oil and reversal of write-down of inventory. For details, please refer to the section headed "Financial information of the Target Business – Description of key income statement line items – Gross profit and gross profit margin" in this circular.

The decrease in revenue from approximately RMB3,827.6 million for the year ended 31 December 2018 to RMB3,603.0 million for the year ended 31 December 2019 was primarily due to the decrease in revenue of Petroleum Wholesale Business from approximately RMB2,003.8 million for the year ended 31 December 2018 to approximately RMB1,771.5 million for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in average selling price of both gasoline and diesel from approximately RMB6,579 per tonne and RMB5,769 per tonne for the year ended 31 December 2018 to approximately RMB5,809 per tonne and RMB5,620 per tonne for the year ended 31 December 2019 respectively, which was mostly affected by decreasing trend of the price of international crude oil from approximately USD71.3 per barrel in 2018 to USD64.3 per barrel in 2019.

The Target Business's revenue increased to approximately RMB3,827.6 million for the year ended 31 December 2018 from RMB3,633.2 million for the year ended 31 December 2017. The increase was primarily due to the increase in sales from the Target Business's retail and wholesale divisions as a result of the increase in average selling prices of retail and wholesale gasoline and diesel due to the increase in the NDRC's guiding price of refined oil and the increase in the price of international crude oil from approximately USD54.1 per barrel in 2017 to USD71.3 per barrel in 2018.

The Target Business's revenue increased to approximately RMB3,633.2 million for the year ended 31 December 2017 from RMB3,428.4 million for the year ended 31 December 2016. The increase was primarily due to the increase in sales from the Target Business's retail and wholesale gasoline as a result of (i) the increase in average selling prices of retail and wholesale gasoline as a result of the increase in the NDRC's guiding price of refined oil due to the increase in the price of international crude oil from approximately USD43.6 per barrel in 2016 to USD54.1 per barrel in 2017; and (ii) the increase in sales volume of retail gasoline from 147.3 thousand tonnes for the year ended 31 December 2016 to approximately 171.5 thousand tonnes for the year ended 31 December 2017 due to the commencement of operations of seven new petroleum refuelling stations during 2017. The increase in revenue was partially offset by the decrease in wholesale revenue as a result of the decrease in the sales volume of diesel from approximately 332.7 thousand tonnes for the year ended 31 December 2016 to approximately 224.3 thousand tonnes for the year ended 31 December 2017. Such decrease was mainly due to the decrease in the sales attributable to United Strength Vehicle Service caused by the suspension of some of its petroleum refuelling stations from approximately RMB312.3 million for the year ended 31 December 2016 to RMB228.0 million for the year ended 31 December 2017.

During Track Record Period, the number of petroleum refuelling stations that ceased operations and did not generate income afterwards during the years ended 31 December 2016, 2017, 2018 and 2019 amounted to one, one, eight and six, respectively, which were mainly due to (1) termination of the relevant cooperation agreement from the then lessor, (2) sales performance falling short of the Target Group's previous expectation, and the Target Group's decision to devote resources on managing other more well performing stations, and (3) cessation of operation caused by repairs works of such petroleum refuelling stations. For further details of the reasons for the cessation of operation of the petroleum refuelling stations for each of the years ended 31 December 2016, 2017, 2018 and 2019, and as at Latest Practicable Date, please refer to section headed "Business of the Target Group — The retail networks" in this circular. Such petroleum refuelling stations were all located in Jilin Province.

The table below sets forth the Petroleum Refuelling Business's revenue by self-owned refuelling stations and Entrusted Petroleum Refuelling Stations for the respective periods indicated:

	Year ended 31 December							
	2016		**2017**		**2018**		**2019**	
	Revenue	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Self-owned petroleum refuelling stations	186,699	13.4%	263,330	15.4%	361,253	19.9%	413,395	22.8%
Entrusted Petroleum Refuelling Stations	1,201,746	86.6%	1,449,583	84.6%	1,448,239	80.1%	1,401,581	77.2%
Total	1,388,445	100.0%	1,712,913	100.0%	1,809,492	100.0%	1,814,976	100.0%

Entrusted Petroleum Refuelling Stations are mainly located in prime locations in Changchun City and Jilin City while self-owned petroleum refuelling stations are primarily located in Dandong City. Further details of location of the petroleum refuelling stations are set out in the section headed "Business — Petroleum Refuelling Business — Petroleum refuelling station network" in this circular.

The table below sets forth the Target Business's revenue by region for the respective periods indicated:

	Year ended 31 December							
	2016		2017		2018		2019	
	Revenue	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Jilin Province	2,276,426	66.4%	2,382,800	65.6%	2,583,398	67.5%	2,477,664	68.8%
Liaoning Province	1,133,379	33.1%	1,228,396	33.8%	1,226,237	32.0%	1,112,349	30.9%
Heilongjiang Province	18,644	0.5%	21,980	0.6%	17,939	0.5%	12,963	0.3%
Total	3,428,449	100.0%	3,633,176	100.0%	3,827,574	100.0%	3,602,976	100.0%

Note: Revenue by region is measured based on the location of the petroleum refuelling station and storage facility.

The Target Business's gross profit amounted to approximately RMB218.8 million, RMB290.7 million, RMB307.1 million and RMB319.4 million for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The fluctuation in gross profit of the Target Business was in line with the fluctuation in the Target Business's revenue during the same periods.

For further details on the fluctuations in financial performance during the Track Record Period, please refer to the section headed "Financial Information — Results of operations" in this circular.

Summary of combined statements of financial position

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	352,672	397,324	394,642	393,516
Current assets	308,570	360,485	442,237	508,788
Current liabilities	242,582	266,633	357,820	369,174
Net current assets	65,988	93,852	84,417	139,614
Non-current liabilities	111,625	118,083	104,537	69,650
Net assets	307,035	373,093	374,522	463,480

Summary of combined cash flow statements

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from operating activities	129,518	41,398	158,959	304,810
Net cash used in investing activities	(35,953)	(50,714)	(61,722)	(54,031)
Net cash (used in)/generated from financing activities	(83,747)	19,088	(108,684)	(261,349)
Net increase/(decrease) in cash and cash equivalents	9,818	9,772	(11,447)	(10,570)
Cash and cash equivalents at the beginning of year	10,642	20,460	30,232	18,785
Cash and cash equivalents at the end of year	20,460	30,232	18,785	8,215

The decrease in net cash generated from operating activities in the year ended 31 December 2017 was primarily due to the increase in the purchase of inventories as a result of the increase in the number of petroleum refuelling stations. For further details of the fluctuation of the Target Business's inventories during the Track Record Period, please refer to the section headed "Financial Information — Description of selected items in combined statements of financial position — Inventories" in this circular.

KEY FINANCIAL RATIOS OF THE TARGET GROUP

	At/Years ended 31 December			
	2016	**2017**	**2018**	**2019**
Current ratio(1)	1.3 times	1.4 times	1.2 times	1.4 times
Quick ratio(2)	1.0 time	0.7 time	0.8 time	1.1 times
Gearing ratio(3)	68.1%	69.7%	65.7%	37.5%
Debt to equity ratio(4)	1.2 times	1.0 time	1.2 times	0.9 times
Interest coverage(5)	6.0 times	7.6 times	9.0 times	9.1 times
Return on total assets(6)	7.0%	9.4%	9.6%	11.4%
Return on equity(7)	22.8%	28.8%	32.0%	32.7%
Gross profit margin(8)	6.4%	8.0%	8.0%	8.9%
Net profit margin(9)	1.4%	2.0%	2.1%	2.8%

Notes:

(1) Current ratio equals to total current assets divided by total current liabilities as at the end of each year.

(2) Quick ratio equals to total current assets less inventories divided by total current liabilities as at the end of each year.

(3) Gearing ratio equals to interest-bearing liabilities divided by total equity as at the end of each year.

(4) Debt to equity ratio equals to total liabilities divided by total equity as at the end of each year.

(5) Interest coverage equals to profit before finance costs and income tax expense for the respective year divided by finance costs for the respective year.

(6) Return on total assets equals to profit for the respective year divided by total assets as at the end of each year multiplied by 100%.

(7) Return on equity equals to profit for the respective year divided by parent's net investment as at the end of each year multiplied by 100%.

(8) Gross profit margin is calculated based on the gross profit divided by the revenue for the respective year.

(9) Net profit margin is calculated based on the profit divided by the revenue for the respective year and multiplied by 100%.

HISTORY AND REORGANISATION OF THE TARGET GROUP

In April 1997, Changchun Yitonghe was founded, and in October 2001, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang became equity-holders of Changchun Yitonghe to engage in gas and petroleum related businesses. The Target Business commenced its first Petroleum Refuelling Station, namely Changchun Yitonghe Petroleum Station in Changchun, Jilin Province in 1997 and commenced the operation of the first Petroleum Storage Facility in Dandong, Liaoning Province in 2004 following the acquisition of Dandong Kuandian, which led to the expansion of the Target Business in Liaoning Province.

Pre-RTO Investment

On 20 November 2018, Harvest Day, our Pre-RTO investor applied for, and the Target Company allotted and issued to Harvest Day 100 shares in the Target Company credited as fully paid at par (the "**First Allotment**"). On 1 February 2019, the Target Company allotted and issued 7,178 shares, 1,455 shares, 970 shares, 97 shares and 200 shares, representing 71.78%, 14.55%, 9.7%, 0.97% and 2.0% of the issued share capital of the Target Company, to Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day, respectively (the "**Second Allotment**"). The Second Allotment was completed on 1 February 2019. As a result of the First Allotment and the Second Allotment, Harvest Day is a shareholder of the Target Company, holding 3% of the issued share capital of the Target Company.

Acquisition of 3% of the equity interest of WFOE by HK Company

On 17 December 2018, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (as vendor) and HK Company (as purchaser) entered into an equity transfer agreement, pursuant to which Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (on a pro-rata basis of their respective shareholdings in WFOE) transferred 3% of the equity interest of WFOE to HK Company at a consideration of RMB0.3 million. At the relevant time, HK Company was solely owned by the Target Company and the Target Company was solely owned by Harvest Day. Subsequent to the transfer, WFOE became a Chinese-foreign joint venture and was owned by Mr. Zhao, Ms. Xu, Mr. Liu, Mr. Wang and HK Company as to 71.78%, 14.55%, 9.7%, 0.97% and 3%, respectively.

THE CONTROLLING SHAREHOLDERS

Immediately following the Acquisition Completion and the Placing Completion, Golden Truth and Propitious Peak will, in aggregate directly hold approximately 53.92% of the issued share capital of our Company. Propitious Peak is wholly owned by Golden Truth, and Golden Truth is wholly owned by Mr. Zhao, being one of our founders, an executive Director and the Chairman, and a director of the Target Company. For the purpose of the Listing Rules, Golden Truth, Propitious Peak and Mr. Zhao are a group of the Controlling Shareholders of our Company. Save for the shareholding of Propitious Peak in the Company upon the Acquisition Completion, there will be no change in the Enlarged Group's Controlling Shareholders upon the Acquisition Completion.

For details of the Target Group's history and the Group's Controlling Shareholders, please refer to the sections headed "History and Reorganisation of the Target Group" and "Relationship with Controlling Shareholders" in this circular.

DIVIDEND

During the Track Record Period, certain subsidiaries of the Target Business made distributions of RMB5.0 million, RMB5.0 million, RMB35.1 million and nil for the years ended 31 December 2016, 2017, 2018 and 2019. All the above-mentioned Dividends have been paid out as the Latest Practicable Date.

The Target Company currently does not have a dividend policy or any pre-determined dividend distribution ratio and may declare dividends by way of cash or by other means that the directors of the Target Group consider appropriate.

Upon the Acquisition Completion, declaration of dividend/distribution shall be decided by the Board. The Directors shall decide and recommend the amount of dividends (or decide not to recommend any dividend) based on the Enlarged Group's earnings, cash flows, financial condition, capital requirements, future plans of the Enlarged Group and any other conditions that the Directors deem relevant at such time. The foregoing, including the dividend distribution record, should not be viewed as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future. There is no guarantee or representation or indication that the Directors must or will recommend and that the Enlarged Group must or will pay dividends or declare and pay dividends at all.

SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The table below sets out selected unaudited pro forma financial information of the Enlarged Group as at 31 December 2019. For more details, please refer to the section headed ''Unaudited pro forma financial information of the Enlarged Group'' set out in Appendix III to this circular.

	Unaudited net tangible assets of the Group as of 31 December 2019	**Unaudited net tangible assets of the Group per share as of 31 December 2019**	**Unaudited pro forma adjusted net tangible assets of the Enlarged Group as of 31 December 2019**	**Unaudited pro forma adjusted net tangible assets of the Enlarged Group per share as of 31 December 2019**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*
Net tangible assets attributable to equity shareholders of the Company	292,500	1.25	497,642	1.33

TRANSACTION EXPENSES

Transaction expenses represent listing fee, professional fees and other expenses incurred in connection with the reverse takeover.

Transaction expenses in relation to the reverse takeover to be borne by the Enlarged Group is estimated to be approximately HK$39.3 million, of which approximately HK$5.0 million is directly attributable to the issue of new Placing Shares and will be accounted for as a deduction from equity, and approximately HK$17.5 million was incurred and reflected in the consolidated statements of profit or loss for the year ended 31 December 2019 of the Enlarged Group. Approximately HK$16.8 million of the transaction expenses are expected to be reflected in the consolidated statements of profit or loss of the Enlarged Group after the Track Record Period. The estimated transaction expenses are the latest best estimate and are for reference only.

RECENT DEVELOPMENT IN RELATION TO INTERNATIONAL CRUDE OIL PRICE

Recent Overview

Since 1 January 2020 and up to the Latest Practicable Date, the international crude oil price has experienced a plummet after OPEC's failure to strike a deal with its allies on the output cut in March 2020 and Saudi Arabia's reaction intensified the situation by way of cutting oil prices and boosting production. The WTI Crude Oil Price has substantially dropped from approximately US$61 per barrel on 1 January 2020 to a negative price in April 2020, and has gradually rebounded to around approximately US$37.1 per barrel on 15 June 2020, being the Latest Practicable Date. As advised by PRC Legal Advisor, according to Notice of the NDRC on Issues concerning Further Improving the Price Formation Mechanism of Refined Oil《國家發展改革委關於進一步完善成品油價格形成機制有關問題的通知》issued on 13 January 2016, in order to improve the price mechanism of refined oil products and further promote the market-oriented reform of refined oil prices, the retail and wholesale price ceilings of refined oil are adjusted timely along with the international crude oil price fluctuation. An adjustment mechanism was also set to restrict the domestic retail and wholesale refined oil price from falling when the international crude oil price falls below US$40 per barrel with the retail and wholesale refined oil prices being fixed at the latest published guiding price to offer protection to the domestic market players in petroleum refuelling business against adverse global market changes in terms of the oil prices. According to F&S, the price limits set by the PRC authorities have taken into the consideration that, the PRC, being both a large oil importing and consuming country and a large oil producing country, material fluctuation in refined oil product prices may bring in certain adverse effects. For instance, if the refined oil product price is too high, it will increase the burden on the oil industry and consumers and affect the stable operation of the national economy, while on the other hand if such price is too low, it will affect the development of the domestic crude oil mining industry, weaken the self-sufficiency, and lead to a further increase in external dependence, which is also not conducive to ensuring national energy security.

As further advised by F&S, if the crude oil price in the international market lingers lower than US$40 per barrel or even being negative in a short term or long-term, the business operation and gross profit of petroleum refuelling station operators in the PRC will not be adversely impacted as the retail and wholesale price of the refined oil products and the procurement cost of the refined oil products shall move along with reference to the retail and wholesale price ceilings set by the NDRC and be fixed when the international crude oil price hits the US$40 per barrel price floor. On the other hand, the adoption of the Target Business' aggressive pricing strategy to adjust the selling price in a timely manner led to a lower per unit selling price and thus the gross profit margin for the four months ended 30 April 2020. Having considered the aforementioned factors, the Directors and the Target Company Directors expect that the gross profit margin of the Target Business shall continually remain relatively stable for the year ending 31 December 2020.

RECENT DEVELOPMENT IN RELATION TO COVID-19

Recent Overview

An outbreak of respiratory disease caused by COVID-19 first emerged in Wuhan City, Hubei Province, the PRC in late 2019 and continues to expand within the PRC and globally. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by draconian measures imposed by the PRC government in various regions of the nation including travel restrictions in major cities. On 17 February 2020, the Guiding Opinion on Scientific Prevention and Control of Accurate Policy Division and Classification to prevent and control of the Novel Coronavirus Disease (《關於科學防治精準施策分區分級做好新冠肺炎疫情防控工作的指導意見》) ("**Guiding Opinion**") was published by the Joint Prevention and Control Mechanism of the State Council (國務院聯防聯控機制). Under the Guiding Opinion, relevant government authorities at county level in the PRC are required to formulate specific measures to prevent and control the outbreak of COVID-19 in such area. With the strengthened policies to control the outbreak of COVID-19, it is anticipated that businesses and daily life of citizens can resume to normal. As at the Latest Practicable Date, confirmed cases of COVID-19 have been reported in more than 30 provinces in the PRC and had spread across 25 countries and territories globally, and death toll and number of infected cases continued to rise. The outbreak of COVID-19, which is expected to result in a high number of fatalities, is likely to have an adverse impact on the livelihood of the people and the economy in the PRC, particularly Wuhan city and Hubei province.

As advised by F&S, the COVID-19 epidemic in Northeast China has basically under control, especially in Jilin and Liaoning Province. As at 22 June 2020, save for five newly confirmed cases in Liaoning Province, there were no newly confirmed cases in Jilin Province and Liaoning Province since 24 May 2020 and 13 May 2020 respectively. Also, as advised by F&S, since May 2020, industrial enterprises above designated size (with annual revenue no less than RMB20 million) in Northeast China have resumed their operations in full, indicating that the refined oil wholesale and retail market in Northeast China is expected to resume. In addition, by end of March 2020, each of Liaoning Province, Jilin Province and Heilongjiang Province has lowered the coronavirus emergency response to level III[*(Note)*]. With the interruption of economic activities in China brought by COVID-19, the operation and financial results of the Group, in particular the CNG refuelling stations for vehicles in Jilin Province in China, is expected to be affected in light of the decrease in services of public transports as major CNG vehicle users mainly include taxi drivers, and corporate customers such as bus operators, logistics companies and driving schools.

Note: According to the National Emergency Plan for Public Health Emergencies (《國家突發公共衛生事件應急預案》) and the Grading Standard for Public Health Emergencies (《突發公共衛生事件分級標準》), the public health emergencies are divided into four levels: particularly significant (Level I), significant (Level II), relatively large (Level III) and general (Level IV) based on the nature, degree of harm, scope and spread trend of public health emergencies. Following the lowering of the coronavirus emergency response to Level III, on 19 March 2020, the Office of Leading Group for Prevention and Control of Pneumonia in New Coronavirus Infection in Changchun (長春市新型冠狀病毒感染的肺炎疫情防控工作領導小組辦公室) announced that Changchun City should resume to normal business and life order through, amongst others, resumption of all sorts of manufacturing and operation activities, active promotion activities, extended business hours, organization of tours within the province and upgrade of the city cleanliness so as to encourage consumption and restore vitality.

Short-term Impact

The PRC economy may be adversely affected by the economy slowdown and/or negative sentiment as well as decrease in foreign investments. Due to the outbreak of COVID-19, provinces and cities have implemented travel bans and traffic control, closing some highway entrances temporarily and stop interprovincial shuttle buses. In addition, the first-level emergency responses of 31 provincial-level regions previously imposed have suspended the gathering of people to prevent the outbreak of COVID-19. With the implementation of the above measures, the use of motor vehicles and public transportations has been reduced. With the interruption of economic activities in China brought by COVID-19, the operation and financial results of the Group, in particular the CNG refuelling stations for vehicles in Jilin Province in China, may also be affected as major CNG vehicle users mainly include taxi drivers, and corporate customers such as bus operators, logistics companies and driving schools. As for the Target Business, however, according to F&S, the outbreak of COVID-19 is expected to bring minimal impacts on the PRC's petroleum refuelling industry as the general public intends to use private cars (which are primarily using petroleum) more frequently for commuting in light of the decrease in services of public transport.

Based on the aforementioned current situation assessment in Northeast China, the Directors and the Target Company Directors are of the view that the impact of COVID-19 has no material adverse impact on refined oil wholesale and retail market in Northeast China as well as the supply chain of the Target Business.

Target Group's response to COVID-19 and its Short-term Impact

Given the nature of operation of the petroleum refuelling stations and the petroleum storage facilities where it is not feasible to shift the location of their operation within a short period of time, the Target Group did not formulate a contingency plan for relocating its operations in view of the outbreak of COVID-19. That said, the Target Group did not cease the operations of the petroleum refuelling stations and the petroleum storage facilities due to the outbreak of COVID-19, and as part of the Target Business precautionary to prevent any widespread of COVID-19 in the Petroleum Refuelling Stations, Petroleum Storage Facilities and office, the Target Group has established an epidemic prevention and control working group to undertake various precautionary measures such as (i) enhancing the hygienic level of the Petroleum Refuelling Stations and Petroleum Storage Facilities by cleaning and sanitising areas including office, equipment, production facilities and washrooms regularly; (ii) performing compulsory daily temperature checks of all employees before and after work and customers when they reach the premises; (iii) minimising in-person meetings to the extent possible; and (iv) providing and requesting employees to wear masks at all time during work and report to management of the Target Group promptly whenever they feel unwell. All employees are required to familiarise themselves with requirements of such precautionary for pandemic outbreak and ensure that the measures are properly implemented. The Directors and the Target Company Directors believe that such measures are effective in reducing the risk of spreading of COVID-19 among the employees of the Target Business. As at the Latest Practicable Date, none of the employees of the Target Business had been suspected or confirmed to have contracted COVID-19. For details, please refer to the section headed

"Business of the Target Group — Occupational Safety" in this circular. The Target Company Directors confirmed that the cost of the precautionary measures to be incurred, which included the procurement of masks and thermometers, as well as cleaning and sanitizing products, which amounted to less than RMB500,000 for the year ending 31 December 2020, are immaterial vis-à-vis the Target Business' scale of operation.

Customers/Suppliers Relation under COVID-19

Given the nature of the Target Business with customers being individual drivers and operators of petroleum refuelling stations, the Target Group generally does not enter into any long-term agreement with customers, but instead, it conducts sales through entering into one-off sales contracts with or confirming purchase orders placed by customers for the Petroleum Wholesale Business. Up to the Latest Practicable Date, the Target Group is able to discharge its obligations to supply the products to its customers and no cancellation or postponement of the existing contracts with customers were reported as at Latest Practicable Date.

The Target Group has maintained amicable and stable relationships with its major suppliers. Also, the Target Group generally makes full prepayments to suppliers including top state-owned oil companies. The Target Group was informed by its major suppliers that they remained normal operations. As at the Latest Practicable Date, to the Target Company Directors' best knowledge and understanding, there is no material disruption for the supply chain of its major suppliers' petroleum products (and their raw materials).

Long-term Impact

In the long run, the impact of the outbreak of COVID-19 is expected being limited due to the fact that (i) the demand for petroleum will unlikely be affected as most of the corporations in the PRC have gradually resumed their business operations; and (ii) there is a growing demand from companies, especially for those in the logistics sector, for enhanced logistics solutions and services to support other business operations in order to avoid spread of disease through physical contacts. Further, according to F&S, the epidemic has gradually improved in the PRC as the number of newly reported cases of COVID-19 kept decreasing. As enterprises gradually restart business operations and employees resume working, the customers' business or office operation has gradually resumed starting from around mid-March 2020.

OVERALL RECENT DEVELOPMENT

Based on the unaudited management account of the Target Business , the revenue in the first quarter of 2020 remained relatively stable as compared to the same periods in 2019 despite the (i) recent outbreak of COVID-19 in the PRC, (ii) recent slump of international crude oil price, and (iii) decline in international crude oil price which led to decrease in the average unit selling price of refined oil products. The Directors and the Target Company Directors believed that revenue of the Target Business was not being materially and severely impacted during the period because: (i) Liaoning and Jilin Provinces were less affected by the spread of COVID-19, with only 154 and 155 cases respectively recorded as at 22 June 2020 representing only approximately 0.18% and 0.18% of the total confirmed cases in the PRC, possibly owing to the distance from Hubei Province and the effective measures undertaken by the government authorities in Liaoning and Jilin to prevent the spread of COVID-19 in these two provinces; (ii) although there were restrictions on the free entry and exit among cities in Liaoning and Jilin Provinces, necessary community within the cities and in their vicinity to a limited extent still took place, the general public used private cars more frequently for commuting in light of the decrease in services of public transports in the Northeast China, leading to relatively stable demand for refined oil products from January to April 2020 as compared to the corresponding period in 2019. For the four months ended 30 April 2020, the sales volume of refined oil products amounted to approximately 177,000 tonnes, as compared to 150,000 tonnes for the same period in 2019, and (iii) the Target Business adopted a more aggressive pricing strategy and adjusted the selling price in a timely manner. In view of the foregoing, the Target Company Directors and the Directors are of the view that the recent decline of the international crude oil price and outbreak of COVID-19 would not pose any adverse and material impact to the Target Business in short term.

The Directors and the Target Company Directors believe that, based on the current information available to them and assuming that the outbreak of COVID-19 will not be prolonged significantly, it has no long term material adverse effect on the Target Business's continuing business operation, results of operations, financial positions and prospects due to the fact that (i) none of the Petroleum Refuelling Stations had ceased it operations during the outbreak of COVID-19; (ii) the major customers and suppliers are not from Hubei Province; (iii) the Target Group has no business operation and does not have any employees staffed in Hubei Province; (iv) there have been no incidents where the employees failed to report duty due to the outbreak of COVID-19; and (v) there was no material adverse change in the supply chain, market condition or regulatory conditions in the Target Business's industry and environment in which it operates.

Considering the financial and business performance of the Target Business for the year ending 31 December 2020, notwithstanding that the Target Business's revenue remained relatively stable for the three months ended 31 March 2020, our Directors and the Target Company Directors anticipate that the revenue of the Target Business for the year ending 31 December 2020 will decrease as compared to 2019 mainly due to (a) decline in international crude oil price as compared to 2019, (b) the expected decrease in overall refined oil consumption in Northeast China in 2020 as a result of the recent economic downturns in the first half of 2020, as advised by F&S and (c) the Target Business's intended pricing strategy to cope with the expected decrease in overall refined oil consumption in Northeast China in 2020.

As for the gross profit margin, the overall gross profit margin of the Target Business for the four months ended 30 April 2020 is comparable to approximately 8.9% for the year ended 31 December 2019. The stable gross profit margin was mainly due to the pricing strategy adopted by the Target Business to adjust the selling price of the refined oil products in a timely manner, having considered the factors including (a) the procurement cost of the refined oil products making reference with the national pricing mechanism under Notice of the National Development and Reform Commission on Issues concerning Further Improving the Price Formation Mechanism of Refined Oil, whereby the retail and wholesale price of the refined oil products and the procurement cost of the refined oil products shall move along with reference to the retail and wholesale price ceilings set by the NDRC and be fixed when the international crude oil price hits the US$40 per barrel price floor; (b) the location of the respective petroleum refuelling station; and (c) the competition from other petroleum refuelling stations in neighbouring areas. For details of the pricing strategy adopted by the Target Business, please refer to section headed "Business — Pricing" in this circular. Having considered the aforementioned factors, the Directors and the Target Company Directors expect that the gross profit margin of the Target Business shall continually remain relatively stable for the year ending 31 December 2020. As for net profit, coupled with the decline in revenue as aforementioned and that no reversal of previously written-off trade receivables is expected to be made in 2020 as compared to the reversal amount of approximately RMB9.9 million made in 2019, it is expected that there will be an overall decrease in net profit for the year ending 31 December 2020 as compared to the year ended 31 December 2019.

In the extreme and unlikely event that the business operations of the Target Business are completely suspended on a temporary basis and no sales revenue is recorded, (i) based on its cash and bank balance as at 30 April 2020 (being the latest date for liquidity disclosure in the circular), the amount due from related parties and trade and other receivables collection, and refund of prepayments under such circumstances, the currently available unutilised banking facilities, the anticipated trade and bills payables settlement in full amount, estimated short-term bank and other loans on a 50% partial settlement basis under the expectation of the remainder short-term bank and other loans being extended, on the basis that the Directors and the Target Company Directors considered that "Several policy measures on responding to the impact of the epidemic and supporting the healthy development of the service industry" (《關於應對疫情影響支持服務業健康發展的若干政策舉措》) issued by Jilin Government in March has included, amongst others, measures for increasing financial support to enterprises in Jilin Province such as (i) strengthening credit supply (強化信貸供給); (ii) no blind withdrawal, termination, suppression of loans for enterprises being much impacted by the epidemic but extension or renewal of loans instead (對受疫情影響較大的企業不得盲目抽貸、斷貸、壓貸，還款困難的予以展期或續貸); and (iii) green channel for credit approval and reservation of special credit scale (開通信貸審批綠色通道，預留專項信貸規模), and monthly fixed costs, such as staff costs at 50% of the prevailing level, interest expenses, and lease and rents at the prevailing level; and (ii) whether or not the amount of net proceeds from the Placing of approximately HK$10.7 million is received, the Directors and the Target Company Directors believe that the Target Business will have sufficient working capital for our business and remain financially viable for the next 12 months from the date of this circular.

Please refer to the section headed "Risk Factors — The Target Group's business operations and financial results may be adversely affected by the outbreak of COVID-19 in PRC" in this circular. The Target Group is constantly monitoring the situations of the COVID-19 outbreak as well as various regulatory and administrative measures adopted by the local governments to prevent and control the epidemics. If the situations deteriorate, the Directors and the Target Company Directors will continue to evaluate the impact of this outbreak on the Target Business and may enhance measures to mitigate any adverse effect on the Target Business' business operations, results of operations, financial positions and prospects.

No Material Adverse Change

After due and careful consideration, Target Company Directors confirm that, up to the date of this circular, there has been no material adverse change in the Target Business's financial or trading position or prospects since 31 December 2019 (being the date to which the Target Business's latest combined audited financial results were prepared), and there has been no event since 31 December 2019 which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this circular.

RECOMMENDATIONS AND THE EGM

The Board has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to, among other things, the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement and the Placing Agreement and the transactions contemplated thereunder. The Independent Financial Adviser is of the view that the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement and the Placing Agreement and the transactions contemplated thereunder are on normal commercial terms and the terms are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Adviser and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

A notice of the EGM to be held at Room C, theDesk, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong, on Friday, 24 July 2020 at 3:00 p.m. is set out on pages EGM-1 to EGM-5 of this circular for the purpose of considering and, if thought fit, approving (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder. Voting on the resolutions at the EGM will be taken by poll.

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares, representing the entire issued share capital of the Target Company pursuant to the SP Agreement
"Acquisition Completion"	completion of the Acquisition pursuant to the terms of the SP Agreement
"AIC"	Administration of Industry and Commerce (工商行政管理機關) in the PRC or, where the context so requires, its delegated authority at provincial, municipal or other local level
"Amber Heyday"	Amber Heyday Limited (珀盛有限公司), a company incorporated in the BVI on 18 April 2018 with limited liability and the entire issued share capital of which is owned by Heroic Year, and holding approximately 9.70% of the Target Company as at the Latest Practicable Date
"Announcement"	the announcement of the Company dated 18 September 2019 in respect of the Acquisition (and as supplemented by the announcements of the Company dated 28 February 2020 and 29 June 2020 in respect of, amongst others, the extension of the Long Stop Date)
"associates"	has the meaning ascribed thereto in the Listing Rules
"Baishan United Strength"	Baishan United Strength Taixing Power Company Limited* (白山眾誠泰興能源有限公司), a limited liability company established under the laws of PRC on 26 May 2010, which is a direct wholly owned subsidiary of WFOE
"Big Three Oil Giants"	major oil refiners and refined oil wholesalers in the PRC which have a dominant position in the PRC refined oil distribution market, collectively, China National Petroleum Corporation, China Petrochemical Corporation and China National Offshore Oil Corporation
"Board"	the board of Directors

"Business Agreements"	together the Trademark License Agreement, the Trade Name License Agreement, the Petroleum Supply Agreement and the Transportation Vehicles Lease Agreement
"Business Day(s)"	a day (other than a Saturday and Sunday) on which banks in Hong Kong are open for business
"BVI"	British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Changchun Sinogas"	Changchun Sinogas Company, Ltd. (長春中油潔能燃氣有限公司, formerly named Changchun Sinogas Company, Ltd. (長春環球潔能燃氣有限公司)), a limited liability company established under the laws of PRC on 18 July 2005 and an indirect wholly owned subsidiary of our Company as at the Latest Practicable Date
"Changchun Yitonghe"	Changchun Yitonghe Petroleum Distribution Company Limited* (長春伊通河石油經銷有限公司), a limited liability company established under the laws of PRC on 7 April 1997, and is beneficially owned as to approximately 60.90% by Mr. Zhao, a Controlling Shareholder of the Company and an executive Director and the chairman of the Board, as to approximately 12.34% by Ms. Xu, a substantial Shareholder, as to approximately 8.23% by Mr. Liu, a Shareholder and an executive Director, as to approximately 0.82% by Mr. Wang (who was an executive Director of the Company up to 27 November 2018), as to approximately 7.63% by Changchun Rundeshidai Investment Consulting Centre (Limited Partnership)* (長春潤德時代投資諮詢中心(有限合夥)), as to approximately 6.30% by Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership)* (長春盛隆時代投資諮詢中心(有限合夥)), and as to approximately 3.78% by Changchun Huizhongshidai Investment Consulting Centre (Limited Partnership)* (長春滙眾時代投資諮詢中心(有限合夥)), as at the Latest Practicable Date. Therefore, Changchun Yitonghe is a connected person of the Company pursuant to the Listing Rules

"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"CNG"	compressed natural gas, a type of natural gas that is compressed to high density through imposing high-pressure to facilitate the ease and efficiency of transportation
"Companies Law"	Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Company" or "Purchaser"	United Strength Power Holdings Limited (眾誠能源控股有限公司), a company incorporated in the Cayman Islands with members' limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock code: 2337)
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Consideration"	the consideration of the Acquisition, being HK$650 million
"Consideration Shares"	100,000,000 new Shares to be issued by the Company as payment of part of the Consideration
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules, and in the context of the Enlarged Group, refers to Mr. Zhao, Golden Truth and Propitious Peak
"Cooperation Agreement"	the cooperation agreement dated 19 January 2018 entered into between Jieli Logistics and Changchun Yitonghe in respect of, amongst others, the lease of the gas transportation vehicles, the lease of office premises, and the oil refuelling service by Yitonghe Group to Jieli Logistics, details of which are set out in the circular of the Company dated 14 February 2018
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Dandong Kuandian"	Dandong Kuandian Petroleum Company Limited* (丹東市寬甸石油有限公司), a limited liability company established under the laws of PRC on 17 August 1981, which is owned as to 55% by WFOE, as to 5% by Mr. Liu, as to 20% by Mr. Sun Zhicheng (孫志成先生) (an Independent Third Party), as to 5% by Ms. Cui Yueshun (崔月順女士) (an Independent Third Party) and as to 15% by Mr. Jin Chunlie (金春烈先生) (an Independent Third Party)

"Dandong United Strength"	Dandong United Strength Vessel Petroleum Company Limited* (丹東眾誠船舶燃油有限公司), a limited liability company established under the laws of PRC on 8 June 2010, which is owned as to 55% by WFOE, as to 5% by Mr. Liu, and as to 20% by Mr. Sun Zhicheng (孫志成先生) (an Independent Third Party), as to 5% by Ms. Cui Yueshun (崔月順女士) (an Independent Third Party) and as to 15% by Mr. Jin Chunlie (金春烈先生) (an Independent Third Party)
"Deed of Indemnity"	the deed of indemnity to be entered into by the Vendors in favour of the Purchaser (as trustee for the benefit of the Enlarged Group) upon Acquisition Completion pursuant to the terms of the SP Agreement, details of which are set out in the section headed "Statutory and General Information — 12. Other Information — 1. Estate duty, tax and other indemnities" in Appendix V to this circular
"Deed of Non-competition"	the deed of non-competition to be entered into by the Controlling Shareholders in favour of the Company (for itself and on behalf of other members of the Enlarged Group) upon Acquisition Completion pursuant to the terms of the SP Agreement, details of which are set out in the section headed "Relationship with Controlling Shareholders — Competition and Conflict of Interests — Undertakings given by Controlling Shareholders" in this circular
"Director(s)"	the directors of the Company
"Dynamic Fame"	Dynamic Fame Global Limited, a company incorporated under the laws of BVI on 4 October 2016 with limited liability, which was wholly owned by Ms. Xu as at the Latest Practicable Date, and is a Substantial Shareholder holding 11.25% of the total issued share capital of our Company as at the Latest Practicable Date

"EGM"	the extraordinary general meeting of the Company to be convened on 24 July 2020 at 3:00 p.m. for the purposes of considering and, if thought fit, approving, amongst others, (i) the SP Agreement, (ii) the Entrusted Management Agreement, (iii) the Petroleum Supply Agreement, (iv) the Placing Agreement and the Specific Placing Mandate and (v) the Specific CS Mandate and the transactions contemplated thereunder
"Enlarged Group"	the Group and the Target Group following Acquisition Completion
"Entrusted Management Agreement"	the agreement dated 26 June 2020 and entered into between WFOE as operating party and Changchun Yitonghe as entrusting party pursuant to which Changchun Yitonghe granting the WFOE Group the right to operate and manage the Entrusted Petroleum Refuelling Stations, the Entrusted Petroleum Storage Facility and use all assets, property, land and equipment necessary for such operation and management, details of which are set out in the section headed "Connected transactions — A. Connected Transactions — 1. Entrusted Management Agreement" in this circular
"Entrusted Petroleum Refuelling Stations"	the 39 petroleum refuelling stations owned by Changchun Yitonghe, the subject petroleum refuelling stations under the Entrusted Management Agreement
"Entrusted Petroleum Storage Facility"	the one petroleum storage facility owned by Changchun Yitonghe, the subject petroleum storage facility under the Entrusted Management Agreement
"Entrustment Arrangement"	the operation arrangement of the Entrusted Petroleum Refuelling Stations by the Enlarged Group assuming the entering into the Entrusted Management Agreement and termination of Former Petroleum Business Entrustment Agreement at the relevant time during the Track Record Period or upon the Acquisition Completion (as the case may be)

"Former Agreements"	together, the Former Gas Business Entrustment Agreement, the Former Petroleum Business Entrustment Agreement, the Former Petroleum Transportation Services Agreement, the cooperation arrangement under the Cooperation Agreement, and the Former Petroleum Transportation Vehicle Management Agreement
"Former Entrusted Petroleum Refuelling Stations"	the two petroleum refuelling stations owned by the Group but operated and managed by Changchun Yitonghe pursuant to the Former Petroleum Business Entrustment Agreement prior to the Acquisition Completion. It will be self-owned mixed refuelling stations subsequent to the Acquisition Completion
"Former Gas Business Entrustment Agreement"	the agreement entered into between Jilin Haotuo and Dandong United Strength, one then wholly-owned subsidiary of Changchun Yitonghe and the other then wholly-owned subsidiary of United Strength Investment, as entrusting parties and Changchun Sinogas, a wholly-owned subsidiary of the Company, as operating party granting the Group the right to operate and manage the Gas Refuelling Business at three mixed gas and petroleum refuelling stations owned by Jilin Haotuo and Dandong United Strength and use all assets, properties, land and equipment necessary for such operation and management
"Former Petroleum Business Entrustment Agreement"	the agreement entered into between Longjing United Strength Energy Development Company Limited and Liaoyuan City Hengtai Clean Energy Company Limited, both being wholly-owned subsidiaries of the Company, as entrusting parties and Changchun Yitonghe as operating party granting Changchun Yitonghe the right to operate and manage two petroleum refuelling stations owned by the Group and use all assets, properties, land and equipment necessary for such operation and management
"Former Petroleum Transportation Services Agreement"	the service agreement dated 19 January 2018 entered into between Jieli Logistics as service provider and Changchun Yitonghe as service recipient in respect of the provision of petroleum transportation service (as supplemented), details of which are set out in the circular of the Company dated 14 February 2018

"Former Petroleum Transportation Vehicle Management Agreement"	the management agreement dated 19 January 2018 entered into between Jieli Logistics and Changchun Yitonghe pursuant to which, Jieli Logistics shall operate and manage the petroleum transportation vehicles for Changchun Yitonghe, details of which are set out in the circular of the Company dated 14 February 2018
"Frost & Sullivan" or "F&S"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an Independent Third Party, being a professional market research company engaged by the Company to prepare the F&S Report
"F&S Report" or "Frost & Sullivan Report"	a commissioned research report from Frost & Sullivan for use in part in this circular to provide the Shareholders with information relating to the refined oil retail and wholesale market industry in the PRC
"Gas Refuelling Business"	the business of the operation and management of the gas refuelling stations of the Group
"Golden Truth"	Golden Truth Holdings Limited, a company incorporated in BVI on 29 September 2016 with limited liability, which is wholly owned by Mr. Zhao, and is a Controlling Shareholder holding approximately 55.50% of the issued share capital of the Company as at the Latest Practicable Date
"Group"	the Company and its current subsidiaries
"Guarantors"	Mr. Zhao, Mr. Liu, Ms. Xu and Mr. Wang, being the guarantors to the SP Agreement
"Harvest Day"	Harvest Day Global Limited (豐日環球有限公司), a company incorporated in the BVI on 7 November 2018 with limited liabilities and the entire issued share capital of which is owned by Mr. Zhang Guoguang (張國光先生) and holding 3% of the Target Company as at the Latest Practicable Date
"Heilongjiang Province"	Heilongjiang Province, the PRC (中華人民共和國黑龍江省)

"Heroic Year"	Heroic Year Limited, a company incorporated in BVI on 12 October 2016 with limited liability, and is wholly owned by Mr. Liu and is a Shareholder of our Company holding approximately 7.50% of the issued share capital of the Company as at the Latest Practicable Date
"HK Company"	Jingqiao Industrial Company Limited (京橋實業有限公司), a company incorporated in Hong Kong on 7 December 2018 with limited liabilities, and is wholly owned by the Target Company as at the Latest Practicable Date
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"Immense Ocean"	Immense Ocean Ventures Limited (灝洋創投有限公司), a company incorporated in the BVI on 26 June 2018 with limited liability and the entire issued share capital of which is owned by Dynamic Fame, and holding approximately 14.55% of the Target Company as at the Latest Practicable Date
"Independent Board Committee"	the board committee established by the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on (i) the SP Agreement, (ii) the Entrusted Management Agreement, (iii) the Petroleum Supply Agreement, (iv) the Placing Agreement and the Specific Placing Mandate and (v) the Specific CS Mandate and the transactions contemplated thereunder
"Independent Financial Adviser"	Chanceton Capital Partners Limited, a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to (i) the SP Agreement, (ii) the Entrusted Management Agreement, (iii) the Petroleum Supply Agreement, (iv) the Placing Agreement and the Specific Placing Mandate and (v) the Specific CS Mandate and the transactions contemplated thereunder

"Independent Shareholders"	Shareholders other than those who have material interest in, among others, (i) the SP Agreement, (ii) the Entrusted Management Agreement, (iii) the Petroleum Supply Agreement, (iv) the Placing Agreement and the Specific Placing Mandate and (v) the Specific CS Mandate and the transactions contemplated thereunder
"Independent Third Party(ies)"	any entity(ies) or person(s) which or who is/are not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
"INED(s)"	independent non-executive Director(s) of the Company
"Issue Price"	HK$5.00 per Consideration Share
"Jieli Logistics"	Jilin Province Jieli Logistics Company Limited* (吉林省捷利物流有限公司), a limited liability company established under the laws of the PRC on 21 April 2005, which is an indirectly wholly-owned subsidiary of the Company as at the Latest Practicable Date
"Jilin Haotuo"	Jilin Province Haotuo Petroleum Development and Usage Company Limited* (吉林省昊拓石油開發利用有限公司), a limited liability company established under the laws of PRC on 1 December 2010, a direct wholly-owned subsidiary of WFOE as at the Latest Practicable Date
"Jilin Province"	Jilin Province, the PRC (中華人民共和國吉林省)
"Joint Sponsors"	Zhongtai International Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO and First Capital International Finance Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the joint sponsors to the New Listing Application
"Latest Practicable Date"	22 June 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular

"Liaoning Oilfield"	Liaoning Oilfield Resource Products Distribution Company Limited* (遼寧油田物資產品經銷有限公司), a limited liability company established under the laws of PRC on 8 December 1998, which is owned as to 55% by WFOE, as to 5% by Mr. Liu, as to 20% by Mr. Sun Zhicheng (孫志成先生) (an Independent Third Party) and as to 20% by Mr. Jin Chunlie (金春烈先生) (an Independent Third Party) as at the Latest Practicable Date
"Liaoning Province"	Liaoning Province, the PRC (中華人民共和國遼寧省)
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange on 16 October 2017
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	30 September 2020 or such other date as may be agreed between the Company, the Vendors and the Guarantors
"Main Board"	the Main Board of the Stock Exchange
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Liu"	Mr. Liu Yingwu (劉英武先生), a Shareholder interested in approximately 7.50% of the issued share capital of the Company through Heroic Year, an executive Director and a director of the Target Company
"Mr. Wang"	Mr. Wang Qingguo (王慶國先生), a Shareholder interested in approximately 0.75% of the issued share capital of the Company through Noble Praise and was a former executive Director up to 27 November 2018 and a director of the Target Company
"Mr. Zhao"	Mr. Zhao Jinmin (趙金岷先生), a Controlling Shareholder interested in approximately 55.50% of the issued share capital of the Company through Golden Truth, an executive Director and the chairman of the Board and a director of the Target Company

"Ms. Xu"	Ms. Xu Hang (徐航女士), a substantial Shareholder interested in approximately 11.25% of the issued share capital of the Company through Dynamic Fame and a director of the Target Company
"NDRC"	National Development and Reform Commission of the PRC
"New Listing Application"	the deemed new listing application of the Company in relation to the Acquisition
"Noble Praise"	Noble Praise Investments Limited, a company incorporated in BVI on 17 October 2016 with limited liability, which is wholly owned by Mr. Wang, and is a Shareholder of the Company holding approximately 0.75% of the issued share capital of the Company as at the Latest Practicable Date
"Northeast China"	a region that covers Liaoning Province, Jilin Province and Heilongjiang Province
"Petroleum Refuelling Business"	the business of the operation and management of petroleum refuelling stations, including self-owned petroleum refuelling stations, Entrusted Petroleum Refuelling Stations and Former Entrusted Petroleum Refuelling Stations
"Petroleum Wholesale Business"	the business of the operation and management of petroleum storage facilities, including self-owned petroleum storage facilities and Entrusted Petroleum Storage Facility
"Petroleum Supply Agreement"	the agreement dated 26 June 2020 and entered into between WFOE and Songyuan Petrochemical, pursuant to which Songyuan Petrochemical will supply petroleum to the WFOE Group, details of which are set out in the section headed "Connected Transactions — D. Non-exempt Continuing Connected Transactions — 1. Petroleum Supply Agreement" in this circular
"Placee(s)"	any individual(s), institutional or other professional investor(s) procured to subscribe for any of the Placing Shares at the Placing Price pursuant to the Placing Agreement
"Placing"	the placing, on a fully underwritten basis, of 40,000,000 Placing Shares pursuant to the Placing Agreement

"Placing Agreement"	the conditional placing agreement dated 26 June 2020 and entered into among the Company, our executive Directors, our Controlling Shareholders, the Joint Sponsors, the Sole Bookrunner and the Underwriters in respect of the Placing
"Placing Completion"	completion of the Placing pursuant to the terms of the Placing Agreement
"Placing Price"	the final price per Placing Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) which will be not less than HK$5.00 per Placing Share at which the Placing Shares are to be subscribed for and issued pursuant to the Placing, to be determined in the manner further set out in the section headed "Letter from the Board — Placing of the Placing Shares — Placing Price" of this circular
"Placing Shares"	40,000,000 new Shares to be allotted and issued by the Company, all of which are fully underwritten by the Underwriters, pursuant to the Placing Agreement
"PRC" or "China"	the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC Legal Advisers"	Beijing Zhongxin Law Office, the legal advisers of the Company as to PRC laws
"Price Determination Agreement"	the agreement to be entered into among our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) to record and fix the Placing Price
"Price Determination Long Stop Date"	11 September 2020 or such other date as may be agreed among the Company and the Sole Bookrunner (for itself and on behalf of the Underwriters)
"Propitious Peak"	Propitious Peak Limited (瑞山有限公司), a company incorporated in the BVI on 1 August 2018 with limited liabilities and the entire issued share capital of which is owned by Golden Truth, a company wholly owned by Mr. Zhao as at the Latest Practicable Date
"Prospectus"	the prospectus of the Company dated 29 September 2017 in connection to the listing of the Company

"Refined Oil Products Supply Agreement"	the agreement dated 26 June 2020 and entered into between WFOE and United Strength Vehicle Service, pursuant to which United Strength Vehicle Service will procure refined oil products from the WFOE Group, details of which are set out in the section headed "Connected Transactions — D. Non-Exempt Continuing Connected Transactions — 2. Supply of Refined Oil Products by Target Group to United Strength Vehicle Service" in this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	an aggregate of 10,000 shares of US$1.00 each in the issued share capital of the Target Company, representing the entire issued share capital of the Target Company, "Sale Share" means any of them
"SFC"	Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Share Option Scheme"	the share option scheme of the Company adopted pursuant to the written resolutions of the Shareholders passed on 21 September 2017
"Shareholder(s)"	holder(s) of the Shares of the Company
"Shenyang United Strength"	Shenyang United Strength Investment Management Company Limited* (瀋陽眾誠投資管理有限公司), a limited liability company established under the laws of PRC on 19 July 2004, which is owned as to approximately 51.45% by Liaoning Oilfield, as to approximately 26.70% by WFOE, as to approximately 2.43% by Mr. Liu, as to approximately 9.8% by Mr. Sun Zhicheng (孫志成先生) (an Independent Third Party) and as to approximately 9.6% by Mr. Jin Chunlie (金春烈先生) (an Independent Third Party) as at the Latest Practicable Date

"Shenyang Xinxin"	Shenyang Xinxin Transportation Company Limited* (瀋陽欣鑫運輸有限公司), a limited liability company established under the laws of PRC on 12 June 2014, which is a direct wholly owned subsidiary of Liaoning Oilfield, which in turn is owned as to 55% by WFOE as at the Latest Practicable Date
"Sole Bookrunner" or "Zhongtai Securities"	Zhongtai International Securities Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as defined under the SFO
"Songyuan Petrochemical"	Jilin Province Songyuan Petrochemical Company Limited (吉林省松原石油化工股份有限公司), a limited liability company established under the laws of PRC on 11 May 2009, which is owned as to approximately 97.87% by Changchun Yitonghe and approximately 2.13% by Songyuan State-owned Capital Operation Company Limited* (松原市國有資本經營有限責任公司) (an Independent Third Party) as at the Latest Practicable Date
"SP Agreement"	the sale and purchase agreement dated 18 September 2019 entered into between the Company, as Purchaser, and Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day, as Vendors, and Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang as the Guarantors and Mr. Zhang Guoguang (張國光先生) in respect of the Acquisition (and as supplemented by the supplemental agreements dated 28 February 2020 and 26 June 2020 entered into between the same parties)
"Specific CS Mandate"	the specific mandate to be sought from the Independent Shareholders at the EGM to authorize the Directors to allot and issue the Consideration Shares pursuant to the SP Agreement upon the Acquisition Completion
"Specific Placing Mandate"	the specific mandate to be sought from the Independent Shareholders at the EGM to authorize the Directors to allot and issue the Placing Shares pursuant to the Placing Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules

"Supplemental SP Agreements"	together, the supplemental agreement to the SP Agreement each dated 28 February 2020 and 26 June 2020 for, amongst others, the extension of the Long Stop Date of the Acquisition
"Target Business"	Petroleum Refuelling Business and Petroleum Wholesale Business and the related transportation business
"Target Company"	Eternal Global Investments Limited (恆永環球投資有限公司), a company incorporated in the BVI on 8 November 2018 with limited liability, and is ultimately beneficially owned as to approximately 71.78% by Mr. Zhao, as to approximately 14.55% by Ms. Xu, as to approximately 9.70% by Mr. Liu, as to approximately 0.97% by Mr. Wang and as to approximately 3.00% by Mr. Zhang Guoguang (張國光先生) as at the Latest Practicable Date
"Target Company Directors"	directors of the Target Company, namely, Mr. Zhao, Ms. Xu, Mr. Liu, Mr. Wang and Ms. Lo Siu Lucy
"Target Group"	collectively, the Target Company and its subsidiaries, namely HK Company, WFOE, Baishan United Strength, Jilin Haotuo, Wuchang United Strength, Dandong Kuandian, Dandong United Strength, Liaoning Oilfield, Shenyang United Strength and Shenyang Xinxin (and where the contexts so require, the business under the Entrusted Arrangement and the Business Agreements)
"Track Record Period"	the four years ended 31 December 2016, 2017, 2018 and 2019
"Trade Name License Agreement"	the agreement dated 26 June 2020 and entered into between WFOE and United Strength Vehicle Service, pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use in the PRC the trade name of "眾誠連鎖" for a term from the date of the Acquisition Completion to 31 December 2022, details of which are set out in the section headed "Connected Transactions — Continuing Connected Transactions — The Business Agreements — B. Exempt Continuing Connected Transactions — 2. Trade Name License Agreement" in this circular

"Trademark License Agreement" — the agreement dated 26 June 2020 and entered into between WFOE and United Strength Vehicle Service, pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use in the PRC the trademark of "" for a term from the date of the Acquisition Completion to 31 December 2022, details of which are set out in the section headed "Connected Transactions — Continuing Connected Transactions — The Business Agreements — B. Exempt Continuing Connected Transactions — 1. Trademark License Agreement" in this circular

"Transportation Vehicles Lease Agreement" — the agreement dated 26 June 2020 and entered into between Jieli Logistics and Changchun Yitonghe, pursuant to which Changchun Yitonghe will lease 32 vehicles to Jieli Logistics for transportation of petroleum, details of which are set out in the section headed "Connected Transactions — Continuing Connected Transactions — The Business Agreements — C. Exempt Connected Transactions — Transportation Vehicles Lease Agreement" in this circular

"Triumphal Diligent" — Triumphal Diligent Limited (勤凱有限公司), a company incorporated in the BVI on 10 July 2018 with limited liabilities and the entire issued share capital of which is owned by Noble Praise, and holding approximately 0.97% of the Target Company as at the Latest Practicable Date

"Underwriter(s)" — the underwriter(s) of the Placing, namely, Zhongtai Securities, First Capital Securities Limited, and Innovax Securities Limited, each be a licensed corporation to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as defined under the SFO

"United Strength BVI" — United Strength Power International Limited (眾誠能源國際有限公司), a company incorporated under the laws of BVI on 4 January 2017 with limited liability and a direct wholly owned subsidiary of our Company as at the Latest Practicable Date

"United Strength HK" — United Strength Power HK Limited (眾誠能源香港有限公司), a company incorporated under the laws of Hong Kong on 17 January 2017 with limited liability and an indirect wholly owned subsidiary of our Company as at the Latest Practicable Date

"United Strength Investment"	Changchun United Strength Investment Development Group Company Limited (長春眾誠投資發展集團有限公司), a limited liability company established under the laws of PRC on 4 March 2004, and is beneficially owned as to approximately 60.9% by Mr. Zhao, as to approximately 12.34% by Ms. Xu, as to approximately 8.23% by Mr. Liu, as to approximately 0.82% by Mr. Wang, and as to approximately 7.63%, 6.3% and 3.78% by Changchun Rundeshidai Investment Consulting Centre (Limited Partnership)* (長春潤德時代投資諮詢中心(有限合夥)), Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership)* (長春盛隆時代投資諮詢中心(有限合夥)) and Changchun Huizhongshidai Investment Consulting Centre (Limited Partnership)* (長春滙眾時代投資諮詢中心(有限合夥)), respectively, as at the Latest Practicable Date
"United Strength Vehicle Service"	Jilin Province United Strength Vehicle Services Chain Company Limited* (吉林省眾誠汽車服務連鎖有限公司), a limited liability company established under the laws of PRC, which is beneficially owned as to approximately 54.9% by Beijing Zhonghui Hongsheng Investment Management Company Limited* (北京眾輝弘晟投資管理有限公司), an Independent Third Party, and approximately 45.1% by Changchun Yitonghe as at the Latest Practicable Date
"US$"	United States dollars, the lawful currency of the United States of America
"Vendor(s)"	Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day
"WFOE"	Changchun United Strength Power Company Limited* (長春眾誠能源有限公司), a limited liability company established under the laws of PRC on 6 November 2018 with limited liabilities, which is beneficially wholly owned by HK Company, which in turn is wholly owned by the Target Company
"WFOE Group"	collectively WFOE and its subsidiaries, namely Baishan United Strength, Jilin Haotuo, Wuchang United Strength, Dandong Kuandian, Dandong United Strength, Liaoning Oilfield, Shenyang United Strength and Shenyang Xinxin

"Wuchang United Strength"	Wuchang United Strength Chengxi Petroleum Company Limited* (五常眾誠城西石油有限公司), a limited liability company established under the laws of PRC on 28 July 2011, which is a direct wholly owned subsidiary of WFOE
"Yitonghe Group"	Changchun Yitonghe and its subsidiaries
%	per cent

Unless stated otherwise, in this circular, amounts denominated in RMB have been translated into HK$ at the exchange rate of RMB1.00 to HK$1.09, being the exchange rate of RMB against HK$ as announced by The People's Bank of China on the Latest Practicable Date. No representation is made that the HK$ amounts could have been or could be converted into RMB at such rate or any other rate or at all. Certain amounts and percentage figures in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails. English translation of company names in Chinese or another language which are marked with "" are for identification purpose only.*

The English language version of this circular has been translated into the Chinese language and English and Chinese versions of this circular are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall prevail.

This glossary contains explanations of certain terms and definitions used in this circular in connection with our Group, the Target Group and their respective business. The terms and their meanings may not correspond to standard industry meanings or usage of those terms.

"CNG"	compressed natural gas, a type of natural gas that is compressed to high density through imposing high-pressure to facilitate the ease and efficiency of transportation
"Gas Vehicle(s)"	includes natural gas (CNG and LNG) vehicles and LPG vehicles
"gasoline"	gasoline, which includes additives for gasoline
"km"	kilometre(s)
"LNG"	liquefied natural gas, a type of natural gas that has been converted to liquid form through application of pressure and cooling for ease and efficiency of transportation
"LPG"	liquefied petroleum gas, a type of inflammable gas produced during natural gas processing and oil refining, which could be stored as liquid under pressure
"m^3"	standard cubic metre(s)
"New Energy Vehicle(s)" or "NEV"	includes pure electric vehicles, plug-in hybrid vehicles and fuel-cell vehicles
"sq.m."	square metre(s)

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Place of business in Hong Kong	Room 4310, 43/F, China Resources Building 26 Harbour Road, Wanchai, Hong Kong
Headquarters in the PRC	No. 2101, Unit 1 Block 23, Zone G Solana 2, Erdao District Changchun, Jilin Province, the PRC
Company's website address	**www.united-strength.com** *(information contained in this website does not form part of this circular)*
Company secretary	Mr. Lo Wai Kit (盧偉傑先生), member of HKICPA Flat A, Floor 9 Block 5, Wonderland Villas 9 Wah King Hill Road Kwai Chung, NT Hong Kong
Authorised representatives	Mr. Xu Huilin (徐輝林先生) Unit 601, Block 4 Building No. 20 Dinghui Dongli Haidian District Beijing, the PRC Mr. Lo Wai Kit (盧偉傑先生) Flat A, Floor 9 Block 5, Wonderland Villas 9 Wah King Hill Road Kwai Chung, NT Hong Kong
Audit Committee	Mr. Lau Ying Kit (劉英傑先生) (Chairman) Ms. Su Dan (蘇丹女士) Mr. Zhang Zhifeng (張志峰先生)
Remuneration Committee	Mr. Zhang Zhifeng (張志峰先生) (Chairman) Mr. Liu Yingwu (劉英武先生) Ms. Su Dan (蘇丹女士)

Nomination Committee	Ms. Su Dan (蘇丹女士) (Chairman) Mr. Xu Huilin (徐輝林先生) Mr. Zhang Zhifeng (張志峰先生)
Integration and Cooperation Steering Committee (to be set up upon the Acquisition Completion)	Mr. Zhao Jinmin (趙金岷先生) Mr. Liu Yingwu (劉英武先生) Mr. Xu Huilin (徐輝林先生) Mr. Ma Haidong (馬海東先生) Mr. Song Shuzhe (宋舒哲先生)
Principal share registrar and transfer office in the Cayman Islands	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive, P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Hong Kong Branch Share Registrar	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	China Construction Bank, Yanbian Korean Autonomous Prefecture Branch (中國建設銀行延邊朝鮮族自治州分行) No. 238, Guangming Street Yanji City Jilin Province, the PRC Industrial and Commercial Bank of China, Erdao Branch (中國工商銀行長春二道支行) No. 1600, Jilin Road Erdao District, Changchun City Jilin Province, the PRC

DIRECTORS AND SENIOR MANAGEMENT

Name	Residential Address	Nationality
Executive Directors		
Mr. Zhao Jinmin (趙金岷)	Room 2102, Unit No. 1, Floor 19-20 Building 3, Yard 1 Xinghewanlangyuan Middle Sijixinghe Street Chaoyang North Road Chaoyang District, Beijing 100123 the PRC	Chinese
Mr. Liu Yingwu (劉英武)	Room 502, Building No. 5 Tian'an Diyicheng Gaoxin District, Changchun Jilin Province 130012, the PRC	Chinese
Mr. Xu Huilin (徐輝林)	Unit 601, Block 4 Building No. 20 Dinghui Dongli Haidian District Beijing, the PRC	Chinese
Mr. Yuan Limin (原立民)	Flat A, 33/F, Tower 1 Bel-air On the Peak 68 Bel-air Peak Avenue Hong Kong	Chinese
Independent non-executive Directors		
Ms. Su Dan (蘇丹)	Room 106, Building C6 Huarunxiangfu 2300 Nanhuzhongjie Nanguan, Changchun Jilin Province, the PRC	Chinese
Mr. Lau Ying Kit (劉英傑)	Flat A, Floor 13 Block E, The Grandville 2 Lok Kwai Path, Fo Tan Shatin, NT Hong Kong	Chinese

Name	Residential Address	Nationality
Mr. Zhang Zhifeng (張志峰)	103, B1, Zhonghai Shuianxindu Nanguan District, Changchun Jilin Province, the PRC	Chinese

Proposed Executive Director of the Company upon the Acquisition Completion

Mr. Ma Haidong (馬海東)	No. 401, Unit 1, Building 72, Phase 4 Rongchuangshangcheng, Fanrong Road Gaoxin District, Changchun City Jilin Province, the PRC	Chinese

For detailed information of the Directors upon Acquisition Completion, the Target Company Directors and senior management of the Target Group, please refer to the section headed "Directors and Senior Management" in this circular.

PARTIES INVOLVED

Joint Sponsors	**Zhongtai International Capital Limited** 19/F, Li Po Chun Chambers 189 Des Voeux Road Central Central Hong Kong
	First Capital International Finance Limited Unit 4511 45/F, The Center 99 Queen's Road Central Hong Kong
Sole Bookrunner	**Zhongtai International Securities Limited** 19/F, Li Po Chun Chambers 189 Des Voeux Road Central Central Hong Kong
Underwriters	**Zhongtai International Securities Limited** 19/F, Li Po Chun Chambers 189 Des Voeux Road Central Central Hong Kong
	First Capital Securities Limited Unit 4512 45/F, The Center 99 Queen's Road Central Hong Kong

	Innovax Securities Limited Unit A-C, 20/F, Neich Tower 128 Gloucester Road Wan Chai Hong Kong
Independent Financial Adviser	**Chanceton Capital Partners Limited** Room 801b, 8/F, Tsim Sha Tsui Centre 66 Mody Road, Tsim Sha Tsui Hong Kong
Legal advisers to our Company	*As to Hong Kong law* **Wan & Tang** 23/F, Somptueux Central 52 Wellington Street Central Hong Kong *As to PRC law* **Beijing Zhongxin Law Office** Room 668, Tower A, Towercrest Plaza No.3 Maizidian West Road Chaoyang District, Beijing PRC, 100016

	As to Cayman Islands law **Conyers Dill & Pearman** Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Legal advisers to the Joint Sponsors and the Underwriters	*As to Hong Kong law* **Chiu & Partners** 40/F, Jardine House 1 Connaught Place Central Hong Kong
	As to PRC law **Jingtian & Gongcheng** 34/F, Tower 3 China Central Place 77 Jianguo Road Beijing 100025, the PRC
Auditors and reporting accountants	**KPMG** *Certified Public Accountants* Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Industry consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** 1014–1018, Tower B Greenland Hui Center 500 Yunjin Road Xinhui District Shanghai, 200232, China
Compliance adviser	**Zhongtai International Capital Limited** 19/F, Li Po Chun Chambers 189 Des Voeux Road Central Central Hong Kong

眾誠能源

UNITED STRENGTH POWER HOLDINGS LIMITED
眾 誠 能 源 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2337)

Executive Directors:
Mr. Zhao Jinmin *(Chairman)*
Mr. Liu Yingwu
Mr. Xu Huilin *(Chief Executive Officer)*
Mr. Yuan Limin

Independent Non-executive Directors:
Ms. Su Dan
Mr. Lau Ying Kit
Mr. Zhang Zhifeng

Registered Office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in the PRC:
No. 2101, Unit 1
Block 23, Zone G
Solana 2, Erdao District
Changchun
Jilin Province, the PRC

Principal Place of Business in Hong Kong:
Room 4310, 43/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

30 June 2020

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC CS MANDATE;
(2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ENTRUSTED MANAGEMENT AGREEMENT;
(3) CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS – BUSINESS AGREEMENTS AND REFINED OIL PRODUCTS SUPPLY AGREEMENT;
(4) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION;
(5) PLACING OF THE PLACING SHARES UNDER SPECIFIC PLACING MANDATE;
(6) APPOINTMENT OF EXECUTIVE DIRECTOR; AND
(7) NOTICE OF EXTRAORDINARY GENERAL MEETING

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

THE ACQUISITION

Reference is made to the announcement of the Company dated 18 September 2019 (as supplemented by the announcements of the Company dated 28 February 2020 and 26 June 2020), in which the Company announced that on 18 September 2019 (after trading hours), the Company, as the Purchaser, and the Vendors, the Guarantors and Mr. Zhang Guoguang, entered into the SP Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company at the Consideration of HK$650 million.

The principal terms of the SP Agreement are summarised below.

Date

18 September 2019 (after trading hours)

Parties

(1) The Company, as the Purchaser;

(2) Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day, as the Vendors;

(3) Mr. Zhao, Mr. Liu, Ms. Xu and Mr. Wang, as the Guarantors; and

(4) Mr. Zhang Guoguang.

Assets to be acquired

The Sale Shares, representing the entire issued share capital of the Target Company.

Consideration

The Consideration for the Acquisition shall be HK$650 million, comprising (a) 100,000,000 Consideration Shares in aggregate at the Issue Price of HK$5.00 per Consideration Shares; and (b) cash consideration of HK$150 million, which shall be paid to the Vendors at the Acquisition Completion in the following manners:

(a) 71.78% of such Consideration shall be paid to Propitious Peak;

(b) 14.55% of such Consideration shall be paid to Immense Ocean;

(c) 9.70% of such Consideration shall be paid to Amber Heyday;

(d) 0.97% of such Consideration shall be paid to Triumphal Diligent; and

(e) 3.00% of such Consideration shall be paid to Harvest Day.

The Consideration was determined after arm's length negotiation between the Company and the Vendors having considered, among other things, (i) the nature and prospects of the Target Business comprising the Petroleum Refuelling Business and the Petroleum Wholesale Business including principally the ownership of 27 petroleum refuelling stations and two petroleum storage facilities (at the time of the SP Agreement), the operation and management rights through 40 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility (at the time of the SP Agreement) pursuant to the Entrusted Management Agreement, and the related transportation services; and (ii) the unaudited combined net profit after taxation of the Target Business for the year ended 31 December 2018 attributable to the equity shareholders of the Group (having been adjusted for the financial impact attributable to the reorganisation of the Target Business prior to the Acquisition Completion, with the assumption that the Entrusted Management Agreement became effective on 1 January 2018) and the price-earning ratio of approximately 9 times. To determine the price-earning ratio, the Directors also made reference to the price-earning ratios of ten companies listed in Hong Kong or the PRC which operate in the refined oil sector and involve in both retail and wholesale of petroleum and diesel.

In identifying the comparable companies that are listed in Hong Kong and the PRC, the Company mainly focused on the nature of the Target Business (i.e., Petroleum Refuelling Business and Petroleum Wholesale Business), the business model (i.e., operation of petroleum refuelling stations and wholesale of refined oil products) and the Target Business's targeting market, i.e. the PRC, and consider two PRC-listed companies, being petroleum refuelling station operators in the PRC, are among the most relevant peers to the Target Business in terms of business model. Due to the Target Business's unique business nature, no Hong Kong listed companies can be identified with the business size or business model comparable to the Target Business.

In order to have a more comprehensive valuation comparison, the Company considered that it is also necessary to make reference to the valuation of the listed companies in the similar industry in the Hong Kong capital market and thus decided to extend the selection criteria to include those HK-listed companies which engaged in the refined oil sector.

In particular, the comparable companies were selected primarily based on the following criteria: (i) listed companies in Hong Kong and the PRC which principally engage in management and operation of petroleum refuelling stations in the PRC; (ii) listed companies in Hong Kong which primarily engaged in sale of petroleum and diesel via either retail or wholesales; and (iii) profitable companies.

Based on the selection criteria, other than the two PRC-listed companies principally engage in operation of petroleum refuelling stations, the Company identified other eight comparable companies that are suitable to be considered as comparable of the Target Business as reference, and believes that although they do not have the exact same business nature with the Target Business, they all satisfy the criteria above. As such, the Company is of the view that the following list of comparable companies identified represent an exhaustive list of the companies which satisfy the selection criteria and therefore the resulted samples are fair and representative.

Stock code	Company name	P/E ratio (at the time of the SP Agreement)
1621.HK	Vico International Holdings Limited	8.4
342.HK	NewOcean Energy Holdings Ltd.	3.3
386.HK	China Petroleum & Chemical Corporation	8.2
8347.HK	F8 Enterprises (Holdings) Group Limited *(note 1)*	333.3
8479.HK	JTF International Holdings Limited	4.8
857.HK	PetroChina Company Limited	13.3
883.HK	CNOOC Limited	9.7
8631.HK	Sun Kong Holdings Limited *(note 2)*	6.5
000554.SZ	Sinopec Shandong Taishan Petroleum Co., Ltd. *(note 1)*	1,367.9
000096.SZ	Shenzhen Guangju Energy Co., Ltd.	52.5
	Median	**8.3**
	Average	**180.8**
	Average (exclude two extreme figures)	**13.3**

note 1: the result from these companies have been excluded due to its extreme high P/E ratios

note 2: one-off listing expense has been excluded for the purpose of computing the P/E ratio of Sun Kong Holdings Limited

As shown in the table above, the Company has excluded two extreme outliers throughout the analysis (i.e. Sinopec Shandong Taishan Petroleum Co., Ltd. and F8 Enterprises (Holdings) Group Limited), resulting an average P/E ratio of the comparable companies of approximately 13.3 times. The P/E ratio applied in determination of the Consideration of approximately 9 times are within the range of P/E ratios of the comparable companies.

The Company is of the view that the valuation of a to-be-listed company is generally referenced to valuation multiples such as price-to-earnings ratio ("**P/E ratio**") and price-to-book ratio ("**P/B ratio**") of the comparable companies. The Company considers that using P/E ratio is more appropriate than P/B ratio because (i) P/E ratio represents a direct indicator of the earning ability and growth of a company; (ii) the variation in the asset structure between the Target Business and the comparable companies, whereby the Target Business typically does not heavily rely on the use of capital or its fixed assets to create earning in view that 40 Entrusted Petroleum Refuelling Stations and one Entrusted Storage Facility of the Target Business would be operated and managed through the exclusive rights granted under the Entrusted Management Agreement upon the Acquisition Completion. Whilst there are other methods to value a company or business, including dividend yield model or cash flow forecast model, the Company considers dividend yield model or cash flow forecast model is inapplicable for assessing the Consideration as the Target Company currently does not have dividend policy and a number of uncertainties involved in the forecast of cash flows, growth rate and discount rate in a cash flow forecast. It is therefore considered P/E ratio is the most appropriate method in determining the Consideration.

The Directors (including the independent non-executive Directors after taking into account the advice and recommendations of the Independent Financial Adviser) consider that the aforesaid valuation of the Target Business together with its implied price-earnings ratio are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Conditions Precedent

Acquisition Completion is conditional upon the fulfilment, or if applicable, waiver, of the following conditions:

(i) the Purchaser having completed and being satisfied with the results from the due diligence review over the financial, legal, business, operational and other matters of the Target Group, and there being no material change adverse to the financial, legal, business, operational and other matters of the Target Group up to the date of the Acquisition Completion;

(ii) the Purchaser having obtained and being satisfied with the opinion of its PRC legal adviser, including the due diligence report of the Target Group;

(iii) the Purchaser and the Vendors having obtained all requisite approvals, consents, licenses, permits, authorisations, waivers and/or exemptions in respect of the transactions contemplated under the SP Agreement, including any approval and consent from regulatory authorities (if applicable);

(iv) the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares and such approval not having been revoked or cancelled prior to the Acquisition Completion;

(v) the Purchaser having obtained the approval in principle from the Listing Committee pursuant to the Rule 14.54 of the Listing Rules with respect to the new listing application and the transactions contemplated thereunder, and such permission and approval of listing not subsequently having been revoked or cancelled;

(vi) the Independent Shareholders having passed resolutions at the EGM approving or ratifying (where appropriate) among other things, the SP Agreement and the Specific CS Mandate, the Specific Placing Mandate, the Entrusted Management Agreement and the respective transactions contemplated thereunder in accordance with the Listing Rules;

(vii) the execution and delivery of the Entrusted Management Agreement and each of the Business Agreements;

(viii) the Company having complied with the relevant requirements in the Listing Rules in relation to the Acquisition and the transactions contemplated under the SP Agreement, and having satisfied the Stock Exchange and the SFC accordingly; and

(ix) the Placing becoming unconditional (other than any conditions that relate to the SP Agreement becoming unconditional).

If the above conditions precedent cannot be fulfilled or waived by the Purchaser in writing (except conditions (iii) to (ix) above which cannot be waived) before 5:00 p.m. on the Long Stop Date (or such other date as agreed by the parties to the SP Agreement in writing), the SP Agreement shall terminate and whereupon no party shall be liable to any of the other parties, save in respect of claims arising out of any antecedent breaches thereof and as particularly stipulated in the SP Agreement.

The Acquisition Completion and the Placing Completion are inter-conditional. Please refer to the paragraph headed "Placing of the Placing Shares – Conditions" of this Letter from the Board for further details of the Placing Completion.

Guarantee

The Guarantors have agreed to, on a joint and several basis, guarantee the performance of obligations by the Vendors under the SP Agreement.

Acquisition Completion

Acquisition Completion shall take place within (i) five Business Days after all the conditions precedent under the SP Agreement have been fulfilled or, as the case may be, waived or (ii) within three months after condition precedent (v) as referred under paragraphs "Conditions Precedent" below is fulfilled, (whichever is later); or (iii) such later date as may be agreed by the parties to the SP Agreement in writing.

To facilitate the operation of Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility upon the Acquisition Completion, it is intended that the Vendors will procure Changchun Yitonghe to pass on the assets, the right-of-use assets and liabilities in relation to the operation of the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility of the Target Business at the Acquisition Completion.

Upon Acquisition Completion, the Target Company will become a wholly owned subsidiary of the Company.

Termination

The SP Agreement may be terminated by the Purchaser upon occurrence of, among others, the following events:

(a) the Vendors or the Guarantors or Mr. Zhang Guoguang failing to perform any one or more of the obligation within the prescribed period as agreed in the SP Agreement and the Vendors or the Guarantors or Mr. Zhang Guoguang failing to remedy such breach within seven Business Days after request;

(b) any actual breach of the representations, warranties or undertakings by the Vendors or the Guarantors;

(c) any creditor having taken possession or enforcement of the assets of the Target Group (including those assets in connection with the Entrusted Management Agreement), the Vendors or the Guarantors;

(d) the restructuring, winding-up, liquidation or bankruptcy of any member of the Target Group, or any receiver or manager is appointed to taking over the assets of the Target Group, the Vendors or the Guarantors or any relevant order is granted or resolutions having been passed;

(e) the disposal or transfer of any assets of the Target Group (including those assets in connection with the Entrusted Management Agreement), other than disposal or transfer in its ordinary course of business;

(f) the possession, confiscation, expropriation, or compulsory acquisition of property of the Vendors, the Guarantors or Target Group companies by the PRC government or relevant authorities;

(g) any breach of the laws, rules or regulations in respect of the operation of the Target Business or occurrence of any act or event which may lead to the cancellation, revocation or renewal of the licenses or permits for the operation of the Target Group;

(h) (without the Purchaser's prior written consent being obtained) change of capital structure of the companies of the Target Group or the Target Company; or

(i) the transfer or pledge of the shares in the Target Company by their respective shareholders or associates.

If any of the above termination events occurs, the Purchaser may at its sole discretion terminate the SP Agreement.

ISSUE OF THE CONSIDERATION SHARES

The 100,000,000 Consideration Shares shall be allotted and issued pursuant to the Specific CS Mandate.

The Consideration Shares represent (i) approximately 42.64% of the existing share capital of the Company as at the Latest Practicable Date; (ii) approximately 29.90% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (without taking account of any Placing Shares which may be issued); and (iii) approximately 26.70% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Placing Shares.

The Issue Price of HK$5.00 per Consideration Share represents:

(i) a discount of approximately 14.4% to the closing price of HK$5.84 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 23.08% to the closing price of HK$6.50 per Share as quoted on the Stock Exchange as at the date of the SP Agreement;

(iii) a discount of approximately 12.92% to the average of the closing prices of HK$5.74 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the SP Agreement;

(iv) a discount of approximately 10.25% to the average of the closing prices of HK$5.57 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the SP Agreement;

(v) a premium of approximately 313.48% to the net asset value of approximately RMB1.09 per Share (equivalent to approximately HK$1.21 per Share) based on the consolidated net asset value of the Company of approximately RMB255,468,000 (equivalent to approximately HK$283,569,480) as at 31 December 2018 as disclosed in the annual report of the Company for the year ended 31 December 2018 published on 16 April 2019 and 234,502,000 Shares in issue as at the date of the SP Agreement;

(vi) a premium of approximately 284.45% to the net asset value of approximately RMB1.17 per Share (equivalent to approximately HK$1.30 per Share) based on the consolidated net asset value of the Company of approximately RMB274,762,000 (equivalent to approximately HK$304,985,820) as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 published on 17 April 2020 and 234,502,000 Shares in issue as at the date of the SP Agreement;

(vii) a premium of approximately 313.48% to the net asset value of approximately RMB1.09 per Share (equivalent to approximately HK$1.21 per Share) based on the consolidated net asset value of the Company of approximately RMB255,468,000 (equivalent to approximately HK$283,569,480) as at 31 December 2018 as disclosed in the annual report of the Company for the year ended 31 December 2018 published on 16 April 2019 and 234,502,000 Shares in issue as at the Latest Practicable Date; and

(viii) a premium of approximately 284.45% to the net asset value of approximately RMB1.17 per Share (equivalent to approximately HK$1.30 per Share) based on the consolidated net asset value of the Company of approximately RMB274,762,000 (equivalent to approximately HK$304,985,820) as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 published on 17 April 2020 and 234,502,000 Shares in issue as at the Latest Practicable Date.

The Issue Price of HK$5.00 per Consideration Share was determined after arm's length negotiations between the parties to the SP Agreement with reference to the last five and ten-day average closing prices of the Shares as quoted on the Stock Exchange and the movements of the market price of the Shares between June and August 2019 when the terms of the Acquisition were being negotiated among the parties to the SP Agreement. The Directors (including the independent non-executive Directors after taking into account the advice and recommendations of the Independent Financial Adviser) consider that the aforesaid Issue Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The aggregate nominal value of the Consideration Shares (with a par value of HK$0.10 each) will be HK$10,000,000.00.

As at the Latest Practicable Date, the authorised issued share capital of the Company is HK$80,000,000.00 divided into 800,000,000 Shares with a par value of HK$0.10 each.

The Consideration Shares, when issued and fully paid, will rank pari passu amongst themselves and with all the other Shares in issue at the time of allotment and issue of Consideration Shares and with the Placing Shares. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

INFORMATION OF THE TARGET GROUP

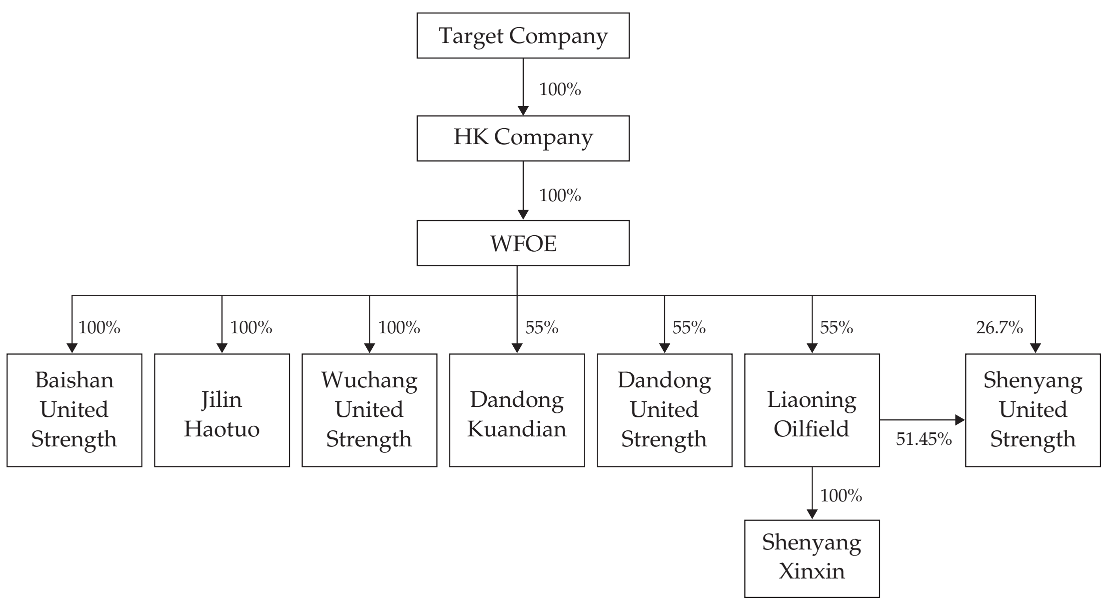
The Target Company was incorporated in the BVI on 8 November 2018 with limited liability and is owned as to approximately 71.78%, 14.55%, 9.70%, 0.97% and 3.00% by Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day respectively. The Target Company is principally engaged in investment holding and it is the holding company of the WFOE Group (through HK Company) which is principally engaged in the provision of Petroleum Refuelling Business, Petroleum Wholesale Business and related transportation services. The business nature and major assets (immediately before Acquisition Completion and upon the Entrusted Management Agreement having taken into effect) of the Target Group include, among other things, the following:

Member of the Target Group	Business nature	Major assets (immediately before Acquisition Completion and upon the Entrusted Management Agreement having taken into effect)
Target Company	Investment holding	The entire issued share capital of HK Company
HK Company	Investment holding	The entire issued share capital of WFOE

Member of the Target Group	Business nature	Major assets (immediately before Acquisition Completion and upon the Entrusted Management Agreement having taken into effect)
WFOE	Investment holding and the management and operation of (whether by itself or through other members of the Target Group) the Petroleum Refuelling Business, the Petroleum Wholesale Business and provision of related transportation services	The right (whether by itself or through other members of the Target Group) to manage and operate the 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility under the Entrusted Management Agreement and refined oil transportation vehicle fleet
Baishan United Strength	Petroleum Refuelling Business	One (1) petroleum refuelling station
Dandong Kuandian	Petroleum Refuelling Business and Petroleum Wholesale Business	Sixteen (16) petroleum refuelling stations and one (1) petroleum storage facility (10,000 m^3)
Dandong United Strength	Petroleum Refuelling Business	Five (5) petroleum refuelling stations
Jilin Haotuo	Petroleum Refuelling Business	Five (5) petroleum refuelling stations
Liaoning Oilfield	Petroleum Wholesale Business	One (1) petroleum storage facility (16,400 m^3)
Shenyang United Strength	Provision of consultancy service on Petroleum Wholesale Business	Land use rights and facilities of Liaoning Oilfield's petroleum storage facility

Member of the Target Group	**Business nature**	**Major assets (immediately before Acquisition Completion and upon the Entrusted Management Agreement having taken into effect)**
Shenyang Xinxin	Provision of transportation service	Refined oil transportation vehicle fleet
Wuchang United Strength	Petroleum Refuelling Business	One (1) petroleum refuelling station

The corporate structure of the Target Group as at the Latest Practicable Date:



Petroleum Refuelling Business

The Target Group's Petroleum Refuelling Business is operated through its petroleum refuelling station network of a total of 67 petroleum refuelling stations comprising (i) 28 self-owned petroleum refuelling stations; (ii) 37 Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself); and (iii) two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion) covering certain prominent cities in Northeast China, mainly Changchun City of Jilin Province and Dandong City of Liaoning Province, of which 43 are located in Jilin Province, 23 are located in Liaoning Province and one is located in Heilongjiang Province. The Target Group operates all these petroleum refuelling stations under the trademark “ ” and the trade name “眾誠連鎖”. The Target Group sourced refined oil from third party suppliers and a related party supplier primarily, and sells such refined oil products primarily to vehicle users through petroleum refuelling stations. The Target

Group also possesses storage facilities and refined petroleum transportation vehicle fleet which enables a stable and timely supply of refined oil to its extensive network of petroleum refuelling stations. The refined oil products that they sell to retail customers are gasoline and diesel.

The WFOE Group employs information technology systems in its operations. It has implemented office automation system and enterprise resource planning system, which enable on-line approval mechanism and data-sharing function among different entities within the WFOE Group. In particular, it uses an online sales system to archive and monitor its operational and financial data including sales and inventory levels, and transmit the data to its headquarters on a real-time basis.

The WFOE Group has developed a service-oriented and customer-centric business philosophy. It has also established an advanced and standardised management system that covers refined oil procurement and storage, petroleum refuelling station operations, quality control, workplace safety management and other aspects of its operations, which has enabled it to gain a competitive edge. Due to the quality products and services, its "眾誠連鎖" brand has received strong recognition from local customers.

Petroleum Wholesale Business

To support the Petroleum Refuelling Business, the Target Group, after sourcing refined oil from suppliers (including independent third parties and a related party), stored the refined oil products, which include, amongst others, gasoline and diesel in the two petroleum storage facilities owned by the Target Group and one Entrusted Petroleum Storage Facility entrusted to the Target Group upon Acquisition Completion. With such storage facilities with an aggregate volume of approximately 63,600 m^3 (equivalent to approximately 50,000 tonnes) that are located in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province, the PRC, the Target Group is able to provide wholesaling of refined oil products to third party refuelling stations and other industrial users mostly in Northeast China. The Target Group also serves the logistics needs of its refined oil products wholesale customers. Leveraging its strong capabilities in securing stable refined oil supply that is underpinned by their long-term and stable relationships with suppliers of refined oil and their storage capabilities, the Target Group is able to cater for the demand for large quantities of refined oil products from its wholesale customers.

Petroleum Transportation Services

Alongside with the Petroleum Refuelling Business and the Petroleum Wholesale Business, the Target Group also owns a refined oil transportation vehicle fleet, which serves the logistic needs of its wholesale customers and its petroleum refuelling stations. As at the Latest Practicable Date, the Target Group owns 5 trucks, 18 tractor units and 18 trailers for delivering refined oil products.

Financial information of the Target Business

WFOE, as a condition precedent to the Acquisition Completion, entered into the Entrusted Management Agreement with Changchun Yitonghe on 26 June 2020, pursuant to which Changchun Yitonghe as the entrusting party shall (1) entrust the WFOE Group as the operating party with exclusive rights to operate and manage the Petroleum Refuelling Business and Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility; and (2) authorise the WFOE Group to use all assets, property, land and equipment necessary for such operation and management.

During the Track Record Period, the Petroleum Refuelling Business and Petroleum Wholesale Business were conducted through certain companies now comprising the WFOE Group and Changchun Yitonghe (through its branches or divisions) which manage and operate the Petroleum Refuelling Business and Petroleum Wholesale Business separately from the other economic activities of Changchun Yitonghe (the "**Petroleum Segment of Changchun Yitonghe**"). Among which, the Petroleum Segment of Changchun Yitonghe held the ownership or right-of-use assets of 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility. These assets are recognised as properties, plant and equipment in the combined financial statements of the Target Business. Accordingly, depreciation and other relevant expenses are recorded. As the Entrusted Management Agreement will only come into effect immediately prior to the Acquisition Completion, the financial statements of the Target Business have been prepared on combined and historical basis without the impacts of the entrustment arrangements under the Entrusted Management Agreement.

The combined financial statements of profit or loss of the Target Business comprising the Petroleum Refuelling Business, the Petroleum Wholesale Business and the related transportation services for the Track Record Period, are set out below:

	The Target Business			
	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	3,428,449	3,633,176	3,827,574	3,602,976
Profit before taxation	62,092	96,011	108,592	137,876
Profit after taxation	46,342	71,058	80,298	102,447

The net asset value of the Target Business (based on audited combined statement of financial position) as at 31 December 2019 is approximately RMB463,480,000.

PROPOSED APPOINTMENT OF EXECUTIVE DIRECTOR

The Board also announces that, subject to approval by Shareholders at the EGM, Mr. Ma Haidong, a member of senior management team of the Target Group, will be appointed as an executive Director, with effect from the Acquisition Completion. Mr. Ma's biographical details are set out in the section headed "Directors and Senior Management" in this circular.

INFORMATION OF THE PARTIES TO THE SP AGREEMENT

Information of the Company and the Group

The Company was incorporated in the Cayman Islands on 19 December 2016 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Shares of the Company have been listed on the Main Board of the Stock Exchange since 16 October 2017. The principal business of the Group is the operation of vehicle-use CNG, LNG and LPG refuelling stations and mixed refuelling stations which sell vehicles-use CNG and LNG in Jilin and Heilongjiang Provinces under the trademark of " " and the trade name of "眾誠連鎖". Apart from the said refuelling stations, the Group has also diversified into the transportation of LPG and petroleum through the acquisition of Jieli Logistics in March 2018.

The Vendors

Propitious Peak is a company incorporated in the BVI with limited liability and the entire issued share capital of which is owned by Golden Truth, a company wholly owned by Mr. Zhao.

Immense Ocean is a company incorporated in the BVI with limited liability and the entire issued share capital of which is owned by Dynamic Fame, a company wholly owned by Ms. Xu.

Amber Heyday is a company incorporated in the BVI with limited liability and the entire issued share capital of which is owned by Heroic Year, a company wholly owned by Mr. Liu.

Triumphal Diligent is a company incorporated in the BVI with limited liability and the entire issued share capital of which is owned by Noble Praise, a company wholly owned by Mr. Wang.

Harvest Day is a company incorporated in the BVI with limited liability and the entire issued share capital of which is owned by Mr. Zhang Guoguang (張國光先生), an individual investor who is an Independent Third Party.

All of the Vendors are investment holding companies. Other than the holding of their respective Sale Shares, none of the Vendors holds any other assets.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, the Target Group was established by the Vendors and there is no original acquisition cost of the Sale Shares to the Vendors.

TERMINATION OF THE FORMER AGREEMENTS

As a result of the Acquisition Completion, the Former Agreements, namely (a) Former Petroleum Business Entrustment Agreement; (b) Former Gas Business Entrustment Agreement; (c) Former Petroleum Transportation Services Agreement; (d) cooperation arrangement under the Cooperation Agreement; and (e) Former Petroleum Transportation Vehicle Management Agreement, which were entered into by the relevant subsidiaries of the Company in 2017 or in January 2018, will be terminated. Details of the these agreements are provided as follows:

(a) *Former Petroleum Business Entrustment Agreement* – Prior to the Listing, the Group entered into the Former Petroleum Business Entrustment Agreement with Changchun Yitonghe pursuant to which the Group entrusted Changchun Yitonghe with an exclusive right to operate and manage certain petroleum refuelling business at the two mixed refuelling stations owned by the Group. The Acquisition will include the relevant Petroleum Refuelling Business at the mixed refuelling stations owned by the Group and previously entrusted to Changchun Yitonghe and following the Acquisition Completion, the Enlarged Group will engage in both Gas Refuelling Business and Petroleum Refuelling Business. As a result, it is proposed that the Group will take over the Petroleum Refuelling Business at the mixed refuelling stations under the Former Petroleum Business Entrustment Agreement. As such, it is no longer necessary for the Group to maintain the Former Petroleum Business Entrustment Agreement with Changchun Yitonghe.

(b) *Former Gas Business Entrustment Agreement* – The Group entered into the Former Gas Business Entrustment Agreement with Changchun Yitonghe pursuant to which Changchun Yitonghe (through its then wholly owned subsidiaries namely Jilin Haotuo and Dandong United Strength) entrusted the Group with an exclusive right to operate and manage Gas Refuelling Business at three mixed refuelling stations owned by Yitonghe Group. As at the Latest Practicable Date, since Jilin Haotuo and Dandong United Strength are subsidiaries of the Target Company and further, upon Acquisition Completion, Jilin Haotuo and Dandong United Strength will become a member of the Enlarged Group, and the Group intends to continue operating the Gas Refuelling Business at the relevant mixed refuelling stations hence it is no longer necessary to entrust the Gas Refuelling Business at the relevant mixed refuelling station within the Enlarged Group or to maintain the Former Gas Business Entrustment Agreement with Jilin Haotuo and Dandong United Strength.

(c) *Former Petroleum Transportation Services Agreement* – On 19 January 2018, Jieli Logistics as the service provider and Changchun Yitonghe (for itself and on behalf of other members of the Yitonghe Group, their respective branch companies and petroleum refuelling stations owned, controlled and/or operated by them) as service recipient entered into the Former Petroleum Transportation Service Agreement, pursuant to which Jieli Logistics would provide petroleum transportation service through the petroleum transportation vehicles owned by Jieli Logistics at such time and to such location as requested by the service recipient in consideration of payment of transportation service fee by Yitonghe Group. Following the Acquisition Completion, the Petroleum Refuelling Business and Petroleum Wholesale Business of Changchun Yitonghe will be entrusted to the Enlarged Group under the Entrusted Management Agreement, and hence Jieli Logistics will no longer be required to provide the petroleum transportation service to Changchun Yitonghe but to start to provide such service to the Enlarged Group instead. As such, it is no longer necessary for the Group to maintain the Former Petroleum Transportation Services Agreement with Changchun Yitonghe.

(d) *Cooperation arrangement under the Cooperation Agreement* – On 19 January 2018, the Group entered into the Cooperation Agreement with Changchun Yitonghe, pursuant to which Changchun Yitonghe (for itself and other members of the Yitonghe Group) amongst others, supplies fuel oil at the petroleum refuelling stations operated by them to Jieli Logistics' transportation vehicles, in view that Yitonghe Group operates an extensive network of petroleum refuelling stations in Jilin Province which overlaps with the transportation network operated by Jieli Logistics and that Jieli Logistics has been refuelling its transportation vehicles at the petroleum refuelling stations operated by Yitonghe Group from time to time. Following the Acquisition Completion, the Petroleum Refuelling Business and Petroleum Wholesale Business of Changchun Yitonghe will be entrusted to the Enlarged Group under the Entrusted Management Agreement, and hence Jieli Logistics shall refuel at petroleum refuelling stations managed and operated by the Enlarged Group and as such, it is no longer necessary for the Group to maintain the cooperation arrangement under the Cooperation Agreement with Changchun Yitonghe.

(e) *Former Petroleum Transportation Vehicle Management Agreement* – On 19 January 2018, the Group entered into the Former Petroleum Transportation Vehicle Management Agreement with Changchun Yitonghe, pursuant to which Jieli Logistics shall operate and manage the petroleum transportation vehicles for Changchun Yitonghe in consideration of payment of management fee. Following the Acquisition Completion, the Petroleum Refuelling Business and Petroleum Wholesale Business of Changchun Yitonghe will be entrusted to the Enlarged Group under the Entrusted Management Agreement, and hence the overall operation (including the management of the petroleum transportation vehicles) of Petroleum Refuelling Business and Petroleum Wholesale Business will be taken up by the Enlarged Group and as such, it is no longer necessary for the Group to maintain the Former Petroleum Transportation Vehicle Management Agreement with Changchun Yitonghe.

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ENTRUSTED MANAGEMENT AGREEMENT

As a condition precedent to the Acquisition Completion, the Target Group entered into the Entrusted Management Agreement on 26 June 2020, which will constitute connected transactions of the Company, details of which are set out below.

The Directors are of the opinion that the Entrusted Management Agreement falls into the definition of lease of IFRS 16, *Leases*. As such, the Company will recognise an asset representing its right to use the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility under the Entrusted Management Agreement in accordance with the requirements under IFRS 16. This constitutes an acquisition pursuant to the requirements under Chapter 14 of the Listing Rules.

Entrusted Management Agreement

WFOE, as a condition precedent to the Acquisition Completion, entered into the Entrusted Management Agreement with Changchun Yitonghe on 26 June 2020, pursuant to which Changchun Yitonghe as the entrusting party shall entrust the WFOE Group as the operating party with (i) an exclusive right to operate and manage the Petroleum Refuelling Business and the Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility and (ii) authorised the WFOE Group to use all assets, property, land and equipment necessary for such operation and management.

The following is a summary of the principal terms of the Entrusted Management Agreement:

Date	:	26 June 2020
Parties	:	WFOE, as operating party (whether by itself or through other members of the WFOE Group), has the right to use all assets, property, land and equipment for operation and management of the Petroleum Refuelling Business and the Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility.

Changchun Yitonghe, as entrusting party, which is beneficially owned as to approximately 60.90% by Mr. Zhao, a Controlling Shareholder of the Company and an executive Director and the chairman of the Board, as to approximately 12.34% by Ms. Xu, a substantial Shareholder, as to approximately 8.23% by Mr. Liu, a Shareholder and an executive Director, as to approximately 0.82% by Mr. Wang (who was an executive Director of the Company up to 27 November 2018), as to approximately 7.63% by Changchun Rundeshidai Investment Consulting Centre (Limited Partnership)* (長春潤德時代投資諮詢中心（有限合夥）), as to approximately 6.30% by Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership)* (長春盛隆時代投資諮詢中心（有限合夥）), and as to approximately 3.78% by Changchun Huizhongshidai Investment Consulting Centre (Limited Partnership)* (長春滙眾時代投資諮詢中心（有限合夥）), as at the Latest Practicable Date. Therefore, Changchun Yitonghe is a connected person of the Company pursuant to the Listing Rules. Prior to the Acquisition Completion, Changchun Yitonghe and its subsidiaries are principally engaged in the distribution of petroleum to vehicular end-users by operating petroleum refuelling stations, sales of petroleum products and other petroleum-related businesses, including petroleum exploitation and refining, upstream petroleum supplies and research and development of petroleum products.

Changchun Yitonghe, which held the ownership or right-of-use of assets of 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility, is responsible for, amongst other, costs in relation to repair and maintenance and overhaul of the assets and equipment for the Petroleum Refuelling Business and Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility.

Term : 10 years from the date of the Acquisition Completion (for illustrative purpose, assuming the Acquisition Completion takes place on 30 September 2020, period from 30 September 2020 to 29 September 2030)

Entrustment fee	:	RMB50,000,000 per annum.

The entrustment fee shall be settled annually and is determined by the parties to the Entrusted Management Agreement (on arm's length basis and in good faith) with reference to the aggregate amount of expected annual depreciation, repair and maintenance costs, insurance costs, and the operations rights in connection with the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility.

The annual entrustment fee shall be reviewed and adjusted every three years and such adjustment will be subject to a maximum 10% increment from the previously agreed adjusted entrustment fee.

Responsibilities and rights of parties	:	Changchun Yitonghe, as the entrusting party shall be responsible for, among others:

– costs in relation to repair and maintenance (including arranging for necessary insurance policies) and overhaul of the assets and equipment for the Petroleum Refuelling Business and Petroleum Wholesale Business at the relevant Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility at the request of the operating party;

– insurance cost; and

– payment of rent to the land owner for the relevant Entrusted Petroleum Refuelling Stations under lease.

WFOE, as the operating party:

– shall be entitled to all and any income deriving from the operation of Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility;

– shall bear all and any loss occasioned from the operation of the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility; and

– shall bear the relevant costs (except for those costs borne by the entrusting party), expenses and taxes incurred in the operation of the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility.

In respect of expenditure to be incurred for facility improvement at the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility, the entrusting party shall seek prior written consent from the operating party before incurring such expenditure, the expenses of which shall be borne by the entrusting party. Further, Changchun Yitonghe undertook to WFOE that in the event that conditions for transforming the Entrusted Petroleum Refuelling Stations into a mixed refuelling stations are fulfilled, Changchun Yitonghe should facilitate such transformation by not unreasonably withholding such request made by the operating party.

Purchase Option : Changchun Yitonghe (as option grantor) granted the WFOE (for itself and on behalf of other members of the WFOE Group) (as the option grantee) an option to purchase the Petroleum Refuelling Business of the relevant Entrusted Petroleum Refuelling Stations and the Petroleum Wholesale Business of the Entrusted Petroleum Storage Facility, and the assets, property, land and equipment related to its operation and owned by Changchun Yitonghe. The purchase price shall be determined based on arm's length negotiations which should not exceed the carrying amount of leased assets of Changchun Yitonghe under the entrustment arrangement pursuant to the Entrusted Management Agreement.

The option is exercisable by WFOE (or other member of the WFOE Group) (under the supervision of the Board) upon the fulfilment of the relevant condition for its exercise. The Company will comply with the requirements under Chapter 14 and 14A of the Listing Rules when it exercises the option.

Consideration for the grant of the option is RMB1. The exercise period is within the term of the Entrusted Management Agreement and is exercisable from the date on which under the applicable laws and regulations, the operating entity of the related licenses, permits and approval documents of relevant Entrusted Petroleum Refuelling Stations and/or the Entrusted Petroleum Storage Facility can be changed in an efficient manner, such as the investing/operating entity of the "Certificate of Retail Sales of Refined Oil Products" (《成品油零售經營批准證書》), "Certificate of Wholesale of Refined Oil Products" (《成品油批發經營批准證書》) and "The Business License for Hazardous Chemicals" (《危險化學品經營許可証》) of relevant Entrusted Petroleum Refuelling Stations and/or the Entrusted Petroleum Storage Facility can be changed from Changchun Yitonghe to third parties direct without de-registration of the existing operator or the afresh application of the new operator.

Furthermore, pursuant to the Deed of Non-Competition, the Controlling Shareholders shall procure Changchun Yitonghe to take all necessary actions to facilitate the exercise of the above purchase option. The Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility will be continued to be operated by WFOE Group pursuant to the Entrusted Management Agreement if WFOE decides not to exercise the purchase option where feasible. In the event that the Enlarged Group decides not to continue to operate the Entrusted Petroleum Refuelling Stations or Entrusted Petroleum Storage Facility (either through acquisition or entrustment arrangement), the Controlling Shareholders will be subject to the approval mechanism as set out in the Deed of Non-Competition before they can participate in the operation of Entrusted Petroleum Refuelling Stations or the Entrusted Petroleum Storage Facility. For details, please refer to the section headed "Relationship with Controlling Shareholders — Undertaking given by Controlling Shareholders — Approvals for allowing our Controlling Shareholders to participate in the Restricted Activity" in this circular.

Renewal	:	WFOE shall be entitled to the right of first refusal in relation to the renewal of the Entrusted Management Agreement, pursuant to which Changchun Yitonghe can only enter into entrusted management agreement(s) in relation to any Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility with other third parties after WFOE has decided not to renew the Entrusted Management Agreement.
Termination	:	Prior to the expiry of the Entrusted Management Agreement, any party (the non-breaching party) may forthwith terminate the Entrusted Management Agreement by giving written notice to the breaching party upon any of the following events: (a) the occurrence of a material breach or continuing breach of the terms of the Entrusted Management Agreement by the breaching party (except for a breach which has been remedied within a reasonable time following written notice given by the non-breaching party to remedy the breach); or (b) the liquidation or winding-up of the breaching party (either voluntary or involuntary), where the breaching party is found to be insolvent or the filing of a petition to wind up the breaching party (or any process which has a similar effect on the breaching party).

Entrustment fees and basis of determination

The entrustment fee under the Entrusted Management Agreement is an annual fee. The entrustment fee is at RMB50,000,000 per annum, which shall be settled annually and is determined by the parties to the Entrusted Management Agreement (on arm's length basis and in good faith) with reference to the aggregate amount of expected annual depreciation, repair and maintenance costs, insurance costs, and the operations rights that will be borne by Changchun Yitonghe in connection with the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility. The annual entrustment fee shall also be reviewed and adjusted every three years and such adjustment will be subject to a maximum 10% increment from the previously agreed adjusted entrustment fee.

CONTINUING CONNECTED TRANSACTIONS – THE BUSINESS AGREEMENTS AND REFINED OIL PRODUCTS SUPPLY AGREEMENT

As a condition precedent to the Acquisition Completion, the Target Group entered into the Trademark License Agreement, the Trade Name License Agreement, the Petroleum Supply Agreement and Refined Oil Products Supply Agreement on 26 June 2020, which will constitute continuing connected transactions of the Company. The Target Group also entered into the Transportation Vehicles Lease Agreement on 26 June 2020, which will constitute connected transactions of the Company upon Acquisition Completion. Details of these agreements are set out below and in the section headed "Connected Transactions" in this circular.

Exempt Continuing Connected Transactions

A. Trademark License Agreement

WFOE entered into the Trademark License Agreement with United Strength Vehicle Service on 26 June 2020 pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trademark "" in the PRC.

The following is a summary of the principal terms of the Trademark License Agreement:

Date	:	26 June 2020
Parties	:	United Strength Vehicle Service as the licensor; and WFOE as the licensee.
Term	:	From the date of the Acquisition Completion to 31 December 2022, which will be automatically renewed unless both parties mutually agree to terminate
License fee	:	Nil
Responsibilities and rights of parties	:	United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trademark "" in the PRC for the services in respect of, among others, vehicle repair and maintenance, vehicle cleaning, petroleum refuelling stations and vehicle service stations.

B. Trade Name License Agreement

WFOE entered into the Trade Name License Agreement with United Strength Vehicle Service on 26 June 2020 pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trade name "眾誠連鎖" in the PRC.

The following is a summary of the principal terms of the Trade Name License Agreement:

Date	:	26 June 2020
Parties	:	United Strength Vehicle Service as the licensor; and WFOE as the licensee.
Term	:	From the date of the Acquisition Completion to 31 December 2022, which will be automatically renewed unless both parties mutually agree to terminate
License fee	:	Nil
Responsibilities and rights of parties	:	United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trade name "眾誠連鎖" at the petroleum and gas refuelling stations operated by WFOE Group in the PRC.

EXEMPT CONNECTED TRANSACTIONS

C. Transportation Vehicles Lease Agreement

As a result of the Acquisition Completion, the Petroleum Refuelling Business and the Petroleum Wholesale Business will be owned by or under the management of the Group. The vehicles owned by Yitonghe Group for transportation of petroleum will be leased to Jieli Logistics, an indirectly wholly-owned subsidiary of the Company which is responsible for the transportation of gas and petroleum of the Group and Yitonghe Group.

In such connection, Jieli Logistics entered into the Transportation Vehicles Lease Agreement with Changchun Yitonghe on 26 June 2020 pursuant to which Changchun Yitonghe will lease certain petroleum transportation vehicles to Jieli Logistics.

The Directors are of the opinion that the Transportation Vehicles Lease Agreement falls into the definition of lease of IFRS 16, *Leases*. As such, the Company will recognise an asset representing its right to use the transportation vehicles under the Transportation Vehicles Lease Agreement in accordance with the requirements under IFRS 16. This constitutes an acquisition pursuant to the requirements under Chapter 14 of the Listing Rules.

The following is a summary of the principal terms of the Transportation Vehicles Lease Agreement:

Date	:	26 June 2020
Parties	:	Changchun Yitonghe as the lessor; and Jieli Logistics as the lessee.

Term	:	From the date of the Acquisition Completion to 31 December 2022
Number of vehicles under lease	:	32
Determination of rental	:	Changchun Yitonghe will charge Jieli Logistics a monthly rental of RMB62,200, payable monthly, or an annual rental of RMB746,400. The rental is subject to annual review based on the condition of the transportation fleet. The rental of the vehicles under the Transportation Vehicles Lease Agreement is based on the annual depreciation of the individual vehicle and adding the insurance premium, inspection fee with additional 10% margin.
Responsibilities and rights of parties	:	Changchun Yitonghe shall be responsible for the registration fee, insurance and maintenance expenses not relating to normal wear and tear of the transportation fleet. Jieli Logistics: – shall be entitled to all and any income deriving from the operation of transportation fleet; – shall bear all and any loss occasioned from the operation of the transportation fleet; and – shall bear the relevant costs, expenses and taxes incurred in the operation of the transportation fleet.

Basis of determination

In determining the above rental, the Directors have considered generally (a) the market rental rate of comparable transportation vehicle in Northeast China; and (b) the condition of the transportation fleet.

Non-Exempt Continuing Connected Transactions

D. Petroleum Supply Agreement

WFOE entered into the Petroleum Supply Agreement with Songyuan Petrochemical on 26 June 2020 pursuant to which Songyuan Petrochemical will supply refined oil products to the Group.

The following is a summary of the principal terms of the Petroleum Supply Agreement:

Date	:	26 June 2020
Parties	:	Songyuan Petrochemical as the supplier; and WFOE as the customer (for itself and on behalf of the WFOE Group).
Term	:	From the date of the Acquisition Completion to 31 December 2022
Determination of refined oil products charge	:	The refined oil products charge will be determined by the parties (on arm's length and in good faith) with reference to prevailing market price of refined oil products supplied by Songyuan Petrochemical to other Independent Third Parties. Pursuant to the "Measures for the Administration of Petroleum Prices"《石油價格管理辦法》promulgated by the National Development and Reform Commission on 13 January 2016, the adjustment guide prices are issued every 10 working days. Under this mechanism, the refined oil trading enterprises can, based on market conditions and under the premise of not exceeding the statutory price, determine (by itself or between the demand and supply side) the specific price.
Responsibilities and rights of parties	:	WFOE (or the relevant subsidiaries of the WFOE Group) shall pay the refined oil products charge at the end of each month.

Historical Amount

Set out below are the volumes and amounts of refined oil products purchased from Songyuan Petrochemical in connected with the Petroleum Refuelling Business and Petroleum Wholesale Business for the four years ended 31 December 2016, 2017, 2018 and 2019 for comparison purposes:

Year ended 31 December	**Volume** *(tonnes)*	**Amount** *(RMB'000)*
2016	584,907	2,600,598
2017	367,942	1,988,287
2018	243,036	1,519,630
2019	133,577	723,819

Annual caps and basis of determination

The Board estimates that the annual refined oil products charge under the Petroleum Supply Agreement for the three years ending 31 December 2022 will not exceed the following annual caps set forth in the table below:

Year ending 31 December	**Cap** *(RMB'000)*
2020	1,200,000
2021	1,400,000
2022	1,600,000

In determining the above annual caps, the Directors have considered generally (a) the historical amount of refined oil products purchased from Songyuan Petrochemical in connection with Petroleum Refuelling Business and Petroleum Wholesale Business; (b) the anticipated market prices of refined oil products and the fluctuation of refined oil products market price in the past four years with an estimated increment buffer of 15% per annum; and (c) WFOE Group's demand for the refined oil products supply from Songyuan Petrochemical by taking into account its target to maintain supply of not more than 30% of the WFOE Group's total refined oil products procurement amount for each year with a view to striking balance between maintaining stable petroleum supply and over relying on a connected supplier.

E. Refined Oil Products Supply Agreement

Following the Acquisition Completion, the Target Business will be operated under the Enlarged Group. As United Strength Vehicle Service has been one of the Target Business's customers during the Track Record Period, it is expected that such transactions will continue following the Acquisition Completion, and it will constitute a non-exempt continuing connected transaction on the Company upon the Acquisition Completion. For details, please refer to the section headed "Connected Transactions — D. Non-exempt Continuing Connected Transactions — 2. Supply of Refined Oil Products by Target Group to United Strength Vehicle Service" in this circular.

PLACING OF THE PLACING SHARES

It is proposed to carry on the Placing pursuant to which the Underwriters (who and whose ultimate beneficial owners are Independent Third Parties) will place 40,000,000 Placing Shares at the Placing Price of not less than HK$5.00 per Placing Share, on a fully underwritten basis, to not less than six Independent Placees to meet the public float requirements as settlement of the cash consideration under the SP Agreement.

On 26 June 2020 (after trading hours), the Company, the Sole Bookrunner and the other Underwriters, the Joint Sponsors, our Controlling Shareholders and our executive Directors entered into the Placing Agreement. The principal terms are set out below:

Date	:	26 June 2020 (after trading hours)
Parties	:	(1) Our Company (2) The Sole Bookrunner and the other Underwriters (3) The Joint Sponsors (4) Our Controlling Shareholders (5) Our executive Directors To the best of the Directors knowledge, information and belief, having made all reasonable enquiries, the Underwriters and their respective ultimate beneficial owner(s) are Independent Third Parties.
Placees	:	It is expected that the Placing Shares will be placed on a fully underwritten basis to not less than six independent professional, institutional and/or individual investors. It is not expected that any placee will become a substantial shareholder of the Company as a result of the Placing. Each of the placees is or will be (as the case may be) an Independent Third Party.
Number of Placing Shares	:	40,000,000 Placing Shares The Placing Shares will be issued under the Specific Placing Mandate which is subject to Independent Shareholders' approval at the EGM.

The Placing Shares represent (i) approximately 17.06% of the existing share capital of the Company as at the Latest Practicable Date; (ii) approximately 14.57% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares; and (iii) approximately 10.68% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares and the Consideration Shares.

Placing Price

The Placing Price shall be not less than HK$5.00 per Placing Share.

The Placing Price is expected to be fixed by agreement between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Long Stop Date. If, for any reason, our Company and the Sole Bookrunner (on behalf of the Underwriters) are unable to reach agreement on the Placing Price on or before 11 September 2020, the Placing will not proceed and will lapse.

The low-end of the Placing Price of HK$5.00 represents:

(i) a discount of approximately 14.4% to the closing price of HK$5.84 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(ii) a discount of approximately 16.1% to the closing price of HK$5.96 per Share as quoted on the Stock Exchange on the date of the Placing Agreement;

(iii) a discount of approximately 15.3% to the average of the closing prices of HK$5.90 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the Placing Agreement;

(iv) a discount of approximately 12.4% to the average of the closing prices of HK$5.71 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the Placing Agreement;

(v) a premium of approximately 313.48% to the net asset value of approximately RMB1.09 per Share (equivalent to approximately HK$1.21 per Share) based on the audited consolidated net asset value of the Company of approximately RMB255,468,000 (equivalent to approximately HK$283,569,480) as at 31 December 2018 as disclosed in the annual report of the Company for the year ended 31 December 2018 published on 16 April 2019 and 234,502,000 Shares in issue as at the date of the Placing Agreement;

(vi) a premium of approximately 284.45% to the net asset value of approximately RMB1.17 per Share (equivalent to approximately HK$1.30 per Share) based on the audited consolidated net asset value of the Company of approximately RMB274,762,000 (equivalent to approximately HK$304,985,820) as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 published on 17 April 2020 and 234,502,000 Shares in issue as at the date of the Placing Agreement;

(vii) a premium of approximately 313.48% to the net asset value of approximately RMB1.09 per Share (equivalent to approximately HK$1.21 per Share) based on the audited consolidated net asset value of the Company of approximately RMB255,468,000 (equivalent to approximately HK$283,569,480) as at 31 December 2018 as disclosed in the annual report of the Company for the year ended 31 December 2018 published on 16 April 2019 and 234,502,000 Shares in issue as at the Latest Practicable Date; and

(viii) a premium of approximately 284.45% to the net asset value of approximately RMB1.17 per Share (equivalent to approximately HK$1.30 per Share) based on the audited consolidated net asset value of the Company of approximately RMB274,762,000 (equivalent to approximately HK$304,985,820) as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 published on 17 April 2020 and 234,502,000 Shares in issue as at the Latest Practicable Date.

The theoretical diluted price, the benchmarked price and the theoretical dilution effect (as those terms are defined under Rule 7.27B of the Listing Rules) for the Placing under the Specific Placing Mandate (assuming that the Placing Price is at the low end of HK$5.00) are approximately HK$6.28 per Share, HK$6.50 per Share (the closing price of the date of the Announcement) and a discount of approximately 3.36%, respectively.

During the 12-month period immediately preceding the date of the Placing Agreement, the Company has not undertaken any rights issue, open offer or placing under specific mandate.

Conditions precedent to the Placing Agreement : The Placing will be conditional upon, among other things:

(i) the Independent Shareholders having passed resolution at the EGM approving the Placing Agreement and the Specific Placing Mandate and the transactions contemplated thereunder in accordance with the Listing Rules;

(ii) the Stock Exchange granting the listing of, and permission to deal in, the Placing Shares and such approval not having been revoked or cancelled prior to the Placing Completion;

(iii) the Price Determination Agreement having been executed by our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on or before the Price Determination Long Stop Date and such agreement not subsequently having been terminated in accordance with its terms or otherwise;

(iv) the obligations of the Underwriters under the Placing Agreement having become unconditional and not having been terminated in accordance with its terms therein; and

(v) the SP Agreement having become unconditional (save for the condition for the Placing becoming unconditional).

		The Company shall use its reasonable endeavours to procure that conditions set out above are satisfied by 5:00 p.m. on or before the Long Stop Date. None of the conditions above may be waived by any party in any event. If any of the abovementioned conditions is not fulfilled on or before the Long Stop Date, then unless the Company and the Sole Bookrunner (for itself and on behalf of the other Underwriters) mutually agree to further extend the Long Stop Date to such later time and date, the Placing Agreement shall lapse and become null and void and the parties shall be released from all obligations thereunder save for liabilities for any antecedent breaches thereof. In the event that the Long Stop Date applicable to the Placing Agreement is extended, the Company will seek approval by the Independent Shareholders in accordance with the requirements of the Listing Rules.
Placing Completion	:	Placing Completion shall take place within 10 Business Days after the day on which the last condition of the Placing Agreement is fulfilled or such other date as the parties may agree in writing. The placing period will be commencing from the date of Placing Agreement to the date of Placing Completion. Depending on the response of the Placing and the progress of the Acquisition, the Company will consider whether to extend the placing period. The Placing Completion and the Acquisition Completion are inter-conditional and that the Consideration Shares and the Placing Shares shall be allotted and issued simultaneously.
Placing Commission	:	2.5% (among which, 0.5% represents the praecipium payable to the Sole Bookrunner (for its own benefit) and 2.0% represents the commission payable to the Underwriters)
Listing	:	Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

Ranking : The Placing Shares, when issued and fully paid, will rank pari passu amongst themselves and with all the other Shares in issue at the time of allotment and issue of the Placing Shares and with the Consideration Shares.

Termination : The obligations of the Underwriters to place the Placing Shares on a fully underwritten basis are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the date of Placing Completion. The Sole Bookrunner (for itself and on behalf of the other Underwriters), at its sole and absolute discretion, shall have the right to terminate the Placing Agreement by giving notice in writing to our Company, if prior to 8:00 a.m. (Hong Kong time) on the date of Placing Completion:

(a) there has come to the notice of the Sole Bookrunner:

(i) any material breach of any of the representations, warranties and undertakings as set forth in the Placing Agreement by our Company or any of our Controlling Shareholders; or

(ii) there has occurred the termination of the SP Agreement arising from the termination event as described in the paragraph headed "The Acquisition — Termination" in this Letter from the Board above; or

(iii) any statement contained in this circular or announcements to be published by or on behalf of our Company in connection with the Acquisition and/or the Placing, was or has become or been discovered to be untrue, incorrect or misleading in any material respect in the context of the Acquisition and/or the Placing, or that any forecast, expression of opinion, intention or expectation expressed in any of this circular is not, in the context of the Acquisition or the Placing, fair and honest in any material respect and based on reasonable assumptions, when taken as a whole; or

(iv) any person (other than the Joint Sponsors and any of the Underwriters) named in the section headed "Statutory and General Information — 8. Experts — Qualification of expert" in Appendix V to this circular has withdrawn its consent to being named in this circular or to the issue of this circular; or

(v) any event, act or omission which gives or is likely to give rise to any material liability of our Company under the indemnity provisions of the Placing Agreement; or

(vi) any material adverse change or development involving a prospective material adverse change in the business, assets, liabilities, business affairs, prospects, profits, losses or the financial or trading position or performance or management of our Group or the Target Group which is considered by the Sole Bookrunner (for itself and on behalf of the other Underwriters) as to make it impracticable or inadvisable to proceed with the Placing; or

(vii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this circular, constitute a material omission from this circular; or

(viii) a petition or an order is presented for the winding-up or liquidation of our Company, any member of our Group or any member of the Target Group or our Company, any member of our Group or any member of the Target Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company, any such member of our Group or any such member of the Target Group or a provisional liquidator, receiver or manager is appointed to take over all or a substantial part of the assets or undertaking of our Company, any such member of our Group or any such member of the Target Group or anything analogous thereto occurs in respect of our Company, any member of our Group or any member of the Target Group which is considered by the Sole Bookrunner (for itself and on behalf of the other Underwriters) as to make it impracticable or inadvisable to proceed with the Placing; or

(b) there shall develop, occur, exist or come into effect:

(i) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, regional, national, international, financial, political, economic, legal, military, industrial, fiscal, regulatory, currency, or market conditions (including, without limitation, any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or a material devaluation of the Hong Kong dollar or the RMB against any foreign currency) in or affecting any of Hong Kong, the PRC, the U.S. or the European Union (the "**Relevant Jurisdictions**"); or

(ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

(iii) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of international terrorism, declaration of a national or international emergency, riot, public disorder, social unrest, economic sanctions, outbreaks or deepening of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza (H5N1 and H7N9), Swine Flu (H1N1), COVID-19 or such related or mutated forms)) in or affecting and requiring a complete lockdown of any of the Relevant Jurisdictions for more than 20 Business Days; or

(iv) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions, declared or imposed by the relevant competent banking or monetary authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, in or affecting any of the Relevant Jurisdictions; or

(v) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this circular; or

(vi) the commencement by any governmental or regulatory body or organisation in Hong Kong or the PRC of any action against our executive Director in his or her capacity as such or an announcement by such body or organisation that it intends to take any such action; or

(vii) material non-compliance by our Company with this circular (and/or any other documents used in connection with the Placing of the Placing Shares) or any aspect of the Acquisition and/or the Placing with the Listing Rules or any other laws applicable to the Acquisition and/or the Placing; or

(viii) a valid demand by any creditor for repayment or payment of any material indebtedness of any member of our Group or the Target Group or in respect of which any member of our Group or the Target Group is liable prior to its stated maturity; or

(ix) save as disclosed in this circular, any material litigation or claim being threatened or instigated against any member of our Group; or

(x) any material contravention by any member of our Group or any Director of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the SFO or any of the Listing Rules in the context of the Acquisition, the Placing or deemed new Listing;

which in the reasonable opinion of the Sole Bookrunner (for itself and on behalf of the Underwriters):

(1) is or shall have or could be expected to have a material adverse effect on the business, financial or other operational conditions or prospects of our Group as a whole; or

(2) has or shall have a material adverse effect on the success or marketability of the Placing; or

(3) makes it inadvisable, inexpedient or impracticable for the Placing to proceed.

Reasons and Benefits of the Placing

The Directors are of the opinion that the Placing can assist the Company to meet the public float requirements pursuant to the Listing Rules. The proceeds from the Placing can be the financial resources for the Company to settle part of the Consideration.

For the purpose of ensuring that there will be sufficient public interest and adequate and open market for our Company's shares upon Acquisition Completion (as contemplated under Rules 8.07 and 8.08 of the Listing Rules), under the Placing Agreement:

- the Underwriters will place the Placing Shares on a fully underwritten basis under the Placing Agreement (as a measure to ensure that our Company will satisfy the minimum public float requirement and sufficient public interest pursuant to Rule 8.07 and 8.08(1)(a) of the Listing Rule);

- the Underwriters will take appropriate steps to ensure that not more than 50% of the Placing Shares will be beneficially owned by the three largest placees at the Placing Completion (i.e. the time of listing of the Placing Shares) (as a measure to ensure that our Company will abide by the concentration restriction of public shareholders pursuant to Rule 8.08(3) of the Listing Rules).

In the event of (among other terms or conditions of the Placing Agreement) the above contractual provisions not being satisfied, the Joint Sponsors and the Sole Bookrunner (for itself and on behalf of the Underwriters) shall be entitled to terminate the Placing Agreement.

USE OF PROCEEDS TO BE RAISED FROM THE PLACING AND REASONS FOR THE PLACING

The gross proceeds from the Placing would amount to approximately HK$200 million and after deducting the transaction expenses in relation to the reverse takeover, the net proceeds from the Placing are estimated to be approximately HK$160.7 million. The Company intends to apply the net proceeds after deducting professional fees and all related expenses from the Placing as (i) the cash consideration to the Acquisition and (ii) general working capital for the Enlarged Group.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Name of shareholder	Existing shareholding	%	Number of Consideration Shares and Placing Shares to be issued *(note 10)*	Immediately after Acquisition Completion and Placing Completion *(note 10)*	%
Mr. Zhao	130,148,240 *(note 1)*	55.50%	71,780,000 *(note 6)*	201,928,240	53.92%
Ms. Xu	26,381,400 *(note 2)*	11.25%	14,550,000 *(note 7)*	40,931,400	10.93%
Mr. Liu	17,587,600 *(note 3)*	7.50%	9,700,000 *(note 8)*	27,287,600	7.29%
Mr. Wang	1,758,760 *(note 4)*	0.75%	970,000 *(note 9)*	2,728,760	0.73%
Sub-total	**175,876,000**	**75.00%**	**97,000,000**	**272,876,000**	**72.87%**
Harvest Day *(note 5)*	–	–	3,000,000	3,000,000	0.80%
Placees	–	–	40,000,000	40,000,000	10.68%
Other shareholders	58,626,000	25.00%	–	58,626,000	15.65%
Total public shareholders	58,626,000	25.00%	43,000,000	101,626,000	27.13%
Total	**234,502,000**	**100.00%**	**140,000,000**	**374,502,000**	**100.00%**

Notes:

1. These Shares are held in the name of Golden Truth. Golden Truth is wholly owned by Mr. Zhao and accordingly Mr. Zhao is deemed to be interested in these Shares.

2. These Shares are held in the name of Dynamic Fame. Dynamic Fame is wholly owned by Ms. Xu and accordingly Ms. Xu is deemed to be interested in these Shares.

3. These Shares are held in the name of Heroic Year. Heroic Year is wholly owned by Mr. Liu and accordingly Mr. Liu is deemed to be interested in these Shares.

4. These Shares are held in the name of Noble Praise. Noble Praise is wholly owned by Mr. Wang and accordingly Mr. Wang is deemed to be interested in these Shares.

5. Harvest Day is not a connected person of the Company and accordingly it is considered a public Shareholder.

6. These Shares are held in the name of Propitious Peak. Propitious Peak is wholly owned by Golden Truth which is in turn wholly owned by Mr. Zhao and accordingly Mr. Zhao is deemed to be interested in these Shares.

7. These Shares are held in the name of Immense Ocean. Immense Ocean is wholly owned by Dynamic Fame which is in turn wholly owned by Ms. Xu and accordingly Ms. Xu is deemed to be interested in these Shares.

8. These Shares are held in the name of Amber Heyday. Amber Heyday is wholly owned by Heroic Year which is in turn wholly owned by Mr. Liu and accordingly Mr. Liu is deemed to be interested in these Shares.

9. These Shares are held in the name of Triumphal Diligent. Triumphal Diligent is wholly owned by Noble Praise which is in turn wholly owned by Mr. Wang and accordingly Mr. Wang is deemed to be interested in these Shares.

10. The issue of the Consideration Shares and the Placing Shares will be completed simultaneously.

11. It is expected that there will not be any change of control of the Company resulting from the issuance of the Consideration Shares and the Placing Shares.

FINANCIAL EFFECTS OF THE ACQUISITION AND THE ENTRUSTED MANAGEMENT AGREEMENT

Upon Acquisition Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial statements of the Target Group will be consolidated into the financial statements of the Group.

Assets and liabilities

For preparation of the unaudited pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix III to this circular, assuming that the Acquisition Completion took place on 31 December 2019. As at 31 December 2019, the unaudited pro forma total assets of the Enlarged Group would be RMB1,317.9 million (representing an increase of RMB890.2 million when compared with the audited consolidated total assets of the Group of RMB427.7 million as at 31 December 2019) and total liabilities of the Enlarged Group would be RMB829.7 million (representing an increase of RMB676.8 million when compared with the audited consolidated total liabilities of the Group of RMB152.9 million as at 31 December 2019).

Earnings

For preparation of the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group as set out in Appendix III to this circular, assuming that the Acquisition Completion took place on 1 January 2019, the unaudited pro forma net profit of the Enlarged Group attributable to equity shareholders of the Company for the year ended 31 December 2019 would be RMB107.0 million (representing an increase of RMB71.4 million when compared with the consolidated net profit attributable to equity shareholders of the Company of RMB35.6 million for the year ended 31 December 2019).

REASONS AND BENEFITS OF THE ACQUISITION AND THE ENTRUSTED MANAGEMENT AGREEMENT

The Company's business blueprint

As further described in the section headed "INFORMATION OF THE PARTIES TO THE SP AGREEMENT – Information of the Company and the Group" above, the Group is principally engaged in the operation of vehicle-use CNG, LNG and LPG refuelling stations and mixed refuelling stations which sell vehicles-use CNG and LNG in Jilin and Heilongjiang Provinces under the trademark of " " and the trade name of "眾誠連鎖". The acquisition of the Target Group, which owns and operates the Petroleum Refuelling Business and the Petroleum Wholesale Business in a full business chain as further described above, would mark an important step towards the implementation of the Company's regional expansion strategy which leverages the brand recognition effect of "眾誠連鎖" for further expansion in the overall energy sector in the Northeast China.

As disclosed in the announcement of the Company dated 27 November 2018, 90% of net proceeds from the Company's Listing in October 2017 were originally intended to apply for financing the expansion of the Group's CNG refuelling station network through acquisition of CNG refuelling stations. After the Listing, the Group has been actively seeking appropriate business opportunities including in the expansion of its Gas Refuelling Business. However, due to change in government direction (the "**Government Direction**") to encourage the approval of mixed stations instead of pure gas refuelling stations, the relevant authorities are now tightening the approval of pure gas refuelling stations, and are more inclined to approve oil and gas mixed refuelling stations or adding gas refuelling facilities to existing petroleum refuelling stations. As such, it is increasingly cumbersome and difficult for the Group to apply for new gas refuelling stations, as evidenced by that the last pure gas refuelling station, of which the Group had obtained all approvals, has to be traced back to March 2017. At the same time, it is also difficult to identify suitable independent gas refuelling stations for equity acquisition or entrusted operation. The Company has attempted to apply for new pure gas refuelling stations with the competent authorities on several occasions, but the application procedures were not completed as at the Latest Practicable Date. As advised by Frost & Sullivan, there were no approval granted for new pure gas refuelling stations in Jilin Province in 2018 and 2019 and the number of newly approved pure gas refuelling stations in Jilin Province was 20, 10, 5, 0 and 0 for the years ended 31 December 2015, 2016, 2017, 2018 and 2019. Since 1 January 2020 and up to the Latest Practicable Date, there was a state-owned enterprise has successfully obtained approval for one new pure gas station project in Jilin Province. As advised by the PRC Legal Advisors and Frost & Sullivan, based on the publicly available information published by the Changchun Municipal Bureau of Planning and Natural Resources (長春市規劃和自然資源局), save for the one new pure gas station project applied by the state-owned enterprise, all of the six new gas station projects that were granted approval from the local authority in Changchun City since 2018 and up to the Latest Practicable Date were mixed gas and petroleum station projects. As further advised by Frost & Sullivan, the number of newly approved pure petroleum refuelling stations in Jilin Province was 50, 55, 55, 45 and 45 for the years ended 31 December 2015, 2016, 2017, 2018 and 2019. Based on the above, our Directors and the Target Company Directors consider that the Government Direction aimed at tightening the approval of new pure gas refuelling stations instead of petroleum refuelling stations.

Our Directors consider that the rationale behind the Government Direction arose from the government's consideration on how to better utilize the limited land resources in constructing refuelling stations for satisfying need from vast public. Notwithstanding there was a steady growth in the gas refuelling industry in Northeast China over the past years and it is expected that the growth will continue in the future, the portion of gas vehicles users was still small as compared with gasoline vehicles users in Northeast China. According to Frost & Sullivan, as at 31 December 2019, over 97.0% of the vehicle users were driving with gasoline vehicles while only 2.6% of vehicle users were driving with gas vehicles. In light of the above, building a pure gas refuelling station alone could only cater the demand of small portion of users, and construction of pure gas refuelling station does not align with the Government Direction aiming for better and more efficient land use. On the contrary, a pure petroleum refuelling station or a mixed refuelling station can serve sufficient number of vehicles users. Therefore, considering the overall land use planning and the Government Direction to make use of the land more efficiently, our Directors believed that the Government Direction would have limited the possible distribution network of pure gas refuelling station and thus the cycle for approval a pure gas refuelling station had been longer than previously expected.

The Government Direction served an indication that our Company could no longer rely on pure gas refuelling station and thus our Company explored way out for future corporate development. The Government Direction also served as an alarm to the Board that if our Company confined ourselves in a single line of business, there would be a possibility that our business performance will be seriously hampered by sudden policy change. It is not just necessarily about following the Government Direction to construct mixed refuelling station, but rather it is more about the Board's ability to avoid adverse policy impact and choose to diversify its business portfolio. Hence, although the Board did not rule out the possibility of acquiring mixed refuelling stations from independent third party, the Board also looked into other business opportunities including the potential Acquisition. Our Directors consider the potential Acquisition was appropriate given:

- the Target Group is a leading private petroleum station operator (i.e. gasoline and diesel) in Northeast China. According to the F&S Report, the Target Group is the largest private petroleum refuelling station operator in Northeast China in terms of refined oil products sales volume in 2019, and the Target Group took up approximately 1.1% of the total market share (including both private and state-owned petroleum refuelling station operators) or approximately 8.4% of the private market share in Northeast China in 2019; and

- it is also natural for our Company to accord priority in considering the potential Acquisition given that there is a strong urge for the business expansion of our Company in view of the change of the government directions to avoid bearing substantial risks associated with the single line of current business. There is no reason to deliberately exclude considering the possibility of purchasing of the Petroleum Refuelling Business in our Group through the Acquisition.

Our Company had not engaged in petroleum refuelling business and currently did not possess the relevant experience and expertise in running day-to-day operations of the petroleum refuelling business, i.e. from procurement to sales of refined oil products and quality control which require essential input from operational team of the Target Business, it might not be feasible for our Company to run the entire mixed refuelling stations on our own. For the Shareholders' information, having explored, amongst other, the locations and structure of the current petroleum refuelling stations operated by the Target Group, there are approximately 14 stations (out of 67 stations), representing 12 Entrusted Petroleum Refuelling Stations and 2 self-owned petroleum refuelling stations which, subject to approval by the relevant government authorities, are capable of transforming from a pure petroleum refuelling station to a mixed refuelling station. In respect of Entrusted Petroleum Refuelling Stations, pursuant to the Entrusted Management Agreement, Changchun Yitonghe undertook to WFOE that in the event that conditions for transforming the Entrusted Petroleum Refuelling Stations into a mixed refuelling stations are fulfilled, Changchun Yitonghe should facilitate such transformation by not unreasonably withholding such request. For further details, please refer to sections headed "Letter from the Board — Very Substantial Acquisition and Connected Transaction — Entrusted Management Agreement" and "Connected Transactions — A. Connected Transactions — 1. Entrusted Management Agreement" in this circular. On that other hand, due to higher technical requirement and more complex procedures of transforming a gas refuelling station into a mixed refuelling station, which our Directors considered not cost-efficient in doing so, our Directors would place priority in exploring the transformation from a petroleum refuelling station into a mixed refuelling station. Making reference to the average historical transforming expenditure, the estimated capital expenditures associated with transforming one petroleum refuelling station into a mixed refuelling station would amount to approximately RMB2.0 million. Our Directors and the Target Company Directors consider that the potential impact of transforming from pure petroleum refuelling stations to mixed refuelling stations on the Enlarged Group's financial performance and financial position would be immaterial should such transformation take place, and that the business operation of the Petroleum Refuelling Stations will not be materially interrupted during the transformation. On the other hand, through the Acquisition, our Company could not only acquire the relevant petroleum refuelling business but also the entire management and operation team of petroleum refuelling business, which render our Company with the expertise and personnel to engage in the petroleum refuelling segment of the mixed refuelling station. As compared to individual third party mixed refuelling stations or third party petroleum refuelling stations, the Target Group ranked 1st place in Northeast China in terms of retail volume, taking up approximately 8.4% of total private market share with refined oil retail volume of 270.1 thousand tonnes. Also, according to the F&S Report, the refined oil retail market of private petroleum refuelling station operators in Northeast China is relatively fragmented with top five players taking up approximately 14.7% of the market share and the Target Group captured more than half of such market shares from the top five players. The Target Group also possesses storage facilities and refined petroleum transportation vehicle fleet which enables a stable and timely supply of refined oil to its extensive network of petroleum refuelling stations. As such, the Acquisition represents a precious opportunity for the Group to acquire the largest private petroleum refuelling station operator in Northeast China, enabling the Group to tap into the petroleum retail market and becomes the largest private petroleum refuelling station operator in Northeast China in a swift and effective manner. Having considered that (i) the scale of the other top players (whether alone or in aggregate) is smaller than the Target Business, (ii) more time is needed in negotiating with the acquisitions of those petroleum refuelling stations held by other top players such that the Group could respond its petroleum retail business to a scale comparable to the Target Business is far higher than that of the Acquisition, (iii) it would further secure the employee retention after the Acquisition as they are and will continue to work for the same controlling shareholder, and (iv) the potential acquisition target of mixed refuelling stations in two major operation areas of the Target Business, namely Changchun City of Jilin Province and Dandong City of Liaoning Province, is rather limited as there were only approximately 10 mixed refuelling stations owned by several private players in Changchun City and none in Dandong City apart from the mixed refuelling stations of the Target Group as advised by F&S, our Directors are of the view that the Acquisition is more beneficial to the Company than acquiring mixed refuelling stations from independent third parties.

On the other hand, our executive Director and Controlling Shareholder, Mr. Zhao, as a veteran businessman, seeing the successful Listing of the Company in October 2017, was in mind of exploring the possibility of enhancing his assets portfolio and creating further investment opportunities in capital market. Although at the moment Mr. Zhao and the Company considered that it might not be in the best interest for the Company to include the petroleum refuelling business for the Listing in October 2017 with its gas refuelling business, Mr. Zhao has from time to time considered whether it is viable to list the petroleum refuelling business on its own via a standalone IPO and has commenced informally exploring the idea of IPO in April 2018. The change of Government Direction in June 2018 led to his further thought to explore the opportunity to include the petroleum refuelling business through an acquisition.

In view of the changing market conditions and to ensure the business growth and diversification of the Group, at the meeting of the Board held on 27 November 2018, the Directors discussed and agreed to embark on seeking the possibility of seizing future opportunities in the energy and new energy business that are closely related to the Company's main business, such as natural gas pipeline networks, petroleum stations, mother stations, storage facilities, transportation facilities, petroleum and gas fields, natural gas supply and businesses of other gas-related industries (the "**Potential New Business**"). The Board agreed to further study the viability regarding the investment, development, promotion or collaboration in, amongst others, the Potential New Business market, with a view to diversifying the Group's source of income, increasing the Group's customer base, generating additional income and in return, bringing reasonable returns to the Shareholders.

Given that the Potential New Business is a relatively capital-intensive business, sufficient, stable and low-cost funding is essential for the Group to realise its expansion plan in the energy-related industry. In particular, abundant capital is required for the infrastructure construction, potential acquisition of existing market operators, and the daily operation and maintenance of stations and facilities. On 10 December 2018, Mr. Wang Jiawei as vendor and Mr. Wang Jiantao as guarantor of the vendor approached Mr. Yuan Limin, being an executive Director, and discussed the possibility of the potential acquisition of Silver Spring Green Energy Limited (the "**Silver Spring Acquisition**").

Such potential acquisition was considered, discussed and reviewed by the Board and the Directors consider that, by becoming a beneficial owner of Silver Spring Green Energy Limited which holds 30% of China Travel Service International Financial Leasing Company Limited ("**CTS Financial Leasing**") which engages in the financial leasing business, the Group would be provided with a more favourable financial platform which could provide necessary and cost-efficient financial support to the Group for its potential expansion in the Potential New Business in future. Thus, the Directors are of the view that CTS Financial Leasing will accord priority to the Group in providing financial support for the Group's future expansion when such needs arise. Details of the Silver Spring Acquisition are set out in the announcement of the Company dated 31 January 2019. The Silver Spring Acquisition was completed and the consideration by the Company for the Silver Spring Acquisition was fully paid by 31 March 2019 and CTS Financial Leasing, which is 30% owned by Silver Spring Green Energy Limited, becomes a joint venture of the Group. As disclosed in the announcement of the Company dated 31 January 2019, part of the consideration of the Silver Spring Acquisition in the amount of HK$34.5 million was settled through re-allocating proceeds for financing the expansion of the CNG refuelling station network, being part of originally intended plans for use of proceeds as disclosed in the Prospectus. As at 31 January 2019, the Group's amount of unutilized proceeds from the Listing amounted to HK$62.2 million, which has already excluded the aforementioned HK$34.5 million.

The Acquisition is considered to be the first step for the Group to tap into the Potential New Business, and is expected to further enhance the Company's presence in the energy market in the Northeast China as well as to facilitate the Company to lay a solid foundation for its expansion roadmap in other parts of the PRC. It also allows the Group to make full use of the existing refuelling station network of Changchun Yitonghe for expansion of the Group's refuelling business. The Directors believe that the Acquisition will create synergies between the Target Group's Petroleum Refuelling Business and the Group's existing Gas Refuelling Business, thereby enhancing the competitive strength of the Company in the energy industry. In particular, the Acquisition enables the Group to: (a) expand the network, market share and scale of the Enlarged Group's Petroleum Refuelling Business and Gas Refuelling Business in the Northeast China; (b) provide a richer product portfolio and a broader sales network; (c) leverage opportunities to acquire business licenses and permits and operation rights; (d) enhance the Group's bargaining power when negotiating with existing and new suppliers; and (e) through cost-saving measures (including shared services and back office integration), improve the Company's cost of information and technology and efficiency of corporate operation. Nevertheless, if the Group chose to develop and construct the refuelling stations by its own effort, it would take a very long time and substantial amount of resources for the Group to develop a refuelling stations network comparable to the scale and size of the Target Group together.

The Directors consider that the Acquisition is a legitimate business development and diversification strategy and business expansion of the Group to provide additional products in its line of fuel provision business to an expanded target segment. This business expansion is in line with the government direction that encourages the construction of mixed stations and/or the addition of gas refuelling facilities to the existing petroleum refuelling stations, so that the Enlarged Group can serve a wider spectrum of vehicle-users. In addition, given the profitable track record of the business of the Target Company, the Acquisition represents an attractive investment opportunity for the Group to expand and diversify its business/investment portfolio and to enhance the Group's long-term development potential and is in the best interest of the Company and the Shareholders as a whole. Through the Acquisition, our Company could not only acquire the relevant petroleum refuelling business but also the entire management and operation team of petroleum refuelling business, which render our Company with the expertise and personnel to engage in the petroleum refuelling segment of the mixed refuelling station. As compared to individual third party mixed refuelling stations, the Target Group also possesses storage facilities and refined petroleum transportation vehicle fleet which enables a stable and timely supply of refined oil to its extensive network of petroleum refuelling stations.

The Directors also consider that Petroleum Refuelling Business will provide the Group with business expansion opportunity in the energy sector in the Northeast China. The petroleum storage facilities are able to provide stable source of supply petroleum to the Enlarged Group's petroleum refuelling stations, and at the same time providing essential source of supply of petroleum for the Petroleum Wholesale Business and the operation of the transportation fleet.

Going forward, the Company will continue to actively explore business opportunities in and outside Northeast China by way of, among others, mergers and acquisitions, strategic cooperation as well as establishing other business relationships with a view to further implementing its business expansion strategy. It is also expected that the Enlarged Group will form a solid platform for the Group's continued expansion with a view to diversifying the Group's business and source of income and bringing reasonable returns to the Shareholders.

The Company's intention in respect of the Group's and the Target Group's businesses

To implement the aforesaid business blueprint in the years to come, the Company intends to continue to operate the Petroleum Refuelling Business and the Petroleum Wholesale Business of the Target Group. Pooling together the collective experience of the Group's and the Target Group's senior management in various key areas such as customers, product solutions, supply chain management, administration, information technology, human resources, social media and marketing, the Company intends to establish (i) an "Integration and Cooperation Steering Committee" comprising a total of five members with two and three professionals from the Petroleum Refuelling Business and the Gas Refuelling Business respectively, each with not less than 15 years of experience in the relevant business segment; and (ii) an "Integration and Cooperation Team" comprising five other experienced professionals from each of the two business segments. The Integration and Cooperation Steering Committee will formulate the business direction and strategies for the Petroleum Refuelling Business and the Gas Refuelling Business with a view to enhancing the business competitiveness of the Enlarged Group. The Integration and Cooperation Team is tasked with the responsibility of implementing the business direction and strategies drawing on the resources of the Enlarged Group, including the financial, human and technology resources, etc.

At the same time, the Company intends to continue to own and operate the Group's existing Gas Refuelling Business in order to achieve the aforesaid synergies and sharing of capabilities, thereby maximising the competitiveness and presence of the Enlarged Group. As at the Latest Practicable Date, the Company has no intention and has not entered into any understanding, arrangement or undertaking to dispose of or downsize the Gas Refuelling Business or the related major operating assets.

Reasons for entering into the Entrusted Management Agreement

Under the Entrusted Management Agreement, the Enlarged Group will be entitled to operate and manage the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility owned by Changchun Yitonghe under the trademark of " " and the trade name of "眾誠連鎖" and use all assets, property, land and equipment necessary for such operation and management.

Although the Entrusted Management Agreement has the form of entrustment arrangements and the Target Group will not own the 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility, in substance, the Target Group will operate the Target Business independent from Yitonghe Group and has the full right to all its revenue as if it owns the 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility. The Target Business will be operated by the same management team from the Target Group, which, upon Acquisition Completion, will operate the Target Business under the same trademark and trade name and there will not be separate business line or segment under the Enlarged Group to distinguish the self-owned petroleum refuelling stations and the Entrusted Petroleum Refuelling Stations. From the Company's perspective, it is acquiring the single line of business operated by the Target Group, i.e. managing and operating a total of 69 petroleum refuelling stations and three petroleum storage facilities.

The Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility have all along been operated by and under Changchun Yitonghe. The Group and the Yitonghe Group decided to proceed with the entrustment of the Petroleum Refuelling Business and the Petroleum Wholesale Business and consider this would be in the best interest of the Company and its Shareholders as a whole, instead of (i) through the acquisition of the equity interest of Yitonghe Group by the Group ("**Equity Acquisition**") and subsequently disposal of assets and business unrelated to the Petroleum Refuelling Business and the Petroleum Wholesale Business (i.e. "Unrelated Business/Assets", as defined below); or (ii) the acquisition of the Petroleum Refuelling Business and the Petroleum Wholesale Business operated by the stations, the related assets, property, land and equipment from Yitonghe Group by the Group ("**Asset Acquisition**") for the following reasons:

Equity Acquisition

Changchun Yitonghe and its affiliated companies together own 40 petroleum refuelling stations and manages two petroleum refuelling stations which are owned by the

Group under the Former Petroleum Business Entrustment Agreement. In addition, Changchun Yitonghe and its subsidiaries carry on businesses including petroleum exploitation and refining, upstream petroleum supplies and research and development of petroleum products, etc. and other business and assets unrelated to the Petroleum Refuelling Business and the Petroleum Wholesale Business ("**Unrelated Business/Assets**").

It is not the Company's current intention to acquire business other than Target Business. In view of the complicated business structure of Changchun Yitonghe that includes the Unrelated Business/Assets, the Equity Acquisition may not be in the best interest of the Company and its Shareholders as a whole in the current stage.

Asset Acquisition

The Asset Acquisition involves complicated administrative steps of having to re-comply with the approval procedures and requirements, which includes the de-registration of Changchun Yitonghe and its branch companies, and the re-application for various approvals for the operation of the petroleum refuelling stations and the petroleum storage facilities. There is no assurance that the Group be able to obtain relevant licenses and/or approvals to operate the petroleum refuelling stations and the petroleum storage facilities at their existing locations when such relevant re-applications are submitted to the authorities after Asset Acquisition and the Petroleum Refuelling Business may not be continued at their existing locations after any such proposed Asset Acquisition, and therefore the Company considers that the approach of Asset Acquisition would not be in the best interest of the Company and its Shareholders as a whole.

Reasons for entering into the Business Agreements

In connection with the Acquisition, the Group also entered into the Business Agreements, namely the Trademark License Agreement, the Trade Name License Agreement, the Transportation Vehicles Lease Agreement and the Petroleum Supply Agreement, which are necessary for the operation of the Petroleum Refuelling Business and Petroleum Wholesale Business, which constitute continuing connected transactions and connected transaction of the Company under the Listing Rules. In respect of the Petroleum Supply Agreement, apart from the fact that the upstream petroleum supplies forms part of the Unrelated Business/Assets which the Company believes it is not in the best interest of the Group to acquire, the petroleum refuelling stations have been sourcing petroleum supply from Independent Third Party suppliers, as illustrated from the decreasing amount of petroleum purchased by Target Group and Yitonghe Group for its Petroleum Refuelling Business and the Petroleum Wholesale Business for the years ended 31 December 2016, 2017, 2018 and 2019, the Directors consider that notwithstanding the other petroleum suppliers in the market, the Petroleum Supply Agreement, pursuant to which the pricing of the petroleum charge will be determined by the parties (on arm's length and in good faith) with reference to prevailing market price of petroleum supplied by Changchun Yitonghe to other Independent Third Party suppliers, will provide the Petroleum Refuelling Stations a stable source of petroleum supply to the petroleum refuelling stations as a safeguard against any potential disruption of supply of petroleum by the Independent Third Party suppliers, and that the Petroleum Supply Agreement is in the best interests of the Company and its Shareholders as a whole.

In view of the above, the Directors (including the independent non-executive Directors after taking into account the advice and recommendations of the Independent Financial Adviser) consider the terms of (i) the SP Agreement, (ii) the Entrusted Management Agreement, (iii) the Petroleum Supply Agreement and (iv) the Placing Agreement and the transactions contemplated thereunder to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry: (i) the Target Company is beneficially owned as to approximately 71.78% by Mr. Zhao and approximately 9.70% by Mr. Liu; (ii) Changchun Yitonghe is beneficially owned as to approximately 60.9% by Mr. Zhao and approximately 8.23% by Mr. Liu; and (iii) United Strength Vehicle Service is beneficially owned as to approximately 45.1% by Changchun Yitonghe. As a result, each of Mr. Zhao and Mr. Liu is considered to be having a material interest in the SP Agreement, the Entrusted Management Agreement, the Business Agreements and the transactions contemplated thereunder, and they had abstained from voting on the relevant board resolutions.

Notwithstanding that Mr. Xu Huilin, an executive Director, is a limited partner holding approximately 1.97% of interests in Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership) (長春盛隆時代投資諮詢中心(有限合夥)), a 6.30% shareholder of Changchun Yitonghe, it is considered by the Board that Mr. Xu Huilin does not have a material interest in the SP Agreement, the Entrusted Management Agreement, the Business Agreements and the transactions contemplated thereunder, and therefore he had not abstained from voting on the relevant board resolutions.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST TWELVE MONTHS

Apart from the fund raising activities mentioned in this circular (i.e. the proposed issuance of Consideration Shares and Placing Shares), the Company has not conducted any equity fund raising activities in the 12 months immediately preceding the Latest Practicable Date.

IMPLICATION OF THE ACQUISITION UNDER THE LISTING RULES AND NEW LISTING APPLICATION

The Acquisition constitutes a reverse takeover for the Company under Rule 14.06B (as referred to as Rule 14.06(6)(a) prior to 1 October 2019) of the Listing Rules.

Under Rule 14.54 of the Listing Rules, the Company will be treated as if it were a new listing applicant. The Enlarged Group must be able to meet the basic listing eligibility requirements of Rule 8.05 of the Listing Rules and the Enlarged Group must be able to meet all other basic conditions set out in Chapter 8 of the Listing Rules.

The Acquisition is subject to the approval of the Listing Committee. As at the Latest Practicable Date, the New Listing Application has been submitted to the Stock Exchange. The Listing Committee may or may not grant its approval to the New Listing Application.

If such approval is not granted by the Listing Committee, the SP Agreement will not become unconditional and the Acquisition will not proceed.

The Acquisition is also subject to the approval of the Independent Shareholders at the EGM. The Consideration Shares and the Placing Shares will be issued under a specific mandate to be obtained at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Target Company is beneficially owned as to approximately 71.78% by Mr. Zhao, approximately 14.55% by Ms. Xu, approximately 9.70% by Mr. Liu, approximately 0.97% by Mr. Wang and approximately 3.00% by an Independent Third Party as at the Latest Practicable Date. Mr. Zhao is a Controlling Shareholder and an executive Director, Ms. Xu is a substantial Shareholder, Mr. Liu is an executive Director and Mr. Wang was an executive Director of the Company up to 27 November 2018, they are regarded as connected persons of the Company pursuant to Chapter 14A of the Listing Rules. As such, the Acquisition and the issue of the Consideration Shares constitute non-exempt connected transactions for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

For the Entrusted Management Agreement

As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Entrusted Management Agreement, exceed(s) 100%, the Entrusted Management Agreement constitutes a very substantial acquisition transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement, circular and Shareholders' approval in general meeting requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Changchun Yitonghe is beneficially owned as to approximately 60.9% by Mr. Zhao, approximately 12.34% by Ms. Xu, approximately 8.23% by Mr. Liu and approximately 0.82% by Mr. Wang and it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As such, the Entrusted Management Agreement constitutes non-exempt connected transactions for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

For the Business Agreements

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Changchun Yitonghe is beneficially owned as to 60.9% by Mr. Zhao, 12.34% by Ms. Xu, 8.23% by Mr. Liu and 0.82% by Mr. Wang and it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Chapter 14A of the Listing Rules) in respect of the Petroleum Supply Agreement exceed(s) 5%, the Petroleum Supply Agreement constitutes non-exempt continuing connected transactions for the Company and is subject to reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

As none of the applicable percentage ratios (as defined under Chapter 14A of the Listing Rules) in respect of the value of right-of-use asset under the Transportation Vehicles Lease Agreement exceed(s) 5% and such amount does not exceed HK$3,000,000, the Transportation Vehicles Lease Agreement constitutes exempt connected transactions for the Company and is not subject to reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, (1) United Strength Vehicle Service is beneficially owned as to approximately 45.1% by Changchun Yitonghe, (2) it is a customer of the Target Business, and (3) it has granted to the Group and will grant to the WFOE Group to use the trademark " " and trade name "眾誠連鎖" and it is regarded as a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As there is no financial commitment on the part of the WFOE Group for the use of the trademark and trade name, all the size tests for each of the Trademark License Agreement and the Trade Name License Agreement under the Listing Rules are nil. As such, the Trademark License Agreement and the Trade Name License Agreement constitute exempt continuing connected transactions for the Company and are not subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

For the reasons set forth above, each of the Transportation Vehicles Lease Agreement, the Trademark License Agreement and the Trade Name License Agreement is not subject to Independent Shareholders' approval at the EGM.

For Refined Oil Products Supply Agreement

As all the applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction under the Refined Oil Products Supply Agreement and the proposed annual caps in respect of the refined oil products to be sold to United Strength Vehicle Service) is more than 0.1% but less than 5%, the transaction in relation to the supply of refined oil products under the Refined Oil Products Supply Agreement is subject to the compliance with the announcement, reporting and annual review requirements but exempted from circular (including the independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the Proposed Placing

As the Placing Shares will be allotted and issued under the Specific Placing Mandate to be obtained at the EGM, the Placing is subject to the Shareholders' approval.

EGM AND VOTING

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, pass the resolutions to approve (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated under each of the agreements mentioned above. A notice convening the EGM to be held at Room C, theDesk, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 24 July 2020 at 3:00 p.m. is set out on pages EGM-1 to EGM-5 of this circular. Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. The chairman of the forthcoming EGM will therefore put the resolutions to be proposed at the EGM to be voted by way of a poll pursuant to the Amended and Restated Articles of Association of the Company. After the conclusion of the EGM, the results of the poll will be released on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.united-strength.com. All Shareholders who have a material interest in the Acquisition will be required to abstain from voting on the relevant resolutions at the EGM. Mr. Zhao, a Controlling Shareholder and an executive Director, Ms. Xu, a substantial Shareholder, Mr. Liu, an executive Director, and Mr. Wang, who resigned as an executive Director with effect from 27 November 2018, being the Vendors, have interests in the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement and the Placing Agreement and the transactions contemplated thereunder, will be required to abstain and will procure their respective associates to abstain from voting on the resolutions in respect of the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement and the Placing Agreement and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang were interested in 130,148,240 Shares, 26,381,400 Shares, 17,587,600 Shares and 1,758,760 Shares respectively, which in aggregate representing approximately 75% of the issued shares of the Company. A proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM or any adjourned meeting in person, please complete, sign and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and, in such event, the proxy form shall be deemed to be revoked.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 104 to 105 of the circular and the letter from the Independent Financial Adviser set out on pages 106 to 154 of the circular. The Independent Board Committee, having taken into account of the advice from Chanceton Capital Partners Limited, the text of which is set out on pages 106 to 154 of this circular, considers that the transactions contemplated thereunder, are upon normal commercial terms following arm's length negotiations between the parties hereto and that the terms of (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; and (iv) the Placing Agreement is fair and reasonable so far as the Independent Shareholders are concerned and (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; and (iv) the Placing Agreement and the transactions contemplated thereunder, are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder.

The Independent Board Committee, having taken into account of the advice from Chanceton Capital Partners Limited, the text of which is set out on pages 106 to 154 of this circular, considers that (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; and (iv) the Placing Agreement and the transactions contemplated thereunder are upon normal commercial terms following arm's length negotiations between the parties hereto and that the terms of (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; and (iv) the Placing Agreement is fair and reasonable; so far as the Independent Shareholders are concerned and (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; and (iv) the Placing Agreement and the transactions contemplated thereunder, are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder.

Having considered the above-mentioned benefits to the Group and the advice of the Independent Financial Adviser, the Directors (including the independent non-executive Directors) consider that the terms of (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; and (iv) the Placing Agreement are on normal commercial terms and the issue of Consideration Shares under Specific CS Mandate are in the interests of the Company and the Shareholders as a whole and they are fair and reasonable to the Company. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder.

GENERAL

Shareholders and potential investors should note that (i) the Acquisition Completion is subject to fulfilment (or if applicable, waiver) of the conditions as set out in the SP Agreement and (ii) the legal effect of the Entrusted Management Agreement and the Business Agreements is subject to the Acquisition Completion taking place, the transactions contemplated under the SP Agreement, the Entrusted Management Agreement, the Business Agreements and the Placing Agreement may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 104 to 105 of the circular; and (ii) the letter of advice from the Independent Financial Adviser set out on pages 106 to 154 of this circular, which contains among other matters, its advice to the Independent Board Committee and the Independent Shareholders in connection with (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder and the principal factors considered by it in arriving at its recommendation.

By order of the Board
United Strength Power Holdings Limited
Mr. Zhao Jinmin
Chairman

The following is the full text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement and the Placing Agreement and the transactions contemplated thereunder.

眾誠能源

UNITED STRENGTH POWER HOLDINGS LIMITED
眾誠能源控股有限公司

(Incorporated in the Cayman Islands with members' limited liability)
(Stock Code: 2337)

30 June 2020

To the Independent Shareholders

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC CS MANDATE;

(2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ENTRUSTED MANAGEMENT AGREEMENT;

(3) CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS – BUSINESS AGREEMENTS AND REFINED OIL PRODUCTS SUPPLY AGREEMENT;

(4) REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION;

(5) PLACING OF THE PLACING SHARES UNDER SPECIFIC PLACING MANDATE;

(6) APPOINTMENT OF EXECUTIVE DIRECTOR; AND

(7) NOTICE OF EXTRAORDINARY GENERAL MEETING

We refer to the circular of United Strength Power Holdings Limited dated 30 June 2020 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you in connection with the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement, the Placing Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" of the Circular.

Chanceton Capital Partners Limited has been engaged to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement, the Placing Agreement and the transactions contemplated thereunder, and whether they are in the ordinary and usual course of business of the Group, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote.

We wish to draw your attention to the "Letter from the Independent Financial Adviser" as set out on pages 106 to 154 of the Circular, which contains its advice and recommendation to us and the Independent Shareholders and its recommendation to Independent Shareholders as to how to vote in respect of the resolutions as set out in the notice of the EGM.

Having considered the reasons for and benefits of the Acquisition and the Placing as set out in the Circular, the terms of the SP Agreement, the Entrusted Management Agreement and the Placing Agreement, the reasons considered by, and the opinion of, the Independent Financial Adviser as stated in its letter of advice, and the relevant information contained in the Letter from the Board, we are of the opinion that the SP Agreement, the Entrusted Management Agreement, the Placing Agreement and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Group, are fair and reasonable as far as the Independent Shareholders are concern, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Having considered the reasons for and benefits of the Petroleum Supply Agreement and the transactions contemplated thereunder as set out in the Circular, the terms of the Petroleum Supply Agreement, the reasons considered by, and the opinion of, the Independent Financial Adviser as stated in its letter of advice, and the relevant information contained in the Letter from the Board, we are of the opinion that the Petroleum Supply Agreement and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group, are on terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions as set out in the notice of the EGM.

Yours faithfully,

Ms. Su Dan **Mr. Lau Ying Kit** **Mr. Zhang Zhifeng**

Independent Board Committee

The following is the full text of a letter of advice from Chanceton Capital Partners Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated under each of the agreements.

川盟融資有限公司
Chanceton Capital Partners Limited

30 June 2020

To the Independent Board Committee and the Independent Shareholders

Room 4310, 43/F,
China Resources Building,
26 Harbour Road,
Wanchai, Hong Kong

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY INVOLVING ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC CS MANDATE;

(2) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION – ENTRUSTED MANAGEMENT AGREEMENT;

(3) CONTINUING CONNECTED TRANSACTIONS – PETROLEUM SUPPLY AGREEMENT; AND

(4) PLACING OF THE PLACING SHARES UNDER SPECIFIC PLACING MANDATE

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 30 June 2020 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 18 September 2019 (after trading hours of the Stock Exchange), the Board announced that the Company, as the Purchaser, the Vendors, the Guarantors and Mr. Zhang Guoguang, entered into the SP Agreement, pursuant to which the Company has conditionally agreed to acquire and the Vendors have conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Target Company. As a condition precedent to the Acquisition Completion, the WFOE entered into the Entrusted Management Agreement with Changchun Yitonghe on 26 June 2020, pursuant to which Changchun Yitonghe as the entrusting party shall entrust the WFOE Group as the operating party with (i) an exclusive right to operate and manage the Petroleum Refuelling Business and the Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility and (ii) authorised the WFOE Group to use all assets, property, land and equipment necessary for such operation and management.

As a condition precedent to the Acquisition Completion, the WFOE also entered into the Petroleum Supply Agreement with Songyuan Petrochemical on 26 June 2020 pursuant to which Songyuan Petrochemical as the supplier, will supply refined oil products to the WFOE Group which will constitute non-exempted continuing connected transactions of the Company.

The Target Company is beneficially owned as to approximately 71.78% by Mr. Zhao, approximately 14.55% by Ms. Xu, approximately 9.70% by Mr. Liu, approximately 0.97% by Mr. Wang and approximately 3.00% by an Independent Third Party as at the Latest Practicable Date. Mr. Zhao is a Controlling Shareholder and an executive Director, Ms. Xu is a substantial Shareholder, Mr. Liu is an executive Director and Mr. Wang was an executive Director of the Company up to 27 November 2018, and they are regarded as connected persons of the Company pursuant to Chapter 14A of the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules are over 100%, the Acquisition also constitutes a very substantial acquisition under Chapter 14 of the Listing Rules. In addition, the Acquisition constitutes a reverse takeover for the Company under Rule 14.06B (as referred to as Rule 14.06(6)(a) prior to 1 October 2019) of the Listing Rules. As such, the Acquisition and the issue of the Consideration Shares constitute non-exempt connected transactions for the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The Consideration Shares will be issued under a specific mandate to be obtained at the EGM.

Changchun Yitonghe is beneficially owned as to approximately 60.90% by Mr. Zhao, approximately 12.34% by Ms. Xu, approximately 8.23% by Mr. Liu and approximately 0.82% by Mr. Wang and it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Entrusted Management Agreement, in aggregate exceed(s) 100%, the Entrusted Management Agreement constitutes a very substantial acquisition transaction of the Company under Chapter 14 of the Listing Rules. As such, the Entrusted Management Agreement constitutes a non-exempt connected transaction for the Company and is subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Songyuan Petrochemical is beneficially owned as to approximately 97.87% by Changchun Yitonghe whereas Changchun Yitonghe is beneficially owned as to approximately 60.90% by Mr. Zhao, approximately 12.34% by Ms. Xu, approximately 8.23% by Mr. Liu and approximately 0.82% by Mr. Wang and it is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Chapter 14A of the Listing Rules) in respect of the Petroleum Supply Agreement exceed(s) 5%, the Petroleum Supply Agreement constitutes non-exempt continuing connected transactions for the Company and is subject to reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, pass the resolutions to approve (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated under each of the agreements mentioned above. All Shareholders who have a material interest in the Acquisition will be required to abstain from voting on the relevant resolutions at the EGM. Mr. Zhao, a Controlling Shareholder and an executive Director, Ms. Xu, a substantial Shareholder, Mr. Liu, an executive Director, and Mr. Wang, who resigned as an executive Director with effect from 27 November 2018, being the Vendors, have interests in the SP Agreement, the Entrusted Management Agreement, the Business Agreements and the Placing Agreement and the transactions contemplated thereunder, will be required to abstain and will procure their respective associates to abstain from voting on the resolutions in respect of the SP Agreement, the Entrusted Management Agreement, the Business Agreements and the Placing Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Ms. Su Dan, Mr. Lau Ying Kit and Mr. Zhang Zhifeng, has been established to make recommendation to the Independent Shareholders in respect of (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or the Vendor that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or the Vendor. Accordingly, we are qualified to give independent advice in respect of (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group and the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, the Target Group, the Target Business, Changchun Yitonghe, Songyuan Petrochemical or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

A. The Acquisition and the Entrusted Management Agreement

A1. Background information of the Group

(i) Background and financial results of the Group

The Group is principally engaged in the operation of vehicle-use CNG, LNG and LPG refuelling stations and mixed refuelling stations which sell vehicles-use CNG and LNG in Jilin and Heilongjiang Provinces under the trademark of “ ” and the trade name of “眾誠連鎖”.

The following table summarises the consolidated income statements of the Group for the years ended 31 December 2016, 2017, 2018 and 2019 as extracted from Appendix II to the Circular:

	For the year ended 31 December				
	2016 ("FY2016") (audited) *RMB'000*	2017 ("FY2017") (audited) *RMB'000*	2017* ("Restated FY2017") (audited) *RMB'000*	2018 ("FY2018") (audited) *RMB'000*	2019 ("FY2019") (audited) *RMB'000*
Revenue	274,605	215,411	256,147	348,166	403,248
– Sales of natural gas by operating refuelling stations	274,605	215,411	213,634	275,474	317,085
– Revenue from the provision of transportation services	–	–	42,513	60,025	75,026
– Revenue from the trading of LPG and LNG	–	–	–	12,667	11,137
Gross profit	86,998	80,106	111,342	148,846	176,502
Profit before taxation	45,279	20,529	23,354	58,493	53,262
Profit attributable to equity holders	34,186	7,435	9,525	42,971	35,642

* Comparative figures have been restated upon the completion of acquiring the entire equity interests in Jieli Logistics, a company under common control, on 6 March 2018, which Jieli Logistics became a wholly-owned subsidiary of the Group.

Comparison of historical results between years/periods for material items

FY2016 vs FY2017

As shown in the table above, revenue generated from the sales of natural gas by operating refuelling stations has been the single source of income of the Group, which represented 100% of the Group's revenue in both FY2016 and FY2017.

As noted from the Company's annual reports for the years ended 31 December 2017 (the "**2017 Annual Report**"), Revenue of the Group for FY2017 was approximately RMB215.4 million, which represented a decrease of approximately 21.6% as compared to that of approximately RMB274.6 million in FY2016. As noted from the 2017 Annual Report, the decrease in revenue was mainly attributable to the decrease in the sales volume of the Company's products as a result of increased competition faced by certain refuelling stations located in Changchun City during 2017 and shortage of natural gas supply in Northeast China in November and December of 2017 as a results of the PRC government's promotion of coal to gas conversion project.

Gross profit of the Group for FY2017 was approximately RMB80.1 million, which represented a decrease of approximately 7.9% as compared to that of approximately RMB87.0 million in FY2016. Such decrease in gross profit was mainly attributable to the decrease in the sales volume of the Company's products compared with that of the previous year. Gross profit margin increased from approximately 31.7% for FY2016 to 37.2% for FY2017.

With reference to the 2017 Annual Report, the Group incurred expenses in connection with the initial listing of the Company's shares of RMB3.2 million for FY2016 and RMB21.3 million for FY2017.

As a result of the above fluctuations, in particular the decrease in revenue and the incurred costs in connection with the initial listing of the Company's shares during the year, the Group recorded profit attributable to equity holders of approximately RMB7.4 million in FY2017, which represented a decrease of approximately 78.4% as compared to that of approximately RMB34.2 million in FY2016.

Restated FY2017 vs FY2018

Similar to Restated FY2017, revenue generated from the sales of natural gas by operating refuelling stations remained to be the main source of income, which represented approximately 79.1% of the Group's revenue for FY2018.

Revenue of the Group for FY2018 was approximately RMB348.2 million, which represented an increase of approximately 36.0% as compared to that of approximately RMB256.1 million in Restated FY2017. As noted from the Company's annual reports for the years ended 31 December 2018 (the "**2018 Annual Report**"), the increase in revenue was mainly attributable to the increase in the sales volume of the Company's products and income from provision of transportation services.

Gross profit of the Group for FY2018 was approximately RMB148.8 million, which represented an increase of approximately 33.7% as compared to that of approximately RMB111.3 million in Restated FY2017. Such increase in gross profit was in line with the overall growth of the Group's revenue. Gross profit margin decreased slightly from approximately 43.5% for Restated FY2017 to 42.7% for FY2018. The gross profit margin remained stable.

With reference to the 2018 Annual Report, the Group incurred expenses in connection with the initial listing of the Company's shares of RMB21.3 million for Restated FY2017 and recorded nil for FY2018.

As a result of the above fluctuations, in particular the increase in revenue during the year, the Group recorded profit attributable to equity holders of approximately RMB43.0 million in FY2018, which represented an increase of approximately 352.6% as compared to that of approximately RMB9.5 million in Restated FY2017.

FY2018 vs FY2019

Similar to FY2018, revenue generated from the sales of natural gas by operating refuelling stations remained to be the main source of income, which represented approximately 79.1% and 78.6% of the Group's revenue for FY2018 and FY2019, respectively.

Revenue of the Group for FY2019 was approximately RMB403.2 million, which represented an increase of approximately 15.8% as compared to that of approximately RMB348.2 million in FY2018. As noted from the Company's results announcement for the year ended 31 December 2019 (the "**2019 Results Announcement**"), such increase was mainly derived from the increase in the sales volume of the natural gas by operating refuelling stations.

Gross profit of the Group for FY2019 was approximately RMB176.5 million, which represented an increase of approximately 18.6% as compared to that of approximately RMB148.8 million in FY2018. Such increase in gross profit was in line with the overall growth of the Group's revenue. Gross profit margin increased slightly from approximately 42.7% for FY2018 to 43.8% for FY2019.

With reference to the 2019 Results Announcement, other operating expenses of the Group for FY2019 was approximately RMB45.5 million, which represented an increase of approximately 62.5% as compared to that of approximately RMB28.0 million in FY2018. Such increase was mainly attributable to combined effect of the increase insurance expenses and the increase in legal and professional fees incurred in connection with the reverse takeover for FY2019.

As a result of the above fluctuations, in particular the increase in revenue which was offset by the increase in the other operating expenses during the year, the Group recorded profit attributable to equity holders of approximately RMB35.6 million in FY2019, which represented a decrease of approximately 17.2% as compared to that of approximately RMB43.0 million in FY2018.

Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2019 as extracted from Appendix II to the Circular.

	As at 31 December 2019 (audited) *RMB'000*	**% of total assets**
Non-current assets		
Property, plant and equipment	157,487	36.8%
Interest in a joint venture	77,556	18.1%
Deferred tax assets	1,742	0.4%
	236,785	55.4%
Current assets		
Inventories	1,615	0.4%
Trade receivables	9,198	2.2%
Prepayments, deposits and other receivables	122,260	28.6%
Income tax recoverable	338	0.1%
Cash and cash equivalents	57,474	13.4%
	190,885	44.6%
Total Assets	427,670	100.0%

	As at 31 December 2019 (audited) *RMB'000*	% of total liabilities
Current liabilities		
Bank loans	25,000	16.4%
Trade payables	4,576	3.0%
Accrued expenses and other payables	23,159	15.1%
Lease liabilities	14,512	9.5%
Income tax payable	9,172	6.0%
	76,419	50.0%
Non-current liabilities		
Bank loans	43,925	28.7%
Lease liabilities	26,790	17.5%
Deferred tax liabilities	5,774	3.8%
	76,489	50.0%
Total liabilities	152,908	100.0%
Net current assets	114,466	
Net assets	274,762	
Capital and reserves		
Share capital	19,794	
Reserves	248,555	
Total equity attributable to equity shareholders of the Company	268,349	
Non-controlling interests	6,413	
Total Equity	274,762	

As at 31 December 2019, the Group's total assets amounted to approximately RMB427.7 million, which mainly comprised (i) property, plant and equipment of approximately 36.8%; (ii) prepayments, deposits and other receivables of approximately 28.6%; (iii) interest in a joint venture of approximately 18.1%; and (iv) cash and cash equivalents of approximately 13.4%, of total assets.

As at 31 December 2019, the Group's total liabilities amounted to approximately RMB152.9 million, which mainly comprised (i) non-current bank loans of approximately 28.7%; (ii) lease liabilities of approximately 17.5%; (iii) current bank loans of approximately 16.3%; and (iv) accrued expenses and other payables of approximately 15.1%, of total liabilities.

As at 31 December 2019, the Group recorded net assets attributable to equity holders of approximately RMB268.3 million.

A2. Background information of the Target Business

(i) Background of the Target Business

As disclosed in the Letter from the Board, the Target Group's Petroleum Refuelling Business is operated through its petroleum refuelling station network of 67 petroleum refuelling stations comprising (i) 28 self-owned petroleum refuelling stations; (ii) 37 Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself); and (iii) two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion), details of which are set out in the paragraph headed "Termination of the Former Agreements" in the Letter from the Board of the Circular, covering certain prominent cities in Northeast China, mainly Changchun City of Jilin Province and Dandong City of Liaoning Province. The WFOE Group operates all these petroleum refuelling stations under the trademark " " and the trade name "眾誠連鎖".

To support the Petroleum Refuelling Business, the Target Group, after sourcing refined oil from suppliers (including independent third parties and a related party), stored the refined oil products, which include, amongst others, gasoline and diesel in the two petroleum storage facilities owned by the Target Group and one Entrusted Petroleum Storage Facility entrusted to the Target Group upon Acquisition Completion. With such storage facilities with an aggregate volume of approximately 63,600 m^3 (equivalent to approximately 50,000 tonnes) that are located in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province, the PRC, the Target Group is able to provide wholesaling of refined oil products to third party refuelling stations and other industrial users mostly in Northeast China.

Alongside with the Petroleum Refuelling Business and the Petroleum Wholesale Business, the Target Group also owns a refined oil transportation vehicle fleet, which serves the logistic needs of its wholesale customers and its petroleum refuelling stations. As at the Latest Practicable Date, the Target Group owns 5 trucks, 18 tractor units and 18 trailers for delivering refined oil products.

For further details of the Target Business, please refer to the section headed "Business of the Target Group" in the Circular.

(ii) Financial results

As disclosed in the Letter from the Board, during the Track Record Period, the Petroleum Refuelling Business and Petroleum Wholesale Business were conducted through certain companies now comprising the WFOE Group and Changchun Yitonghe (through its branches or divisions) which manage and operate the Petroleum Refuelling Business and Petroleum Wholesale Business separately from the other economic activities of Changchun Yitonghe (the "**Petroleum Segment of Changchun Yitonghe**"). Among which, the Petroleum Segment of Changchun Yitonghe held the ownership or right-of-use assets of 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility. These assets are recognised as properties, plant and equipment in the combined financial statements of the Target Business. Accordingly, depreciation and other relevant expenses are recorded. As the Entrusted Management Agreement will only come into effect immediately prior to the Acquisition Completion, the financial statements of the Target Business have been prepared on combined and historical basis without the impacts of the entrustment arrangements under the Entrusted Management Agreement.

The audited combined financial information of the Target Business comprising the Petroleum Refuelling Business, the Petroleum Wholesale Business and the related transportation services for the Track Record Period as extracted from the section headed "The Financial Information of the Target Business" and the accountants' report on the Target Business as set out in Appendix I to the Circular.

	For the year ended 31 December			
	2016	**2017**	**2018**	**2019**
	(audited)	**(audited)**	**(audited)**	**(audited)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	3,428,449	3,633,176	3,827,574	3,602,976
– Petroleum Refuelling Business (retail)	1,388,445	1,712,913	1,809,492	1,814,976
– Petroleum Wholesale Business (wholesale)	2,025,133	1,902,275	2,003,754	1,771,544
– Transportation services	14,871	17,988	14,328	16,456
Gross profit	218,849	290,743	307,058	319,443
Profit before taxation	62,092	96,011	108,592	137,876
Profit for the year	46,342	71,058	80,298	102,447

Comparison of historical results between years for material items

FY2016 vs FY2017

As shown in the table above, revenue generated from the Petroleum Refuelling Business and Petroleum Wholesale Business have been the main sources of income of the Target Business, which represented approximately 40.5% and 59.1% of the Target Business's revenue in FY2016, and 47.1% and 52.4% of the Target Business's revenue in FY2017, respectively.

Revenue of the Target Business for FY2017 was approximately RMB3,633.2 million, which represented an increase of approximately 6.0% as compared to that of approximately RMB3,428.4 million in FY2016. As noted from the section headed "Financial Information of the Target Business" to the Circular, the increase was primarily due to the increase in sales from the Target Business's retail and wholesale gasoline resulting from the increase in average selling prices and sales volume of retail and wholesale gasoline during the same period.

Gross profit of the Target Business for FY2017 was approximately RMB290.7 million, which represented an increase of approximately 32.9% as compared to that of approximately RMB218.8 million in FY2016. As noted from the section headed "Financial Information of the Target Business" to the Circular, such increase in gross profit was due to increase in revenue which was primarily due to the increase in the average selling prices of retail and wholesale gasoline and diesel as a result of the increase in price of international crude oil. Gross profit margin increased from approximately 6.4% for FY2016 to 8.0% for FY2017. Such increase was due to a rising trend in the price of international crude oil for the first quarter of 2017, whereas the price of international crude oil for the first quarter of 2016 remained relatively stable. As a result, the Target Business's refined oil sold for the year ended 31 December 2017 were sold from refined oil inventory purchased at a relatively lower price level.

As a result of the above fluctuations, in particular the increase in gross profit during the year, the Target Business recorded net profit after tax of approximately RMB71.1 million in FY2017, which represented an increase of approximately 53.6% as compared to that of approximately RMB46.3 million in FY2017.

FY2017 vs FY2018

Similar to FY2017, revenue generated from the Petroleum Refuelling Business and Petroleum Wholesale Business remained to be the main source of income, which represented approximately 47.3% and 52.4% of the Target Business's revenue for FY2018 respectively.

Revenue of the Target Business for FY2018 was approximately RMB3,827.6 million, which represented an increase of approximately 5.4% as compared to that of approximately RMB3,633.2 million in FY2017. As noted from the section headed "Financial Information of the Target Business" to the Circular, the increase was primarily due to the increase in sales from the Target Business's sale of refined oil products as a result of the increase in average selling prices of retail and wholesale gasoline and diesel as a result of the increase in the NDRC's guiding price of refined oil due to the increase in the price of international crude oil during the same period, which offset the decrease in: (i) the sales volume of retail gasoline from approximately 171.5 thousand tonnes for FY2017 to approximately 142.3 thousand tonnes for FY2018 due to the increase in the number of the Target Business's petroleum refuelling stations being temporary suspended during 2018 for undergoing certain environmental improvement works in accordance with the relevant provincial policies that were introduced by the local governmental authorities targeted towards petroleum refuelling stations; and (ii) the sales volume of wholesale gasoline from 156.1 thousand tonnes for FY2017 to approximately 139.8 thousand tonnes for FY2018.

Gross profit of the Target Business for FY2018 was approximately RMB307.1 million, which represented an increase of approximately 5.6% as compared to that of approximately RMB290.7 million in FY2017. As noted from the section headed "Financial Information of the Target Business" to the Circular, such increase in gross profit was due to the increase in the average selling prices of retail and wholesale gasoline and diesel as a result of the increase in the NDRC's guiding price of refined oil as a result of the increase in price of international crude oil and the less than proportional increase in the procurement cost of refined oil during the same period. Gross profit margin remained stable at 8.0% for FY2018.

As noted from the section headed "Financial Information of the Target Business to the Circular, the Target Business's other operating expenses decreased by approximately 13.9% to RMB53.2 million for FY2018 from RMB61.8 million for FY2017. The decrease was primarily due to the combined effect of (i) the decrease in repairment expenses as a result of the completion of the repairment on the Target Business's storage facility; (ii) the decrease in marketing expenses due to the decrease in members' related promotion activities, thereby leading to decreases in expenses on advertisements and gifts; and (iii) by the increase in gain from the impairment of trade receivables and the write-down of inventories due to the decrease in its net realisable value as a result of the decrease the price of international crude oil towards the year end of 2018.

As a result of the foregoing factors, the Target Business recorded net profit after tax of approximately RMB80.3 million in FY2018, which represented an increase of approximately 12.9% as compared to that of approximately RMB71.1 million in FY2017.

FY2018 vs FY2019

Similar to FY2018, revenue generated from the Petroleum Refuelling Business and Petroleum Wholesale Business remained to be the main source of income, which represented approximately 50.3% and 49.2% of the Target Business's revenue for FY2019 respectively.

Revenue of the Target Business for FY2019 was approximately RMB3,603.0 million, which represented a decrease of approximately 5.9% as compared to that of approximately RMB3,827.6 million in FY2018. As noted from the section headed "Financial Information of the Target Business" to the Circular, the decrease was primarily due to the decrease in revenue of Petroleum Wholesale Business from approximately RMB2,003.8 million for the year ended 31 December 2018 to approximately RMB1,771.5 million for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in average selling price of both gasoline and diesel from approximately RMB6,579 per tonne and RMB5,769 per tonne for the year ended 31 December 2018 to approximately RMB5,809 per tonne and RMB5,620 per tonne for the year ended 31 December 2019 respectively, which was mostly affected by decreasing trend of the price of international crude oil from approximately USD71.3 per barrel in 2018 to USD64.3 per barrel in 2019.

Gross profit of the Target Business for FY2019 was approximately RMB319.4 million, which represented an increase of approximately 4.0% as compared to that of approximately RMB307.1 million in FY2018. As noted from the section headed "Financial Information of the Target Business" to the Circular, such increase in gross profit and increase in gross profit margin from approximately 8.9% in FY2019 as compared to approximately 8.0% in FY2018 due to the rising trend in the price of international crude oil in the second half of 2019 and the procurement cost of the Target Business's refined oil in the second half of 2019 did not rise as quick as its average selling price.

Other operating expenses of the Target Business for FY2019 was approximately RMB33.4 million, which represented a decrease of approximately 37.2% as compared to that of approximately RMB53.2 million in FY2018. As noted from the section headed "Financial Information of the Target Business" to the Circular, such decrease was primarily due to the gain from the reversal of impairment losses on trade receivables which was originally made during 2018.

As a result of the foregoing factors, the Target Business recorded net profit after tax of approximately RMB102.4 million in FY2019, which represented an increase of approximately 27.5% as compared to that of approximately RMB80.3 million in FY2018.

Financial position

Set out below is a summary of the financial position of the Target Business as at 31 December 2019 as extracted from Appendix I to the Circular.

	As at 31 December 2019 (audited) *RMB'000*	**% of total assets**
Non-current assets		
Property, plant and equipment	346,486	38.4%
Investment properties	43,234	4.8%
Deferred tax assets	3,796	0.4%
	393,516	43.6%
Current assets		
Inventories	102,064	11.3%
Trade and bills receivables	35,534	4.0%
Prepayments, deposits and other receivables	94,239	10.4%
Amounts due from related parties	248,550	27.6%
Income tax recoverable	186	0.0%
Cash at bank and on hand	28,215	3.1%
	508,788	56.4%
Total Assets	902,304	100.0%

	As at 31 December 2019 (audited) *RMB'000*	% of total liabilities
Current liabilities		
Bank and other loans	76,400	17.4%
Lease liabilities	28,246	6.4%
Trade and bills payables	73,102	16.7%
Accrued expenses and other payables	188,750	43.0%
Income tax payable	2,676	0.6%
	369,174	84.1%
Non-current liabilities		
Bank and other loans	19,000	4.3%
Lease liabilities	49,967	11.4%
Deferred tax liabilities	683	0.2%
	69,650	15.9%
Total liabilities	438,824	100.0%
Net current assets	139,614	
Net assets	463,480	
Total equity attributable to parent's net investment	313,612	
Non-controlling interests	149,868	
Total Equity	463,480	

As at 31 December 2019, the Target Business's total assets amounted to approximately RMB902.3 million, which mainly comprised (i) property, plant and equipment of approximately 38.4%; (ii) inventories of approximately 11.3%; (iii) prepayments, deposits and other receivables of approximately 10.4%; and (iv) amounts due from related parties of approximately 27.6%, of total assets.

As at 31 December 2019, the Target Business's total liabilities amounted to approximately RMB438.8 million, which mainly comprised (i) accrued expenses and other payables, mainly included receipts in advance due to third parties, of approximately

43.0%; (ii) bank and other loans of approximately 21.7%; (iii) lease liabilities of approximately 11.4% and (iv) trade and bills payables of approximately 16.7%, of total liabilities.

As at 31 December 2019, the Target Business recorded net assets of approximately RMB463.5 million.

A3. Industry overview

The section headed "Industry Overview" (the "**Industry Overview**") as set out in the Circular included a comprehensive overview of the refined oil retail and wholesale markets in Northeast China, which is summarised as follow:

(i) Along with the ever-improving refined oil retail network and increasing terminal refined oil demand, refined oil wholesale volume in Northeast China demonstrated a growth from 56.1 million tonnes in 2014 to 63.3 million tonnes in 2019, representing a CAGR of approximately 2.4%;

(ii) The growth in the number of petroleum refuelling stations in Northeast China is slower than the growth of motor vehicles, with a CAGR of 1.5% compared to 10.3% during 2014 to 2019;

(iii) Similar with the trend of number of petroleum refuelling stations, the retail sales volume of petroleum refuelling station in Northeast China also increased from 21.3 million tonnes in 2014 to 25.0 million tonnes in 2019 along with the increasing number of petroleum refuelling stations and vehicle population in Northeast China representing a CAGR of approximately 3.3%; and

(iv) The retail price and wholesale price of refined oil (gasoline and diesel) has fluctuated during 2014 to 2019 due to the fluctuation of crude oil price in the international market.

We noted that the following entry barriers exist for new entrants in the refined oil retail and wholesale markets in Northeast China:

(i) The success of petroleum refuelling station business depends, to a large extent, on brand recognition by local customers;

(ii) Refined oil retail and wholesale companies need to possess required licenses from local government and relevant qualifications;

(iii) Refined oil retail and wholesale market participants need abundant initial capital to support the fixed costs and of construction and operation; and

(iv) Refined oil retail and wholesale companies should have the ability to deal with the emergency safety events, which requires safe operation experience of the refuelling station.

We also noted that some challenges are faced by the refined oil retail and wholesale markets in Northeast China, namely (i) the higher standard of requirement on the quality of refined oil products to encounter environmental issue in China; and (ii) the promotion of the use of new energy vehicles in Northeast China. However, we also noted that the refined oil retail and wholesale markets in Northeast China has the following key drivers:

(i) With increasing disposable income and urbanization in China, growing number of residents are affordable for the purchase of motor vehicles, resulting the growth of the refined oil retail and wholesale markets;

(ii) The continuously development of E-commerce stimulates growth in relevant logistics services, which drives up total transportation of motor vehicles; and

(iii) The central government has in recent years, issued series of policies and regulations to support the future development of refined oil retail and wholesale markets.

We also noted from the Industry Overview that, by 18 March 2020, around 95% industrial enterprises above designated size (with annual revenue no less than RMB20 million) in Northeast China have resumed its operations from the threat of the COVID-19, indicating that the refined oil wholesale and retail market in Northeast China is expected to resume. In addition, by end of March 2020, each of Liaoning Province, Jilin Province (Shulan City of Jilin Province has taken strict control into and out of the city since 9 May 2020) and Heilongjiang Province has lowered the coronavirus emergency response to level III. The Directors are of the view that, based on the current information available and assuming that the outbreak of COVID-19 will not be prolonged significantly, there is no material adverse effect on the continuing business operation, results of operations, financial positions and prospects of the Target Business due to the fact that (i) none of the Petroleum Refuelling Stations had ceased it operations during the outbreak of COVID-19, (ii) the major customers and suppliers are not from Hubei Province; (iii) the Target Group has no business operation and do not have any employees staffed in Hubei Province; (iv) there have been no incidents where the employees failed to report duty due to the outbreak of COVID-19; and (v) there was no material adverse change in the supply chain, market condition or regulatory conditions in the Target Business's industry and environment in which it operates.

Based on the above, together with the various precautionary measures undertook by the epidemic prevention and control working group of the Target Group as mentioned in the section headed "Financial Information of the Target Business" to the Circular, we are of the view that the outbreak of COVID-19 has no material adverse impact to the Target Business as at the Latest Practicable Date.

We noted that the Industry Overview was prepared by Frost & Sullivan (the "**F&S**"). F&S is an independent global consulting company, which has conducted detailed primary research which involves discussing the status of China's refined oil retail and wholesale markets with leading industry participants and industry experts. We have also reviewed the Industry Overview, F&S Report and discussed with F&S and are given to understand that official information such as national or certain cities' Bureau of Statistics of China has been used to compile the analysis in the Industry Overview.

Based on the foregoing, we consider that while the refined oil retail and wholesale markets in Northeast China might face certain challenges, optimistic factors and entry barriers do exist in the refined oil retail and wholesale markets in Northeast China which may in turn support the business and financial performance of the Target Business in the future.

A4. Reasons and benefits of the Acquisition and Entrusted Management Agreement

Reasons and benefits of the Acquisition

We have discussed with the management of the Group in respect of the reasons for and benefits of the Acquisition. As disclosed in the Letter from the Board, the Acquisition is considered to be in the interest of the Company and the Shareholders as a whole due to the following reasons:

i) The Acquisition is considered to be the first step for the Group to tap into the Potential New Business, and is expected to further enhance the Company's presence in the energy market in the Northeast China

As further described in the paragraph headed "INFORMATION OF THE PARTIES TO THE SP AGREEMENT – Information of the Company and the Group" in the Letter from the Board, the Group is principally engaged in the operation of vehicle-use CNG, LNG and LPG refuelling stations and mixed refuelling stations which sell vehicles-use CNG and LNG in Jilin and Heilongjiang Provinces under the trademark of "" and the trade name of "眾誠連鎖". The acquisition of the Target Group, which owns and operates the Petroleum Refuelling Business and the Petroleum Wholesale Business in Northeast China, would further expand the Group's business in the overall energy sector in the Northeast China.

As disclosed in the announcement of the Company dated 27 November 2018, in view of the changing market conditions and to ensure the business growth and diversification of the Group, the Directors discussed and agreed to embark on seeking the possibility of seizing future opportunities in the energy and new energy business that are closely related to the Company's main business, such as natural gas pipeline networks, petroleum stations, mother stations, storage facilities, transportation facilities, petroleum and gas fields, natural gas supply and businesses of other gas-related industries (the "**Potential New Business**").

As disclosed in the Letter from the Board, the Target Group's Petroleum Refuelling Business is operated through its petroleum refuelling station network of 67 petroleum refuelling stations comprising (i) 28 self-owned petroleum refuelling stations; (ii) 37 Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself); and (iii) two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion), details of which are set out in the paragraph headed "Termination of the Former Agreements" in the Letter from the Board of the Circular, covering certain prominent cities in Northeast China, mainly Changchun City of Jilin Province and Dandong City of Liaoning Province. The Petroleum Wholesale Business is operated through storage facilities with an aggregate volume of approximately 63,600 m^3 and storage capacity of approximately 36,000 tonnes that are located in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province. We concur with the view of Directors that the Acquisition allows the Group to the tap into Potential New Business including the Petroleum Refuelling Business, Petroleum Wholesale Business and the transportation services, and further enhance Company's presence in the energy market in the Northeast China.

ii) The profitable track record of the business of the Target Business

As noted from the section headed "Financial Information of the Target Business" to the Circular, the Target Business have been continuously recording net profit during the Track Record Period.

We concur with the view that the Acquisition represents an attractive investment opportunity for the Group to expand and diversify its business/investment portfolio and to enhance the Group's income source, long-term development potential.

iii) The Acquisition will create synergies between the Target Group's Petroleum Refuelling Business and the Group's existing Gas Refuelling Business

The Acquisition allows the Group to make full use of the existing refuelling station network of Changchun Yitonghe for expansion of the Group's refuelling business and enhance the competitive strength of the Company in the energy industry. The Acquisition is also a legitimate business development and diversification strategy of the Group to provide additional products in its line of fuel provision business. This business expansion is in line with the government direction that encourage the construction of mixed stations and/or the addition of gas refuelling facilities to the existing petroleum refuelling stations, so that the Enlarged Group can serve a wider spectrum of vehicle-users.

We thus concur with the view that the enlarged scale of the business of the Group will create synergies by (a) expanding market share and scale of the Enlarged Group's Petroleum Refuelling Business and Gas Refuelling Business in the Northeast China; (b) providing a richer product portfolio and a broader sales network; (c) leveraging opportunities to acquire business licenses and permits and operation rights; and (d) enhancing the Group's bargaining power when negotiating with existing and new suppliers.

Leveraging on the reasons above, coupled with the steady growth of the target segment as mentioned in the section headed "Industry Overview" to the Circular and our review on the financial information on the Group and the Target Business as discussed in the sub-sections A1 and A2 above, we concur with the Directors' view that the Acquisition is beneficial to and in the interest of the Company and the Shareholders as a whole.

Reasons and benefits for entering into the Entrusted Management Agreement

We have discussed with the management of the Group in respect of the reasons for and benefits for entering into the Entrusted Management Agreement. As disclosed in the

Letter from the Board, although the Entrusted Management Agreement has the form of entrustment arrangements and the Target Group will not own the 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility, in substance, the Target Group will operate the Target Business independent from Yitonghe Group and has the full right to all its revenue as if it owns the 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility.

The Target Business will be operated by the same management team from the Target Group, which, upon the Acquisition Completion, will operate the Target Business under the same trademark and trade name and there will not be separate business line or segment under the Enlarged Group to distinguish the self-owned petroleum refuelling stations and the Entrusted Petroleum Refuelling Stations. From the Company's perspective, it is acquiring the single line of business operated by the Target Group, i.e. managing and operating a total of 69 petroleum refuelling stations and three petroleum storage facilities.

The Group and the Yitonghe Group decided to proceed with the entrustment of the Petroleum Refuelling Business and the Petroleum Wholesale Business and consider this would be in the interest of the Company and its Shareholders as a whole, instead of (i) through the acquisition of the equity interest of Yitonghe Group by the Group (the "**Equity Acquisition**") and subsequently disposal of assets and business unrelated to the Petroleum Refuelling Business and the Petroleum Wholesale Business (i.e. "Unrelated Business/Assets", as defined below); or (ii) the acquisition of the Petroleum Refuelling Business and the Petroleum Wholesale Business operated by the stations, the related assets, property, land and equipment from Yitonghe Group by the Group (the "**Asset Acquisition**") for the following reasons:

(i) To avoid acquiring business other than Target Business through Equity Acquisition

Changchun Yitonghe and its affiliated companies together own 39 petroleum refuelling stations and manages two petroleum refuelling stations which are owned by the Group under the Former Petroleum Business Entrustment Agreement. In addition, Changchun Yitonghe and its subsidiaries carry on businesses including petroleum exploitation and refining, upstream petroleum supplies and research and development of petroleum products, etc. and other business and assets unrelated to the Petroleum Refuelling Business and the Petroleum Wholesale Business (the "**Unrelated Business/Assets**").

(ii) To avoid complicated administrative steps in Asset Acquisition

As discussed with the management of the Group, the Asset Acquisition is required to re-comply with the approval procedures and requirements, which includes the de-registration of Changchun Yitonghe and its branch companies, and the application for various approvals for the operation of the petroleum refuelling stations and the petroleum storage facilities. The Group also faces the uncertainties as to whether it may be able to obtain relevant approvals to operate the petroleum refuelling stations and the petroleum storage facilities at their existing locations under the registration of the current subsidiaries of the Company. There is no assurance that the licenses could be obtained after Asset Acquisition and the

Petroleum Refuelling Business may not be continued at their existing locations after any such proposed Asset Acquisition.

As noted from the management of the Group that the Company has no current intention to acquire business other than Target Business, and in view of the complicated business structure, the size of the Company and Changchun Yitonghe, we concur with the view that the Equity Acquisition may not be in the best interest of the Company and its shareholders as a whole in the current stage. On the other hand, there are complicated administrative steps and uncertainty in Asset Acquisition, we concur with the Company's view that the approach of Asset Acquisition would not be in the best interest of the Company and its shareholders as a whole, neither.

In conclusion, with the purpose to operate the Target Business independent from Yitonghe Group and has the full right to all its revenue as if it owns the 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility as mentioned above, we concur with the view that the entering into the Entrusted Management Agreement is beneficial and in the interests of the Company and the Independent Shareholders as a whole.

Having considered the above, although the Acquisition and the entering into the Entrusted Management Agreement do not fall within the ordinary and usual course of business of the Group, given the aforesaid benefits expected to be accrued to the Group, we concur with the view of the Directors that the Acquisition and the entering into the Entrusted Management Agreement are beneficial and in the interest of the Company and the Independent Shareholders as a whole.

A5. Key terms of the SP Agreement and Entrusted Management Agreement

A5.1. SP Agreement

(i) Assets to be acquired

The Sale Shares, representing the entire issued share capital of the Target Company.

(ii) The Consideration

The Consideration was determined after arm's length negotiation between the Company and the Vendors with reference to, among other things, (i) the nature and prospects of the Target Business comprising the Petroleum Refuelling Business and the Petroleum Wholesale Business including principally the ownership of 28 petroleum refuelling stations and two petroleum storage facilities, the operation and management rights through 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility pursuant to the Entrusted Management Agreement, and the related transportation services; and (ii) the unaudited combined net profit after taxation of the Target Business for the year ended 31 December 2018 attributable to the equity shareholders of the Group (having been adjusted for the financial impact attributable to the reorganisation of the Target Business prior to the Acquisition Completion, with the assumption that the Entrusted Management Agreement took effect on 1 January 2018) (the "**Adjusted Net Profit**") and the price-earning ratio of approximately 9 times. To determine the price-earning ratio, the Directors also made reference to the price-earning ratios of ten companies listed in Hong Kong or the PRC which operate in the refined oil sector and involve in both retail and wholesale of petroleum and diesel.

We have discussed with the Directors and concur with their view that the Adjusted Net Profit has been taking into account, the financial effect of the entrustment arrangement assuming the Entrusted Management Agreement has been effective on 1 January 2018, which would better justify the net profit after tax of the Target Business for the year ended 31 December 2018 as if the Target Business is operated through 28 self-owned petroleum refuelling stations, two self-owned petroleum storage facilities, 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself), one Entrusted Petroleum Storage Facility and two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion).

In identifying the comparable companies that are listed in Hong Kong and the PRC, the Company mainly focused on the nature of the Target Business (i.e., Petroleum Refuelling Business and Petroleum Wholesale Business), the business model (i.e., operation of petroleum refuelling stations and wholesale of refined oil products) and the Target Business's targeting market, i.e. the PRC, and consider two PRC-listed companies, being petroleum refuelling station operators in the PRC, are among the most relevant peers to the Target Business in terms of business model. Due to the Target Business's unique business nature, no Hong Kong listed companies can be identified with the business size or business model comparable to the Target Business.

In order to have a more comprehensive valuation comparison, the Company considered that it is also necessary to make reference to the valuation of the listed companies in the similar industry in the Hong Kong capital market and thus decided to extend the selection criteria to include those Hong Kong-listed companies which engaged in the refined oil sector.

In particular, the comparable companies were selected primarily based on the following criteria: (i) listed companies in Hong Kong and the PRC which principally engage in management and operation of petroleum refuelling stations in the PRC; (ii) listed companies in Hong Kong which primarily engaged in sale of petroleum and diesel via either retail or wholesales, and (iii) profitable companies.

Based on the selection criteria, other than the two PRC-listed companies principally engage in operation of petroleum refuelling stations, the Company identified other eight comparable companies that are suitable to be considered as comparable of the Target Business as reference, and believes that although they do not have the exact same business nature with the Target Business, they all satisfy the criteria above.

In order to assess the fairness and reasonableness of the selection criteria of the comparable companies adopted by the Company, we have performed comparison analyses based on the website of the Stock Exchange and The Shenzhen Stock Exchange as detailed below.

Segment revenue and geographical comparison analysis on the comparable companies

Stock code	Company	Stock exchange	Description of business	Business segments	Segment revenue and the total revenue *(million)*	Percentage of contribution from the segment to total revenue	Market capitalisation as of the date of SP Agreement *(million)*	Market capitalisation as of the date of supplemental agreement dated 28 February 2020 *(million)*	Principal geographical location
1621	Vico International Holdings Limited	The Stock Exchange	Principally engaged in sale of diesel, lubricant oil and others and provision of fleet cards service.	**(i) Sales of diesel**	**HK$1,007**	**93.5%**	**HK$151**	**HK$126**	Hong Kong
				(ii) Provision of fleet cards	HK$21	2.0%			
				(iii) Sales of lubricant oil	**HK$44**	**4.0%**			
				(iv) Sales of others	HK$5	0.5%			
				Total revenue	HK$1,077				
342	NewOcean Energy Holdings Ltd.	The Stock Exchange	Principally engaged in the sales and distribution of liquefied petroleum gas and natural gas, oil products business and sales of electronic products.	(i) Liquefied petroleum gas	HK$9,958	33.2%	HK$ 2,232	**HK$1,674**	China
				(ii) Oil products	**HK$19,351**	**64.5%**			
				(iii) Electronics	HK$699	2.3%			
				Total revenue	HK$30,008				
386	China Petroleum & Chemical Corporation	The Stock Exchange	Principally engaged in oil and gas and chemical operations in the PRC. Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil and natural gas by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.	(i) Exploration and production	RMB104,237	3.6%	HK$ 576,299	**HK$486,706**	China
				(ii) Refining	RMB154,319	5.3%			
				(iii) Marketing and distribution of refined petroleum products	**RMB1,441,413**	**49.9%**			
				(iv) Chemicals	RMB472,898	16.4%			
				(v) Corporate and others	RMB718,312	24.8%			
				Total revenue	RMB2,891,179				
8347	F8 Enterprises (Holdings) Group Limited	The Stock Exchange	Engaged in sale and transportation of diesel oil and related products in Hong Kong.	**(i) Diesel oil**	**HK$214**	**93.0%**	HK$ 268	**HK$160**	Hong Kong
				(ii) Marine diesel oil	**HK$14**	**6.3%**			
				(iii) Lubricant oil	**HK$2**	**0.7%**			
				Total revenue	HK$230				

Stock code	Company	Stock exchange	Description of business	Business segments	Segment revenue and the total revenue *(million)*	Percentage of contribution from the segment to total revenue	Market capitalisation as of the date of SP Agreement *(million)*	Market capitalisation as of the date of supplemental agreement dated 28 February 2020 *(million)*	Principal geographical location
8479	JTF International Holdings Limited	The Stock Exchange	A wholesaler of oil and other petrochemical products based in Guangdong Province, the PRC.	**(i) Refined oil**	**RMB1,227**	**64.3%**	**HK$ 155**	**HK$335**	China
				(ii) Fuel oil	**RMB417**	**21.9%**			
				(iii) Other petrochemical products	RMB262	13.7%			
				(iv) Service income	RMB2	0.1%			
				Total revenue	RMB1,908				
857	PetroChina Company Limited	The Stock Exchange	Principally engaged in (i) the exploration, development, production and sale of crude oil and natural gas; (ii) the refining, transportation, storage and marketing of crude oil and petroleum products; (iii) the production and sale of basic petrochemical products, derivative chemical products and other chemical products; and (iv) the transmission of natural gas and crude oil and sale of natural gas.	(i) Exploration and production	RMB119,417	5.1%	HK$ 776,009	**HK$552,723**	China
				(ii) Refining and chemicals	RMB181,465	7.7%			
				(iii) Marketing of refined products and trading business	**RMB1,722,466**	**73.2%**			
				(iv) Natural gas and pipeline	RMB328,470	13.9%			
				(v) Head office and other	RMB1,770	0.1%			
				Total revenue	RMB2,353,588				
883	CNOOC Limited	The Stock Exchange	Principally engaged in the exploration, production and trading of oil and gas. Its businesses include conventional oil and gas businesses, shale oil and gas businesses, oil sands businesses and other unconventional oil and gas businesses.	**(i) Exploration and production**	**RMB173,923**	**76.6%**	**HK$ 566,130**	**HK$476,835**	China
				(ii) Trading business	RMB52,610	23.2%			
				(iii) Corporate	RMB430	0.2%			
				Total revenue	RMB226,963				
8631	Sun Kong Holdings Limited	The Stock Exchange	Engaged in the sale of diesel oil and sale of diesel exhaust fluid and provide transportation services of diesel oil.	**(i) Sale of diesel oils and related products**	**HK$474**	**100.0%**	**HK$ 60**	**HK$114**	Hong Kong
				Total revenue	HK$474				

Stock code	Company	Stock exchange	Description of business	Business segments	Segment revenue and the total revenue *(million)*	Percentage of contribution from the segment to total revenue	Market capitalisation as of the date of SP Agreement *(million)*	Market capitalisation as of the date of supplemental agreement dated 28 February 2020 *(million)*	Principal geographical location
554	Sinopec Shandong Taishan Petroleum Co., Ltd.	The Shenzhen Stock Exchange	Principally engaged in the wholesale and retail of refined oil such as gasoline and diesel, the retail of automotive natural gas as well as provides the non-oil services such as gas station convenience stores, car maintenance and outdoor advertising.	**(i) Gasoline**	**RMB1,858**	**60.4%**	**RMB 2,567**	**RMB2,216**	China
				(ii) Diesel oil	**RMB1,007**	**32.7%**			
				(iii) Natural gas	RMB13	0.4%			
				(iv) Others	RMB200	6.5%			
				Total revenue	RMB3,078				
96	Shenzhen Guangju Energy Co., Ltd.	The Shenzhen Stock Exchange	Distributes and sells petroleum products and liquefied petroleum gas. The company also provides warehousing services and invests in electric power generation.	**(i) Refined oil**	**RMB1,469**	**88.8%**	**RMB 5,660**	**RMB5,465**	China
				(ii) Warehousing services	RMB22	1.3%			
				(iii) Trading business	RMB153	9.3%			
				(iv) Others	RMB10	0.6%			
				Total revenue	RMB1,654				

* *Financial information extracted from the respective listing document or latest published annual report as of the date of SP Agreement*

Source: The Stock Exchange website, and The Shenzhen Stock Exchange website

As (i) no Hong Kong listed companies can be identified with the business size or business model comparable to the Target Business; and (ii) it is common practice for selecting the comparable companies on a "best efforts" basis, and there is a valuation limitation that identical comparable is unlikely to exist, we considered that the above comparable companies that are either profitable listed companies in Hong Kong and PRC principally engaged in the management and operation of petroleum refuelling stations in the PRC or profitable listed companies in Hong Kong which primarily engaged in sale of petroleum and diesel via either retail or wholesales meet the selection criteria set out above. Notwithstanding the differences in the scale of operations and market capitalisation of comparable companies, given the nature of business of comparable companies are similar to the Target Business in large extent, we believe that comparable companies identified are fair and representative for comparison, and analysis of the comparable companies provides a general reference as to the market valuation of companies with similar business to the Target Business.

We have performed research and concur with the finding that there is no Hong Kong-listed comparable which is mainly focused on the nature of the Target Business. We also concur with the Directors' decision that to include the listed companies in Hong Kong primarily engaging in sale of petroleum and diesel via either retail or wholesales into the list of the comparable such that the comparison will be more comprehensive. As such, we are of the view that the selection criteria are comprehensive, appropriate and representative.

The Company is of the view that the valuation of a to-be-listed company is generally referenced to valuation multiples such as price-to-earnings ratio ("**P/E ratio**") and price-to-book ratio ("**P/B ratio**") of the comparable companies. Given the profitable track record of the Target Business, we concur with the view of the Company that using P/E ratio is more appropriate than P/B ratio because (i) P/E ratio represents a direct indicator of the earning ability and growth of a company; (ii) the variation in the asset structure between the Target Business and the comparable companies, whereby the Target Business typically does not heavily rely on the use of capital or its fixed assets to create earning in view that 40 Entrusted Petroleum Refuelling Stations and one Entrusted Storage Facility of the Target Business would be operated and managed through the exclusive rights granted under the Entrusted Management Agreement upon the Acquisition Completion. Whilst there are other methods to value a company or business, including dividend yield model or cash flow forecast model, the Company considers dividend yield model or cash flow forecast model is inapplicable for assessing the Consideration as the Target Company currently does not have dividend policy and a number of uncertainties involved in the forecast of cash flows, growth rate and discount rate in a cash flow forecast. As such, we agree with the Directors that P/E ratio is the most appropriate method in determining the Consideration.

P/E ratio analysis as at the date of the SP Agreement

In order to access the fairness and reasonableness of the Consideration, we have reviewed and examined the full list of comparable companies as at the date of the SP Agreement considered by the Directors for its assessment as stated in the Letter from the Board in the Circular, which is summarized as below:

Stock code	Company name	P/E ratio
1621.HK	Vico International Holdings Limited	8.4
342.HK	NewOcean Energy Holdings Ltd.	3.3
386.HK	China Petroleum & Chemical Corporation	8.2
8347.HK	F8 Enterprises (Holdings) Group Limited *(note 1)*	333.3
8479.HK	JTF International Holdings Limited	4.8
857.HK	PetroChina Company Limited	13.3
883.HK	CNOOC Limited	9.7
8631.HK	Sun Kong Holdings Limited *(note 2)*	6.5
000554.SZ	Sinopec Shandong Taishan Petroleum Co., Ltd. *(note 1)*	1,367.9
000096.SZ	Shenzhen Guangju Energy Co., Ltd.	52.5
	Median	8.3
	Average	180.8
	Average (exclude two extreme figures)	13.3

note 1: the result from these companies have been excluded due to its extreme high P/E ratios

note 2: one-off listing expense has been excluded for the purpose of computing the P/E ratio of Sun Kong Holdings Limited

As shown in the table above, the Company has excluded two extreme outliers throughout the analysis (i.e. Sinopec Shandong Taishan Petroleum Co., Ltd. and F8 Enterprises (Holdings) Group Limited), resulting an average P/E ratio of the comparable companies of approximately 13.3 times. The P/E ratio applied in determination of the Consideration of approximately 9 times are within the range of P/E ratios of the comparable companies from 3.3 times to 52.5 times. In view of the wide spread of the range (from 3.3 times to 52.5 times), we have examined the range of the second lowest and second highest P/E ratio of the comparable companies from 4.8 times to 13.3 times, the P/E ratio applied in determination of the Consideration of approximately 9 times are still within the range thereof.

Nonetheless, in order to better reflect the P/E ratio of the Shenzhen-listed comparable companies in the Hong Kong market perspective, we have studied the A share and H share premium/discount between all 22 companies listed in both Hong Kong and Shenzhen as at the date of the SP Agreement, which represents an average discount of 39.32% for the A share to H share of these 22 companies. The P/E ratio of the Shenzhen-listed comparables will be adjusted with accord to the A share and H share discount calculated above (the "**PE Adjustment**"). We are of the view that the P/E ratio of the Shenzhen-listed comparable companies after the PE Adjustment will be more fair and reasonable to reflect its P/E ratio in the Hong Kong market perspective. After the PE Adjustment and excluding the two extreme outliers, the revised list of comparable companies is summarized as below:

Stock code	**Company name**	**P/E ratio**
1621.HK	Vico International Holdings Limited	8.4
342.HK	NewOcean Energy Holdings Ltd.	3.3
386.HK	China Petroleum & Chemical Corporation	8.2
8479.HK	JTF International Holdings Limited	4.8
857.HK	PetroChina Company Limited	13.3
8631.HK	Sun Kong Holdings Limited *(note 1)*	6.5
883.HK	CNOOC Limited	9.7
000096.SZ	Shenzhen Guangju Energy Co., Ltd.	31.9
	Median	8.3
	Average (with PE Adjustment on Shenzhen Guangju Energy Co., Ltd. and exclude two extreme figures)	10.8

Note 1: one-off listing expense has been excluded for the purpose of computing the P/E ratio of Sun Kong Holdings Limited

As shown in the table above, the average P/E ratio of the comparable companies is approximately 10.8 times, such average P/E ratio is still higher than the P/E ratio applied in the determination of the Consideration of approximately 9 times. In addition, we have taken into account the Target Group could bring future benefits to the Group due to, among others, (a) the Target Group has established a scale of operation; (b) the historical financial results of the Target Group demonstrated a stable source of income and profit; and (c) the growth potential of the refined oil wholesale and retail market industry in Northeast China pursuant to section headed "Industry Overview" as set out in the

Circular. As such, we concur with the view of the management of the Company that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In addition, we verified the list of the above comparable companies by researching, on a best effort basis, all the companies that match the criteria given by the Company, which are, (i) listed companies in Hong Kong and the PRC which principally engage in management and operation of petroleum refuelling stations in the PRC; (ii) listed companies in Hong Kong which primarily engaged in sale of petroleum and diesel via either retail or wholesales, and (iii) profitable companies (which we are of view that the criteria are comprehensive, appropriate and representative). Based on our research, the results are identical to those provided by the Directors. Thus, we concluded that the list of comparable companies provided by the Directors is representative and exhaustive.

P/E ratio analysis as at the date of the supplemental agreement on 28 February 2020

We have further reviewed and examined the full list of comparable companies as at the date of the supplemental agreement on 28 February 2020, which is summarized as below:

Stock code	Company name	P/E ratio
1621.HK	Vico International Holdings Limited	7.0
342.HK	NewOcean Energy Holdings Ltd.	2.5
386.HK	China Petroleum & Chemical Corporation	7.0
8347.HK	F8 Enterprises (Holdings) Group Limited*(note 1)*	199.0
8479.HK	JTF International Holdings Limited	10.4
857.HK	PetroChina Company Limited	9.5
883.HK	CNOOC Limited	8.2
8631.HK	Sun Kong Holdings Limited*(note 2)*	12.2
000554.SZ	Sinopec Shandong Taishan Petroleum Co., Ltd.*(note 1)*	1,180.9
000096.SZ	Shenzhen Guangju Energy Co., Ltd.	50.7
	Median	9.9
	Average	148.7
	Average (exclude two extreme figures)	13.4

note 1: the result from these companies have been excluded due to its extreme high P/E ratios

note 2: one-off listing expense has been excluded for the purpose of computing the P/E ratio of Sun Kong Holdings Limited

As shown in the table above, the Company has excluded two extreme outliers throughout the analysis (i.e. Sinopec Shandong Taishan Petroleum Co., Ltd. and F8 Enterprises (Holdings) Group Limited), resulting an average P/E ratio of the comparable companies of approximately 13.4 times. The P/E ratio applied in determination of the Consideration of approximately 9 times are within the range of P/E ratios of the comparable companies from 2.5 times to 50.7 times. In view of the wide spread of the range (from 2.5 times to 50.7 times), we have examined the range of the second lowest and second highest P/E ratio of the comparable companies from 7.0 times to 12.2 times, the P/E ratio applied in determination of the Consideration of approximately 9 times are still within the range thereof.

Nonetheless, in order to better reflect the P/E ratio of the Shenzhen-listed comparable companies in the Hong Kong market perspective, we have studied the A share and H share premium/discount between all 22 companies listed in both Hong Kong and Shenzhen as at the date of the supplemental agreement on 28 February 2020, which represents an average discount of 31.87% for the A share to H share of these 22 companies. The P/E ratio of the Shenzhen-listed comparables will be adjusted with accord to the A share and H share discount calculated above. We are of the view that the P/E ratio of the Shenzhen-listed comparable companies after the PE Adjustment will be more fair and reasonable to reflect its P/E ratio in the Hong Kong market perspective. After the PE Adjustment and excluding the two extreme outliers, the revised list of comparable companies is summarized as below:

Stock code	Company name	P/E ratio
1621.HK	Vico International Holdings Limited	7.0
342.HK	NewOcean Energy Holdings Ltd.	2.5
386.HK	China Petroleum & Chemical Corporation	7.0
8479.HK	JTF International Holdings Limited	10.4
857.HK	PetroChina Company Limited	9.5
8631.HK	Sun Kong Holdings Limited *(note 1)*	12.2
883.HK	CNOOC Limited	8.2
000096.SZ	Shenzhen Guangju Energy Co., Ltd.	34.6
	Median	8.8
	Average (with PE Adjustment on Shenzhen Guangju Energy Co., Ltd. and exclude two extreme figures)	11.4

Note 1: one-off listing expense has been excluded for the purpose of computing the P/E ratio of Sun Kong Holdings Limited

As shown in the table above, the average P/E ratio of the comparable companies is approximately 11.4 times, such average P/E ratio is still higher than the P/E ratio applied in the determination of the Consideration of approximately 9 times. In addition, we have taken into account the Target Group could bring future benefits to the Group due to, among others, (a) the Target Group has established a scale of operation; (b) the historical financial results of the Target Group demonstrated a stable source of income and profit; and (c) the growth potential of the refined oil wholesale and retail market industry in Northeast China pursuant to section headed "Industry Overview" as set out in the Circular. As such, we concur with the view of the management of the Company that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(iii) Terms of payment

The Consideration Shares

As stated in the Letter from the Board, The Consideration for the Acquisition shall be HK$650 million, comprising (a) 100,000,000 Consideration Shares in aggregate at the Issue Price of HK$5.00 per Consideration Shares; and (b) cash consideration of HK$150 million, which shall be paid to the Vendors at the Acquisition Completion in the following manners:

(a) 71.78% of such Consideration shall be paid to Propitious Peak;

(b) 14.55% of such Consideration shall be paid to Immense Ocean;

(c) 9.70% of such Consideration shall be paid to Amber Heyday;

(d) 0.97% of such Consideration shall be paid to Triumphal Diligent; and

(e) 3.00% of such Consideration shall be paid to Harvest Day.

The cash consideration of HK$150 million will be financed by the Placing. The Consideration Shares represent (i) approximately 42.64% of the existing share capital of the Company at the date of the SP Agreement; (ii) approximately 42.64% of the issued share capital of the Company as at the Latest Practicable Date; (iii) approximately 29.90% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (without taking account of any Placing Shares which may be issued); and (iv) approximately 26.70% of the issued share capital of the Company as enlarged by the allotment and issue of both the Consideration Shares and the Placing Shares.

The Issue Price of HK$5.00 per Consideration Share represents:

(i) a discount of approximately 23.08% to the closing price of HK$6.50 per Share as quoted on the Stock Exchange at the date of the SP Agreement;

(ii) a discount of approximately 12.92% to the average of the closing prices of HK$5.74 per Share as quoted on the Stock Exchange for the last five trading days up to and including the date of the SP Agreement;

(iii) a discount of approximately 10.25% to the average of the closing prices of HK$5.57 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the date of the SP Agreement;

(iv) a discount of approximately 14.4% to the closing price of HK$5.84 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(v) a premium of approximately 313.48% to the net asset value of approximately RMB1.09 per Share (equivalent to approximately HK$1.21 per Share) based on the consolidated net asset value of the Company of approximately RMB255,468,000 (equivalent to approximately HK$283,569,480) as at 31 December 2018 as disclosed in the annual report of the Company for the year ended 31 December 2018 published on 16 April 2019 and 234,502,000 Shares in issue as at the date of SP Agreement;

(vi) a premium of approximately 284.45% to the net asset value of approximately RMB1.17 per Share (equivalent to approximately HK$1.30 per Share) based on the consolidated net asset value of the Company of approximately RMB274,762,000 (equivalent to approximately HK$304,985,820) as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 published on 17 April 2020 and 234,502,000 Shares in issue as at the date of the SP Agreement;

(vii) a premium of approximately 313.48% to the net asset value of approximately RMB1.09 per Share (equivalent to approximately HK$1.21 per Share) based on the consolidated net asset value of the Company of approximately RMB255,468,000 (equivalent to approximately HK$283,569,480) as at 31 December 2018 as disclosed in the annual report of the Company for the year ended 31 December 2018 published on 16 April 2019 and 234,502,000 Shares in issue as at the Latest Practicable Date; and

(viii) a premium of approximately 284.45% to the net asset value of approximately RMB1.17 per Share (equivalent to approximately HK$1.30 per Share) based on the consolidated net asset value of the Company of approximately RMB274,762,000 (equivalent to approximately HK$304,985,820) as at 31 December 2019 as disclosed in the annual report of the Company for the year ended 31 December 2019 published on 17 April 2020 and 234,502,000 Shares in issue as at the Latest Practicable Date.

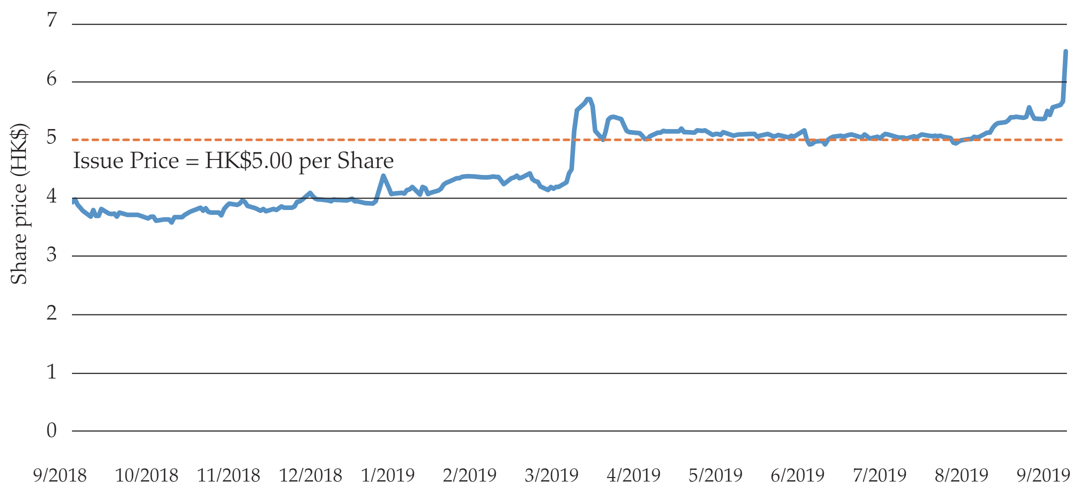
Historical Share price versus Issue Price

The Issue Price of HK$5.00 per Consideration Share was determined after arm's length negotiations between the parties to the SP Agreement with reference to the last five and ten day average closing prices of the Shares as quoted on the Stock Exchange and the movements of the market price of the Shares between June and August 2019 when the terms of the Acquisition were being negotiated among the parties to the SP Agreement.

In order to evaluate the fairness and reasonableness of the Issue Price, we have reviewed the movement of the closing price of the Share on the Stock Exchange since 1 September 2018 up to and including the date of the SP Agreement (the "**Review Period**"), being a period of approximately twelve months. We considered that the Review Period covers the appropriate period of time when performing our assessment and analysis since it reflects the market conditions and sentiments at the time of negotiating the Issue Price.

Set out below is the chart showing the Share price movement during the Review Period:

Daily closing price of the Shares during the Review Period



Source: website of the Stock Exchange (http://www.hkex.com.hk)

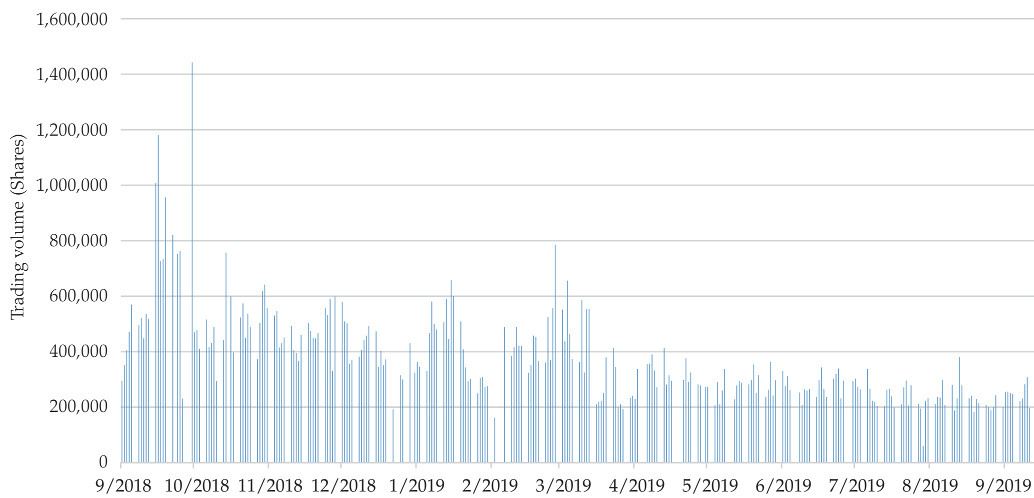
We noted that the daily closing prices of the Share ranged from HK$3.60 per Share to HK$6.50 per Share with an average of HK$4.58 during the Review Period. As at the Latest Practicable Date, the closing price of the Shares was HK$5.84.

The issue price of HK$5.00 per Share represents (i) a discount of approximately 23.08% to the highest closing price; (ii) a premium of approximately 38.89% to the lowest closing price; and (iii) a premium of approximately 9.17% to the average daily closing price during the Review Period.

Historical trading volume during the Review Period

Set out below is the daily trading volume of the Shares during the Review Period:

Daily trading volume of the Shares during the Review Period



Source: *website of the Stock Exchange (http://www.hkex.com.hk)*

A table showing the average daily volume of the Shares per month and the respective percentages of the average daily trading volume as compared with the total number of issued Shares during the Review Period is as follows:

	Total Trading volume of the Shares in the month	Number of trading days in the month	Average daily trading volume of the Shares in the month *(Number of shares)* *(Note 1)*	Number of trading days with no turnover *(days)*	Percentage of average daily trading volume to total number of shares in issue as at the end of each month *(Approximate %)* *(Note 2)*
2018					
September	11,783,000	19	620,158	–	0.26
October	11,213,000	21	533,952	–	0.23
November	10,639,000	22	483,591	–	0.21
December	7,679,000	19	404,158	–	0.17
2019					
January	9,184,000	22	417,455	–	0.18
February	6,827,000	17	401,588	–	0.17
March	8,291,000	21	394,810	–	0.17
April	5,905,000	19	310,789	–	0.13
May	5,842,000	21	278,190	–	0.12
June	5,299,000	19	278,895	–	0.12
July	5,285,000	22	240,227	–	0.10
August	5,146,000	22	233,909	–	0.10
September (up to and including the date of the SP Agreement)	3,131,000	13	240,846	–	0.10

Source: website of the Stock Exchange (http://www.hkex.com.hk)

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period.

2. Based on 234,502,000 Shares in issue throughout the Review Period and up to the date of SP Agreement.

The percentage of average daily trading volume to total number of shares in issue as at the end of each month during the Review Period ranged from approximately 0.10% to 0.26%. Having considered that the average daily trading volume of the Shares for each month/period was below 0.3% of the total number of issued Shares during the Review Period, we are of the view that the liquidity of the Shares was generally low.

Comparison with other transactions involving issue of consideration shares

To further assess the fairness and reasonableness of the Issue Price, we have conducted a comparable analysis through identifying companies listed on the Main Board of the Stock Exchange (excluding companies under prolonged suspension or debt restructuring), which announced issues of consideration shares to vendors that are connected persons for acquisition(s) during the period from 1 September 2018 up to and including the date of the SP Agreement (the "**Share Comparables**"). We consider such list an exhaustive list of relevant comparable issues of consideration shares based on the said criteria above.

Shareholders should note that the businesses, operations and prospects of the Company are not the same as the Share Comparables. However, for the purpose of providing Shareholders with a general reference for common market practice of companies listed on the Stock Exchange in transactions which involved issue of consideration shares to connected person(s) as consideration for acquisitions, we consider the Share Comparables to be fair and representative. The table below summarises our relevant findings:

Date of announcement	Stock Code	Company name	Premium/ (Discount) of the issue price over/(to) the closing price per share on the date of the agreement *(Approximate %)*	Premium/ (Discount) of the issue price over/(to) the average of the closing price per share for the last five consecutive trading days up to and including the date of the agreement *(Approximate %)*	Premium/ (Discount) of the issue price over/(to) the average of the closing price per share for the last ten consecutive trading days up to and including the date of the agreement *(Approximate %)*
19-Sep-2018	2768	Jiayuan International Group Limited	(5.31)	(4.25)	(5.31)
21- Sep-2018	910	China Sandi Holdings Limited	(9.45)	(9.85)	(9.75)
1-Nov-2018	697	Shougang Concord International Enterprises Company Limited	42.05	45.86	46.11
1-Nov-2018	3608	Yongsheng Advanced Materials Company Limited	–	0.81	3.33
7-Nov-2018	6878	Differ Group Holding Company Limited	3.77	5.77	5.97
29-Nov-2018	1933	OneForce Holdings Limited	21.43	21.86	22.08
17-Dec-2018	1341	Hao Tian International Construction Investment Group Limited	–	(1.37)	1.12

Date of announcement	Stock Code	Company name	Premium/ (Discount) of the issue price over/(to) the closing price per share on the date of the agreement *(Approximate %)*	Premium/ (Discount) of the issue price over/(to) the average of the closing price per share for the last five consecutive trading days up to and including the date of the agreement *(Approximate %)*	Premium/ (Discount) of the issue price over/(to) the average of the closing price per share for the last ten consecutive trading days up to and including the date of the agreement *(Approximate %)*
21-Dec-2018	1432	China Shengmu Organic Milk Limited	10.00	(0.60)	(0.90)
31-Dec-2018	1632	Minshang Creative Technology Holdings Limited	(17.29)	(11.58)	(11.86)
27-Feb-2019	123	Yuexiu Property Company Limited	20.48	23.00	25.39
3-Mar-2019	526	Lisi Group (Holdings) Limited	14.94	17.92	15.87
25-Mar-2019	3709	Koradior Holdings Limited	2.15	3.22	2.48
26-Apr-2019	2768	Jiayuan International Group Limited	(3.76)	(4.65)	(7.00)
28-June-2019	910	China Sandi Holdings Limited	(14.8)	(13.9)	(14.66)
8-July-2019	474	Hao Tian Development Group Limited	11.6	11.1	9.9
10-July-2019	1011	China Nt Pharma Group	(2.67)	(2.41)	(4.07)
		Average	5.224	5.058	4.919
		Median	2.960	0.105	1.800
		Minimum	(17.29)	(13.9)	(14.66)
		Maximum	42.05	45.86	46.11
The Consideration Share	2337	The Company	(23.08)	(12.92)	(10.25)

Though the Issue Price represents (i) discounts of 23.08% to the closing price of the Shares on the date of SP Agreement which is lower than the minimum discount from the Share Comparable for the closing price per share on the date of the agreement; and (ii) discounts as compared to the average premium of those under the Share Comparables for all of the periods as illustrated in our table above, however, having considered (i) the Company's Share price on the date of SP Agreement abruptly increased by approximately 15.04% with thin trading volume and closed at HK$6.50 which leads to the discount represented by the Issue Price to the closing price of the Shares on the date of SP Agreement less appropriate for comparison purpose; (ii) except for discount represented by the Issue Price to closing price per share on the date of SP Agreement, the discounts represented by the Issue Price being within the respective range of the premium/discount derived from the Share Comparables for the last five and ten consecutive trading days up to and including the date of the agreement; (iii) that, as discussed in the section headed "Historical Share price versus Issue Price" above in this letter, we consider the Issue Price represented a premium of approximately 9.17% to the average daily closing price during the Review Period; (iv) the Issue Price represents a substantial premium of approximately 313.48% to the audited net asset value per Share as at 31 December 2018; (v) the reasons for and benefits of the Acquisition as discussed under the section headed "Reasons and benefits of the Acquisition and the Entrusted Management Agreement" as discussed above in this letter, we consider that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

(iv) Conditions precedent

Please refer to the paragraph headed "Conditions precedent" in the Letter from the Board for details of the conditions precedent to the Acquisition.

If the conditions precedent to the Acquisition cannot be fulfilled or waived by the Purchaser before 5:00 p.m. on the Long Stop Date (or such other date as agreed by the parties to the SP Agreement in writing), the SP Agreement shall terminate automatically with immediate effect.

(v) Acquisition Completion

The Acquisition Completion and the Placing Completion are inter-conditional. Acquisition Completion shall take place within (i) five Business Days after all the conditions precedent under the SP Agreement have been fulfilled or, as the case may be, waived, or (ii) within three months after condition precedent (v) as referred under paragraph "Condition Precedent" of the Letter from the Board in the Circular is fulfilled, (whichever is later); or (iii) such later date as may be agreed by the parties to the SP Agreement in writing.

Having considered the above factors and the reasons and benefits of the Acquisition as discussed in the section headed "Reasons and benefits of the Acquisition and Entrusted Management Agreement" in this letter, although the Acquisition does not fall within the ordinary and usual course of business of the Group, we concur with the view of Directors that the terms of the SP Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

A5.2. Entrusted Management Agreement

(i) Term

10 years from the date of the Acquisition Completion (for illustrative purpose, assuming the Acquisition Completion takes place on 30 September 2020, period from 30 September 2020 to 29 September 2030)

(ii) Entrustment fee

The entrustment fee under the Entrusted Management Agreement is RMB50,000,000 per annum. The entrustment fee shall be settled annually and is determined by the parties to the Entrusted Management Agreement (on arm's length basis and in good faith) with reference to the aggregate amount of expected annual depreciation, repair and maintenance costs, insurance costs, and the operations rights in connection with the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility (the "**Fee Determination Factors**").

The annual entrustment fee shall be reviewed and adjusted every three years and any upward adjustment will be subject to a maximum cap of 10% from the previously agreed entrustment fee (the "**Fee Adjustment**"). With the Fee Adjustment mechanism, the Board estimates that the annual entrustment fee under the Entrusted Management Agreement will not exceed RMB50,000,000 per annum.

We have discussed with the Directors on the determination of the annual entrustment fee and reviewed the expected Fee Determination Factors. Having considered that (i) the aggregate historical amount of the Fee Determination Factors of each year remain stable during the Track Record Period; (ii) the expected Fee Determination Factors are generally in line with the historical Fee Determination Factors, we concur with the view of the Directors that the determination of annual entrustment fee by the Fee Determination Factors is appropriate, fair and reasonable.

Furthermore, the annual entrustment fee shall be reviewed and adjusted every three years and any upward adjustment will be subject to a maximum cap of 10% from the previously agreed entrustment fee. We are of the view that the mechanism of Fee Adjustment is fair and reasonable and avoid any unexpected upsurge of entrustment fee in the future.

Having consider that the (i) the determination of the annual entrustment fee with reference to the Fee Determination Factors is justifiable; (ii) the annual entrustment fee represents nil premium to the entrusting party; (iii) the Fee Adjustment mechanism could avoid any unexpected upsurge of entrustment fee in the future; and (iv) the reasons and benefits of entering into the Entrusted Management Agreement as discussed in the section headed "Reasons and benefits of the Acquisition and Entrusted Management Agreement" in this letter, although the Entrusted Management Agreement does not fall within the ordinary and usual course of business of the Group, we concur with the view of the Directors that the Entrusted Management Agreement and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

B. Placing

The Placing will be inter-conditional with the Acquisition. It is estimated that upon Acquisition Completion and issue of the Consideration of Shares to the Vendors, the Company will not be able to meet the public float requirements pursuant to the Listing Rules. The Company proposes to carry on the Placing pursuant to which the Underwriters (who and whose ultimate beneficial owners are Independent Third Parties) will place 40,000,000 Placing Shares at the Placing Price of not less than HK$5.00 per Placing Share to not less than six Independent Placees to meet the public float requirements as the settlement of the cash consideration under the SP Agreement.

The gross proceeds from the Placing would amount to approximately HK$200 million and after deducting the transaction expenses in relation to the reverse takeover, the net proceeds from the Placing are estimated to be approximately HK$160.7 million. The Company intends to use the net proceeds from the Placing as (i) the cash consideration to the Acquisition and (ii) general working capital for the Enlarged Group. On 26 June 2020 (after trading hours), the Company, the executive Directors, the Controlling Shareholders, the Joint Sponsors, the Sole Bookrunner and the Underwriters entered into the Placing Agreement. The Placing Completion and the Acquisition Completion are inter-conditional and that the Consideration Shares and the Placing Shares shall be allotted and issued simultaneously.

Pursuant to the Placing Agreement, the low-end of the Placing Price is HK$5.00 which is the same as the Issue Price. Whilst the low-end of the Placing Price is at a discount of approximately 14.4% to the closing price of the Shares of HK$5.84 per Share on the Latest Practicable Date, taking into account (i) the low-end of the Placing Price represents a premium of approximately 313.48% to the net asset value per share as at 31 December 2018; and (ii) the generally low liquidity of the Shares with average daily trading volume of below 1% of the total number of issued Shares which imposes difficulties on the Company to raise sufficient funds through equity financing without discount in Placing Price, we are of the view that the Placing Price is fair and reasonable so far as the Independent Shareholders are concerned. Details of our analysis are discussed in the previous paragraphs headed ''Historical Share price versus Issue Price'' and ''Historical trading volume during the Review Period'' in this letter.

Taking into account of (i) the compliance with the public float requirement pursuant to Listing Rules; and (ii) part of the net proceeds from the Placing will be used to finance the Acquisition; (iii) the Placing is an appropriate financing method currently available to the Group, we consider that raising additional capital for the Group is in the interests of the Company and its Shareholders as a whole. In consideration of the reasons as stated above, we concur with the Directors' view that the way of fund raising by the Placing is in the interests of the Company and the Shareholders as a whole.

C. Effects on the Company's shareholding structure

The following table illustrates the shareholding structure of the Company in the below scenarios:

Name of shareholder	Existing shareholding	%	Number of Consideration Shares and Placing Shares to be issued *(note 10)*	Immediately after Acquisition Completion and Placing Completion *(note 10)*	%
Mr. Zhao	130,148,240 *(note 1)*	55.50%	71,780,000 *(note 6)*	201,928,240	53.92%
Ms. Xu	26,381,400 *(note 2)*	11.25%	14,550,000 *(note 7)*	40,931,400	10.93%
Mr. Liu	17,587,600 *(note 3)*	7.50%	9,700,000 *(note 8)*	27,287,600	7.29%
Mr. Wang	1,758,760 *(note 4)*	0.75%	970,000 *(note 9)*	2,728,760	0.73%
Sub-total	**175,876,000**	**75.00%**	**97,000,000**	**272,876,000**	**72.87%**
Harvest Day *(note 5)*	–	–	3,000,000	3,000,000	0.80%
Placees	–	–	40,000,000	40,000,000	10.68%
Other shareholders	58,626,000	25.00%	–	58,626,000	15.65%
Total public shareholders	58,626,000	25.00%	43,000,000	101,626,000	27.13%
Total	**234,502,000**	**100.00%**	**140,000,000**	**374,502,000**	**100.00%**

Notes:

1. These Shares are held in the name of Golden Truth. Golden Truth is wholly owned by Mr. Zhao and accordingly Mr. Zhao is deemed to be interested in these Shares.

2. These Shares are held in the name of Dynamic Fame. Dynamic Fame is wholly owned by Ms. Xu and accordingly Ms. Xu is deemed to be interested in these Shares.

3. These Shares are held in the name of Heroic Year. Heroic Year is wholly owned by Mr. Liu and accordingly Mr. Liu is deemed to be interested in these Shares.

4. These Shares are held in the name of Noble Praise. Noble Praise is wholly owned by Mr. Wang and accordingly Mr. Wang is deemed to be interested in these Shares.

5. Harvest Day is not a connected person of the Company and accordingly it is considered a public Shareholder.

6. These Shares are held in the name of Propitious Peak. Propitious Peak is wholly owned by Golden Truth which is in turn wholly owned by Mr. Zhao and accordingly Mr. Zhao is deemed to be interested in these Shares.

7. These Shares are held in the name of Immense Ocean. Immense Ocean is wholly owned by Dynamic Fame which is in turn wholly owned by Ms. Xu and accordingly Ms. Xu is deemed to be interested in these Shares.

8. These Shares are held in the name of Amber Heyday. Amber Heyday is wholly owned by Heroic Year which is in turn wholly owned by Mr. Liu and accordingly Mr. Liu is deemed to be interested in these Shares.

9. These Shares are held in the name of Triumphal Diligent. Triumphal Diligent is wholly owned by Noble Praise which is in turn wholly owned by Mr. Wang and accordingly Mr. Wang is deemed to be interested in these Shares.

10. The issue of the Consideration Shares and the Placing Shares will be completed simultaneously.

As shown in the above table after the Completion, there will be a dilution in the shareholding interests of the existing public Shareholders from approximately 25% to 15.65% immediately after Acquisition Completion and Placing Completion., representing a dilution of approximately 9.35%. Despite such dilution effect on the shareholding of existing public Shareholders, taking into account that (i) the issuance and allotment of Placing Shares will broaden the shareholder base of the Company and enhance the liquidity of the Shares; (ii) the collective shareholding in the Company held by Mr. Zhao, Ms. Xu, Mr. Liu, Mr. Wang and their respective associates would not reach more than 75% and the minimum public float of the Shares would not be lower than 25%; (iii) the earnings per share of the Group would increase after the issuance and allotment of Consideration Shares and Placing Shares as illustrated in the section headed "Financial effects of the Acquisition and the Entrusted Management Agreement and the Placing" in this letter; and (iv) the Placing and the use of proceeds therefrom are fair and reasonable and in the interest of the Company and the Shareholders as a whole, details of which are discussed previously in this letter, we are of the view that the aforesaid level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

D. Financial effects of the Acquisition and the Entrusted Management Agreement and the Placing

Upon Acquisition Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the consolidated financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group (the "**Pro-forma Information**") as a result of the completion of the Acquisition is included in Appendix III to the Circular.

(i) Earnings

Based on the Pro-forma Information and as if the Acquisition had been completed on 1 January 2019, the net profit of the Group for the year ended 31 December 2019 would increase from approximately RMB35.7 million to approximately RMB110.0 million largely due to the financial performance of the Target Business after pro forma adjustment of net profit of RMB88.9 million which is then partly offset by the expenditures incurred directly to the Acquisition including financial adviser fees, legal fees, printing costs, accountants fees, and other related expenses of approximately RMB15.4 million. We are of the view that the Acquisition would widen the earnings base of the Group going forward.

The earnings per share of the Group for the year ended 31 December 2019, which is calculated based on the net profit after tax and issued ordinary shares of the Group, would increase from approximately RMB0.152 to approximately RMB0.294, after taking into account of the issuance of the 100,000,000 Consideration Shares and 40,000,000 Placing Shares.

(ii) Working capital

The consideration of the Acquisition of HK$650 million will be satisfied partly by the issuance of 100,000,000 Consideration Shares at the Issue Price of HK$5.00 per Consideration Share, and the remaining cash consideration of HK$150 million will be settled by the net proceeds from the Placing, hence there will be no material adverse impact on the cashflow of the Group in this regard. The Group had cash at bank and on hand of approximately RMB57.5 million as at 31 December 2019. According to the Pro-forma Information, the cash at bank and on hand of the Enlarged Group would be approximately RMB111.6 million as if the Acquisition had been completed on 31 December 2019.

As disclosed in the section headed "Financial Information of the Target Business" to the Circular, in view of the cash generated/to be generated from operating activities and the currently available financial resources, the Directors and the proposed Directors have confirmed that the Enlarged Group have sufficient working capital for present requirements for at least the next 12 months commencing from the date of the Circular.

(iii) Net asset value

As set out in the Pro-forma Information, assuming the Acquisition had been completed on 31 December 2019, the total equity of the Group will be improved from approximately RMB274.8 million to approximately RMB488.2 million. The improvement in net asset value is principally due to the issuance of Consideration Shares and the Placing Shares pursuant to which the capital base of the Enlarged Group is to be enlarged. Based on the above, we are of the view that the net asset position of the Enlarged Group will be enhanced upon the completion of the Acquisition.

(iv) Gearing ratio

According to the Pro-forma Information, assuming the Acquisition had been completed on 31 December 2019, the gearing of the Group, defined as interest-bearing liabilities divided by total equity, would increase from approximately 40.1% as at 31 December 2019 to approximately 107.4%, which was mainly due to the recognition of RMB329.4 million lease liability from the effective of the Entrusted Management Agreement which was partially offset by the increase in total equity.

Taking into account the above, we are of the opinion that the Acquisition is expected to improve the earning base as well as the net asset base of the Group and in the interests of the Company and the Shareholders as a whole.

It should be noted that the aforesaid analyses are for illustrative purpose only and do not purport to represent how the financial performance and position of the Group will be upon Acquisition Completion. The actual financial effect of the Acquisition to the Group upon Acquisition Completion will only be ascertained based on the financial position of the Target Group on the date of Acquisition Completion.

E. The non-exempted continuing connected transactions

The Petroleum Supply Agreement

In the ordinary and usual course of business, the WFOE Group has regularly entered into continuing transactions with Songyuan Petrochemical for the supply of refined oil products from Songyuan Petrochemical. It is expected that the above continuing transactions, which will be carried out in the ordinary and normal course of business of the Enlarged Group, will continue after the Acquisition Completion. As such, the WFOE entered into the Petroleum Supply Agreement with Songyuan Petrochemical on 26 June 2020 pursuant to which Songyuan Petrochemical will supply refined oil products to the Group.

(1) Principal terms

For details of the terms of the Petroleum Supply Agreement, please refer to the section headed ''Connected Transactions'' to the Circular.

Principal terms the Petroleum Supply Agreement are summarised below:

Date	:	26 June 2020
Parties	:	Songyuan Petrochemical as the supplier; and WFOE as the customer (for itself and on behalf of the WFOE Group).
Term	:	From the date of the Acquisition Completion to 31 December 2022
Determination of refined oil products charge	:	The refined oil products charge will be determined by the parties (on arm's length and in good faith) with reference to prevailing market price of refined oil products supplied by Songyuan Petrochemical to other Independent Third Parties. Pursuant to the "Measures for the Administration of Petroleum Prices" 《石油價格管理辦法》promulgated by the National Development and Reform Commission on 13 January 2016, the adjustment guide prices are issued every 10 working days. Under this mechanism, the refined oil trading enterprises can, based on market conditions and under the premise of not exceeding the statutory price, determine (by itself or between the demand and supply side) the specific price.
Responsibilities and rights of parties	:	WFOE (or the relevant subsidiaries of the WFOE Group) shall pay the refined oil products charge at the end of each month.

As noted from the Letter from the Board in the Circular, apart from the fact that the upstream petroleum supplies forms part of the Unrelated Business/Assets which the Company believes it is not in the best interest of the Group to acquire, the petroleum refuelling stations have been sourcing petroleum supply from Independent Third Party suppliers, as illustrated from the decreasing amount of refined oil products purchased by Target Group and Yitonghe Group for its Petroleum Refuelling Business and the Petroleum Wholesale Business for the four years ended 31 December 2016, 2017, 2018 and 2019, the Directors consider that notwithstanding the other petroleum suppliers in the market, the Petroleum Supply Agreement, pursuant to which the pricing of the refined oil products charge will be determined by the parties (on arm's length and in good faith) with reference to prevailing market price of refined oil products supplied by Changchun Yitonghe to other Independent Third Party suppliers, will provide the Petroleum Refuelling Stations a stable source of petroleum supply to the petroleum refuelling stations as a safeguard against any potential disruption of supply of petroleum by the Independent Third Party suppliers, and that the Petroleum Supply Agreement is in the best interests of the Company and its shareholders as a whole.

Given that the petroleum charge is well governed by, inter alia, the "Measures for the Administration of Petroleum Prices"《石油價格管理辦法》promulgated by the National Development and Reform Commission, the petroleum charged by Songyuan Petrochemical under the Petroleum Supply Agreement will be in line with and not exceed the relevant statutory price. We understand from the Directors that the charge on the refined oil products procured by the Target Group, inclusive of that under the Petroleum Supply Agreement, are government guided, and we are of the view that the terms under the Petroleum Supply Agreement are on normal commercial terms and are fair and reasonable.

Based on the above, in particular that (i) the entering into the Petroleum Supply Agreement fall within the ordinary and usual course of business of the Enlarged Group after Acquisition Completion; (ii) the petroleum charge is well regulated by the "Measures for the Administration of Petroleum Prices"《石油價格管理辦法》promulgated by the National Development and Reform Commission; (iii) the transactions contemplated under the Petroleum Supply Agreement will be conducted on normal commercial terms, negotiated on arm's length basis and at prices and on terms no less favourable to the Enlarged Group than terms available to and from independent third parties after Acquisition Completion; and (iv) the entering into the Petroleum Supply Agreement guarantees a stable source of petroleum supply to the petroleum refuelling stations of the Enlarged Group, we concur with the view of the Company that the non-exempt continuing connected transactions contemplated under the Petroleum Supply Agreement are and will be entered into in our Group's ordinary and usual course of business on normal commercial terms or better, and are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

(2) The annual caps

Historical transaction amounts

As stated in the Letter from the Board, set out below are the volumes and amounts of petroleum purchase from Songyuan Petrochemical in connected with the Petroleum Refuelling Business and Petroleum Wholesale Business for the four years ended 31 December 2016, 2017, 2018 and 2019 for comparison purposes:

Year ended 31 December	**Volume**	**Amount**
	(tonnes)	*(RMB'000)*
2016	584,907	2,600,598
2017	367,942	1,988,287
2018	243,036	1,519,630
2019	133,577	723,819

Annual caps and basis of determination

The Board estimates that the annual refined oil products charge under the Petroleum Supply Agreement for the three years ending 31 December 2022 will not exceed the following annual caps set forth in the table below:

Year ended 31 December	**Annual cap**
	(RMB'000)
2020	1,200,000
2021	1,400,000
2022	1,600,000

In assessing the fairness and reasonableness of the annual caps, we have reviewed and discussed with the Company with regards to the underlying calculations. We understand from the underlying calculations that the Company's projections of the annual caps are mainly based on (a) the historical amount of refined oil products purchased from Songyuan Petrochemical in connection with Petroleum Refuelling Business and Petroleum Wholesale Business; (b) the anticipated market prices of refined oil products and the fluctuation of refined oil products market price in the past three years with an estimated increment buffer of 15% per annum; and (c) WFOE Group's demand for the refined oil products supply from Songyuan Petrochemical by taking into account its target to maintain supply of not more than 30% of the WFOE Group's total refined oil products procurement amount for each year.

With regards to the annual caps for 2020, 2021 and 2022, The amounts of refined oil products purchased from Songyuan Petrochemical during these periods of approximately RMB1,200 million, RMB1,400 million and RMB1,600 million have been determined based on projected amount of refined oil products purchased from Songyuan Petrochemical for 2020, together with the assumption of an estimated increment buffer of 15% per annum and maintaining supply of not more than 30% of the WFOE Group's total refined oil products procurement amount from Songyuan Petrochemical for each year. We have reviewed the fluctuation of average price of the refined oil products procured by the Target Group in the past four years from 2016 to 2019 and concur with the view of the Company that the increment buffer of 15% per annum on the anticipated refined oil products charge is fair and reasonable. We also understand from the Directors that it has been the WFOE Group's strategy to reduce the refined oil products supply, as a percentage to the WFOE Group's total refined oil products procurement for each year, to not more than 30% from Songyuan Petrochemical in order to striking balance between maintaining stable petroleum supply and over relying on a connected supplier. Given the long established trading history between the petroleum stations under the WFOE Group and Songyuan Petrochemical, we are of the view that the WFOE Group is manageable to maintain the petroleum supply level from Songyuan Petrochemical.

Based on the above, we concur with the view of the Company that the annual caps under the Petroleum Supply Agreement are fair and reasonable.

Internal control procedures regarding the annual caps

As stated in the section headed "Connected Transactions" to the Circular, the Company has implemented the following measures relating to the internal control system of its connected transactions:

(a) The finance department of the Company will be responsible for regularly collecting the detailed information of the said connected transactions and reporting to the manager of the finance department regularly. The cost control department and finance department of the Company will assist in reviewing and controlling particular terms and conditions and actual transaction amounts of the continuing connected transactions.

(b) The Company will supervise whether the transaction terms and prices and other terms of the agreements are in compliance with the principles set out therein assessing the fairness of the transaction terms and pricing terms, and reporting relevant information to the head of cost control department on a timely manner.

(c) The secretary to the Board will collect the reports from the manager of finance department and report to the Board in such regard on a regular basis. The Board shall be responsible for the inspecting and supervising the control of connected transactions of the Company as well as the implementation of connected transaction control system by the Directors, senior management and connect persons of the Company.

(d) In addition, the INEDs will review the continuing connected transactions under the Petroleum Supply Agreement to ensure that such agreements are entered into on normal commercial terms or on terms no less favourable to terms available from independent third parties, are fair and reasonable and the transactions are conducted pursuant to the terms of such agreements by checking whether the above measures are duly taken. The auditor of the Company will also conduct annual review on the pricing terms and annual caps of the continuing connected transactions.

As part of our independent work performed, we have discussed with management of the Company to understand the aforementioned internal control procedures and have obtained and reviewed the relevant internal control policy. Given such internal control procedures in place, in particular that the cost control department and finance department of the Company will assist in reviewing and controlling particular terms and conditions and actual transaction amounts of the continuing connected transactions, we consider the Enlarged Group to have the appropriate internal control procedures in place to ensure the annual caps under the Petroleum Supply Agreement will not be exceeded.

Based on the factors described above and our review of the underlying calculations from the Company, we concur with the view of the Company that the annual caps under the Petroleum Supply Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. We also consider the Enlarged Group to have the relevant internal control procedures in place to ensure the annual caps under the Petroleum Supply Agreement will not be exceeded.

RECOMMENDATION

Having considered the principal factors and reasons regarding the SP Agreement, the Entrusted Management Agreement, the Petroleum Supply Agreement and the Placing Agreement discussed above, we are of the opinion that (i) while the SP Agreement and the Entrusted Management Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the SP Agreement and the Entrusted Management Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole; (ii) the Petroleum Supply Agreement and the transactions contemplated thereunder and the respective annual caps are in the ordinary and usual course of business of the Enlarged Group, on normal commercial terms, and fair and reasonable so far as the Group and the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole; and (iii) the Placing Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate.

Yours faithfully,
For and on behalf of
Chanceton Capital Partners Limited

Chan Chi Hung	**Ng Wing Hing**
Director	*Senior Manager*

Mr. Chan Chi Hung is a licensed person registered with the SFC and a responsible officer of Chanceton Capital Partners Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 14 years of experience in the corporate finance industry.

Mr. Ng Wing Hing is a licensed person registered with the SFC and a representative of Chanceton Capital Partners Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 4 years of experience in the corporate finance industry.

This circular contains forward-looking statements that state the intentions, beliefs, expectations or predictions of the Group, the Enlarged Group and/or the Target Group for the future that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this circular. These forward-looking statements include all statements in this circular that are not historical fact, including, without limitation, statements relating to:

- the Enlarged Group's operations and business prospects;
- the future developments, trends and conditions in the PRC refined oil industry;
- the Enlarged Group's strategies, plans, objectives and goals and its ability to implement such strategies and achieve its plans, objectives and goals;
- the Enlarged Group's future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of the Enlarged Group's business;
- the regulatory environment relating to, and the general industry outlook for, the PRC petroleum retail and wholesale industry;
- prospective financial matters regarding the Enlarged Group's business, results of operations and financial condition;
- the Target Group's continual review of its strategy regarding its business in the PRC;
- the competitive markets for PRC petroleum retail and wholesale industry and the actions and developments of the Target Group's competitors in the PRC; and
- the general political and economic environment in the PRC.

When used in this circular, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Group, the Target Group and/or the Enlarged Group, are intended to identify forward-looking statements. However, all statements in this circular other than statements of historical fact are forward-looking statements. Such forward-looking statements reflect the views of the management of the Enlarged Group and/or the Target Group as the case may be as at the date of this circular with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Although the Directors and the Target Company Directors believe that the expectations reflected in such forward-looking statements are reasonable, actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- the performance of the PRC petroleum retail and wholesale industry;
- the Enlarged Group's ability to successfully complete and realise benefits from its network;
- the Enlarged Group's levels of indebtedness and interest payment obligations;
- the Enlarged Group's ability to effectively manage its planned expansion;
- the Enlarged Group's ability to stay abreast of market trends;
- the Enlarged Group's ability to effectively manage its operational and production costs;
- the Enlarged Group's ability to retain core team members and attract qualified and experienced personnel;
- the Enlarged Group's ability to maintain and renew the permits and licences required for undertaking its business operations;
- prospective financial information of the Enlarged Group; and
- other factors beyond the control of the Enlarged Group.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, the results of operations and financial condition of the Group, the Target Group and/or the Enlarged Group may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by the Company and the Target Company that their plans and objectives will be achieved or realised.

The forward-looking statements in this circular reflect the views of the management of the Enlarged Group as at the date of this circular and are subject to change in light of future developments. Subject to the requirements of the Listing Rules, the Company and the Target Company do/will not intend to update or otherwise revise the forward-looking statements in this circular, whether as a result of new information, future events or otherwise.

When considering the Acquisition, you should carefully consider the risk factors set out below and the other data and information set forth in this circular. The business, financial condition, results of operations and prospects of the Target Group could be adversely affected by any of the following events. The risks and uncertainties described below are not exhaustive of all the risks faced by the Company, the Target Group or the Enlarged Group. Any other risks and uncertainties which the Company, the Target Group and the Enlarged Group are not aware of or deems to be immaterial currently may also have an adverse impact on the business, financial condition, results of operations and prospects of the Company, the Target Group and the Enlarged Group.

The Acquisition involves various risks, many of which are beyond the control of the Company, the Target Group and the Enlarged Group. Such risks may be categorized into: (i) risks relating to the Target Group's business and industry; (ii) risks relating to the Acquisition; (iii) risk relating to the PRC; and (iv) risks relating to this circular.

RISKS RELATING TO THE TARGET GROUP'S BUSINESS AND INDUSTRY

Any instability in or shortages of supply of refined oil products could significantly and adversely affect the Target Group's business.

Among the Target Business's five largest suppliers for the years ended 31 December 2016, 2017, 2018 and 2019, petroleum suppliers accounted for approximately 97.4%, 90.0%, 89.4% and 75.9% of the Target Business's total purchases respectively. According to the F&S Report, the supply of petroleum in China is often in the hands of large state-owned enterprises and foreign petroleum suppliers. To ensure a stable and sufficient supply of fuels, refuelling station operators have to establish procurement channels and maintain good business relationship with midstream oil refineries or wholesale distributors. Further, well-equipped refined oil transportation facilities, such as safe-guaranteed petroleum transport fleet responsible for carrying the refined oil from the storage facilities to the petroleum refuelling stations, are required.

The Target Group does not produce its raw materials and rely on its suppliers to obtain refined oil products, and as an industry practice, save for the procurement of refined oil products from connected person, the Target Group does not enter into long term petroleum supply agreement for the refined oil supply with suppliers. Hence, the Target Group cannot guarantee that the suppliers will continue to provide sufficient refined oil products to the Target Group especially in time of unpredicted increase in demands for refined oil products. Any dispute between the Target Group and its major suppliers may also affect the relationship. These suppliers may also occasionally encounter shortage of refined oil products supply such as the occurrence of any adverse political and economic conditions in petroleum exporting countries, and may not be able to provide sufficient refined oil products to the Target Group. If the Target Group fails to find a substitute for the supply of quality refined oil products in a timely manner or on commercially acceptable terms, the petroleum refuelling stations may not have sufficient products for sale, and its business, reputation and results of operations may be materially and adversely affected.

Further, notwithstanding that the Target Group possesses its own transportation vehicle fleet, the Target Group may at times engage Independent Third Party service providers for the transportation of refined oil products from its suppliers or its petroleum storage facilities. If such Independent Third Party service providers refuse to continue to provide the service and Jieli Logistics and the Target Group's own transportation vehicle fleet cannot satisfy the demand for its services, or if it increases the service charge, the refined oil products supply may be interrupted. In case of any potential delay or interruption of the transportation services, the petroleum refuelling stations' operation could be materially and adversely affected.

The gross profit margin and growth in profit may fluctuate in the future as the purchase price and selling price of the refined oil products are sensitive to factors beyond control.

Gasoline and diesel are important raw materials for the Petroleum Refuelling Business and the Petroleum Wholesale Business and constitute a majority of the Target Business's costs of sales. The costs of sales and gross profit margin are directly affected by the fluctuations of the purchase price of refined oil products. Market prices of refined oil products generally follow the trend of NDRC's guiding price in the PRC and international crude oil market, which is driven by market forces such as demand and supply, development of alternative energy technology, government regulations, geographic politics and global and domestic economic conditions, all of which are beyond the Target Group's control. Affected by these factors, oil prices could fluctuate significantly. According to the F&S Report, the world's two major crude oil benchmarks, Brent and WTI (West Texas Intermediate) crude oil spot price dropped to approximately US$43.6 and US$43.3 per barrel in 2016, respectively, and gradually recovered thereafter and stood at US$71.3 and US$65.2 per barrel in 2018, respectively. In 2019, due to the substantial increase in U.S. shale oil production, both the Brent and WTI crude oil price showed a decrease as compared with previous year, reaching US$64.3 and US$57.0 per barrel, respectively. Since 1 January 2020, the international market oil price has been experiencing a plummet after OPEC's failure to strike a deal with its allies on the output cut in March 2020 and Saudi Arabia's reaction intensified the situation by way of cutting oil prices and boosting production. The global outbreak of COVID-19 pandemic also restrained the demand of crude oil, which further intensified oil supply and demand imbalance. Both the Brent and WTI crude oil spot price plummeted to below US$40 per barrel as 9 March 2020 until 15 June 2020, resulting from the retail gasoline and diesel ceiling price be fixed at RMB7,468.5 per tonne and RMB5,895.0 per tonne respectively, while the wholesale gasoline and diesel ceiling price be fixed at RMB7,141.5 per tonne and RMB5,595.0 per tonne respectively from 17 March 2020 (being the first adjustment window since 9 March 2020) up to the Latest Practicable Date. The ceiling price (tax-inclusive) of gasoline and diesel was between approximately RMB7,911.7 per tonne and RMB7,468.5 per tonne and between RMB6,293.1 per tonne and RMB5,859.0 per tonne, respectively, in Northeast China in 2016 to 27 May 2020, according to the F&S Report. The ceiling price refers to the government-imposed retail price limit for refined oil products. The fluctuations in the gross profit margin are contributed by the changes in the purchase price, retail selling price and the wholesale selling price which are affected by a range of factors over which the Target Group has limited control. The selling price of the refined oil products takes into consideration, amongst others, procurement cost, and competition with the Target Group's competitors, and these are factors which are beyond control. Market demand by end-customers, and competitive landscape of petroleum refuelling stations and the wholesale customers may also impact the selling price. In particular, when the Target Group's competitors undercut the selling price, the Target Business may suffer from lower profit margin (if aiming at maintaining sales volume) or lower sales volume (if aiming at maintaining profit margin). As such, the ability to timely adjust the selling price will affect the gross profit and gross profit margin. For the four years ended 31 December 2019, the Target Business's gross profit margin was approximately 6.4%, 8.0%, 8.0% and 8.9%, respectively.

The Target Group also does not engage in any hedging activities. Any significant fluctuations of refined oil price could pose challenges to the Target Group's operations and adversely affect the Target Group's financial condition and results of operation. If the Target Group is unable to pass on the impact of the increase in purchase prices of the refined oil products to the customers by adjusting the selling price in a timely manner or at all due to price competition with other competitors including refuelling station operators, or if the Target Group misjudges the extent of adjustment of the retail price at the petroleum refuelling stations and the wholesale price, the gross profit, cash flow and results of operations will be materially and adversely affected. Please refer to the section headed "Business of the Target Group – Pricing" in this circular for details of our pricing strategy.

The Target Business is exposed to credit risk of its customers.

The Target Business's exposure to credit risk is influenced mainly by the individual characteristics of the customer or debtor. The Target Business's customers include individual and corporate customers, and cash before delivery is generally required for all individual customers, where credit terms of one month are normally granted to corporate customers. The Target Business's trade and bills receivables mainly consisted of receivables from third parties including other petroleum refuelling stations in relation to the Target Business's Petroleum Wholesale Business. The Target Business's trade and bills receivables amounted to approximately RMB13.9 million, RMB30.5 million, RMB34.7 million and RMB35.5 million as at 31 December 2016, 2017, 2018 and 2019, respectively while the average trade and bills receivables turnover days are approximately 1.4 days, 2.2 days 3.1 days and 3.5 days for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The increase in impairment losses on trade receivables for the year ended 31 December 2018 was mainly attributable to the increase in loss allowance provision for trade receivables in connection with one wholesale customer with more than 150 days past due.

As at the 30 April 2020, approximately RMB34.6 million or 97.4% of the trade and bills receivables outstanding as at 31 December 2019 had been subsequently settled. Further details on ageing analysis and subsequent settlement are set forth in the section headed "Financial Information of the Target Business — Description of selected items in combined statement of financial position — Trade and bills receivables" in this circular. The financial position, profitability and cash flow of the Target Group depend on whether customers will be able to settle the outstanding balances owed to the Target Group in a timely manner. If there is any delay or default in payments made by customers, if the Target Group fails to receive long overdue trade and bills receivables or if there is any event or change in circumstances that renders the long overdue trade receivables impaired or uncollectible, the Target Group's profitability, liquidity, financial position, results of operations and prospects could be materially and adversely affected.

The Target Business is subject to risk of inventories write-down or obsolescence.

The Target Group's inventory primarily consists of refined oil. The Target Business manages its inventory level primarily based on its customers' demand and seeks to strike a balance between maintaining sufficient inventories to meet customers' demand and exposures to refined oil price fluctuation. As at 31 December 2016, 2017, 2018 and 2019, the Target Business had inventories of approximately RMB71.6 million, RMB184.0 million, RMB166.2 million and RMB102.1 million, respectively. The Target Business recorded a decrease in inventories from approximately RMB184.0 million as at 31 December 2017 to RMB166.2 million as at 31 December 2018 primarily due to the trade war between the United States of America and the PRC, leading to a temporary decrease in the price of international crude oil during the last quarter of 2018. As a result, provision for write-down has been made by the Target Business. If the refined oil price experiences substantial fluctuation or the Target Business cannot manage its inventory efficiently in the future, the Target Business will be exposed to the risks of inventory write-down or obsolescences, and its result of operations and financial conditions could be adversely impacted. For details of the Target Business's inventories and inventory provisions during the Track Record Period, please refer to the section headed "Financial Information of the Target Business — Description of selected items in combined statements of financial position — Inventories" in this circular.

The Target Business may not be able to derive non-recurring other income in the future.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's other income amounted to approximately RMB19.9 million, RMB10.3 million, RMB7.9 million and RMB12.9 million, respectively. The other income consisted primarily of rental income from operating leases and entrustment arrangements with related parties. The properties which generated rental income from operating leases mainly include transportation vehicles, office buildings leased to Jieli Logistics and buildings and structures erected on a parcel of land leased to United Strength Vehicle Service for the operation of petroleum refuelling stations. Such lease was terminated during the year ended 31 December 2017. The rental income from operating lease from our Group for the years ended 31 December 2016, 2017, 2018 and 2019 amounted to approximately RMB7.0 million, RMB4.2 million, RMB4.3 million and RMB3.5 million, respectively. Rental income from entrustment arrangements with related parties represents the entrustment fee in connection with gas refuelling stations entrusted to our Group. The net gain arising from the disposal of right-of-use assets represents the Target Business's accounting treatment for the termination of the operating leases. For further details, please refer to the section headed "Financial Information of the Target Business — Description of selected items in combined statement of financial position — Other income" in this circular. The other income that the Target Business received during the Track Record Period are mostly non-recurring in nature, terminated or to be terminated upon Acquisition Completion. The Target Business may not be able to derive such other income in the future, which may have a negative impact on the Target Business's financial condition and results of operations.

Stable refined oil products supply and petroleum transportation services are crucial to the Target Group's business and its operation may be significantly interrupted if it fails to secure stable refined oil products supply and petroleum transportation services.

According to F&S, sustainable refined oil supply capability is crucial to vehicle petroleum refuelling station operators. To ensure a stable and sufficient supply of fuels, refuelling station operators have to establish procurement channels and maintain good business relationship with midstream oil refineries or wholesale distributors. Further, well-equipped refined oil transportation facilities, such as safe-guaranteed petroleum transport fleet responsible for carrying the petroleum from the storage facilities to the refuelling stations.

The Target Group does not produce its raw materials and rely on its suppliers to obtain petroleum. As such, the Target Group cannot guarantee that the suppliers will continue to provide sufficient refined oil products supply to it, especially in time of significant fluctuation of oil price in the market. The Target Group's suppliers may also occasionally encounter shortage of refined oil products supply and may not be able to provide sufficient refined oil products to the Target Group. There can also be no assurance that the Target Group is able to procure sufficient refined oil products with satisfactory quality or with the quality required by the Target Group's customers. If the refined oil products procured by the Target Group cannot meet customers' demand or if they are of inferior quality, the Target Group's business and reputation may be materially and adversely affected. If the Target Group fails to find a replacement for the supply of refined oil products or fails to source quality refined oil that can meet customers' demand, the petroleum refuelling stations may not have products for sale, and business, reputation and results of operations may be materially and adversely affected.

Further, notwithstanding that the Target Group possesses its own transportation vehicle fleet, the Target Group may at times engage Independent Third Party service providers for the transportation of refined oil products from its suppliers or its petroleum storage facilities. If such Independent Third Party service providers refuse to continue to provide the service and Jieli Logistics and the Target Group's own transportation vehicle fleet cannot satisfy the demand for its services, or if it increases the service charge, the refined oil products supply may be interrupted. In case of any potential delay or interruption of the transportation services, the petroleum refuelling stations' operation could be materially and adversely affected.

The Target Group's business is subject to the development of PRC government policies and any future unfavourable policies may materially and adversely affect its business development and performance.

The Target Group's Petroleum Refuelling Business and Petroleum Wholesale Business are influenced by the PRC government policies. For example, the PRC government has been supporting the development of the refined oil industry and had issued the Notice of the National Development and Reform Commission and the National Energy Administration on Printing and Distributing the Medium and Long-Term Oil and Gas Pipeline Network Plan (《國家發展改革委、國家能源局關於印發《中長期油氣管網規劃》的通知》). In light of these policies, the Target Group intends to increase the petroleum refuelling station network. According to the PRC Pricing Law (《中華人民共和國價格法》) and the Measures for the Administration of Petroleum Prices (《石油價格管理辦法》), the PRC government may direct, guide or fix the prices of public utilities through the pricing schedules prescribed by the central or local government. The retail prices and wholesale prices of refined oil products are subject to ceilings set by the NDRC, which are adjusted every 10 working days. According to Notice of the National Development and Reform Commission on Issues concerning Further Improving the Price Formation Mechanism of Refined Oil (《國家發展改革委關於進一步完善成品油價格形成機制有關問題的通知》) issued on 13 January 2016, in order to improve the price mechanism of refined oil products and further promote the market-oriented reform of refined oil prices, a price floor of USD40 per barrel had been set to restrict the domestic refined oil price from falling below the floor even when the international oil price falls below USD40 per barrel to offer protection to the domestic market players in petroleum refuelling business against adverse global market changes in terms of the oil prices. Hence, the Target Group's petroleum refuelling stations are required to sell refined oil at prices not exceeding the ceilings set by the NDRC, which may restrict the Target Group's ability to pass on increases in refined oil purchase prices to customers. There may also be a time gap between the increases in the Target Group's refined oil purchase prices and the increases of the Target Group's refined oil sales prices, due to the government's pricing policies or other reasons.

The Target Group is unable to predict future change in laws and regulations or government policies. Such laws and regulations and government policies are subject to change and are beyond the control of the Target Group. Any negative changes to the existing government support and policies in respect of refined oil industry, may hamper the Target Group's future plans to expand in the refined oil sector. On the other hand, the relaxing of the approval of individual petroleum refuelling stations by the relevant authorities may intensify competitions in the petroleum refuelling station market. Furthermore, any changes in laws and pricing regulations may have a material adverse impact on the Target Group's business performance. Future change in laws and regulations may require the Target Group to make costly and time-consuming changes to its operations and its intended business plans, which could materially and adversely affect its business, results of operations and financial condition. For details, please refer to the section headed "Regulatory Overview" in this circular.

The Target Group is required to obtain various licenses for the Target Group's business operations. Failure to obtain or renew the licenses could materially and adversely affect the Target Group's business and expansion plans.

The Target Group is required to obtain various licenses from the relevant government authorities in order to operate the Target Group's business. The Target Group is required to obtain and maintain amongst others, hazardous chemical business license (危險化學品經營許可證), refined oil wholesale business approval certificate (成品油批發經營批准證書) and refined oil retail business approval certificate (成品油零售經營批准證書) for the operations of the Petroleum Refuelling Business and Petroleum Wholesale Business. Please refer to the section headed "Business of the Target Group – Licenses" in this circular for the licenses required for the Target Group's business operations. The Target Group may not be able to obtain such licenses in a timely manner, or at all. In particular, the government authority granting the licenses may change from time to time, which may delay the review and approval process and increase the uncertainties of the outcome of the review. Please refer to the paragraph headed "– The Target Group may not be able to secure preferred locations for the Target Group's petroleum refuelling stations, or secure locations for its petroleum refuelling stations on commercially acceptable terms, or at all" in this section below for more details.

If the Target Group is unable to obtain any of these licenses or renew them upon expiry of their terms, or if any of these licenses are revoked or suspended by the relevant government authorities, or if the Target Group fails to pass the government inspections of its operation facilities, the Target Group's operations could be disrupted and the Target Group may not be able to implement its expansion plan to enter the desired new markets, in which case the Target Group's financial condition, results of operations and prospects could be materially and adversely affected.

The Target Group faces competition from clean energy sources and alternative vehicle fuels, and the competition could intensify.

As conventional energy sources, fossil fuels including coal and oil face competition from clean energy. As clean energy sources are more environment-friendly compared with fossil fuels, in an era of rising environmental concerns and increasingly tightened up emission standards, competition from clean energy could intensify, especially when clean energy technology continues to evolve and the application costs of clean energy decline.

Refined oil products including gasoline and diesel face competition from alternative vehicle fuels and electricity. In selecting energy sources, vehicle users generally consider cost, availability, convenience, environmental impact and safety. Alternative vehicle fuels could have increasing popularity among vehicle users if technological advancements continue making their uses more convenient and cost-efficient. For example, aided by the invention of rechargeable lithium-ion battery and the research on wireless charging of moving vehicles, the maximum driving range of current models of electric cars in the PRC can reach 200km to 400km, and the express charging time could be as short as one to two hours. Higher driving range and shorter charging time as well as better design of electric cars resulted from continuous research efforts, have led to enhanced popularity of electric vehicles, which could pose significant threats to the Target Group's results of operations and prospects.

The PRC government's favourable policy orientation has also driven rapid growth of New Energy Vehicles. According to the Developing Plan of Energy Saving and New Energy Automotive Industry (2012-2020) (《國務院關於印發節能與新能源汽車產業發展規劃(2012-2020年) 的通知》) promulgated by the PRC State Council on 28 June 2012, the PRC government will commit more resources to develop New Energy Vehicles, and by 2020, the population of China's electric vehicles (comprising pure electric vehicles and plug-in hybrid electric vehicles) will reach 5 million, and China's annual electric vehicle production capacity will reach 2 million. The Developing Guidelines of Electric Vehicle Charging Infrastructure (2015-2020) (《電動汽車充電基礎設施發展指南(2015-2020年)》) promulgated by the NDRC and certain other ministries on 9 October 2015 sets targets for the development of electric vehicle charging infrastructures. According to these guidelines, from 2015 to 2020, China will build 12,000 centralised electric vehicle charging stations and 4.8 million decentralised charging piles. The significant improvement of the charging infrastructures has contributed to the wider use of electric vehicles. Additionally, the PRC government has provided subsidies and tax benefits to New Energy Vehicles users to boost the New Energy Vehicles sector. According to the F&S Report, the population of China's New Energy Vehicles increased from 0.2 million in 2014 to 3.8 million in 2019, and is expected to increase to 9.8 million in 2024. A larger New Energy Vehicle population may reduce market demand for gasoline and diesel vehicles and could place constraints on the Target Group's growth.

In view of the above, if technological advancements in the clean energy and alternative vehicle fuel areas continue, in particular, if any technological breakthrough is achieved in these areas, or if the PRC government continues to implement favourable policies towards clean energy, or if the public's environmental concern heightens, competition from clean energy and alternative vehicle fuels could intensify, in which case the Target Group's business, financial condition, results of operations and prospects could be materially and adversely affected.

The Target Group operates in a competitive industry. If the Target Group is unable to compete successfully with the Target Group's peers, the Target Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

The Target Group operates in a competitive industry. According to the F&S Report, in 2019, there were approximately 99,800 petroleum refuelling stations in the PRC. Top state-owned oil companies dominate the refined oil market, with a growing number of private players entering the market. On 28 June 2018, NDRC and MOFCOM promulgated the Special Administrative Measures on Access to Foreign Investment (Negative List) (2018 Version) (《外商投資准入特別管理措施(負面清單)(2018年版)》), which widens market access for foreign investment in, among others, the energy industry. According to this negative list, the restriction on foreign investment in petroleum refuelling station business, which is, a petroleum refuelling station chain with more than 30 stations and offering different types and multi-branded refined oil products must be majority-owned by one or more Chinese parties, is lifted. It is expected that in response to such foreign investment policy change, certain leading foreign oil companies may increase their presence in the petroleum refuelling station market, which may result in the competition in the market continuing to intensify. Please refer to the section headed "Industry Overview" in this circular for more details about the competitive landscape of the refined oil market in the PRC.

In view of the above, the Target Group may compete with both existing market participants such as the PRC state-owned companies and new entrants. Some of the Target Group's peers may have longer track records, larger operational scale, greater financial and marketing resources and more established market reputation than the Target Group. There is no assurance that the Target Group can compete successfully with its peers in the future. In the event that the Target Group is unable to compete with other market participants effectively, its business, financial condition, results of operations and prospects may be materially and adversely affected.

The Target Group operates mainly in Jilin and Liaoning provinces and the Target Group's business and operating results depend heavily on the economic and social conditions of these regions.

The Target Business is the largest private petroleum refuelling station operator in Northeast China according to the F&S Report. For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business derived approximately 66.4%, 65.6%, 67.5% and 68.8% of the Target Business's total revenue from operations in Jilin Province and approximately 33.1%, 33.8%, 32.0% and 30.9% of the Target Business's total revenue from operations in Liaoning Province. As of the Latest Practicable Date, the Target Business operated a total of 67 petroleum refuelling stations, of which 43 petroleum refuelling stations were located in Jilin Province, 23 petroleum refuelling stations were located in Liaoning Province and one petroleum refuelling station was located in Heilongjiang Province. The Target Group expects that its business expansion will continue to focus on these regions. Due to such geographic concentration, the Target Group's business and operating results depend heavily on the economic and social conditions of Jilin and Liaoning provinces. The general economic conditions in these regions and local people's spending power, the road-network and urban planning in these regions, the popularity of alternative fuel vehicles among the local population, as well as the level of local government's support for alternative fuel vehicles may all have an impact on the Target Group's operations and business expansion. For example, if the local government increases its support for alternative fuel vehicles, which results in increased preference for alternative fuel vehicles by local customers, demand for refined oil products could decline and the Target Group's business could be adversely affected. Moreover, if there is any significant economic downturn or unfavourable change in the economic environment in these regions, or if any natural disaster or epidemic outbreak occurs in these regions, economic activities in these regions may be materially and adversely affected, which, in turn, may reduce the demand for refined oil products and adversely affect the Target Group's performance. There is no assurance that the Target Group will be able to maintain its historical revenue or profit levels in times of unfavourable and uncertain economic or social conditions in these regions, and the Target Group's historical performance shall not be relied upon as an indication of its future performance.

The Target Group may not be able to secure preferred locations for its petroleum refuelling stations, or secure locations for its petroleum refuelling stations on commercially acceptable terms, or at all.

The performance of the Target Group's petroleum refuelling stations depends, to a significant extent, on their locations. The size of vehicle population, the local economic and social conditions, the road network and traffic flow as well as the availability of alternative petroleum refuelling stations in the vicinity are key factors that affect the performance of its petroleum refuelling stations. For instance, if the Target Group's petroleum refuelling stations are located in close proximity to its competitors, the Target Group's pricing flexibility could be limited as its competitors may offer more competitive prices. As such, the Target Group's ability to secure preferred locations for its petroleum refuelling stations on commercially acceptable terms is crucial to the Target Group's success.

The Target Group may not be able to secure preferred locations for its petroleum refuelling stations. There may have been adequate petroleum refuelling station coverage in the existing urban areas and along the highways and other road networks in the places where the Target Group operates, and suitable new sites may only be available when urbanisation in these places and other markets the Target Group intends to enter progresses, or when new roads are built in these places. In securing sites for the Target Group's petroleum refuelling stations, the Target Group competes with its peers who may have more financial and other resources than the Target Group, and the competition for favourable petroleum refuelling station sites could be intense. Such competition may restrict the Target Group's ability to acquire or lease the sites on favourable terms. The Target Group's site selection is subject to government approval, and it normally takes two years for the Target Group to obtain the various licences required for the operation of the petroleum refuelling station after the Target Group has filed an application for its construction, which is a lengthy process that entails uncertainties. As the Chinese government is undergoing continued reform that is focused on administrative function transformation, the approval authority may change from time to time, which may delay the approval process and cause additional uncertainties for the outcome of review of the Target Group's application. In addition, the Target Group's site selection must comply with the government's road and urban planning, failing which no approval for the site selection would be granted to the Target Group by the approval authority. Please refer to the paragraph headed "The Target Group's operations and expansion plan are affected by the government's road and urban planning, which is subject to unforeseeable adjustments." in this section for risks associated with the change of the government's road and urban planning.

If the Target Group cannot secure preferred locations for the Target Group's petroleum refuelling stations, or secure locations for the Target Group's petroleum refuelling stations on commercially acceptable terms, the Target Group's growth prospects could be materially and adversely affected.

The Target Group's business requires significant start-up capital expenditures, and any significant increase in the cost of developing its petroleum refuelling stations may materially and adversely affect the Target Group's expansion plan, business, financial performance and prospects.

The Target Group may construct additional petroleum refuelling stations if and where it come across appropriate opportunities. Substantial initial investments are required to be made to acquire companies with petroleum refuelling stations and construction. The capital investment required to develop and construct varies based on the cost of fixed assets, such as the cost of construction. The price of such construction may increase if market demand for such construction is greater than the available supply. Other factors affecting the amount of capital expenditures include, among others, labour costs and finance expenses. A significant increase in the costs of developing and constructing the Target Group's petroleum refuelling stations could materially and adversely affect the Target Group's business, financial condition and results of operations. Historically, the Target Group's development has been financed through funds generated from its operations and/or bank loans. We cannot assure you that, at the time of developing the Target Group's new petroleum refuelling stations, it will be able to secure financing from the abovementioned sources on commercially viable terms to fund required capital expenditures. If the Target Group fails to obtain adequate financing, the ability to expand business may be hindered and the prospects of future operations may be materially and adversely affected. Further, if the Target Group ends up relying on external funding to fulfil capital needs, it may be exposed to interest rate risk resulting from fluctuations in interest rates on our debt, and changes in interest rates affect finance expenses and, ultimately, the results of operations.

The Target Group's operations and expansion plan are affected by the government's road and urban planning, which is subject to unforeseeable adjustments.

The Target Group has established a petroleum refuelling station network that covers certain urban areas of Jilin, Liaoning and Heilongjiang provinces. The Target Group's site selections for petroleum refuelling stations must comply with the road and urban planning of the government. The relevant government authority would only approve the Target Group's site selection if the construction of the petroleum refuelling station on the site is in line with the road and urban planning.

Due to China's rapid social and economic development, the government's road and urban planning is subject to adjustments that cannot be foreseen. If such adjustments occur, the accessibility of the Target Group's petroleum refuelling stations could be curtailed and the traffic in the vicinity of the Target Group's petroleum refuelling stations may be reduced, which could have a negative impact on the performance of the Target Group's affected petroleum refuelling stations. If, as a result of the adjustments, the Target Group's petroleum refuelling stations are not in compliance with the new road or urban planning, the Target Group may have to suspend or terminate their operations. During the Track Record Period, one, one, eight and four petroleum refuelling stations ceased operations. For reasons, please refer to section headed "Business of the Target Group – Petroleum Refuelling Business – The Retail Networks" in this circular. The Target Group may also not be able to implement the Target Group's expansion plans that have been formulated before the adjustments are made, in which case the Target Group may incur losses as the Target Group may have committed resources to the feasibility study for the expansion. The Target Group may also have lost the opportunity to expand into alternative locations after the Target Group becomes aware of the adjustments. Therefore, if such adjustments occur, the Target Group's business could be seriously disrupted, and the Target Group's results of operations and prospects could be materially and adversely affected.

Compliance with PRC laws and regulations regarding environmental protection may result in substantial costs and delays in construction schedule.

The construction of the Target Group's petroleum refuelling station is subject to certain laws and regulations concerning the protection of the environment. Compliance with such laws and regulations may result in delays in construction work, substantial compliance and other costs. Please refer to the section headed "Business — Environmental and Social Matters — Environmental Matters" in this circular for further details.

As advised by the PRC Legal Advisers, pursuant to applicable laws and regulations, petroleum refuelling stations are required to fulfil several environmental requirements including undergoing environmental assessments and submitting related assessment documents to the relevant government authorities for approval before commencement of construction. After the completion of construction, the petroleum refuelling stations are required to make a self acceptance check of the environmental protection facilities and prepare an acceptance report according to the standards and procedures stipulated by the competent administrative department of environmental protection under the PRC State Council. If the petroleum refuelling stations fail to meet such requirements, the competent administrative department of environmental protection may issue orders to effect rectification within a specified time limit and impose a fine. And the person in charge who is held directly liable and other liable persons shall also be subject to a fine. If material environmental pollution or ecological damage is caused, the Target Group may be ordered to stop production or use of the construction project, or be ordered to close down upon.

The Target Group cannot assure you that it will be able to comply with all such requirements with respect to environmental assessments. It is possible that the environmental assessments conducted may not reveal all environmental liabilities to their fullest extent, and there may be material environmental liabilities of which the Target Group is unaware. In the event of a termination or a rectification of construction as a result of the Target Group's non-compliance, the Target Group's business, financial condition, results of operations and prospects could be materially and adversely affected.

Certain of the Target Group's petroleum refuelling stations are operated on leased properties. Failure to renew the leases could cause serious disruptions to the Target Group's operations and could materially and adversely affect the Target Group's performance.

Assuming Acquisition Completion took place, among the 67 petroleum refuelling stations which the Target Business operates as at the Latest Practicable Date, 28 were self-owned Petroleum Refuelling Stations, 37 were Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and two were Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion). Certain of the petroleum refuelling station were operated on leased properties. For details, please refer to section headed "Business of the Target Group — Properties" in this circular. The Target Group's ability to renew these leases is crucial to the Target Group's operations and the Target Group's performance.

There can be no assurance that the Target Group will be able to renew these leases on commercially acceptable terms. Upon expiry of the terms of these leases, the Target Group may not be able to enter into negotiations with the lessors or reach an agreement on the renewal of these leases with the lessors, in which case the Target Group may be forced to close down the affected the petroleum refuelling stations. Even if the Target Group and the lessors reach an agreement on the renewal of the leases, the renewal may not be on commercially acceptable terms, and the rent payable by the Target Group may not be at reasonable levels. If the Target Group fails to renew these leases or fails to renew these leases on commercially acceptable terms, or if any of its existing leases are terminated before expiry of their terms for whatever reason including administrative actions against the lessors regarding the relevant operation sites/properties, which render the lessors terminating the lease, the Target Group's operations may be seriously disrupted, which may, in turn, materially and adversely affect its performance.

Failure to hire and retain sufficient management executives, technicians and other qualified personnel could materially and adversely affect the Target Group's business and prospects.

The continued service of the Target Group's senior management is crucial for the sustainable growth of its business. For the qualification and expertise of the Target Group's senior management members, please refer to the section headed "Directors and Senior Management" in this circular. The industry experience and expertise of the Target Group's directors and members of its senior management are the Target Group's important assets. The Target Group requires sufficient number of competent executives to implement its growth plans. If the Target Group loses the services of any of its key management members and are unable to find their replacements, the Target Group's business and prospects could be materially and adversely affected.

For the daily operations of the Target Group's petroleum refuelling stations, the Target Group relies primarily on its operations and maintenance team members who conduct regular inspections on and routine maintenance and repairs of the Target Group's petroleum refuelling stations. The Target Group's operations also rely on the proper functioning of computer information and communications technology and related systems. If the Target Group fails to retain its operations and maintenance team members to provide technical support, inspection, maintenance or repair work for the Target Group's key equipment and systems in a timely manner or at all, the Target Group's operations could be interrupted, possibly without warning.

As such, the Target Group's business, financial performance and prospects depends on the Target Group's ability to employ, train and retain highly skilled personnel, including managerial and other technical professionals. Competition for experienced personnel in the PRC is generally intense. Moreover, staff costs may rise if there is a shortage in supply of qualified personnel. If the Target Group fails to attract and retain personnel with suitable managerial, technical or marketing expertise or if the Target Group fails to maintain an adequate experienced labour force, the Target Group's business may be materially and adversely affected and the Target Group's growth may be hindered.

The operations of the Target Group's petroleum refuelling stations rely heavily on its IT system and any material IT failure may result in temporary disruption of operation.

The Target Group employs information technology systems to support the Target Group's business operations. The Target Group has implemented the office automation, or OA system, enabling the Target Group's on-line approval mechanism and data-sharing function among different entities of the Target Group. In particular, the Target Group used an online sales IT system to archive and monitor the Target Group's operational and financial data including the Target Group's sales and inventory levels, and transmit the data to the Target Group's headquarters on a real-time basis. The Target Group's petroleum refuelling stations, storage facilities and transportation fleet are installed with video recording systems, which allow the Target Group to conduct real-time monitoring of the Target Group's operation.

If the transaction recording software which is the key component of the Target Group's sales IT system or the Target Group's server fails to function properly, the operations of individual stations or the Target Group's entire petroleum refuelling station network may be interrupted. For example, if the sales records of individual stations are not updated properly or timely, the Target Group may not be able to adjust the Target Group's inventory level based on sales, neither can the Target Group make a rational decision on whether to adjust the Target Group's retail price. If the Target Group's server and its backup system fails simultaneously and the Target Group is unable to recover lost data, the recording or entry of sales transactions may be inaccurate, which may fetter the Target Group's management ability to accurately analyse the Target Group's operational performance. The Target Group may also fail to adjust the retail prices and suffer from decreased profit margin if the Target Group's IT system breaks down for an extended period of time during the time of oil cost fluctuation. Any disruptions to the Target Group's operations resulted from IT failure could materially and adversely affect the Target Group's business and results of operations.

The Target Group's business operations and financial results may be materially and adversely affected by the outbreak of COVID-19 in the PRC.

An outbreak of respiratory disease caused by COVID-19 first emerged in Wuhan City, Hubei Province, the PRC in late 2019 and continues to expand within the PRC and globally. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by draconian measures imposed by the PRC government in various regions of the nation including travel restrictions in major cities. Various countries and territories have also imposed travel restrictions, such as denial of entry, against travellers from the PRC and/or those who have been to the PRC for the past 14 days. The outbreak of COVID-19, which may result in a high number of fatalities and disruption of production activities, is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC, particularly Wuhan City, Hubei Province and other provinces which are affected by widespread infections. The consumption markets for petroleum products may be materially and adversely affected, which will in turn affect the Target Group's business operation and financial performance.

It is uncertain as to when the outbreak of COVID-19 will be constrained. If the outbreak continues without being effectively controlled in the future, the Target Group's business operation and financial performance may be materially and adversely affected as a result of factors such as the changes in the outlook of the consumption markets, slowdown in economic growth and negative business sentiment, and any measures which may restrict the operations of the Petroleum Refuelling Stations and Petroleum Storage Facilities, major customers and suppliers in the PRC. In addition, if in the future any of the employees are suspected of having been infected by COVID-19, the Target Group may be required to quarantine such employees. The Target Group may also be required to disinfect the affected properties and thereby suffer a temporary suspension of its operations. Any suspension of operations will materially and adversely affect the Target Group's business operations and financial performance.

The Target Group's business entails inherent risks and occupational hazards. Failure to manage and control these risks and hazards could harm the Target Group's reputation and cause the Target Group to incur substantial costs.

The Target Group's operations comprise Petroleum Refuelling Business and Petroleum Wholesale Business. As such, the Target Group's business entails risks and occupational hazards that are inherent in the oil industry, such as fires, explosions and oil spills, and the Target Group's business premises and assets are subject to equipment failure and natural disasters. Such risks and occupational hazards can cause personal injury or loss of life, damage to or destruction of property or equipment, pollution and other damage to the environment. Any of these consequences, to the extent they are significant, could result in business interruption or suspension of operations, legal liability and damage to the Target Group's business reputation and corporate image. In particular, if any accidents, including fires and flooding, were to occur, causing leakage or damage to the Target Group's petroleum refuelling stations or the Target Group's petroleum storage facilities, and the Target Group's transportation vehicle fleet, the Target Group may not be able to deliver refined oil products to customers in a timely manner, or at all, in which case the Target Group's reputation will be harmed and the Target Group's financial condition and results of operations could be materially and adversely affected. If any fires or leakage occur to these products during transit, the Target Group may not be able to deliver the products to customers on time and may incur significant losses, and the Target Group's reputation may be harmed.

Additionally, if a catastrophic event occurs at the Target Group's business premises or to the Target Group's products, the Target Group's customers or other parties affected by the event may bring claims against the Target Group alleging deficiencies in the Target Group's safety measures or failures in the Target Group's services or products, and the Target Group may be subject to legal proceedings which could be time-consuming and costly. If any such accident or litigation were to occur, the Target Group's reputation could be materially and adversely harmed and the Target Group may incur significant costs, and the Target Group's business, financial condition and results of operations could be materially and adversely affected.

The Target Group and Changchun Yitonghe have taken out insurances to cover certain risks associated with the Target Group's business operations. Please refer to the section headed "Business of the Target Group — Insurance" in this circular for the insurances taken out by the Target Group and Changchun Yitonghe. While the Target Group believes that the such insurance coverage is commensurate with the nature of the Target Group's business and the Target Group's risk profile, there can be no assurance that these insurances cover all risks that may arise from the Target Group's operations. Moreover, the Target Group may not be able to renew the Target Group's insurances on similar or acceptable terms, or at all. If the Target Group was to incur a serious uninsured loss or a loss that would significantly exceed the limits of the Target Group's insurance policies, the Target Group's business, financial condition or results of operations would be materially and adversely affected.

The Target Group may have difficulties in expanding the Target Group's petroleum refuelling station network into new cities or regions where the Target Group do not have a presence.

As at the Latest Practicable Date, the Target Business operates a total of 67 petroleum refuelling stations, of which 43 petroleum refuelling stations are located in Jilin Province, 23 petroleum refuelling stations are located in Liaoning Province and one petroleum refuelling station is located in Heilongjiang Province. To reinforce the leading position of the Target Group's refined oil retail business, the Target Group intends to expand the Target Group's petroleum refuelling station network in Northeast China through acquisitions of private petroleum refuelling station operators and opening new petroleum refuelling stations.

According to the F&S Report, vehicle users tend to use the services of well-established petroleum refuelling stations, as they are more confident in the quality of the products and services provided by these petroleum refuelling stations. As such, brand recognition by local vehicle users is likely to be a barrier for the Target Group to enter a new market. The Target Group cannot assure you that the trademark “ ” and the trade name “眾誠連鎖” used by the Target Group’s petroleum refuelling station business would be as well-received in its prospective markets as they are in locations where the Target Group currently operates. If the Target Group’s petroleum refuelling stations acquired or newly opened in places where the Target Group had no past presence are not patronised by local vehicle users, the Target Group may not be able to establish customer base in these new markets as planned and may lose its investments, as a result of which its financial condition and results of operations may be materially and adversely affected.

The Target Group may not be able to execute the Target Group’s business strategy successfully or manage the Target Group’s growth effectively.

The Target Group intends to expand the Target Group’s petroleum refuelling station network in Northeast China, through both acquisitions of private petroleum refuelling station operators and opening new petroleum refuelling stations. Please refer to the section headed “Business of the Target Group — Business Strategies” in this circular for further details.

The Target Group may not be able to execute the Target Group’s business strategies successfully or manage the Target Group’s growth effectively. Unexpected difficulties such as unforeseen costs, delay in the government approval process or failure to enter into agreements on expected or commercially acceptable terms, may arise, as a result of which the Target Group may not be able to execute the Target Group’s expansion as planned, or at all. The Target Group also faces intensified competition from larger-sized petroleum refuelling station operators, which may make the Target Group’s expansion more costly.

Moreover, future acquisitions may be expensive and may ultimately fail. Acquisitions may result in material transaction expenses, or increased interest, amortisation, depreciation and operating expenses, which could materially and adversely affect the Target Group’s operating results. Acquisitions involve integration of new business with the existing business and could divert management resources otherwise available for ongoing business growth. Although the Target Group would consider potential investment opportunities or potential acquisition targets, the Target Group has not, as of the Latest Practicable Date, identified any definitive investment or acquisition targets nor had the Target Group entered into any definitive agreements with respect to any acquisitions or strategic investments. The Target Group may not be able to identify suitable acquisition candidates or consummate any future acquisitions. Further, any acquisitions may expose the Target Group to unanticipated business uncertainties or legal liabilities relating to acquired businesses and the vendors of the acquired business may not indemnify the Target Group for such risks. Any of these events could materially and adversely affect the Target Group’s business, financial condition or results of operations.

As such, the Target Group cannot assure you that the Target Group will be able to execute the Target Group’s business plan successfully within the expected timetable or at all, or that the Target Group will be able to manage the Target Group’s growth effectively due to the above factors. In the event any of the aforesaid risks relating to the Target Group’s growth strategies materialise, the Target Group’s business, prospects, financial condition and results of operations could be materially and adversely affected.

The Target Group may not be able to adequately protect the Target Group's intellectual property rights, which could reduce the Target Group's competitiveness.

As a condition precedent to the Acquisition Completion, the Target Group entered into the Trademark License Agreement and the Trade Name License Agreement with United Strength Vehicle Service on 26 June 2020, pursuant to which United Strength Vehicle Service will grant the Target Group a non-exclusive licence to use the trademark “ ” and the trade name “眾誠連鎖” in the PRC for a term up to 31 December 2022 at nil consideration. For further details of these agreements, please refer to “Connected Transactions” in this circular.

According to the F&S Report, the success of petroleum refuelling station business depends, to a large extent, on brand recognition by local customers. Therefore, the Target Group's ability to use the trademark “ ” and the trade name “眾誠連鎖” will be of paramount importance to the Target Group's business. The Target Group cannot assure you that the Trademark License Agreement and the Trade Name License Agreement will continue in the future. Moreover, as the trademark and trade name are not granted to the Target Group on an exclusive basis and as such, if any other user of the trademark and the trade name act in a manner that is detrimental to the reputation associated with the trademark and the trade name the Target Group uses under the Trademark License Agreement and the Trade Name License Agreement, for example if it is involved in a material industrial accident, the Target Group's reputation may be perceived less favourably by the Target Group's customers. The Target Group cannot assure you that the Trademark License Agreement or the Trade Name License Agreement will be renewed upon expiry of their terms or that the goodwill associated with the trade name will persist. In the event that the Target Group is not allowed to continue to use the trademark and trade name or that the Target Group's operation is perceived unfavourably as a result of damaged reputation of the relevant trademark or trade name, the Target Group's business and results of operations could be materially and adversely affected.

Failure to manage and protect the trademark and trade name used by the Target Group's customers may materially and adversely affect the business.

In addition to self-operated petroleum refuelling stations, some of the Target Group's customers, who are also operators of petroleum refuelling stations, are allowed to use the licensed trademark “ ” and trade name “眾誠連鎖” pursuant to the terms of the petroleum supply agreements entered with the Target Group. As of the Latest Practicable Date, the Target Business has 49 customers whose operation of petroleum refuelling stations under the licensed trademark “ ” and trade name “眾誠連鎖”. For details, please refer to “Business of the Target Group — Petroleum Wholesale Business – Overview” in this circular.

For the years ended 31 December 2018 and 2019, revenue contributed by sales to such customers was approximately RMB566.3 million and RMB503.1 million, representing 28.3% and 28.4% of the Target Business's total wholesale revenue, respectively. No separate licensing fee is paid by such customers to the Target Group.

There can occur situations that may materially and adversely affect the Target Group's business and results of operations, including but not limited to the following:

- instances of negligence or non-compliance on the part of the customers' stations with possible damages to the Target Group's brand image; and

- damages to the Target Group's reputation resulting from substandard services provided by these station operators to its customers.

We cannot assure you that these customers will not make decisions or take actions that are not in the Target Group's best interests, and if the Target Group's operation is perceived unfavourably as a result of damaged reputation of the relevant trademark or trade name, the Target Group's business and results of operations could be materially and adversely affected.

Trade war between the United States and the PRC may have a negative impact on the Target Group's operational and financial performance.

The United States government has recently made significant changes in its trade policy and has taken certain actions that may materially impact international trade, such as announcing import tariffs which have led to other countries, including China and members of the EU, imposing tariffs against the United States in response. These trade wars may escalate going forward and may result in certain types of goods, such as international crude oil, becoming significantly more expensive for the Target Group to procure from overseas suppliers or even becoming illegal to export.

Although the Target Group's operational and financial performances have improved during the Track Record Period, a prolonged trade war may ultimately affect the economic performance of the PRC as a whole, and resulting in negative impact on all walks of life, including the operational and financial performance of the Target Group's customers and suppliers and in turn the Target Group's business.

The Target Group may be involved in claims, disputes, litigation, arbitration or other legal proceedings in the ordinary course of business.

From time to time, the Target Group may be involved in claims, disputes and legal proceedings in the Target Group's ordinary course of business. Claims and disputes may arise from procurement or sale of goods, occupational safety, employment, intellectual property rights and other aspects of the Target Group's daily operations. As of the Latest Practicable Date, the Target Group had not been involved in any legal proceedings which will have material impact on the Target Group's financial and business operation. The Target Group cannot assure you that the Target Group may be involved in other claims, disputes and legal proceedings in the future. Any claims, disputes or legal proceedings initiated by the Target Group or brought against the Target Group, with or without merit, may result in substantial costs and diversion of resources, and if the Target Group is unsuccessful in these cases, could materially harm the Target Group's reputation and cause the Target Group to incur significant costs.

Natural disasters, acts of war, political unrest and epidemics, which are beyond the Target Group's control, may cause damage, loss or disruption to its business.

Natural disasters, acts of war, political unrest and epidemics, which are beyond the Target Group's control, may materially and adversely affect the local economy, infrastructure and livelihood of people. The Target Group's business, financial condition, results of operations and prospects may be materially and adversely affected if such natural disasters occur in places where the Target Group operates whether directly or indirectly. Political unrest, acts of war and terrorist attacks may cause unfavourable movement in oil prices and the stability of oil supply, which could materially and adversely affect the Target Group's sales, profitability, overall results of operations and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause the Target Group's business to suffer in ways which are beyond its prediction.

RISKS RELATING TO THE ACQUISITION

The Acquisition is subject to the fulfilment or waiver (as applicable) of the Conditions Precedent, and the Acquisition may or may not proceed.

The Acquisition is subject to the fulfilment or waiver (as applicable) of the Conditions Precedent. For further details, please refer to section headed "Letter from the Board – The Acquisition – Conditions Precedent" in this circular. Certain Conditions Precedent involve the actions and decisions of third parties, including but not limited to approvals of the Acquisition, the Specific CS Mandate, the Specific Placing Mandate, and the fulfilment of these Conditions Precedent which are beyond the control of the Company. Whether and when the approvals can be obtained for the Acquisition is uncertain. Hence, the Acquisition is exposed to the risk of approvals not being obtained. There is no guarantee that all or part of the Conditions Precedent can be fulfilled or the Acquisition will proceed. If any of the Conditions Precedent is not fulfilled or waived (as applicable) on or before the Long Stop Date, the Acquisition will not proceed.

The shareholding percentage of the existing independent Shareholders in the Company will be substantially diluted immediately following the Acquisition Completion and the Placing.

Upon the Acquisition Completion, the Company will allot and issue an aggregate of 100,000,000 Shares to Amber Heyday, Immense Ocean, Propitious Peak, Triumphal Diligent and Harvest Day, being the Vendors. In addition, under the Placing, the Company will allot and issue, in aggregate, 40,000,000 Placing Shares to the Placees. As a result, the shareholding percentages of the existing independent Shareholders in the Company would be substantially diluted. Any value enhancement of the new Shares as a result of the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the existing Shareholders.

Existing Shareholders will experience further dilution if the Company issues additional new Shares in the future.

In order to expand the business of the Company, the Company may consider offering and issuing additional new Shares in the future. Shareholders may experience further dilution in the net tangible asset value per new Share if the Company issues additional new Shares in the future at a price which is lower than the net tangible asset value per new Share.

RISKS RELATING TO THE PRC

The PRC's economic, political and social conditions and regulatory regime will significantly affect the Target Group's business, financial condition, results of operations and prospects.

All of the Target Group's operations and management are located in the PRC and the Target Group derive all of the Target Group's revenue from the Target Group's operations in the PRC. Accordingly, the Target Group's financial condition, results of operations and prospects are subject to the economic, political and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including but not limited to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past decades, growth has been uneven across different regions and economic sectors. The local government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may negatively affect the Target Group. For example, the Target Group's financial condition and results of operations may be materially and adversely affected by government control over capital investments or changes in tax regulations applicable to the Target Group or the demand for the Target Group's refined oil products and services may be materially and adversely affected in the event the government authorities impose limitation on vehicle purchases in areas where the Target Group operates. If the business environment in the PRC deteriorates, the Target Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

Any future changes in safety laws or enforcement policies could materially and adversely affect the Target Group's business, financial condition and results of operations.

The Target Group's operations are regulated by the relevant safety laws and enforcement policies of the PRC. The Target Group is unable to predict how such laws and policies will evolve. Neither can the Target Group estimate the cost of compliance with such laws and policies in the future. The PRC safety laws and enforcement policies tend to set out increasingly stringent requirements, and it is likely that such trend will continue. If the PRC regulatory environment changes as a result of which the Target Group is subject to more stringent safety law and other requirements, the Target Group may have to acquire costly equipment, refit the Target Group's existing facilities or to incur other significant expenses, which may have an impact on the Target Group's profitability.

The slowdown of PRC's economy may have an adverse effect on the Target Group.

Although China is still among the world's fastest growing economies, the PRC's economy has shown a slowdown trend for years. A number of factors have contributed to this slowdown, including the fluctuation of the RMB, and the PRC government's austerity measures and monetary policies aimed at preventing overheating of the economy and controlling high level of inflation. The slowdown has been further exacerbated by the challenging global economic conditions. In 2018, the U.S. launched a trade war against China by imposing high tariffs on imports from China. Such trade war may materially and adversely affect China's exports to the U.S. and hence, its economy. The extent of the impacts of such trade war on the PRC's economy remains to be seen.

It is uncertain whether such challenging global economic conditions and the current slowdown trend of the PRC's economy will continue. The slowdown of the PRC's economy could lead to a decline in business activities nationwide, which could reduce demand for and the consumption of oil products, which could materially and adversely affect the Target Group's business, financial condition and results of operations.

The Target Group may be classified as a PRC "resident enterprise" under the Enterprise Income Tax Law (the "EIT Law"), which could result in unfavourable tax consequences to the Target Group and the Target Group's non-PRC shareholders.

Under the EIT Law, enterprises established outside of China whose "de facto management bodies" are located in China are considered PRC tax resident enterprises and will generally be subject to the uniform 25% PRC enterprise income tax on their global income. Under the implementation rules of the EIT Law, a de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise. In addition, the Circular Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, issued by the State Administration of Taxation (the "**SAT**") on 22 April 2009 regarding the standards used to classify certain Chinese-controlled enterprises established outside of China as resident enterprises clarified that dividends and other income paid by such resident enterprises will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognised by non-PRC enterprise shareholders. Circular 82 also subjects such resident enterprises to various reporting requirements with the PRC tax authorities. Circular 82 further provides that certain Chinese-controlled enterprises will be classified as resident enterprises if the following are located or resident in China: (i) senior management personnel and departments that are responsible for daily production, operation and management; (ii) financial and personnel decision-making bodies; (iii) major assets, accounting books, the company seal and minutes of board meetings and shareholders' meetings; and (iv) half or more of the senior management or directors having voting rights. Although the determining criteria set forth in Circular 82 may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax resident status of offshore enterprises, Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by foreign individuals or foreign enterprises like the Target Group. Also, currently there are no detailed rules or precedents governing the procedures and specific criteria for determining de facto management bodies which are applicable to the Target Group's BVI holding company or the Target Group's overseas subsidiary. Therefore, the Target Group does not currently consider the Target Group's BVI holding company or the Target Group's overseas subsidiary to be a PRC resident enterprise. If the PRC tax authorities determine that the Target Group's BVI holding company is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavourable PRC tax consequences could follow:

First, the Target Group's BVI holding company or the Target Group's overseas subsidiary will be subject to the uniform 25% enterprise income tax rate as to the Target Group's global income as well as PRC enterprise income tax reporting obligations.

Second, although under the EIT Law and its implementing rules dividends paid to the Target Group from the Target Group's PRC subsidiaries would qualify as tax-exempted income (at a rate of 5%), the Target Group cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control and tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes.

Finally, dividends payable by the Company to its investors and gain on the sale of the Shares (assumption the Acquisition takes place) may become subject to PRC withholding tax. It is possible that future guidance issued with respect to the new resident enterprise classification could result in a situation where a withholding tax of 10% for the Enlarged Group's non-PRC enterprise investors or a potential withholding tax of 20% for non-PRC individual investors is imposed on dividends the Enlarged Group pay to them and with respect to gains derived by such investors from transferring the Shares. In addition to the uncertainty regarding how the new resident enterprise classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. If the Enlarged Group is required under the EIT law to withhold PRC income tax on the Enlarged Group's dividends payable to the Enlarged Group's foreign shareholders, or if you are required to pay PRC income tax on the transfer of the Shares under the circumstances mentioned above, the value of your investment in the Shares may be materially and adversely affected. It is unclear whether, if the Target Group is considered a PRC resident enterprise, holders of the Target Group's Shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or regions. By comparison, there is no taxation on such income in the Cayman Islands.

Uncertainties with respect to the PRC legal system could materially and adversely affect the Target Group.

The Target Group's operations are governed by PRC laws and regulations. All of the Target Group's operating subsidiaries are established under PRC laws. The PRC legal system is a civil law system based on written statutes. Prior court decisions have little precedential value and can only be used as a reference. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations are relatively new and evolving, subject to interpretations which involve a degree, sometimes a significant degree, of uncertainty, and may be inconsistently implemented and enforced. In addition, only limited volume of published court decisions may be cited for reference, and such cases have limited precedential value as they are not binding on subsequent cases. Depending on the government agency to whom an application or case is presented, or how or by who the application is presented, the Target Group may receive less favourable interpretation of laws and regulations than the Target Group's competitors. In addition, any litigation in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

Fluctuation of Renminbi could materially and adversely affect the Target Group's financial condition and results of operations.

All of the Target Business's revenue is denominated and collected in RMB. Some of the Target Business's revenue will need to be converted into foreign currencies for the purpose of paying dividends to the Shareholders (if the Acquisition takes place). The value of the RMB fluctuates and is subject to changes in China's political and economic conditions.

It is possible that PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market. To date, the Target

Group has not entered into any hedging transactions in an effort to reduce the Target Group's exposure to foreign currency exchange risk. In the event of significant change in the exchange rates of Hong Kong dollars and U.S. dollars against RMB, the Target Group's ability to pay dividends in foreign currencies may be materially and adversely affected. Accordingly, the Target Group's financial condition and results of operations could also be materially and adversely affected. In addition, any dividends in respect of the Shares will be declared in RMB and paid in Hong Kong dollars. Accordingly, holders of Shares in countries other than the PRC are subject to risks arising from adverse movements in the value of the RMB against the Hong Kong dollar, which may reduce any dividends paid in respect of the Shares.

The PRC government's control of foreign currency conversion may limit the Group's foreign exchange transactions, including dividend payment on the Shares.

The RMB generally cannot be freely converted into any foreign currencies. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under a certain exchange rate, the Group may not have sufficient foreign exchange to meet the Group's foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions conducted by the Group, including the payment of dividends, do not require advance approval from the SAFE. However, the Group is required to present documentary evidence of such transactions and conduct transactions at designated foreign exchange banks in China that have licences to carry out foreign exchange business. However, the SAFE must approve in advance any foreign exchange transactions conducted by the Group.

Under existing foreign exchange regulations, following the completion of the Acquisition, the Group will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue. In addition, any insufficiency of foreign exchange may restrict the Group's ability to obtain sufficient foreign exchange for dividend payments to Shareholders or to satisfy any other foreign exchange requirements. If the Group fails to obtain approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, the Group's capital expenditures, business, financial condition and operating results may be materially and adversely affected.

It may be difficult to enforce any judgments obtained from non-PRC courts against the member of Target Group, the Target Group's directors or senior management residing in the PRC.

It may not be possible for investors to serve process upon members of the Target Group or the Target Group's directors or senior management who reside in the PRC. It may also be difficult to enforce against members of the Target Group or the Target Group's directors or senior management residing in the PRC, any judgments obtained from non-PRC courts. In addition, judgments of a non-PRC court related to any matter not subject to a binding arbitration provision may be difficult or impossible to enforce.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is the Target Group's net profit as determined under PRC GAAP or

IFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that the Target Group is required to make. As a result, the Target Group may not have sufficient, if at all, distributable profit to allow the Target Group to make dividend distributions to the Shareholders, including during the time when the Target Group is profitable. Any distributable profit not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRSs in certain respects, the Target Group's operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under IFRSs, or vice versa. Accordingly, the Target Group may not receive sufficient distributions from the Target Group's subsidiaries. Failure by the Target Group's operating subsidiaries to pay dividends could negatively impact the Target Group's cash flow and the Target Group's ability to make dividend distributions to the Target Group's Shareholders, including during the periods in which the Target Group is profitable.

RISKS RELATING TO THIS CIRCULAR

Certain statistics, industry data and other information relating to general economy and industry environment contained in this circular are derived from various publications by official governmental authorities, industry associations and other entities, and the Company and/or its Directors, and the Target Company, and/or its directors and their respective agents and advisers cannot assure the accuracy and completeness of such statistics, data and information

Certain statistics, industry data and other information relating to the general economy and industry environment contained in this circular were derived from various publications by official governmental authorities, industry associations and other entities. The statistics, data and information contained in these publications are provided through channels such as governmental authorities and industry associations. As such, the Company or its Directors, the Target Company and/or its directors and their respective agents and advisers cannot assure or make any representation as to the accuracy or completeness of such statistics, data and information.

None of the Company or the Target Group, their respective legal advisers or any of their respective associates, directors, employees, agents or advisers has prepared or independently verified the accuracy or completeness of such statistics, data and information directly or indirectly derived from sources and channels such as official governmental authorities and industry associations. Due to the possibility of flawed collection methods, discrepancies in published information, different market practices or other problems, the statistics, industry data and other information relating to the general economy and industry environment derived from sources such as official governmental authorities and industry associations may be inaccurate or may not be comparable to statistics produced from other sources, and thus should not be unduly relied upon. Shareholders should give careful consideration as to how much weight or importance to attach or place on such statistics, industry data and other information relating to the general economy and the industries.

This circular contains forward-looking statements by the Company relating to the Target Group's and the Company's plans, objectives, expectations and intentions, which may not represent its actual performance for the periods of time to which such statements relate

This circular contains certain forward-looking statements by the Company relating to the Target Group's and the Company's plans, objectives, expectations and intentions. Such forward-looking statements involve known and possibly known risks, uncertainties and other factors which may cause actual performance or achievements of the Target Group and the Enlarged Group to be materially different from the anticipated performance or achievements expressed or implied by the forward-looking statements in this circular. Such forward-looking statements are based on numerous assumptions as to the Target Group's and the Company's present and future business strategies and the environment in which the Target Group and the Company will operate in the future and the reasonableness and appropriateness of certain assumptions are subject to the risk that the information used by the Company to derive such assumptions may be inaccurate or inadequate. The actual performance or achievements of the Target Group and the Enlarged Group may differ materially from those disclosed in this circular.

Except as otherwise provided in this circular, the information that appears in this Industry Overview section has been prepared by F&S and reflects estimates of market conditions based on publicly available sources and interviews with industry experts and participants, and is prepared primarily as a market research tool. Our Directors believe that the sources of information contained in this Industry Overview section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. Our Directors confirm that, after making reasonable enquiries, there is no material adverse change in the market information since the issue date of the abovementioned sources which may qualify, contradict or have adverse impact on the information in this section. The information prepared by F&S and set out in this Industry Overview section has not been independently verified by the Group, the Joint Sponsors, their respective affiliates or advisers, or any other party involved in the New Listing Application (excluding F&S in respect of the Industry Report and the information therein). No representation is given as to the accuracy or completeness of such information, and the information should not be relied upon in making, or refraining from making, any investment decision. We have engaged F&S to prepare the reports for use in whole or in part in this circular.

SOURCES OF INFORMATION

We have commissioned F&S, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the refined oil retail and wholesale market industry in China. The report prepared by F&S for us is referred to in the circular as the F&S Report. A total fee of RMB360,000 was paid to F&S for the preparation of the report, which we believe reflects market rates for reports of this type. F&S is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists.

RESEARCH METHODOLOGY

In compiling the F&S Report, F&S has (a) conducted detailed primary research which involve discussing the status of China's refined oil retail and wholesale market with leading industry participants and industry experts and (b) conducted secondary research which involve reviewing company reports, independent research reports and data based on F&S's own database.

BASIS AND ASSUMPTIONS

The F&S Report was compiled based on the below assumptions at the time of compiling this report:

- China' economy is likely to maintain steady growth in the next decade;
- China's social, economic, and political environment is likely to remain stable from 2020 to 2024 ("**Forecast Period**"); and

- Stable GDP growth of China, the increasing purchasing power of Chinese residents, rapid development of China's refined oil retail and wholesale market, rapid growth for petroleum refuelling stations and continuous consumption structure upgrading in China are likely to drive the future growth of the industry.

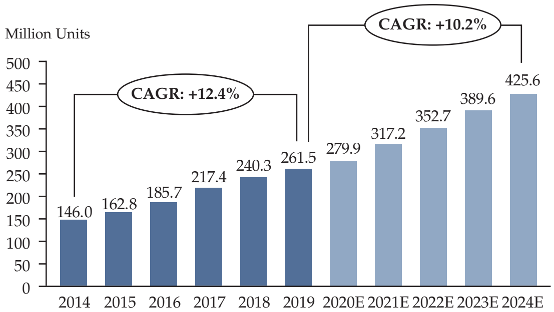
MACRO ECONOMY OVERVIEW

China's Civil Motor Vehicle Possession and By Types

Benefiting from the steady growth of economy and improvement of people's living standard, the civil motor vehicle possession in China has increased substantially in the past few years, reaching 261.5 million units in 2019, with a CAGR of 12.4% from 2014 to 2019. Looking forward, the growing income level is expected to bring increasing consumption power of durable products, such as motor vehicles, which in turn boost the growth of motor vehicle possession. The civil motor vehicle possession in China is anticipated to increase from 261.5 million units in 2019 to 425.6 million units in 2024, with a CAGR of 10.2% from 2019 to 2024.

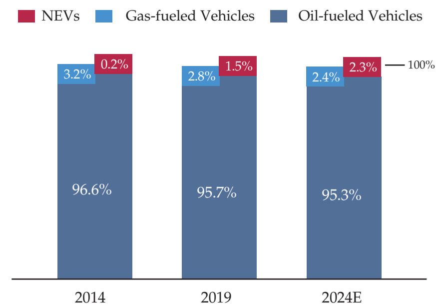
Motor vehicles in China can be divided into oil-fueled vehicles, gas vehicles and new energy vehicles (NEVs). Traditional oil-fueled vehicles such as gasoline vehicles possess fully developed filling infrastructure network in China. Possession of oil-fueled vehicles in China accounts for around 96.6% of total civil motor vehicle possession in 2014 and 95.7% in 2019. Meanwhile, the share of gas vehicles stays stable with 2.8% of total vehicle possession. Even though NEVs has increased rapidly from 0.2 million units to 3.8 million units from 2014 to 2019, and reached 1.5% of total civil motor vehicle possession in 2019, NEVs still face obstacles like high price, short battery life and lack of charging infrastructure. Thus NEVs have not been attractive alternatives as compared to oil-fueled vehicles and gas vehicles. However, positive progress has been made by central government in the promotion and application of energy-saving technologies for motor vehicles, such as financial and taxation policies that encourage the purchase of low-emission vehicles. NEVs are expected to increase to 9.8 million units and to reach 2.3% of total civil motor vehicle possession in 2024. While oil-fueled vehicles are likely to continue dominate by 95.3% of total civil motor vehicle possession in 2024.

Civil Motor Vehicle Possession, (China), 2014–2024E



Source: National Bureau of Statistics, Frost & Sullivan Analysis

Civil Motor Vehicle Possession Breakdown by Fuel Types, (China), 2014–2024E



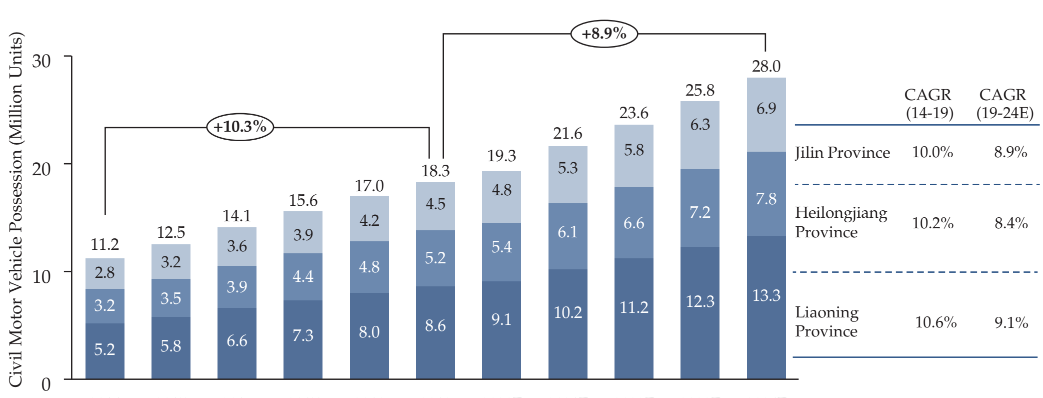
Source: National Bureau of Statistics, Frost & Sullivan Analysis

Civil Motor Vehicle Possession of Northeast China

Along with increasing income level of residents and growing urbanization, the possession of civil motor vehicle in Northeast China has increased substantially in the past few years, from 11.2 million units in 2014 to 18.3 million units in 2019, with a CAGR of 10.3%.

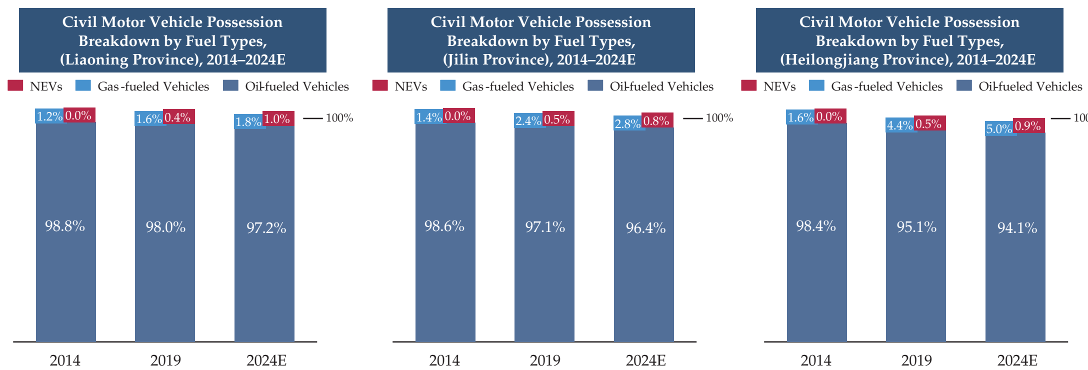
Going forward, the economic development in Northeast China is anticipated to continue boost the civil motor vehicle possession. In 2016, Dalian, a city of Liaoning Province, has become one of the pilot cities that approved for parallel importing of vehicles. This is likely to drag down prices and increase sales volume of imported vehicles. The possession of civil motor vehicle in Northeast China is expected to reach 28.0 million units in 2024 with a CAGR of 8.9% from 2019 to 2024. The growing possession of civil motor vehicles is expected to bring about increasing demand for refined oil and also boost the construction of petroleum refuelling stations in Northeast China.

Civil Motor Vehicle Possession of Northeast China, Breakdown by Provinces, 2014–2024E



Source: Jilin Statistics Bureau, Heilongjiang Statistics Bureau, Liaoning Statistics Bureau, Frost & Sullivan Analysis

Civil Motor Vehicle Possession Breakdown by Fuel Types, (Northeast China by Province), 2014–2024E



Source: Jilin Statistics Bureau, Heilongjiang Statistics Bureau, Liaoning Statistics Bureau, Frost & Sullivan Analysis

- Traditional oil-fueled vehicles such as gasoline vehicles possess fully developed petroleum refuelling station network in Northeast China. Possession of oil-fueled vehicles in Liaoning province, Jilin province and Heilongjiang province accounts for around 98.9%, 98.6% and 98.4% of total civil motor vehicle possession in 2014, and later accounts for approximately 98.0%, 97.1% and 95.1% in 2019. Meanwhile, the share of gas vehicles stays stable from 1.2%, 1.4% and 1.6% of total vehicle possession in 2014 to 1.6%, 2.4% and 4.4% of total vehicle possession in 2019. Even through the possession of NEVs has increased rapidly in these three provinces from 2014 to 2019, and reached 0.4%, 0.5% and 0.5% of total civil motor vehicle possession in 2019, NEVs still face obstacles like high retail price, short battery life and lack of charging infrastructures in the three provinces of Northeast China. Thereby, NEVs have not yet been attractive alternatives to oil-fueled vehicles and gas vehicles in Northeast China.

- With restrictions on the adoption of NEVs in Northeast China, such as the cold weather, NEVs are expected to increase slowly and to reach 1.0%, 0.8% and 0.9% of total civil motor vehicle possession in 2024. While oil-fueled vehicles are likely to continue dominate by 97.2%, 96.4% and 94.1% of total civil motor vehicle possession in Liaoning province, Jilin province and Heilongjiang province in 2024.

Primary Energy Consumption of China

As the second largest economy in the world, China has huge demand for energy to support the modernization and urbanization. Traditional energy like coal and oil is widely used as fuel and still dominates the primary energy consumption of China. In 2019, consumption of coal and oil accounts for around 56.9% and 19.3% respectively in total primary energy consumption in China.

Based on the 13th FYP development plan for Energy (《能源發展"十三五"規劃》), Frost & Sullivan estimate that, by 2024, coal and oil are still forecasted to maintain their leading position in China's primary energy consumption system in the near future but are likely to decrease to 52.9% and 18.8% in total primary energy consumption. Meanwhile, with the consideration of greenhouse gas emissions and government support, the consumption of clean energy in China is expected to increase to 16.5% of total primary energy consumption.

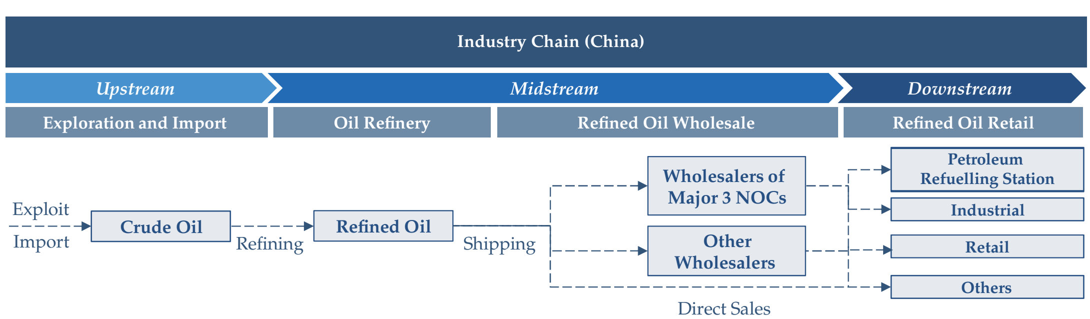
OVERVIEW OF REFINED OIL RETAIL AND WHOLESALE INDUSTRY IN CHINA

Definition and classification

In general, refined oil mainly refers to gasoline, diesel and kerosene in the PRC. Gasoline, diesel and kerosene are hydrocarbon compounds extracted as liquid from refined petroleum. Gasoline and diesel are mainly used as engine fuels, while kerosene is widely used as lamp and lighting fuel, heating fuel, chemical properties and so on.

Common gasoline and diesel products in China include 89, 92, 95 and 98 octane gasoline. Kerosene is commonly used as an energy source for lanterns and jet fuels. Diesel can further be classified into light weight and heavy weight diesel oil. Light weight diesels include 10#, 5#, 0#, –10#, –20#, –30# and –50# and are widely used in diesel engines in trucks and boats; whereas heavy weight include 10#, 20#, 30# diesels and are generally used as fuel in industrial engines.

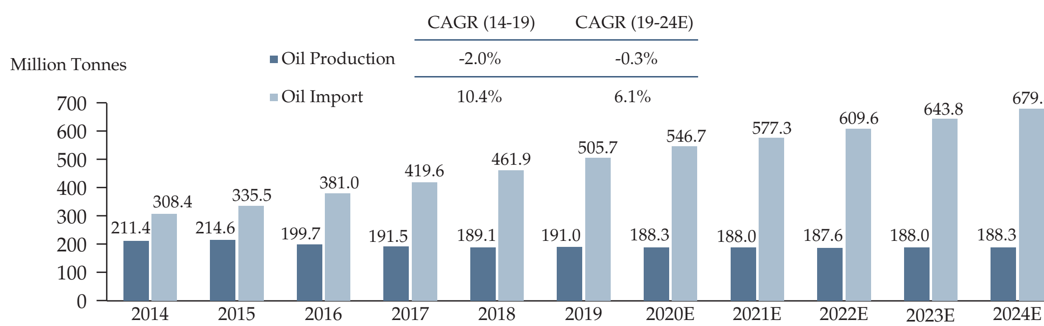
Industry chain



Sources: Frost & Sullivan

The upstream of China's refined oil retail and wholesale market is exploration and import of crude oil. Domestic exploration of crude oil mainly comes from oil fields such as Daqing Oil Field (大慶油田) and Shengli Oil Field (勝利油田), and offshore oil platforms. Due to limited oil reserve in China, majority of crude oil are imported from other countries such as Russia, Saudi Arabia and Angola. The increasing motor vehicle possessions in China has driven the demand for oil, result in continuous growth of oil import volume.

Oil Production and Import (China), 2014–2024E



Source: National Bureau of Statistics, Frost & Sullivan Analysis

Midstream of the value chain is oil refinery and refined oil wholesale. Major oil refiners and refined oil wholesalers in China are China National Petroleum Corporation (CNPC), China Petrochemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC). Midstream wholesalers play an important role in the value chain because wholesalers have the logistics, storage, processing and network capability to facilitate prompt delivery of refined oil from a large number of producers to numerous and dispersed downstream retailers. This can relieve the burden of upstream producers the effort to arrange products delivery and payment collection from downstream players, and focus their resources on refining, research and development and sourcing of raw materials for their products.

In the downstream of the industry, there are petroleum refuelling stations that sell directly to end customers with motor vehicles. Self-owned petroleum refuelling station and entrusted petroleum refuelling station are two common types of petroleum refuelling stations in China. Self-owned petroleum refuelling station is operated by the owner who possesses with the operating license of petroleum refuelling station and controls daily operation and management, as well as the pricing of refined oil products. Entrusted petroleum refuelling station is operated by a third party under certain entrustment arrangement between operator and the owner who has the operating licenses. The owner normally entrusts the operation of petroleum refuelling station to the operator in exchange of the entrustment fee. There are also industrial customers that use refined oil as raw material or energy source and retailers that sell refined oil product like kerosene directly to customers.

Consumption of refined oil in China

The consumption of refined oil in China has grown from 292.9 million tonnes in 2014 to 315.3 million tonnes in 2019 with a CAGR of 1.5%. Refined oil products in China are not scarce and production generally exceeds consumption. The production of refined oil products is 360.3 million tonnes, while total consumption of refined oil products is 315.3 million tonnes in 2019. With rising motor vehicle possession in China, the consumption of gasoline has increased with a CAGR of approximately 5.4% during 2014 to 2019 and reached 127.1 million tonnes in 2019. The consumption of gasoline in China is estimated to increase with a CAGR of approximately 2.9% during 2019 to 2024, reaching approximately

146.6 million in 2024. Meanwhile, as widely used as fuel in industry and households, the consumption of kerosene has increased at a CAGR of 10.9% from 2014 to 2019 and reached 39.2 million tonnes in 2019.

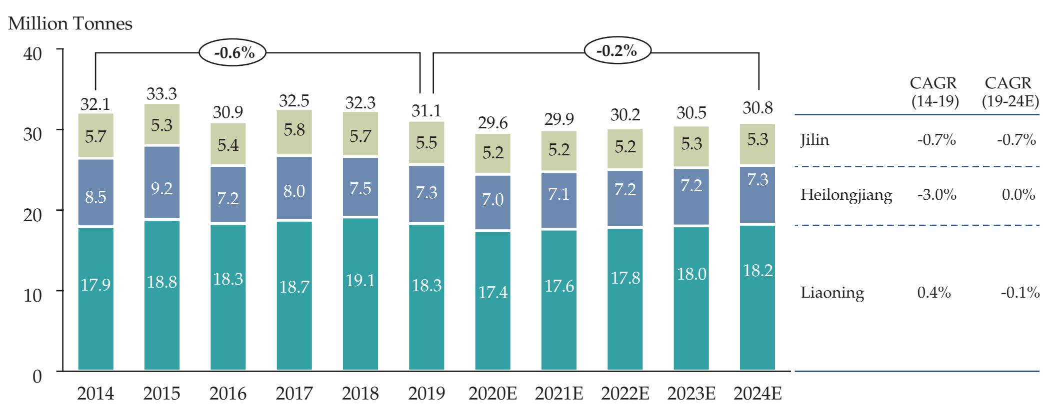
Going forward, China's consumption of refined oil is expected to grow continuously due to the upgrading of refined oil quality and the extensive transportation coverage of refined oil. Total consumption of refined oil is anticipated to reach approximately 329.0 million tonnes in 2024 with a CAGR of 0.9% from 2019 to 2024.

Consumption of refined oil in Northeast China

The refined oil consumption in Northeast China maintained at a stable level during the past several years from 2014 to 2019 with a CAGR of approximately -0.6%.

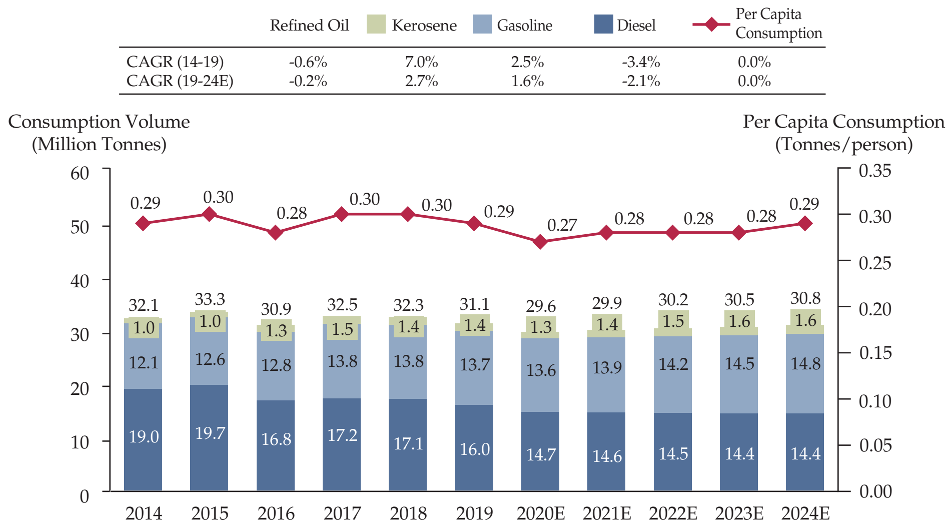
In the forecast period, refined oil market in Northeast China is expected to grow at a relatively stable rate due to the maturity of the market and the limited threaten of cleaner and more environmental friendly substitutive energies. Consumption of gasoline in Northeast China grew at a CAGR of approximately 2.5% during 2014 to 2019, while the consumption of diesel showed a decreasing trend with a CAGR of around -3.4% from 2014 to 2019 due to the consumption reduction in industrial manufacturing sector.

Refined Oil Consumption Breakdown by Provinces, (Northeast China), 2014–2024E



Source: National Bureau of Statistics, Frost & Sullivan Analysis

Refined Oil Consumption Breakdown by Oil Types, (Northeast China), 2014–2024E



Source: National Bureau of Statistics, Frost & Sullivan Analysis

THE REFINED OIL WHOLESALE INDUSTRY IN CHINA

Wholesale of refined oil are subject to licensing. Applicant must meet the requirements for business status and facilities, registered capital, and related certificates. Along with the marketization of China's refined oil retail and wholesale market, increasing number of licenses have been given to refined oil wholesaler, such as some private wholesalers.

Market size of refined oil wholesale in China

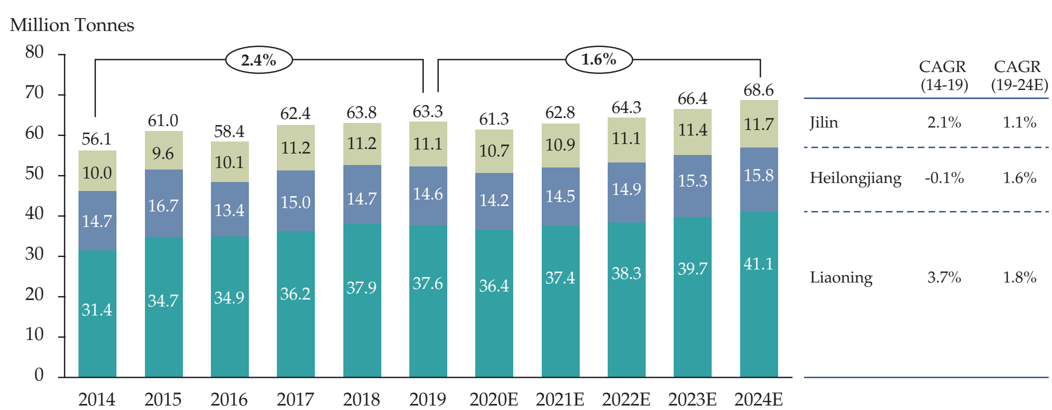
The wholesale volume of refined oil has increased from 667.9 million tonnes in 2014 to 755.7 million tonnes in 2019, with a CAGR of 2.5%. Gasoline and diesel account for over 95% of the total wholesale volume in 2019. Meanwhile, the wholesale volume of refined oil from private wholesalers has grown rapidly with the CAGR of 4.7% from 2014 to 2019. Going forward, with continuous quality upgrading of refined oil and improving pricing mechanism, the wholesale volume of refined oil in China is expected to reach 796.8 million tonnes in 2024, representing a CAGR of 1.1% from 2019 to 2024. The improving pricing mechanism refers to the progress of pricing method of refined oil in China. Before 2000s, the pricing mechanism of refined oil was the fixed pricing model set by the PRC government. The current pricing mechanism of refined oil was developed into timely adjustment of the wholesale ceiling prices along with the international crude oil price fluctuation. The improving pricing mechanism in China can improve the market price transparency of refined oil, attract more oil traders to enter the market and build consumer confidence. Hence, the improving pricing mechanism of refined oil has further sustained the growth in wholesale volume of refined oil in China. The wholesale volume of refined oil from private wholesalers is likely to reach 186.5 million tonnes with the CAGR of 2.0% from 2019 to 2024.

Market size of refined oil wholesale in Northeast China

Along with the ever-improving refined oil retail network and increasing terminal refined oil demand, refined oil wholesale volume in Northeast China demonstrated a growth from 56.1 million tonnes in 2014 to 63.3 million tonnes, representing a CAGR of approximately 2.4%. Going forward, refined oil wholesale volume in Northeast China is likely to keep at a relative steady growth with a CAGR of 1.6% from 2019 to 2024, amounting to approximately 68.6 million tonnes in 2024.

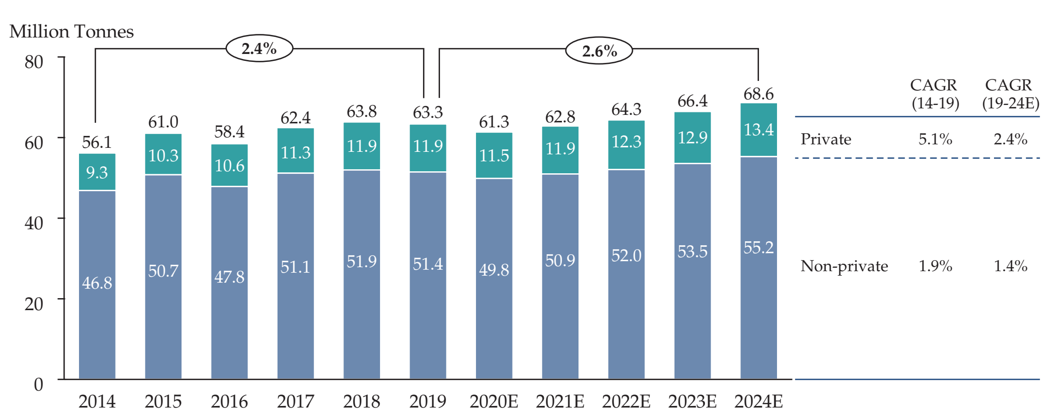
Wholesalers of refined oil include both wholesalers of the non-private companies and private wholesalers. In Northeast China, non-private wholesalers (mainly the oil dealers of PetroChina and Sinopec) are still the major force of the refined oil wholesale market. By 2019, non-private wholesalers accounted approximately 81.2% of the market share in terms of wholesale volume in refined oil wholesale market in Northeast China.

Refined Oil Wholesale Volume Breakdown by Provinces, (Northeast China), 2014–2024E



Source: Frost & Sullivan Analysis

Refined Oil Wholesale Volume Breakdown by Ownership, (Northeast China), 2014–2024E



Source: Frost & Sullivan Analysis

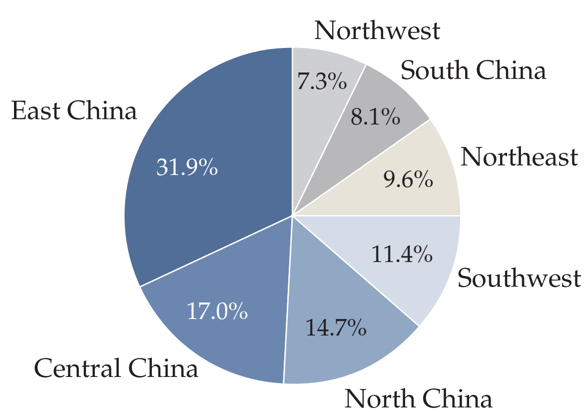
THE REFINED OIL RETAIL INDUSTRY IN CHINA

Number of Petroleum Refuelling Stations in China and Northeast China

Total number of petroleum refuelling stations has increased from approximately 97.7 thousand units in 2014 to 99.8 thousand units in 2019 with a CAGR of 0.4%. Private petroleum refuelling stations account for about 41.3% of total petroleum refuelling stations and reached 41.2 thousand units in 2019. With increasing number of motor vehicles and improving road transportation infrastructures in China, the total number of petroleum refuelling stations is expected to further grow to 105.2 thousand units in 2024 with a CAGR of 1.1% from 2019 to 2024. Non-private petroleum refuelling stations are still expected to dominate the market, with growing number of private players entering the market. Number of private petroleum refuelling stations is anticipated to reach 41.3 thousand units, representing a CAGR of 0.1% from 2019 to 2024.

Geographically, petroleum refuelling stations are concentrated in regions with rapid economic development and high motor vehicle possessions. As one of the three core economic regions in China, petroleum refuelling stations in Northeast China accounts for about 9.6% of total petroleum refuelling stations.

Total Number of Petroleum Refuelling Stations, Breakdown by Regions, 2019



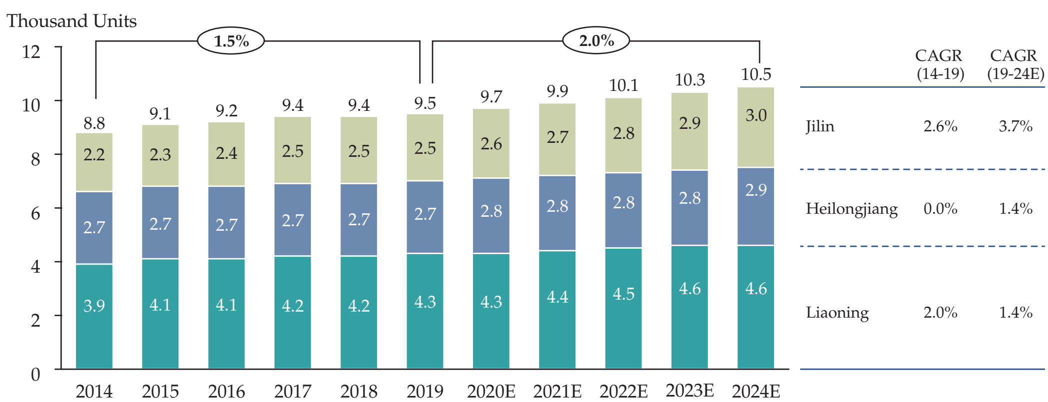
Source: Frost & Sullivan Analysis

Note: Northwest China includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang; South China includes Guangdong, Guangxi and Hainan; Northeast China includes Jilin, Heilongjiang and Liaoning; Southwest China includes Sichuan, Guizhou, Yunnan, Chongqing and Tibet; North China includes Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia; Central China includes Henan, Hubei, Hunan; East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong.

The number of petroleum refuelling stations in Northeast China lifted from around 8.8 thousand in 2014 to around 9.5 thousand in 2019 along with the deepening urbanization process and petroleum refuelling station network planning in Northeast China. Liaoning Province took up around 45.3% of the number of petroleum refuelling stations in Northeast China with approximately 4.3 thousand stations in 2019. Non-private petroleum refuelling stations are still the major market participants in the petroleum refuelling station market in Northeast China, taking up approximately 57.9% of the stations in Northeast China in 2019. The growth in the number of petroleum refuelling stations in Northeast China is slower than the growth of motor vehicles, with a CAGR of 1.5% from 2014 to 2019. Meanwhile, the growth pace of the number of private petroleum refuelling stations is higher than the number of non-private petroleum refuelling stations, representing a CAGR of 2.1% from 2014 to 2019.

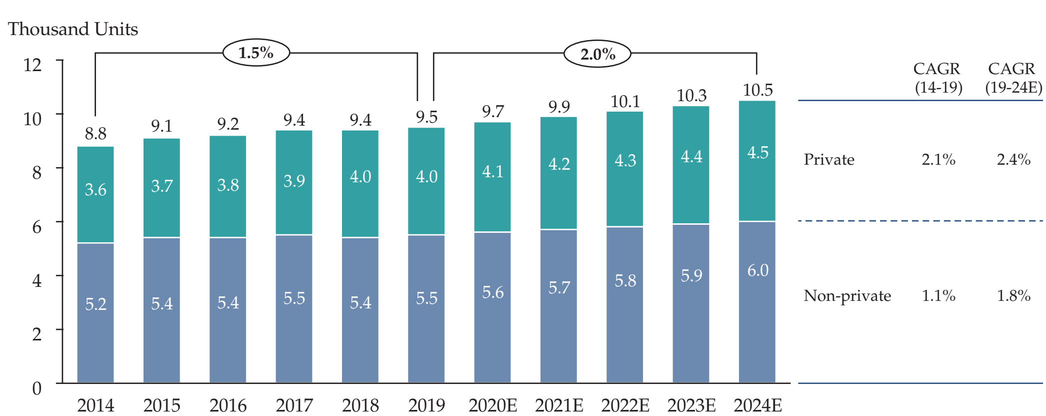
Due to growing vehicle refuelling demand resulted by the ever-increasing vehicle population in Northeast China, the number of petroleum refuelling stations in Northeast China is forecasted to be further increased with a CAGR of 2.0% from 2019 to 2024, reaching approximately 10.5 thousand in 2024. Also, the number of private petroleum refuelling stations is estimated to capture more market share in terms of number of station and further expand their sales networks, especially for those with sizable operations and better resources. According to the forecast from Frost & Sullivan, private petroleum refuelling station is likely to take up approximately 42.9% of the petroleum refuelling stations in Northeast China by 2024.

Number of Petroleum Refuelling Stations, Breakdown by Provinces, (Northeast China), 2014–2024E



Source: Frost & Sullivan Analysis

Number of Petroleum Refuelling Stations, Breakdown by Ownership, (Northeast China), 2014–2024E



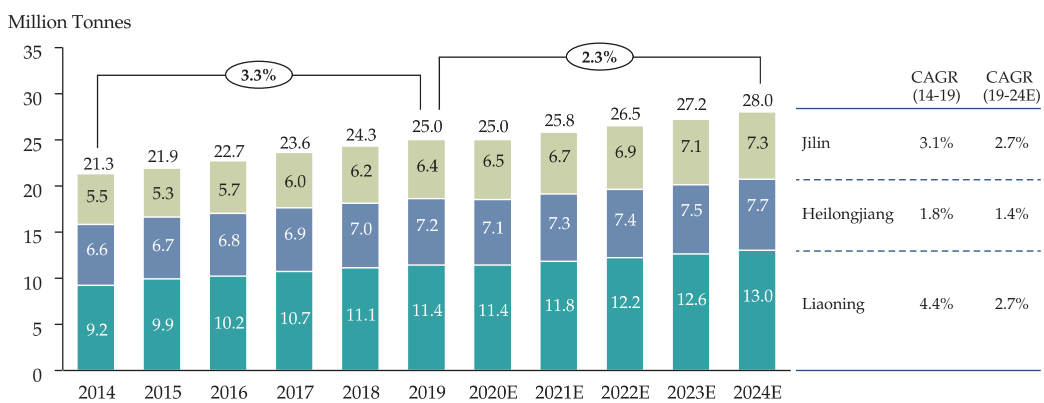
Source: Frost & Sullivan Analysis

Sales Volume of Petroleum Refuelling Station in Northeast China

Similar with the trend of number of petroleum refuelling stations, the retail sales volume of petroleum refuelling stations in Northeast China also increased from 21.3 million tonnes in 2014 to 25.0 million tonnes in 2019 along with the increasing number of petroleum refuelling stations and vehicle population in Northeast China. The sales volume of private petroleum refuelling stations increased from 2.5 million tonnes in 2014 to 3.2 million tonnes in 2019, representing a CAGR of 5.1%, which outpaced the retail sales volume of non-private petroleum refuelling stations of 3.0% for the same period.

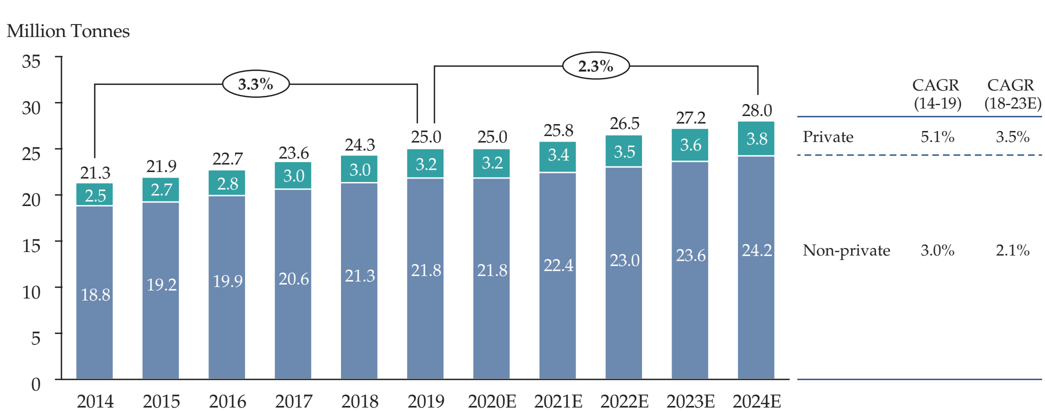
The refined oil retail sales volume of petroleum refuelling stations in Northeast China is estimated to keep stable growth rate with a CAGR of 3.3% from 2019 to 2024 due to the growing possession of civil motor vehicles in Northeast China. Owing to the flexible retail pricing and expansion of station network, the sales volume of private petroleum refuelling station is anticipated to maintain a relative higher growth pace than those non-private petroleum refuelling stations in the following several years, reaching approximately 3.8 million tonnes in 2024 with a CAGR of 3.5% from 2019 to 2024.

Sales Volume of Petroleum Refuelling Station, Breakdown by Provinces, (Northeast China), 2014–2024E



Source: Frost & Sullivan Analysis

Sales Volume of Petroleum Refuelling Station, Breakdown by Ownership, (Northeast China), 2014–2024E



Source: Frost & Sullivan Analysis

DRIVERS OF REFINED OIL RETAIL AND WHOLESALE MARKET

- *Growing Motor Vehicle Possession:* With increasing disposable income and urbanization in China, growing number of residents are affordable for the purchase of motor vehicles. The civil motor vehicle possession has increased from 146.0 million units in 2014 to 261.5 million units in 2019. As motor vehicles are major downstream consumers of refined oil, growing motor vehicle possession in China is expected to drive the growth of refined oil retail and wholesale market in the next few years.

- *Development of E-commerce and Logistics:* The development of E-commerce and logistics is expected to be another key driver of China's refined oil retail and wholesale market. The continuously development of E-commerce stimulates growth in relevant logistics services, which drives up total transportation of motor vehicles. Increasing number of refined oil products and growing coverage of petroleum refuelling stations are demanded to support the transportation. Thus, development of E-commerce and logistics is likely to further develop of China's refined oil retail and wholesale market.

- *Strong Nationwide Policy Support:* In recent years, the central government has issued series of policies and regulations to support the future development of refined oil retail and wholesale market. Measures for the Administration of the Refined Oil Market (《成品油市場管理辦法》) has been announced in 2007 and later amended by Ministry of Commerce to strengthen the supervision and management of the refined oil market, regulate the operation of refined oil products, and protect the legitimate rights and interests of refined oil operators and consumers.

DRIVERS OF THE REFINED OIL RETAIL AND WHOLESALE MARKETS IN JILIN AND LIAONING PROVINCES

- *Increasing Motor Vehicle Possession in Jilin and Liaoning Provinces:* From 2014 to 2019, the civil motor vehicle possession in Jilin and Liaoning Province recorded CAGRs of 10.0% and 10.6%, respectively. The increasing motor vehicle possession in Jilin and Liaoning Province are estimated to further generate the demand of refined oil and thus drive the growth of refined oil retail and wholesale market in Jilin and Liaoning Province.

- *Limited Influence from the Development and Promotion of NEVs in Jilin and Liaoning Provinces:* Even local government in Jilin and Liaoning Provinces has put efforts on the promotion and application of NEVs, either in public transportation or personal use, there are still restrictions on the adoption and promotion of NEVs in Northeast China. As the cold temperatures in Northeast China during winter can degrade batteries' capacity as a result of slowing down the chemical reactions of electrolyte inside the batteries which lead to reduced efficiency and performance of such batteries and temporarily reduce the range of NEVs, NEVs are expected to have limited influence on the consumption of refined oil in Jilin and Liaoning Province. Oil-fueled vehicles are likely to continue dominate total civil motor vehicle possession in Northeast China, which in turn, is expected to further drive the refined oil retail and wholesale market in Jilin and Liaoning Province.

- ***Development of Road Infrastructures in Jilin and Liaoning Provinces:*** The road infrastructures in Jilin and Liaoning Provinces demonstrated stable development in recent years. The highway mileage in Jilin and Liaoning Provinces reached 106.7 thousand kilometers and 123.8 thousand kilometers in 2019, representing CAGRs of 2.1% and 1.4%, respectively from 2014 to 2019. The expressway mileage in Jilin and Liaoning Provinces recorded CAGRs of 8.8% and 0.8% from 2014 to 2019. The continuous development and construction of road infrastructures in Jilin and Liaoning Province are anticipated to increase the number and density of petroleum refuelling stations and thereby drive the refined oil retail and wholesale market in Jilin and Liaoning Province.

PRICING

In China, retail and wholesale prices of gasoline and diesel, as well as the price of gasoline and diesel supply prices for social wholesale enterprises, railway, transport and other special users shall be government-guided. The NDRC would timely adjust guiding prices when fluctuations in international crude prices cause a change of more than RMB50 per tonne of gasoline or diesel within the period of ten working days. Such pricing system takes into account the varieties of crude oil used to calculate the price changes. In addition, retail price of refined oil products will not be raised if international crude oil prices rise above US$130 per barrel, or cut if prices fall below US$40 per barrel.

According to the Measures for the Administration of Petroleum Prices (《石油價格管理辦法》) issued by the NDRC in 2016, the NDRC has set lower limit for price adjustment mechanism of refined oil. The lower limit was set to be US$40 per barrel. Namely, when crude oil price in the international market to which the domestic refined oil prices is affiliated is lower than US$40 per barrel, the domestic refined oil prices shall no longer be adjusted to fall.

If the crude oil price in the international market lingers lower than US$40 per barrel in a long-term, the business operation and gross profit of petroleum refuelling station operators in the PRC are expected to remain stable as (1) the refined oil procurement cost shall be fixed with reference to the US$40 per barrel price floor; and (2) the wholesale and retail prices of refined oil products shall also be fixed with reference to the ceilings set by the NDRC. Based on the above, it would not pose any adverse and material impact to the operators of petroleum refuelling stations.

Gasoline and Diesel Ceiling Price (Northeast China), 2014–22 June 2020

Price Type	Oil Type	2014 Average	2015 Average	2016 Average	2017 Average	2018 Average	2019 Average	1 Jan, 2020-3 Feb, 2020	4 Feb, 2020-17 Feb, 2020	18 Feb, 2020-16 March, 2020	17 March, 2020-22 June, 2020
Retail Price (RMB/tonne)	Gasoline	9,536.7	8,120.9	7,954.9	8,620.9	9,768.2	9,213.8	9,450.0	8,992.5	8,540.0	7,468.5
	Diesel	7,623.7	6,484.8	6,330.1	6,915.6	7,933.2	7,460.2	7,675.0	7,270.0	6,870.0	5,895.0
Wholesale Price (RMB/tonne)	Gasoline	9,209.7	7,793.9	7,627.9	8,293.9	9,441.2	8,886.8	9,123.0	8,665.5	8,213.0	7,141.5
	Diesel	7,323.7	6,184.8	6,030.1	6,615.6	7,633.2	7,160.2	7,375.0	6,970.0	6,570.0	5,595.0

Source: Development and Reform Commission of Jilin, Liaoning and Heilongjiang Province, Frost & Sullivan Analysis

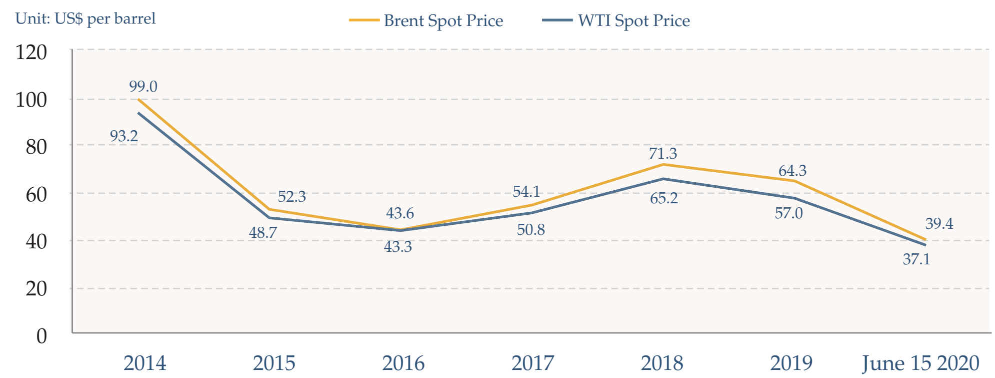
Note:

(1) Gasoline price refers to the average price of #93 and #97 gasoline, diesel refers to #0 diesel; (2) Ceiling price refers to the government-imposed retail price limit for refined oil; (3) Tax is included for the above price of gasoline and diesel.

Crude oil is considered as the major raw material of refined oil. Two major crude oil benchmarks, with each representing crude oil price from a particular part of the globe, are Brent and WTI (West Texas Intermediate). Brent refers to oil from four different fields in the North Sea: Brent, Forties, Oseberg and Ekofisk. Brent spot price witnessed a downward trend from US$99.0 per barrel in 2014 to US$43.6 per barrel in 2015, and surged back to $71.3 per barrel in 2018. Another widely used benchmark is WTI, which refers to oil extracted from wells in the U.S. and sent via pipeline to Cushing, Oklahoma. Same as Brent spot price, the WTI spot price also decreased during 2014 to 2016, from US$93.2 per barrel to US$43.3 per barrel. It then went back to US$65.2 per barrel in 2018.

In 2019, due to the substantial increase in U.S. shale oil production, both the Brent and WTI crude oil price showed a decrease as compared with previous year, reaching US$64.3 and US$57.0 per barrel, respectively. Since 1 January 2020, the international market oil price has been experiencing a plummet after OPEC's failure to strike a deal with its allies on the output cut in March 2020 and Saudi Arabia's reaction intensified the situation by way of cutting oil prices and boosting production. The global outbreak of COVID-19 pandemic also restrained the demand of crude oil, which further intensified oil supply and demand imbalance. Both the Brent and WTI crude oil spot price plummeted to below US$40 per barrel as 9 March 2020 until 15 June 2020, resulting from the retail gasoline and diesel ceiling price be fixed at RMB7,468.5 per tonne and RMB5,895.0 per tonne respectively, while the wholesale gasoline and diesel ceiling price be fixed at RMB7,141.5 per tonne and RMB5,595.0 per tonne respectively from 17 March 2020 (being the first adjustment window since 9 March 2020) up to the Latest Practicable Date.

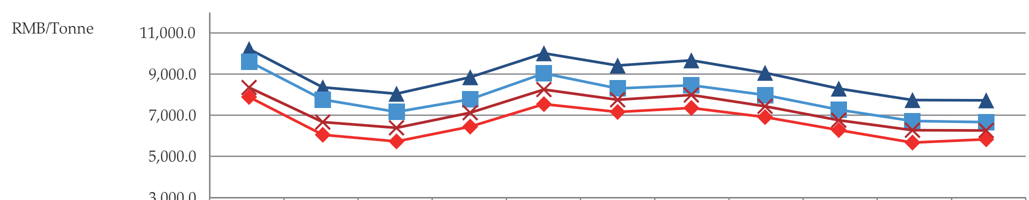
Price of Crude Oil (Global), 2014 – 15 June 2020



Source: EIA, Frost & Sullivan Analysis

The retail and wholesale price of refined oil (gasoline and diesel) have fluctuated during 2014 to May 2020 due to the fluctuation of crude oil price in the international market.

Retail and Wholesale Price of Gasoline and Diesel (China), 2014–May 2020



	2014	2015	2016	2017	2018	2019	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Wholesale Price (Gasoline)	9,508.3	7,613.0	6,997.7	7,627.7	8,917.0	8,166.3	8,325.9	7,839.4	7,107.5	6,544.9	6,488.9
Wholesale Price (Diesel)	7,739.0	5,858.4	5,528.7	6,264.5	7,385.0	6,994.5	7,195.5	6,739.5	6,092.5	5,649.8	5,632.5
Retail Price (Gasoline)	10,126.9	8,221.5	7,903.8	8,725.6	9,919.4	9,308.8	9,567.1	8,945.6	8,159.1	7,589.3	7,573.8
Retail Price (Diesel)	8,212.9	6,491.3	6,205.6	6,958.1	8,112.0	7,602.6	7,841.3	7,277.3	6,582.8	6,087.0	6,072.0

Source: Ministry of Commerce, Price Bureau of Jilin, Liaoning and Heilongjiang Province, Frost & Sullivan Analysis

ENTRY BARRIERS

- ***Brand Recognition:*** The success of petroleum refuelling station business depends, to a large extent, on brand recognition by local customers. Motor vehicle drivers tend to use the services of well-established local petroleum refuelling stations, as they are more confident in the quality of the products and services provided by these petroleum refuelling stations. Meanwhile, established petroleum refuelling stations with good brand recognition are more likely to have deep understanding of local market. Hence, brand recognition of petroleum refuelling station is likely to be a barrier for new entrants in the market.

- ***License & Qualification:*** Company who wants to engage in refined oil retail and wholesale market should obtain refined oil wholesale business approval certificate (成品油批發經營批准證書), refined oil retail business approval certificate (成品油零售經營批准證書) and hazardous chemical business license (危險化學品經營許可證) from local government. In addition, relevant safety staff needs to have the qualifications required for performing safety work during daily operation. Therefore, it is necessary for refined oil retail and wholesale companies to possess required licenses and qualifications when they plan to enter the market, which is considered to be a barrier for new entrants.

- ***Abundant Initial Capital:*** Refined oil retail and wholesale market is relatively capital-intensive. The operation company needs to invest massively in infrastructure construction like oil depots, as well as oil refuelling and fire prevention equipment when building a petroleum refuelling station. Moreover, the daily operation and maintenance also require persistent investment. Thus, refined oil retail and wholesale market participants need abundant initial capital to support the fixed costs of construction and operation. It is relatively difficult for those new entrants to fulfil the capital requirement to achieve economy of scale.

- ***Safe Operation Experience:*** Due to the flammable and explosive chemical characteristic of refined oil products, all the oil depots and petroleum refuelling stations require highly strict code of management and maintenance to prevent explosion and fire accident, including workplace safety and fire prevention. Hence, refined oil retail and wholesale companies should dispatch specific and technical staff for the safe daily operation and also guarantee safe production at the same time. Meanwhile, market players should also have the ability to deal with the emergency safety events, which requires safe operation experience of the refuelling station.

DEVELOPMENT TRENDS AND CHALLENGES

- ***Upgrading Standard for Refined Oil Products:*** With accelerating industrialization and urbanization, environmental issue especially air pollution has been of great concern in China. In response, China V gasoline and diesel fuel quality standards have been adopted since January 2017. The upgrading standard aimed to raise China's refined oil products to world-class quality, which is expected to reduce emissions from all motor vehicles while enabling advanced emission control technologies to be deployed and yielding critical reductions in air pollution. Higher quality refined oil products are expected to be launched to meet the requirement of relevant standard, which is considered to be an opportunity for China's refined oil retail and wholesale market.

- ***Promotion of NEVs:*** In recent years, new energy vehicles (NEVs) achieved a rapid progress in China under the support by a series of governmental policies and plans. The number of new energy vehicles in China increased from 0.2 million units in 2014 to approximately 3.8 million units in 2019, representing around 0.2% to approximately 1.5% of China's total motor vehicle possession respectively. In Northeast China, local government has promoted the use of NEVs since 2011. The number of NEVs in Northeast China has increased from approximately 1.2 thousand units in 2014 to approximately 75.9 thousand units in 2019, representing a CAGR of around 130.3%. As alternative energy to refined oil, the promotion of NEVs is likely to pose threat to the development of oil-fueled vehicles in the future.

COMPETITIVE LANDSCAPE ANALYSIS

China's refined oil retail and wholesale market is operated by two major types of market participants:

➢ ***Non-private Refined Oil Retailers and Wholesalers***

Normally include the three biggest state-owned petroleum enterprises in China (i.e. the Big Three Oil Giants): CNPC, Sinopec and CNOOC, as well as those foreign and Sino-foreign joint ventures in refined oil retail and wholesale market. Non-private refined oil wholesalers and retailers, especially those state-owned petroleum enterprises, normally have integrated industrial chain, covering the supply, transportation, retail and wholesale of refined oil products. They are major market participant groups in China's refined oil retail and wholesale market.

➢ ***Private Petroleum Refuelling Station Operators and Private Refined Oil Wholesalers***

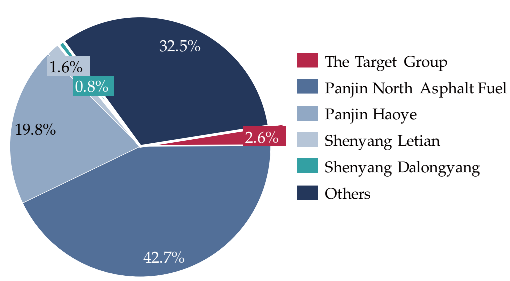
Even through non-private wholesalers and retailers are dominating the market, the number of private players is still growing. While some private refined oil petroleum refuelling station operators and refined oil wholesalers have self-owned refineries, other private players usually do not have self-supply capability of refined oil products and would purchase from upstream suppliers.

Ranking of Private Refined Oil Wholesalers in Northeast China

The refined oil wholesale market of private wholesalers in Northeast China is relatively concentrated with top 5 players taking up approximately 67.5% of the market share. The market is at a growing stage with an increasing number of private wholesalers entering the market and gaining market shares. The Target Group ranked 3rd with 2.6% of market share, and is also the largest private wholesaler that do not have self-supply capability of refined oil in terms of wholesale volume in 2019.

Market Share of Major Private Players in Refined Oil Wholesale Market in Terms of Wholesale Volume, (Northeast China), 2019

Total Refined Oil Wholesale Volume of Private Wholesalers in 2019 = 11.9 Million Tonnes



Rank	Company Name	Self-supply Capability of Refined Oil	Wholesale Volume in 2019 (Million Tonnes)	Market Share
1	Panjin North Asphalt Fuel	Yes	5.08	42.7%
2	Panjin Haoye	Yes	2.36	19.8%
3	**The Target Group**	**No**	**0.31**	**2.6%**
4	Shenyang Letian	No	0.19	1.6%
5	Shenyang Dalongyang	No	0.10	0.8%
	Top 5 Subtotal		**8.04**	**67.5%**
	Others		**3.86**	**32.5%**
	Total		**11.90**	**100.0%**

Source: The Target Group, Frost & Sullivan Analysis

Notes:

(1) Self-supply capability of refined oil refers whether or not the wholesaler has self-owned refineries that can supply refined oil products;

(2) Established in 2003 in Panjin, Liaoning Province, Company A is a non-listed company that specialises in the import, production and wholesaling of chemical raw materials, including petroleum, crude oil, etc.;

(3) Established in 2012 in Panjin, Liaoning Province, Company B is a non-listed company that specialises in the production, and wholesaling of petrochemical products;

(4) Established in 2001 in Shenyang, Liaoning Province, Company C is a non-listed company that specialises in the wholesaling of petrochemical products, including gasoline, diesel, fuel oil, etc.;

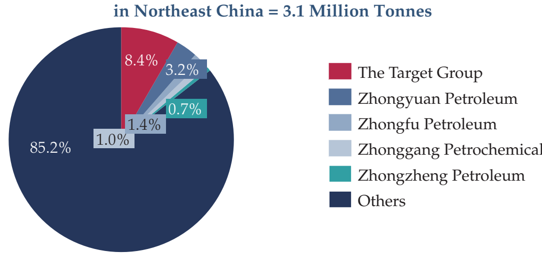
(5) Established in 2000 in Shenyang, Liaoning Province, Company D is a non-listed company that specialises in the wholesaling of petrochemical products, metal materials, machinery and equipment, etc.

Ranking of Private Refined Oil Petroleum Refuelling Station Operators in Northeast China

The refined oil retail market of private petroleum refuelling station operators in Northeast China is relatively fragmented with top 5 players taking up approximately 14.7% of the market share. By the end of 2019, the refined oil retail volume of the Target Group was 270.1 thousand tonnes and ranked 1st place in Northeast China in terms of retail volume, taking up approximately 8.4% of total market share.

Market Share of Major Private Players in Refined Oil Retail Market in Terms of Petroleum Refuelling Station Number, (Northeast China), 2019

Total Refined Oil Retail Volume of Private Stations in 2019 in Northeast China = 3.1 Million Tonnes



Rank	Company Name	Retail Volume in 2019 (Thousand Tonnes)	Market Share in 2018 (%)
1	**The Target Group**	**270.1**	**8.4%**
2	Zhongyuan Petroleum	103.9	3.2%
3	Zhongfu Petroleum	43.8	1.4%
4	Zhonggang Petrochemical	31.2	1.0%
5	Zhongzheng Petroleum	22.3	0.7%
	Top 5 Subtotal	**471.3**	**14.7%**
	Others	**2,728.7**	**85.2%**
	Total	**3,200.0**	**100.0%**

Source: The Target Group, Frost & Sullivan Analysis

Notes:

(1) The retail volume of petroleum refuelling station refers to the refined oil sales volume of the Target Group's petroleum refuelling business;

(2) Established in 2001 in Changchun, Jilin province, Company E is a non-listed company that specialises in selling petrochemical products and chemical raw materials, including gasoline, diesel, fuel oil, vehicle liquefied gas, etc.;

(3) Established in 1992 in Shenyang, Liaoning Province, Company F is a non-listed company that specialises in the wholesaling and retailing of refined oil and natural gas, as well as gas station chain operation;

(4) Established in 2004 in Shenyang, Liaoning Province, Company G is a non-listed company that specialises in the retailing of refined oil and natural gas, including gasoline, diesel, LNG, CNG and non-oil products;

(5) Established in 2003 in Shenyang, Liaoning Province, Company H is a non-listed company that specialises in the selling, storage and transportation of petroleum products and natural gas.

Impact of COVID-19 on Refined Oil Wholesale and Retail Market in China and Northeast China

Due to the outbreak of COVID-19, certain regions reporting cases of COVID-19 2020 in China have required companies to extend the Lunar New Year holidays until 10 February 2020 to contain the COVID-19 from spreading further. Meanwhile, provinces and cities have implemented travel bans and traffic control, closing some highway entrances temporarily and stop interprovincial shuttle buses. In addition, the first-level emergency responses of 31 provincial-level regions reporting cases of COVID-19 in China have suspended the gathering of people to prevent the outbreak of COVID-19. With the implementation of the above measures, the use of motor vehicles and public transportations has been reduced. Impact of COVID-19 on refined oil wholesale and retail market is expected to continue before effective prevention and control of COVID-19. The extent to which COVID-19 impacts the refined oil wholesale and retail market in China will depend on future developments, which are uncertain and unpredictable. However, the tension is expected to ease off slowly as enterprises in China have gradually reopened since 17 February 2020. Once COVID-19 is effectively controlled, the demand for refined oil in both wholesale and retail market is likely to be resumed gradually. The impact of COVID-19 on China's refined oil wholesale and retail market is estimated to dribble away in the long-term.

By 18 March 2020, around 95% industrial enterprises above designated size (with annual revenue no less than RMB20 million) in Northeast China have resumed its operations, indicating that the refined oil wholesale and retail market in Northeast China is expected to resume. In addition, by end of March 2020, each of Liaoning Province, Jilin Province (Shulan City of Jilin Province has taken strict control into and out of the city since 9 May 2020) and Heilongjiang Province has lowered the coronavirus emergency response to level III. The impact of COVID-19 on the refined oil wholesale and retail market in Northeast China will depend on future developments, including the time when Northeast China is able to achieve 100% work resumption, the time when the respective local governments cancel the coronavirus emergency response in Northeast China, which are uncertain and unpredictable. However, based on the aforementioned current situation assessment in Northeast China, the impact of COVID-19 on refined oil wholesale and retail market in Northeast China is also estimated to dribble away in the long-term.

This section sets forth a summary of the most significant laws and regulations that affect the Target Group in China.

FOREIGN INVESTMENT REGULATIONS

Guidance Catalogue of Industries for Foreign Investment

According to the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019)《外商投資准入特別管理措施(負面清單)(2019年版)》jointly issued by the NDRC and the MOFCOM on 30 June 2019 and became effective on 30 July 2019, there are still no restrictions or prohibitions on the industries the Target Group engaging in.

INDUSTRY REGULATIONS

Regulations of the refined oil business activities

The Measures for the Administration of the Refined Oil Market (成品油市場管理辦法) ("**the Measures**") was promulgated by the Ministry of Commerce ("**MOC**") on 4 December 2006, effective as from 1 January 2007 and amended on 28 October 2015. This Regulation aims to strengthen the supervision and administration of the refined oil market, regulate the business activities of refined oil, maintain the refined oil market order and safeguard the legitimate rights and interests of refined oil operators and consumers. The company engaged in the wholesale or retail of refined oil shall submit an application to the administrative department of commerce, the license for the wholesale of refined oil shall be printed and issued by the MOC, and the license for the retail of refined oil shall be printed and issued by the provincial administrative department of commerce.

Pursuant to the Measures, an enterprise that applies for a retail license for refined oil shall satisfy some of conditions, such as the conditions about the site selection, the standards of design and construction, and the relevant specifications and requirements of petroleum refuelling stations about technical, environment and fire prevention, etc. And an enterprise that applies for a wholesale license for refined oil also shall satisfy some of conditions, such as the supplies of refined oil, the conditions about the site selection, the standards of design and construction, and the relevant specifications and requirements of refined oil depot about technical, environment and fire prevention, etc.

Regulations of the PRC on Trading in Hazardous Chemicals

Pursuant to the Implementing Guidance for the Catalog of Hazardous Chemicals 2015 (危險化學品目錄(2015版)), the gasoline and diesel are hazardous chemicals. On 17 July 2012, the State Administration of Work Safety (now replaced by the Ministry of Emergency Management) promulgated the Measures for the Administration of the Permits for Trading in Hazardous Chemicals (危險化學品經營許可證管理辦法), and was amended in 2015. Pursuant to the Measures for the Administration of the Permits for Trading in Hazardous Chemicals, an enterprise engaging in the business operation of hazardous chemicals shall obtain a permit for the business operation of hazardous chemicals.

Regulations of the PRC on Road Transport

On 30 April 2004, the State Council promulgated the Regulation of the PRC on Road Transport (中華人民共和國道路運輸條例), which became effective as from 1 July 2004 and was amended in 2012, 2016 and 2019 respectively. And on 23 January 2013, the Ministry of Transport promulgated the Provisions on the Administration of Road Transport of Dangerous Goods (道路危險貨物運輸管理規定), which became effective as from 1 July 2013 and was amended in 2016 and 2019 respectively.

Pursuant to the Regulation of the PRC on Road Transport and the Provisions on the Administration of Road Transport of Dangerous Goods, any individuals or institutions that engage in the operation of road transportation as well as the businesses related to road transportation shall abide by these regulations. Pursuant to these regulations, the state implements a license system for road transportation operation, which issues the road transportation operation license for the applicants, as well as the vehicle operation licenses for the vehicles that are used for road transportation.

LAWS AND REGULATIONS ON PRICE

General Laws and Regulations On Price

On 29 December 1997, the Standing Committee of the National People's Congress ("**NPC**") promulgated Pricing Law of the PRC (中華人民共和國價格法), which was effective as from 1 May 1998.

Pursuant to Pricing Law of the PRC, the competent departments of price and other departments concerned of people's governments of autonomous regions and municipalities directly under the central government shall determine the government-guided prices and government-set prices for implementation in their respective areas in pursuance of the pricing authority and specific applicable scope provided for in Local Pricing Catalogues. Municipal and county people's governments may, in accordance with the authorization of people's governments of the provinces, autonomous regions and municipalities directly under the central government and in pursuance of the pricing authority and specific applicable scope provided for in Local Pricing Catalogues, determine the government-guided prices and government-set prices for implementation in their respective areas.

Price For Refined Oil

According to the Circular of the National Development and Reform Commission ("**NDRC**") on Issues concerning Further Improving the Refined Oil Pricing Mechanism (Annex: Administrative Measures for Oil Prices) (Fa Gai Jia Ge[2016]No. 64) (國家發展改革委關於進一步完善成品油價格形成機制有關問題的通知(附：石油價格管理辦法)[發改價格[2016]64號]) ("**the Circular**"), which was promulgated by the NDRC on 13 January 2016, market-adjusted prices shall be adopted for crude oil price. Refined oil prices shall be government-guided or government-fixed based on different situations. The adjustment guide prices are issued every 10 working days. Gasoline and diesel retail and wholesale prices, as well as gasoline and diesel supply prices for social wholesale enterprises, railway, transport and other special users shall be government-guided. And gasoline and diesel prices for national reserves and Xinjiang Production and Construction Corps shall be government-fixed. The Circular sets up a price floor and ceiling, refined oil retailers and refined oil production and trade enterprise may independently determine the specific retail prices by taking reference to the international crude oil price between 40 U.S. dollars per barrel and 130 U.S. dollar per barrel.

According to the Pricing Catalogue of Jilin Province (吉林省定價目錄) which was promulgated by the Price Control Administration of Jilin Province on 4 March 2018, the Pricing Catalogue of Liaoning Province (遼寧省定價目錄) which was promulgated by the Price Control Administration of Liaoning Province on 30 November 2018, and the Pricing Catalogue of Heilongjiang Province (黑龍江省定價目錄) which was promulgated by the Price Control Administration of Heilongjiang Province on 29 November 2017, the price of refined oil is temporarily managed according to the current measures.

REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Environmental Protection Law

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "**Environmental Protection Law**") was promulgated by the Standing Committee of the NPC on December 26, 1989 and amended on 24 April 2014. The environmental protection department of the State Council supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

Environmental Protection on Construction Projects

The Environmental Impact Appraisal Law of PRC (《中華人民共和國環境影響評價法》) (the "**Environmental Impact Appraisal Law**"), which was promulgated by the Standing Committee of the NPC on 28 October 2002, amended on 2 July 2016 and 29 December 2018, requires that the construction entities shall work out the report of environmental impacts, the report form of environmental impacts or the registration form of environmental impacts according to the seriousness of environmental impacts of construction projects. According to Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which was promulgated by the State Council on 29 November 1998, amended on 16 July 2017 and became effective on 1 October 2017, the project owner shall, after the completion of the construction project for which the environmental impact report or environmental impact statement is prepared, according to standards and procedures prescribed by the environmental protection administrative department of the State Council, conduct acceptance check of the constructed supporting environmental protection facilities and prepare the acceptance check report.

And the Interim Measures for the Completion Inspections of Environment Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收暫行辦法》), which was promulgated on 20 November 2017, unless otherwise provided by laws and regulations, enterprises with construction projects, which are required to make assessment reports or statements, shall undertake self-inspections of the environmental protection facilities upon the completion of the construction. A construction project may be formally put into production or use only if its corresponding environmental protection facilities have passed the acceptance examination.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL SECURITIES

Employment

The major PRC laws and regulations that govern employment relationship are the Labor Law of the PRC (《中華人民共和國勞動法》) (the "**Labor Law**") (issued by the Standing Committee of the NPC on 5 July 1994, came into effect on 1 January 1995 and revised on 27 August 2009 and 29 December 2018), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the "**Labor Contract Law**") (promulgated by the Standing Committee of the NPC on 29 June 2007 and became effective on 1 January 2008, and then amended on 28 December 2012 and became effective on 1 July 2013) and the Implementation Rules of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) (the "**Implementation Rules of the Labor Contract Law**") (issued by the State Council on 18 September 2008 and came into effect on the same day). According to the aforementioned laws and regulations, labor relationships between employers and employees must be executed in written form. The laws and regulations above impose stringent requirements on the employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. As prescribed under the laws and regulations, employers shall ensure its employees have the right to rest and the right to receive wages no lower than the local minimum wages. Employers must establish a system for labor safety and sanitation that strictly abide by state standards and provide relevant education to its employees. Violations of the Labor Contract Law and the Labor Law may result in the imposition of fines and other administrative liabilities and/or incur criminal liabilities in the case of serious violations.

Social Securities

According to the Social Insurance Law of PRC (《中華人民共和國社會保險法》), which issued by the Standing Committee of the NPC on 28 October 2010 and came into effect on 1 July 2011 and was newly revised on 29 December 2018, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance, medical insurance and other welfare plans. The employer shall apply to the local social insurance agency for social insurance registration within 30 days from the date of its formation. And it shall, within 30 days from the date of employment, apply to the social insurance agency for social insurance registration for the employee. Any employer who violates the regulations above shall be ordered to make correction within a prescribed time limit; if the employer fails to rectify within the time limit, the employer and its directly liable person will be fined. Meanwhile, the Interim Regulation on the Collection and Payment of Social

Insurance Premiums (《社會保險費征繳暫行條例》) (issued by the State Council on 22 January 1999 and came into effect on the same day and was recently revised on 24 March 2019) prescribes the details concerning the social securities.

Apart from the general provisions about social insurance, specific provisions on various types of insurance are set out in the Regulation on Work-Related Injury Insurance (《工傷保險條例》) (issued by the State Council on 27 April 2003, came into effect on 1 January 2004 and revised on 20 December 2010), the Regulations on Unemployment Insurance (《失業保險條例》) (issued by the State Council on 22 January 1999 and came into effect on the same day), the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》) (issued by the Ministry of Labor on 14 December 1994 and came into effect on 1 January 1995). Enterprises subject to these regulations shall provide their employees with the corresponding insurance.

Housing Provident Fund

According to the Regulation Concerning the Administration of Housing Provident Fund (《住房公積金管理條例》), implemented since 3 April 1999 and amended on 24 March 2002 and 24 March 2019, any newly established entity shall make deposit registration at the housing accumulation fund management center within 30 days as of its establishment. After that, the entity shall open a housing accumulation fund account for its employees in an entrusted bank. Within 30 days as of the date an employee is recruited, the entity shall make deposit registration at the housing accumulation fund management center and seal up the employee's housing accumulation fund account in the bank mentioned above.

REGULATIONS RELATING TO INTELLECTUAL PROPERTIES

Trademarks

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and last amended on 23 April 2019 and will come into effect on 1 November 2019, the Implementation Regulations of the Trademark Law of PRC (《中華人民共和國商標法實施條例》) which was issued on 3 August 2002 and amended on 29 April 2014, the Trademark Office under the State Administration for Industry and Commerce of the PRC (the "**Trademark Office**") shall handle trademark registrations and grant a term of ten years to registered trademarks, which may be renewed for additional ten year period upon request from the trademark owner. According to the Trademark Law and its Implementation Rules, a trademark registrant may, by entering into a trademark licensing contract, license another party to use its registered trademark. Where another party is licensed to use a registered trademark, the licensor shall report the license to the Trademark Office for recordation, and the Trademark Office shall publish it.

REGULATIONS RELATING TO FOREIGN EXCHANGE AND OVERSEAS INVESTMENT

Foreign Exchange

On 29 January 1996, the State Council promulgated the Administrative Regulations on Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》) which became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008. Payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from or registration with the SAFE by complying with certain procedural requirements. Domestic entities or individuals who directly make overseas investment or involve in the distribution or trade of foreign securities or derivative products, shall go through the formalities for registration with the foreign exchange administration department of the State Council.

According to the Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**SAFE Circular 19**") promulgated on 30 March 2015 and became effective on 1 June 2015, foreign-invested enterprises could settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operations. Whilst, foreign-invested enterprises are prohibited to use the foreign exchange capital settled in RMB (a) for any expenditures beyond the business scope of the foreign-invested enterprises or forbidden by laws and regulations; (b) for direct or indirect securities investment; (c) to provide entrusted loans (unless permitted in the business scope), repay loans between enterprises (including advances by third parties) or repay RMB bank loans that have been on-lent to a third party; (d) to purchase real estates not for self-use purposes (save for real estate enterprises).

Overseas Investment

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**SAFE Circular 37**") on 4 July 2014 and it became effective on the same day. According to the SAFE Circular 37, domestic institution shall undergo the foreign exchange registration procedure for foreign investment in accordance with the Notice of the State Administration of Foreign Exchange on Issuing the Provisions on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions (《國家外匯管理局關於發佈〈境內機構境外直接投資外匯管理規定〉的通知》).

Overseas Acquisition

On 8 August 2006, MOFCOM together with five other departments issued the Rules on the Merge and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》(the "**M&A Rules**"), which became effective on 8 September 2006 and was amended on 22 June 2009. According to the M&A Rules, merger and acquisition by an overseas company incorporated or controlled by a domestic company, enterprise or natural person of any domestic company affiliated with such domestic company, enterprise or natural person shall be subject to examination and approval by the Ministry of Commerce or province-level commercial authority. The M&A Rules purport, among other things, to require offshore special purpose vehicles formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the China Securities Regulatory Commission ("**CSRC**") prior to publicly listing their securities on an overseas stock exchange.

REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

The Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**"), promulgated by the NPC on 16 March 2007, came into effect on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, as well as the Implementation Rules of the EIT Law (《中華人民共和國企業所得稅法實施條例》) (the "**Implementation Rules**"), promulgated by the State Council on 6 December 2007, came into force on 1 January 2008 and amended on 23 April 2019, are the principal law and regulation governing enterprise income tax in the PRC. According to the EIT Law and its Implementation Rules, enterprises are classified into resident enterprises and non-resident enterprises. Resident enterprises refer to enterprises that are legally established in the PRC, or are established under foreign laws but whose actual management bodies are located in the PRC. And non-resident enterprises refer to enterprises that are legally established under foreign laws and have set up institutions or sites in the PRC but with no actual management body in the PRC, or enterprises that have not set up institutions or sites in the PRC but have derived incomes from the PRC. A uniform income tax rate of 25% applies to all resident enterprises and non-resident enterprises that have set up institutions or sites in the PRC to the extent that such incomes are derived from their set-up institutions or sites in the PRC, or such income are obtained outside the PRC but have an actual connection with the set-up institutions or sites. And non-resident enterprises that have not set up institutions or sites in the PRC or have set up institutions or sites but the incomes obtained by the said enterprises have no actual connection with the set-up institutions or sites, shall pay enterprise income tax at the rate of 10% in relation to their income sources from the PRC.

Value-Added Tax

The major PRC law and regulation governing value-added tax are the Interim Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (issued on 13 December 1993 by the State Council, came into effect on 1 January 1994, and revised on 10 November 2008, 6 February 2016 and 19 November 2017), as well as the Implementation Rules for the Interim Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) (issued on 25 December 1993 by the Ministry of Finance of the PRC ("**MOF**"), came into effect on the same day and revised on 15 December 2008 and 28 October 2011), any entities and individuals engaged in the sale of goods, supply of processing, repair and replacement services, sale of services, intangible assets, immovables and import of goods within the territory of the PRC are taxpayers of VAT and shall pay the VAT in accordance with the law and regulation. The rate of VAT for sale of goods is 17% unless otherwise specified, such as the rate of VAT for sale of transportation is 11%. With the VAT reforms in the PRC, the rate of VAT has been changed several times. MOF and SAT issued the Notice of on Adjusting VAT Rates (《關於調整增值稅稅率的通知》) on 4 April 2018 to adjust the tax rates of 17% and 11% applicable to any taxpayer's VAT taxable sale or import of goods to 16% and 10%, respectively, this adjustment became effect on 1 May 2018. Subsequently, MOF, SAT and the General Administration of Customs jointly issued the Announcement on Relevant Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) on 20 March 2019 to make a further adjustment, which came into effect on 1 April 2019. The tax rate of 16% applicable to the VAT taxable sale or import of goods shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%.

Withholding Tax

On 17 October 2017, SAT issued the Announcement of the SAT on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) (the "**Announcement 37**") and amended it on 15 June 2018. According to the Announcement 37, if a non-resident enterprise has not set up an organisation or establishment in the PRC, or has set up an organisation or establishment but the income derived has no actual connection with such organisation or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. And according to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷稅漏稅的安排》), dividends repatriated from a PRC entity to a Hong Kong tax resident would be entitled to a reduced withholding tax rate of 5% subject to certain conditions.

OVERVIEW

The Target Business is a leading private petroleum refuelling station operator (i.e. gasoline and diesel) in Northeast China. Upon the Acquisition Completion, the Target Business will comprise the operation and management of 69 petroleum refuelling stations, which (i) 28 petroleum refuelling stations were owned or by the Target Group; (ii) 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) managed and operated by the Target Group pursuant to the Entrusted Management Agreement; and (iii) 2 Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion). Alongside with the petroleum refuelling stations, the Target Group also operates and manages two self-owned petroleum storage facilities and one Entrusted Petroleum Storage Facility. These facilities enable the Target Group to sell and deliver refined petroleum products to customers in larger quantity constituting the Petroleum Wholesale Business of the Target Group.

In April 1997, Changchun Yitonghe was founded, and in October 2001, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang became equity-holders of Changchun Yitonghe to engage in gas and petroleum related businesses. The Target Business commenced its first Petroleum Refuelling Station, namely Changchun Yitonghe Petroleum Station in Changchun, Jilin Province in 1997 and commenced the operation of the first Petroleum Storage Facility in Dandong, Liaoning Province in 2004 following the acquisition of Dandong Kuandian, which led to the expansion of the Target Business in Liaoning Province.

All operating subsidiaries of the Target Group were incorporated in the PRC and previously owned by two PRC companies, namely Changchun Yitonghe and United Strength Investment, both of which are directly owned by Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang as to approximately 74%, 15%, 10% and 1% respectively prior to the reorganisation. In particular, Dandong Kuandian, Dandong United Strength, Liaoning Oilfield, Shenyang United Strength and Shenyang Xinxin were owned by United Strength Investment, while Baishan United Strength, Jilin Haotuo and Wuchang United Strength were directly owned by Changchun Yitonghe, respectively.

MILESTONES

The table below sets forth the key milestones in the Target Group's history:

Time	**Milestone**
April 1997	Changchun Yitonghe was founded to engage in gas and petroleum related businesses and Changchun Yitonghe Petroleum Station, the Target Group's first Petroleum Refuelling Station was established in Changchun, Jilin Province
December 2004	Dandong Kuandian was acquired to expand the Petroleum Refuelling Business into Liaoning Province and started operating the Target Group's first petroleum storage facility in Dandong, Liaoning Province

May 2005	The Target Group's membership programme was launched and Changchun petroleum storage facility was established to expand the Target Group's petroleum wholesale business into Changchun, Jilin Province
July 2011	Wuchang United Strength was established to expand our Petroleum Refuelling Business into Heilongjiang Province
November 2017	The Target Group's WeChat official account was launched

CORPORATE DEVELOPMENT

As at the Latest Practicable Date, the Target Group comprised Target Company, a Hong Kong company, and 9 PRC companies. Details of the members of the Target Group as at the Latest Practicable Date are set forth below:

Entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Amount of registered capital/ authorised share capital	Amount of paid up capital (or, where applicable number of issued shares)	Equity interest attributable to our Group	Principal activities
Target Company	8 November 2018	BVI	US$50,000	US$10,000	N/A	Investment holding
HK Company	7 December 2018	Hong Kong	N/A	HK$100	100% by Target Company	Investment holding
WFOE	6 November 2018	PRC	RMB10 million	RMB10 million	100% by HK Company	Investment holding and the management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business (either by itself or through other members of the Target Group)
Baishan United Strength	26 May 2010	PRC	RMB0.5 million	RMB0.5 million	100% by WFOE	Petroleum Refuelling Business

Entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Amount of registered capital/ authorised share capital	Amount of paid up capital (or, where applicable number of issued shares)	Equity interest attributable to our Group	Principal activities
Dandong Kuandian	17 August 1981	PRC	RMB30 million	RMB30 million	55% by WFOE	Petroleum Refuelling Business and Petroleum Wholesale Business
Dandong United Strength	8 June 2010	PRC	RMB15 million	RMB15 million	55% by WFOE	Petroleum Refuelling Business
Jilin Haotuo	1 December 2010	PRC	RMB5 million	RMB5 million	100% by WFOE	Petroleum Refuelling Business
Liaoning Oilfield	8 December 1998	PRC	RMB30 million	RMB30 million	55% by WFOE	Petroleum Wholesale Business
Shenyang Xinxin	12 June 2014	PRC	RMB2 million	RMB2 million	100% by Liaoning Oilfield	Transportation service
Wuchang United Strength	28 July 2011	PRC	RMB0.5 million	RMB0.5 million	100% by WFOE	Petroleum Refuelling Business
Shenyang United Strength	19 July 2004	PRC	RMB10.3 million	RMB10.3 million	26.7% by WFOE; 51.45% by Liaoning Oilfield	Land use rights and facilities of Liaoning Oilfield's petroleum storage facility

CHANGE IN REGISTERED OR ISSUED CAPITAL AND/OR EQUITY HOLDERS OF MEMBERS OF TARGET GROUP

The Target Company

Change in issued capital and/or owners of the Target Company

The Target Company was incorporated in BVI on 8 November 2018 with limited liability. The number of authorised shares of the Target Company is 50,000 shares of US$1.00 each. On 20 November 2018, Harvest Day applied for, and the Target Company allotted and issued to Harvest Day 100 shares in the Target Company credited as fully paid.

On 1 February 2019, the Target Company, as issuer, allotted and issued such number of ordinary shares of the Company to each of Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day as set out in the below table (the "**Allotment**").

Shareholders	No. of shares held immediately prior to the Allotment	No. of shares to be allotted and issued under the Allotment	No. of shares held immediately after the Allotment	Percentage of shareholding immediately after the Allotment	Subscription Price
Propitious Peak	Nil	7,178	7,178	71.78%	US$7,178
Immense Ocean	Nil	1,455	1,455	14.55%	US$1,455
Amber Heyday	Nil	970	970	9.70%	US$970
Harvest Day	100	200	300	3.00%	US$200
Triumphal Diligent	Nil	97	97	0.97%	US$97
Total	100	9,900	10,000	100%	US$9,900

Subsequent to the Allotment, the Target Company was owned as to 71.78% by Propitious Peak, as to 14.55% by Immense Ocean, as to 9.70% by Amber Heyday, as to 0.97% by Triumphal Diligent and as to 3.00% by Harvest Day.

HK Company

HK Company was incorporated in Hong Kong on 7 December 2018 with limited liability and is wholly owned by the Target Company. The issued share capital of HK Company is 100 shares of HK$1.00 each.

Change in registered capital and/or equity holders of the PRC operating subsidiaries of the Target Group during the Track Record Period and up to the Latest Practicable Date

The PRC operating subsidiaries of the Target Group underwent the following changes in their equity capital and/or equity-holders during the Track Record Period and up to the Latest Practicable Date:

1. WFOE

WFOE was established in the PRC on 6 November 2018 with a registered capital of RMB10 million which was owned by the equity-holder(s) as shown below:

Name of equity-holders	Contribution to registered capital *(RMB million)*	Percentage of registered capital held *(%)*
Mr. Zhao	7.4	74
Ms. Xu	1.5	15
Mr. Liu	1	10
Mr. Wang	0.1	1
Total:	10	100

By an agreement dated 17 December 2018, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang agreed to transfer 3% (on a pro-rata basis of their respective shareholdings in WFOE) of the registered capital in WFOE to HK Company at a consideration of RMB0.3 million. The consideration was determined with reference to the valuation report issued by an independent valuation firm, and the relevant filings with AIC of Changchun City (長春市工商行政管理局) and Changchun Commerce Bureau (長春市商務局) were completed on 24 December 2018 and 28 December 2018 respectively.

By an agreement dated 18 February 2019, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang agreed to transfer 97% (on a pro-rata basis of their respective shareholdings in WFOE) of the registered capital in WFOE in the proportion of 71.78%, 14.55%, 9.7% and 0.97%, respectively (being all the equity interest of WFOE then owned by Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang) to HK Company at a consideration of RMB9.7 million. The consideration was determined with reference to the valuation report issued by an independent valuation firm, and the relevant filings with AIC of Changchun City (長春市工商行政管理局) and Changchun Commerce Bureau (長春市商務局) were completed on 20 February 2019 and 1 March 2019 respectively. Subsequent to the transfer, WFOE was wholly owned by HK Company.

2. *Baishan United Strength*

Baishan United Strength was established in the PRC on 26 May 2010.

As at 1 January 2016 (i.e. the commencement of the Track Record Period), Baishan United Strength had a registered capital of RMB0.5 million which was wholly owned by Changchun Yitonghe.

By an agreement dated 20 November 2018, Changchun Yitonghe agreed to transfer 100% of the registered capital in Baishan United Strength (being all the equity interest of Baishan United Strength then owned by Changchun Yitonghe) to WFOE at a consideration of RMB0.5 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant registration with AIC of Baishan City (白山市工商行政管理局) was completed on 4 December 2018. Subsequent to the transfer, Baishan United Strength was wholly owned by WFOE.

3. *Dandong Kuandian*

Dandong Kuandian was established in the PRC on 17 August 1981.

As at 1 January 2016 (i.e. the commencement of the Track Record Period), Dandong Kuandian had a registered capital of RMB30 million which was owned by the equity-holder(s) as shown below:

Name of equity-holders	Contribution to registered capital *(RMB million)*	Percentage of registered capital held *(%)*
United Strength Investment	16.5	55
Mr. Sun Zhicheng	12	40
Mr. Liu	1.5	5
Total:	30	100

By an agreement dated 11 April 2017, Mr. Sun Zhicheng agreed to transfer 20% of the registered capital in Dandong Kuandian to Ms. Cui Yueshun at a consideration of RMB6 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant registration with Market Supervision and Management Bureau of Kuandian Manchu Autonomous County (丹東寬甸滿族自治縣市場監督管理局) was completed on 18 April 2017. Subsequent to the transfer, Dandong Kuandian was owned as to 55% by United Strength Investment, 20% by Mr. Sun Zhicheng, 20% by Ms. Cui Yueshun and 5% by Mr. Liu.

By an agreement dated 28 November 2018, United Strength Investment agreed to transfer 55% of the registered capital in Dandong Kuandian (being all the equity interest of Dandong Kuandian then owned by United Strength Investment) to WFOE at a consideration of RMB18.36 million. The consideration was determined with reference to the valuation report issued by an independent valuation firm, and the relevant filings with Market Supervision and Management Bureau of Kuandian Manchu Autonomous County (丹東寬甸滿族自治縣市場監督管理局) was completed on 3 December 2018.

By an agreement dated 3 June 2019, Ms. Cui Yueshun agreed to transfer 15% of the registered capital in Dandong Kuandian to Mr. Jin Chunlie (son of Ms. Cui Yueshun) at a consideration of RMB4.5 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with Market Supervision and Management Bureau of Kuandian Manchu Autonomous County (丹東寬甸滿族自治縣市場監督管理局) was completed on 20 June 2019. Subsequent to the transfer, Dandong Kuandian was owned as to 55% by WFOE, 20% by Mr. Sun Zhicheng, 15% by Mr. Jin Chunlie, 5% by Ms. Cui Yueshun and 5% by Mr. Liu.

As confirmed by the Target Group:

1. Mr. Sun Zhicheng and Ms. Cui Yueshun are spouse and Mr. Jin Chunlie is son of Ms. Cui Yueshun;

2. Each of Mr. Sun Zhicheng, Ms. Cui Yueshun and Mr. Liu possesses necessary experience in the petroleum refuelling business and the local connections for smooth operation of the petroleum refuelling business in the area; and

3. Each of Mr. Sun Zhicheng, Ms. Cui Yueshun, Mr. Jin Chunlie and Mr. Liu indicate that they would keep the equity interests in Dandong Kuandian as personal long term investment, and that they would not dispose of the equity interest to third parties including the Target Group.

4. *Dandong United Strength*

Dandong United Strength was incorporated in the PRC on 8 June 2010.

As at 1 January 2016 (i.e. the commencement of the Track Record Period), Dandong United Strength had a registered capital of RMB15 million which was owned by the equity-holder(s) as shown below:

Name of equity-holders	**Contribution to registered capital** *(RMB million)*	**Percentage of registered capital held** *(%)*
United Strength Investment	8.25	55
Mr. Sun Zhicheng	6	40
Mr. Liu	0.75	5
Total:	15	100

By an agreement dated 25 April 2017, Mr. Sun Zhicheng agreed to transfer 20% of the registered capital in Dandong United Strength to Ms. Cui Yueshun at a consideration of RMB3 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with AIC of Dandong City (丹東市工商行政管理局) was completed on 24 May 2017. Subsequent to the transfer, Dandong United Strength was owned as to 55% by United Strength Investment, 20% by Mr. Sun Zhicheng, 20% by Ms. Cui Yueshun and 5% by Mr. Liu.

By an agreement dated 28 November 2018, United Strength Investment agreed to transfer 55% of the registered capital in Dandong United Strength (being all the equity interest of Dandong United Strength then owned by United Strength Investment) to WFOE at a consideration of RMB8.25 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with Market Supervision and Management Bureau of Dandong City Yuanbao District (丹東市元寶區市場監督管理局) was completed on 5 December 2018.

By an agreement dated 3 June 2019, Ms. Cui Yueshun agreed to transfer 15% of the registered capital in Dandong United Strength to Mr. Jin Chunlie (son of Ms. Cui Yueshun) at a consideration of RMB2.25 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with the Market Supervision and Management Bureau of Dandong City Yuanbao District (丹東市元寶區市場監督管理局) was completed on 27 June 2019. Subsequent to the transfer, Dandong United Strength was owned as to 55% by WFOE, 20% by Mr. Sun Zhicheng, 15% by Mr. Jin Chunlie, 5% by Ms. Cui

Yueshun and 5% by Mr. Liu. For the reasons of the transfer, please refer to paragraph headed "3. Dandong Kuandian" above.

5. *Jilin Haotuo*

Jilin Haotuo was incorporated in the PRC on 1 December 2010.

As at 1 January 2016 (i.e. the commencement of the Track Record Period), Jilin Haotuo had a registered capital of RMB5 million which was wholly owned by Changchun Yitonghe.

By an agreement dated 20 November 2018, Changchun Yitonghe agreed to transfer 100% of the registered capital in Jilin Haotuo to WFOE at a consideration of RMB5 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with AIC of Jilin Province (吉林省工商行政管理局) was completed on 3 December 2018. Subsequent to the transfer, Jilin Haotuo was wholly owned by WFOE.

6. *Liaoning Oilfield*

Liaoning Oilfield was incorporated in the PRC on 8 December 1998.

As at 1 January 2016 (i.e. the commencement of the Track Record Period), Liaoning Oilfield had a registered capital of RMB30 million which was owned by the equity-holder(s) as shown below:

Name of equity-holders	Contribution to registered capital *(RMB million)*	Percentage of registered capital held *(%)*
United Strength Investment	16.5	55
Mr. Sun Zhicheng	7.5	25
Ms. Cui Yueshun	4.5	15
Mr. Liu	1.5	5
Total:	30	100

By an agreement dated 22 March 2017, Mr. Sun Zhicheng agreed to transfer 5% of the registered capital in Liaoning Oilfield to Ms. Cui Yueshun at a consideration of RMB1.5 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with the Market Supervision and Management Bureau of Dandong City Shenbei New District (丹東市瀋北新區市場監督管理局) was completed on 30 March 2017. Subsequent to the transfer, Liaoning Oilfield was owned as to 55% by United Strength Investment, 20% by Mr. Sun Zhicheng, 20% by Ms. Cui Yueshun and 5% by Mr. Liu.

By an agreement dated 23 November 2018, United Strength Investment agreed to transfer 55% of the registered capital in Liaoning Oilfield (being all the equity interest of Liaoning Oilfield then owned by United Strength Investment) to WFOE at a consideration of RMB21.06 million. The consideration was determined with reference to the valuation report issued by an independent valuation firm, and the relevant filings with the Market Supervision and Management Bureau of Dandong City Shenbei New District (丹東市瀋北新區市場監督管理局) was completed on 29 November 2018.

By an agreement dated 12 April 2019, Ms. Cui Yueshun agreed to transfer 20% of the registered capital in Liaoning Oilfield to Mr. Jin Chunlie (son of Ms. Cui Yueshun) at a consideration of RMB6 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with the Market Supervision and Management Bureau of Dandong City Shenbei New District (丹東市瀋北新區市場監督管理局) was completed on 16 May 2019. Subsequent to the transfer, Liaoning Oilfield was owned as to 55% by WFOE, 20% by Mr. Sun Zhicheng, 20% by Mr. Jin Chunlie and 5% by Mr. Liu.

As confirmed by the Target Group:

1. Mr. Sun Zhicheng and Ms. Cui Yueshun are spouse and Mr. Jin Chunlie is son of Ms. Cui Yueshun;

2. Each of Mr. Sun Zhicheng and Mr. Liu possesses necessary experience in the petroleum refuelling business and the local connections for smooth operation of the petroleum refuelling business in the area; and

3. Each of Mr. Sun Zhicheng, Mr. Jin Chunlie and Mr. Liu indicate that they would keep the equity interests in Liaoning Oilfield as personal long term investment, and that they would not dispose of the equity interest to third parties including the Target Group.

7. *Shenyang Xinxin*

Shenyang Xinxin was incorporated in the PRC on 12 June 2014.

Since its incorporation and up to the Latest Practicable Date, Shenyang Xinxin had a registered capital of RMB2 million which was wholly owned by Liaoning Oilfield.

8. *Wuchang United Strength*

Wuchang United Strength was incorporated in the PRC on 28 July 2011.

As at 1 January 2016 (i.e. the commencement of the Track Record Period), Wuchang United Strength had a registered capital of RMB0.5 million which was wholly owned by Changchun Yitonghe.

By an agreement dated 20 November 2018, Changchun Yitonghe agreed to transfer 100% of the registered capital in Wuchang United Strength to WFOE at a consideration of RMB0.57 million. The consideration was determined with reference to the valuation report issued by an independent valuation firm, and the relevant filings with Market Supervision and Management Bureau of Wuchang City (五常市市場監督管理局) was completed on 14 December 2018. Subsequent to the transfer, Wuchang United Strength was wholly owned by WFOE.

9. *Shenyang United Strength*

Shenyang United Strength was incorporated in the PRC on 19 July 2004.

As at 1 January 2016 (i.e. the commencement of the Track Record Period), Shenyang United Strength had a registered capital of RMB10.3 million which was owned by the equity-holder(s) as shown below:

Name of equity-holders	**Contribution to registered capital** *(RMB million)*	**Percentage of registered capital held** *(%)*
Liaoning Oilfield	5.3	51.45
United Strength Investment	2.75	26.70
Mr. Sun Zhicheng	2	19.42
Mr. Liu	0.25	2.43
Total:	10.3	100

By an agreement dated 22 March 2017, Mr. Sun Zhicheng agreed to transfer 9.61% of the registered capital in Shenyang United Strength to Ms. Cui Yueshun at a consideration of RMB990,000. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with Market Supervision and Management Bureau of Shenyang City Shenbei New District (瀋陽市瀋北新區市場監督管理局) was completed on 1 April 2017. Subsequent to the transfer, Shenyang United Strength was owned as to 51.45% by Liaoning Oilfield, 26.70% by United Strength Investment, 9.81% by Mr. Sun Zhicheng, 9.61% by Ms. Cui Yueshun and 2.43% by Mr. Liu.

By an agreement dated 14 January 2019, United Strength Investment agreed to transfer 26.70% of the registered capital in Shenyang United Strength to WFOE at a consideration of RMB3.14 million. The consideration was determined with reference to the valuation report issued by an independent valuation firm, and the relevant filings with Market Supervision and Management Bureau of Shenyang City Shenbei New District (瀋陽市瀋北新區市場監督管理局) was completed on 22 January 2019. Subsequent to the transfer, Shenyang United Strength was owned as to 51.45% by Liaoning Oilfield, 26.70% by WFOE, 9.81% by Mr. Sun Zhicheng, 9.61% by Ms. Cui Yueshun and 2.43% by Mr. Liu.

By an agreement dated 12 April 2019, Ms. Cui Yueshun agreed to transfer 9.61% of the registered capital in Shenyang United Strength to Mr. Jin Chunlie (son of Ms. Cui Yueshun) at a consideration of RMB990,000. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with the Market Supervision and Management of Shenyang City Shenbei New District (瀋陽市瀋北新區市場監督管理局) was completed on 16 May 2019. Subsequent to the transfer, Shenyang United Strength was owned as to 51.45% by Liaoning Oilfield, 26.70% by WFOE, 9.81% by Mr. Sun Zhicheng, 9.61% by Mr. Jin Chunlie and 2.43% by Mr. Liu. For the reasons of the transfer, please refer to paragraph headed "6. Liaoning Oilfield" above.

PRE-RTO INVESTMENT

Background of our pre-RTO investor

Harvest Day

Harvest Day is a company incorporated in the BVI with limited liability. Its sole shareholder is Mr. Zhang Guoguang ("**Mr. Zhang**"). Mr. Zhang has been acquainted with Mr. Zhao for over 4 years through social occasions when Mr. Zhao contemplated for the proposed listing of the Company in around late 2015 and early 2016 and the firm which Mr. Zhang worked at, namely, Commerce and Finance Law Offices, has then acted for the Company's PRC legal advisors for the Listing between 2016 and 2017, and certain transactions of the Company following the Listing, including the acquisition of Jieli Logistics by the Company in early 2018, in which Mr. Zhang had been taking part in the advisory engagement at the time. Incorporated on 7 November 2018, Harvest Day is principally engaged in investment holding. Mr. Zhang is an experienced qualified PRC lawyer in corporate finance practice and has over 10 years of experience in private equity investment.

Other than the Pre-RTO Investment, to the best knowledge and belief of our Directors, Harvest Day and its ultimate beneficial owner, Mr. Zhang, are Independent Third Parties. Our Directors believe that Harvest Day decided to invest in the Target Business as it was optimistic about the business prospects of the Target Business. The investment of Harvest Day was financed by Mr. Zhang's personal resources.

The allotment of shares in the Target Company

On 20 November 2018, Harvest Day applied for, and the Target Company allotted and issued to Harvest Day 100 shares in the Target Company credited as fully paid at par (the "**First Allotment**"). On 1 February 2019, the Target Company allotted and issued 7,178 shares, 1,455 shares, 970 shares, 97 shares and 200 shares, representing 71.78%, 14.55%, 9.7%, 0.97% and 2.0% of the issued share capital of the Target Company, to Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day, respectively (the "**Second Allotment**"). The Second Allotment was completed on 1 February 2019. As a result of the First Allotment and the Second Allotment, Harvest Day is a shareholder of the Target Company, holding 3% of the issued share capital of the Target Company.

Acquisition of 3% of the equity interest of WFOE by HK Company

On 17 December 2018, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (as vendor) and HK Company (as purchaser) entered into an equity transfer agreement, pursuant to which Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (on a pro-rata basis of their respective shareholdings in WFOE) transferred 3% of the equity interest of WFOE to HK Company at a consideration of RMB0.3 million. At the relevant time, HK Company was solely owned by the Target Company and the Target Company was solely owned by Harvest Day. Subsequent to the transfer, WFOE became a Chinese-foreign joint venture and was owned by Mr. Zhao, Ms. Xu, Mr. Liu, Mr. Wang and HK Company as to 71.78%, 14.55%, 9.7%, 0.97% and 3%, respectively.

FURTHER DETAILS OF THE PRE-RTO INVESTMENT

Date of investment:	17 December 2018
Consideration:	RMB0.3 million, which was financed by Mr. Zhang's personal resources, and not financed directly or indirectly by the Company and its subsidiaries, their directors, senior management, the Controlling Shareholders or their respective associates.
Basis of consideration:	With reference to the valuation report issued by an independent valuation firm namely, Jilin Huaxin Asset Evaluation Company Limited 吉林華信資產評估有限公司. According to the "Asset Evaluation Report for the Proposed Verification of the Overall Asset Value Project of WFOE" (Jihua Xinping Baozi [2018] No. 0048) (《長春眾誠能源有限公司擬核實整體資產價值項目資產評估報告》(吉華信評報字[2018]0048號)) issued by the valuer, the valuation of RMB9.9995 million was determined with reference to the evaluated value of WFOE's net assets as of 30 November 2018 (being the valuation base date).
Date of payment:	30 January 2019
Cost per share paid by pre-RTO investor:	RMB0.1

Discount to Consideration (as compared to the issue price of Consideration Shares):	98%. The then shareholders of WFOE were willing to transfer part of their shares at substantial discount to Mr. Zhang because of the following: 1. The strategic benefits that Mr. Zhang would bring to the Target Business, including (a) possible business development opportunities and connections to the Target Group in light of Mr. Zhang's connections and social status as a partner of Commerce and Finance Law Offices; (b) his extensive project experience and connections in the fields of energy resource, gas and petroleum and other energy field; and (c) his experience and network in the Hong Kong capital market. Based on the foregoing, the Directors are of the view that Mr. Zhang, being an experienced investor and PRC legal advisor in the Hong Kong capital market with vast network and resources, would give invaluable strategic advice and guidance to the Company in growing business through mergers and acquisitions or investments as his interest becomes allied with the interest of the Company and shareholders as a whole;

2. Mr. Zhang has acquainted with all the then shareholders of WFOE (namely, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang) for being the legal advisor to the Company for its preparation of the Listing and for providing legal advice to (i) the then Shareholders of WFOE regarding updates in the PRC laws and regulations concerning the Company's principal business; and (ii) the Company regarding certain proposed corporate actions and/or potential acquisitions from the PRC legal perspective and is a close acquaintance of Mr. Zhao. Mr. Zhang, with his personal connection, introduced 2 to 3 potential investment opportunities in 2017 for the consideration of Yitonghe Group and its shareholders. Amongst these opportunities, one involved a potential investment regarding the assets of a Canadian corporation, whose securities were listed on the Toronto Stock Exchange Venture, with assets including oilfield reserve and oil production capacity but at the same time faced liquidity issues. In October 2018, a subsidiary of Changchun Yitonghe entered into an asset purchase agreement, pursuant to which such subsidiary agreed to acquire certain assets from the relevant seller including oilfield with annual crude oil production capacity of approximately 1,400 barrels of crude oil (equivalent to approximately 70,000 tonnes) at the consideration of approximately CAD18 million, subject to adjustment(s) in accordance with the terms of the asset purchase agreement.

   Further, in view of the need to settle the consideration with relevant seller in good time, Mr. Zhang made an advance to Mr. Zhao in amount of CAD5 million to facilitate the acquisition. This also helped Yitonghe Group conclude the deal more efficiently. The transaction was completed in late 2018.

Mr. Zhang also occasionally connected his personal network established through his practice as a veteran PRC legal advisor in the Hong Kong capital market to Mr. Zhao. For instance, Mr. Zhao met with experts from different fields including bankers, lawyers, managers of investment funds, accountants and potential strategic investors and learnt about the operation of the Hong Kong capital market system.

Special rights granted to the pre-RTO investor:	Nil
Strategic benefits that Harvest Day would bring:	The Target Company Directors believe that the investment made by Mr. Zhang through Harvest Day, as shareholder of the Target Company, will bring strategic benefits to the Target Group by providing possible business development opportunities and connections to the Target Group in light of Mr. Zhang's connections and social status as a partner in a renowned PRC law firm, namely, Commerce and Finance Law Offices. Mr. Zhang joined Commerce and Finance Law Offices since 2002 and promoted as partner of the firm in 2010 has engaged in corporate restructuring and corporate investment and financing business including domestic and overseas issuance for approximately 20 years. Mr. Zhang has extensive project experience and connections in the fields of energy resources, gas and petroleum and other energy fields. He has participated in the listing exercise of over 50 companies, including energy related projects such as China Gold International Resources Corp. Ltd. (02099.HK), a company listed on the Main Board of the Stock Exchange, CITIC Dameng Holdings Limited (01091.HK), a company listed on the Main Board of the Stock Exchange, CF Energy Corp. (previously known as Changfeng Energy Inc.) (TSXV: CFY), a company listed on the Toronto Stock Exchange, Sino Gas Holdings Group Limited (01759.HK), a company listed on the Main Board of the Stock Exchange, and our Company.

	Given his vast experience in corporate investment, Mr. Zhang's personal investment also covers different areas including information technology, investment consultancy, health technology, media, education and catering, etc, in the PRC. Mr. Zhang considered that the pre-RTO investment, which amounted to RMB0.3 million, only constitutes an immaterial percentage of his total investment or net worth and it is his first time investing in companies conducting businesses similar or related to those of the Enlarged Group. In deciding to invest in the Target Group, Mr. Zhang took into account of (i) his knowledge on the operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business obtained in the course of the then reorganisation of the Company for the purpose of the Listing in 2017; and (ii) certain financial information provided by the Target Group in connection with the Petroleum Refuelling Business and the Petroleum Wholesale Business based on the then unaudited financial information prepared by Changchun Yitonghe and United Strength Investment. Based on the above strategic benefits that Mr. Zhang through Harvest Day that would bring to the Target Group, the Target Group Directors are of the view that the inclusion of Mr. Zhang as a strategic investor would further commit Mr. Zhang to contributing to the Enlarged Group's development. It is believed that with Mr. Zhang's experience, personal connection and resources, and when his interests align with the interest of the Enlarged Group and shareholders (through becoming a shareholder), Mr. Zhang provides the possibility to lining up potential business opportunities that have synergy with the business of the Enlarged Group.
Shareholding in the Target Company upon the First Allotment and Second Allotment:	300 shares (representing 3.0% of the total issued share capital of the Target Company)

Shareholding in our Company upon completion of the Reorganisation, Acquisition Completion and Placing Completion on a fully diluted basis:	3,000,000 Shares (representing 0.80% of the total issued share capital of the Company)
Relationship between (a) Mr. Zhang and (b) the Group, its directors, shareholders and senior management or any of their respective associates, and the Group's customers and suppliers:	Save for the shareholding in the Target Company, Harvest Day and its sole ultimate beneficial owner, Mr. Zhang, are both Independent Third Parties. Save for that (i) Commerce and Finance Law Offices has then acted for the Company's PRC legal advisors for the Listing between 2016 and 2017, and certain transactions of the Company following the Listing, including the acquisition of Jieli Logistics by the Company in early 2018, in which Mr. Zhang had been taking part in the advisory engagements at the time and that Commerce and Finance Law Offices may have been engaged by the Target Group's customers and suppliers for the provision of legal services; (ii) an advance by Mr. Zhang to Mr. Zhao in an amount of CAD5 million with CAD80,000 interest for Mr. Zhao's investment in Canada's oilfield which was fully settled by Mr. Zhao in April 2019; and (iii) Mr. Zhang's investments in the Target Group's customers and suppliers which are listed companies through stock exchange(s), there is no past or present relationship (including, but not limited to, family, employment, trust, business or financing relationship), other transaction (including, without limitation, financing or fund flow), agreement, arrangement or understanding between (a) Mr. Zhang and (b) the Target Group, its directors, shareholders and senior management or any of their respective associates, and the Target Group's customers and suppliers.
Use of proceeds:	N/A
Lock-up period:	N/A

Public float:	The shares to be held by Harvest Day upon the Acquisition Completion and Placing Completion will be considered as part of the public float for the purpose of Rules 8.08 and 8.24 of the Listing Rules.

The consideration and the Pre-RTO Investment

The Pre-RTO investment involves the investment of Mr. Zhang (through Harvest Day) in the Target Company and that:

– Mr. Zhang acquired 3% of WFOE, as the Pre-RTO investment, from Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (on a pro-rata basis of their respective original shareholdings in WFOE);

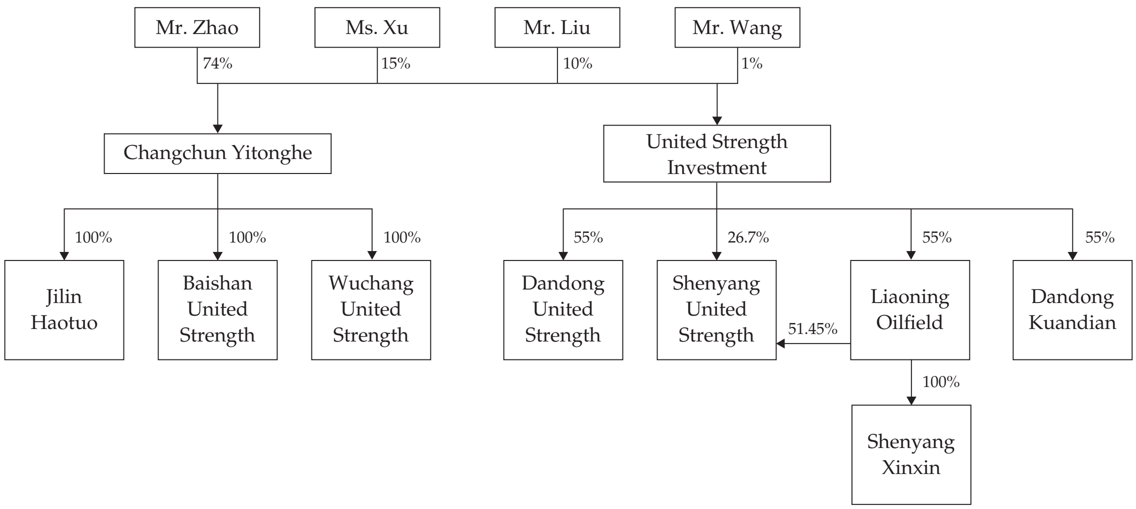
– upon the completion of Pre-RTO investment, Target Company and WFOE were privately owned by Mr. Zhang, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang, each through its BVI investment company; and

– the Target Company and the Target Group have not formed a part of the Group or its assets, unless and until the Acquisition Completion.

The Joint Sponsors have confirmed that the Pre-RTO investment is in compliance with the Interim Guidance on Pre-IPO Investment issued in January 2012 and updated in March 2017 by the Stock Exchange and the Guidance Letter HKEx-GL43-12 issued in October 2012 and updated in July 2013 and March 2017 by the Stock Exchange, where (i) the consideration of the Pre-RTO investment had been fixed and (ii) the fund for the Pre-RTO investment had been irrevocably settled and received by the then shareholders of WFOE.

REORGANISATION

The corporate structure of the Target Group and its subsidiaries immediately prior to our Reorganisation is as follows:



The Target Group underwent the reorganisation prior to the Acquisition, which involved the following steps:

1. Acquisition / Incorporation of Intermediary BVI Companies Group

Propitious Peak was incorporated in the BVI on 1 August 2018 with limited liabilities and the entire issued share capital of which is owned by Golden Truth, a company wholly owned by Mr. Zhao. The number of authorised shares of Propitious Peak is 50,000 shares of US$1.00 each and the issued share capital of Propitious Peak is 100 shares of US$1.00 each.

Immense Ocean was incorporated in the BVI on 26 June 2018 with limited liabilities and entire issued share capital of which is owned by Dynamic Fame, a company wholly owned by Ms. Xu. The number of authorised shares of Immense Ocean is 50,000 shares of US$1.00 each and the issued share capital of Immense Ocean is 100 shares of US$1.00 each.

Amber Heyday was incorporated in the BVI on 18 April 2018 with limited liabilities and the entire issued share capital of which is owned by Heroic Year, a company wholly owned by Mr. Liu. The number of authorised shares of Amber Heyday is 50,000 shares of US$1.00 each and the issued share capital of Amber Heyday is 100 shares of US$1.00 each.

Triumphal Diligent was incorporated in the BVI on 10 July 2018 with limited liabilities and the entire issued share capital of which is owned by Noble Praise, a company wholly owned by Mr. Wang. The number of authorised shares of Triumphal Diligent is 50,000 shares of US$1.00 each and the issued share capital of Triumphal Diligent is 100 shares of US$1.00 each.

Harvest Day was incorporated in the BVI on 7 November 2018 with limited liabilities and the entire issued share capital of which is owned by Mr. Zhang Guoguang. The number of authorised shares of Harvest Day is 50,000 shares of US$1.00 each and the issued share capital of Harvest Day is 100 shares of US$1.00 each. For further details, please refer to paragraph "Pre-RTO Investment" above.

2. Establishment of WFOE and Acquisition of Subsidiaries of WFOE Group

WFOE was established in the PRC on 6 November 2018 with a registered capital of RMB10 million which was owned as to 74% by Mr. Zhao, 15% by Ms. Xu, 10% by Mr. Liu and 1% by Mr. Wang.

Following the establishment of WFOE, the WFOE Group has undergone the following acquisition for the purpose of reorganisation:

A. Baishan United Strength: By an agreement dated 20 November 2018, Changchun Yitonghe agreed to transfer 100% of the registered capital in Baishan United Strength (being all the equity interest of Baishan United Strength then owned by Changchun Yitonghe) to WFOE at a consideration of RMB0.5 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with AIC of Baishan City (白山市工商行政管理局) was completed on 4 December 2018.

B. Dandong Kuandian: By an agreement dated 28 November 2018, United Strength Investment agreed to transfer 55% of the registered capital in Dandong Kuandian (being all the equity interest of Dandong Kuandian then owned by United Strength Investment) to WFOE at a consideration of RMB18.36 million. The consideration was determined having regard to the valuation report issued by an independent valuation firm, and the relevant filings with Market Supervision and Management Bureau of Kuandian Manchu Autonomous County (丹東寬甸滿族自治縣市場監督管理局) was completed on 3 December 2018.

C. Dandong United Strength: By an agreement dated 28 November 2018, United Strength Investment agreed to transfer 55% of the registered capital in Dandong United Strength (being all the equity interest of Dandong United Strength then owned by United Strength Investment) to WFOE at a consideration of RMB8.25 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with Market Supervision and Management Bureau of Dandong City Yuanbao District (丹東市元寶區市場監督管理局) was completed on 5 December 2018.

D. Jilin Haotuo: By an agreement dated 20 November 2018, Changchun Yitonghe agreed to transfer 100% of the registered capital in Jilin Haotuo to WFOE at a consideration of RMB5 million. The consideration was determined having regard to the face value of the registered capital agreed to be transferred, and the relevant filings with AIC of Jilin Province (吉林省工商行政管理局) was completed on 3 December 2018.

E. Liaoning Oilfield: By an agreement dated 23 November 2018, United Strength Investment agreed to transfer 55% of the registered capital in Liaoning Oilfield (being all the equity interest of Liaoning Oilfield then owned by United Strength Investment) to WFOE at a consideration of RMB21.06 million. The consideration was determined having regard to the valuation report issued by an independent valuation firm, and the relevant filings with Market Supervision Management Bureau of Dandong City Shenbei New District (丹東市瀋北新區市場監督管理局) was completed on 29 November 2018.

F. Wuchang United Strength: By an agreement dated 20 November 2018, Changchun Yitonghe agreed to 100% of the registered capital in Wuchang United Strength to WFOE at a consideration of RMB0.57 million. The consideration was determined having regard to the valuation report issued by an independent valuation firm, and the relevant filings with Market Supervision and Management Bureau of Wuchang City (五常市市場監督管理局) was completed on 14 December 2018.

G. Shenyang United Strength: By an agreement dated 14 January 2019, United Strength Investment agreed to transfer 26.70% of the registered capital in Shenyang United Strength to WFOE at a consideration of RMB3.14 million. The consideration was determined having regard to the valuation report issued by an independent valuation firm, and the relevant filings with Market Supervision and Management Bureau of Shenyang City Shenbei New District (瀋陽市瀋北新區市場監督管理局) was completed on 22 January 2019.

For the transfer of equity interests of each of Dandong Kuandian, Dandong United Strength, Liaoning Oilfield and Shenyang United Strength by third party shareholder(s) subsequent to the reorganisation, please refer to the paragraph headed "CHANGE IN REGISTERED OR ISSUED CAPITAL AND/OR EQUITY HOLDERS OF MEMBERS OF TARGET GROUP — Change in registered capital and/or equity holders of the PRC operating subsidiaries of the Target Group during the Track Record Period and up to the Latest Practicable Date" in this section above.

3. Incorporation of the Target Company

The Target Company was incorporated in BVI on 8 November 2018 with limited liability. The number of authorised shares of the Target Company is 50,000 shares of US$1.00 each. On 20 November 2018, Harvest Day applied for, and the Target Company allotted and issued to Harvest Day 100 shares in the Target Company credited as fully paid.

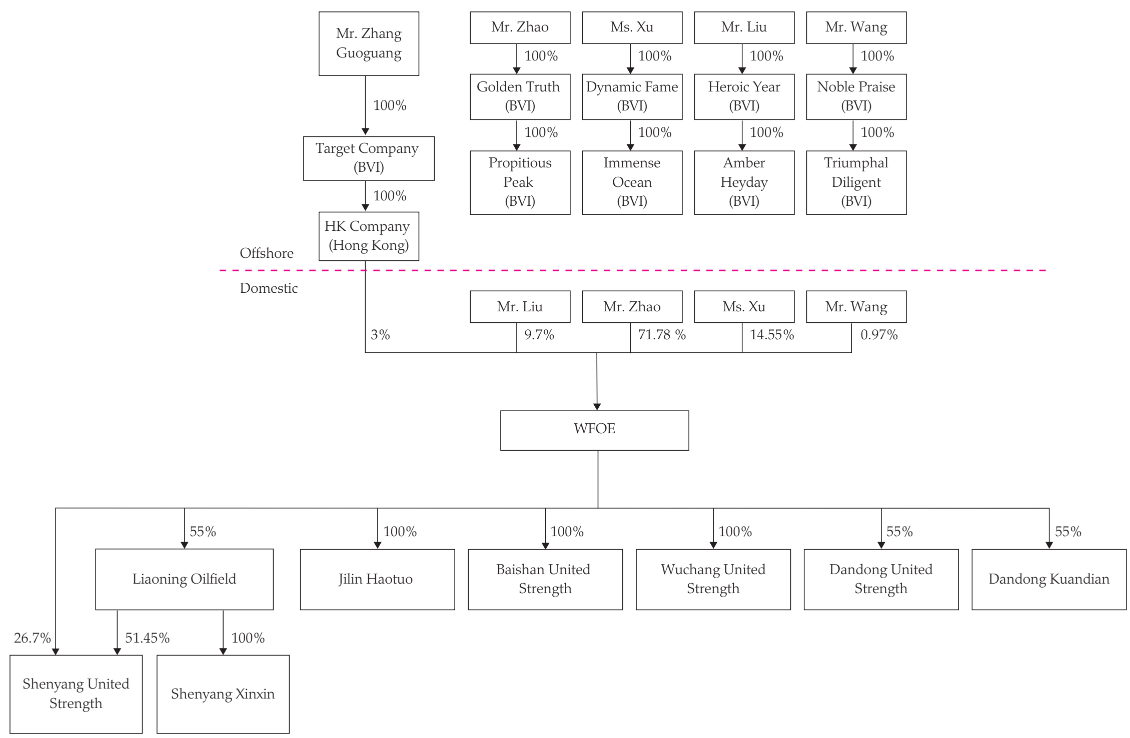
4. Incorporation of HK Company

HK Company was incorporated in Hong Kong on 7 December 2018 with limited liability and is wholly owned by the Target Company. The issued share capital of HK Company is 100 shares of HK$1.00 each.

5. Acquisition of 3% of the equity interest of WFOE by HK Company

On 17 December 2018, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (as vendor) and HK Company (as purchaser) entered into an equity transfer agreement, pursuant to which Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (on a pro-rata basis of their respective shareholdings in WFOE) transferred 3% of the equity interest of WFOE to HK Company at a consideration of RMB0.3 million, and the relevant filings with AIC of Changchun City (長春市工商行政管理局) and Changchun Commerce Bureau (長春市商務局) were completed on 24 December 2018 and 28 December 2018 respectively. Subsequent to the transfer, WFOE became a Chinese-foreign joint venture and was owned by Mr. Zhao, Ms. Xu, Mr. Liu, Mr. Wang and HK Company as to 71.78%, 14.55%, 9.7%, 0.97% and 3% respectively.

Subsequent to the transfer, the corporate structure of the Target Group and its subsidiaries is as follows:



6. Stage 6: Allotment and issue of the Target Company's shares to Vendors

On 1 February 2019, the Target Company, as issuer, allotted and issued such number of ordinary shares of the Company to each of Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day as set out in the below table (the "**Allotment**").

Shareholders	No. of shares held immediately prior to the Allotment	No. of shares to be allotted and issued under the Allotment	No. of shares held immediately after the Allotment	Percentage of shareholding immediately after the Allotment	Subscription Price
Propitious Peak	Nil	7,178	7,178	71.78%	US$7,178
Immense Ocean	Nil	1,455	1,455	14.55%	US$1,455
Amber Heyday	Nil	970	970	9.70%	US$970
Harvest Day	100	200	300	3.00%	US$200
Triumphal Diligent	Nil	97	97	0.97%	US$97
Total	100	9,900	10,000	100%	US$9,900

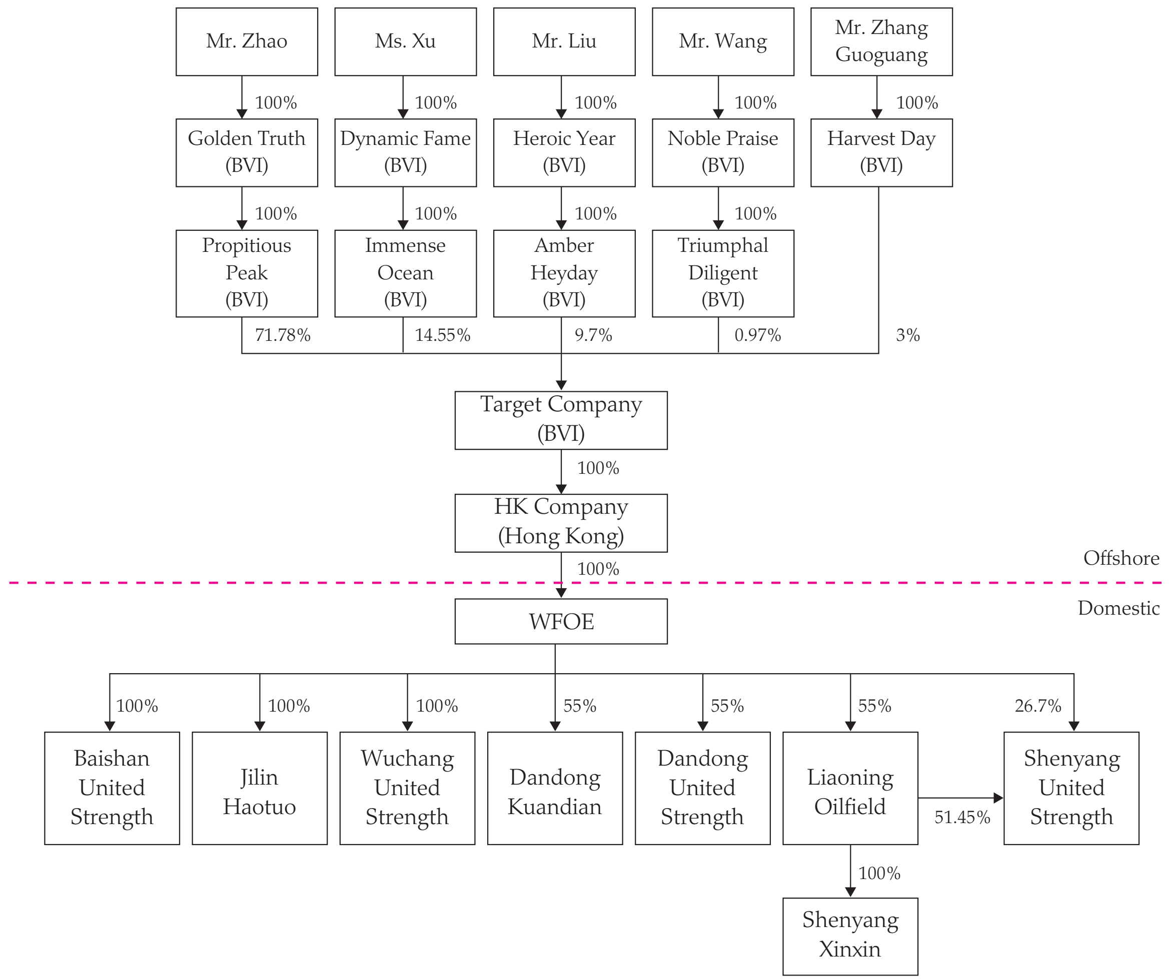
Subsequent to the Allotment, the Target Company was owned as to 71.78% by Propitious Peak, as to 14.55% by Immense Ocean, as to 9.70% by Amber Heyday, as to 0.97% by Triumphal Diligent and as to 3.00% by Harvest Day.

7. Acquisition of the remaining 97% of the equity interest of WFOE by HK Company

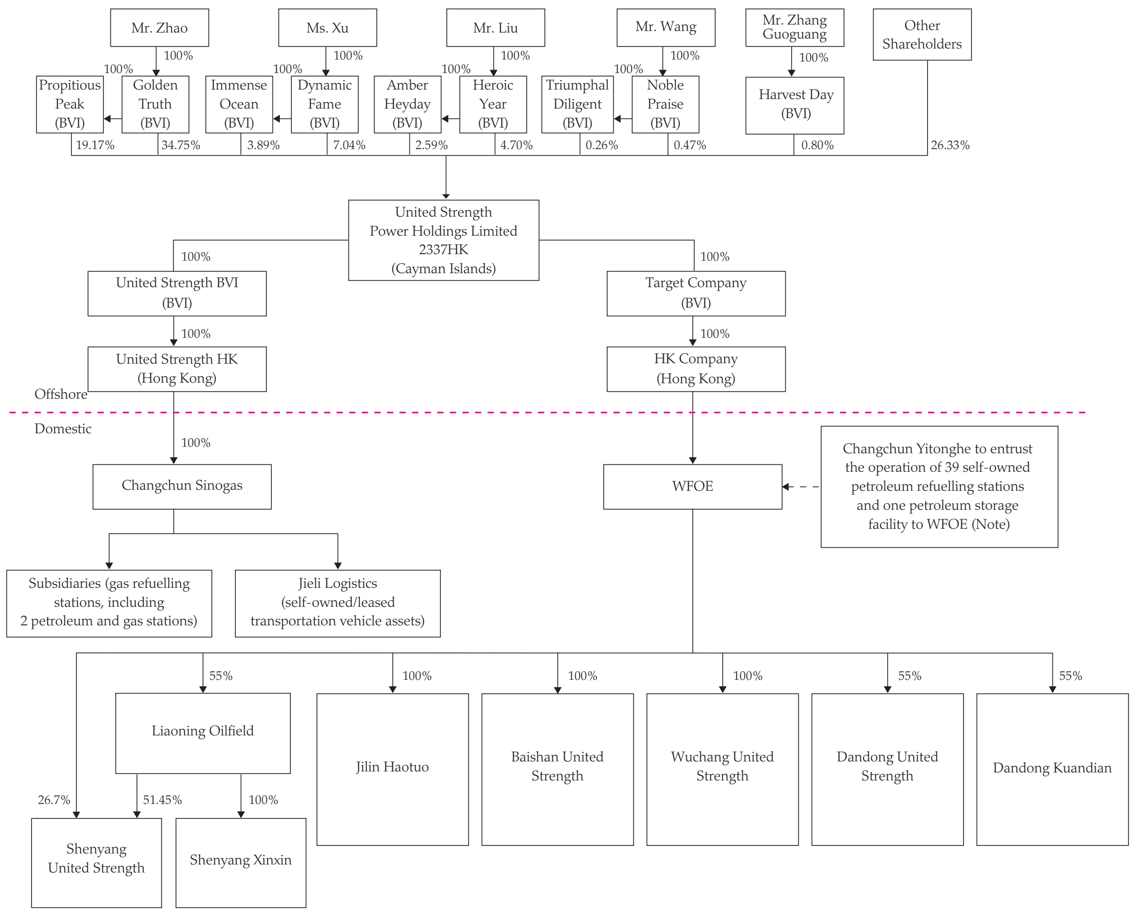
On 18 February 2019, Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (as vendor) and HK Company (as purchaser) entered into an equity transfer agreement, pursuant to which Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang (on a pro-rata basis of their respective shareholdings in WFOE) transferred 97% of the equity interest of WFOE in the proportion of 71.78%, 14.55%, 9.7% and 0.97%, respectively (being all the equity interest of WFOE then owned by Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang) to HK Company in consideration of RMB9.7 million. The relevant filings with Changchun AIC and Changchun Commerce Bureau were completed on 20 February 2019 and 1 March 2019 respectively. Subsequent to the transfer, WFOE became the WFOE and was wholly owned by HK Company.

After the reorganisation, the Target Company is owned as to approximately 71.78%, 14.55%, 9.70%, 0.97% and 3.00% by Propitious Peak, Immense Ocean, Amber Heyday, Triumphal Diligent and Harvest Day respectively.

The corporate structure of the Target Group as at the Latest Practicable Date is set forth below:



The structure of the Group immediately after Acquisition Completion as enlarged by the acquisition of the Target Group is set forth below (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion).



Note:

Entrusted Management Agreement

WFOE, as a condition precedent to the Acquisition Completion, entered into the Entrusted Management Agreement with Changchun Yitonghe, pursuant to which Changchun Yitonghe as the entrusting party shall entrust the WFOE Group as the operating party with (i) an exclusive right to operate and manage the Petroleum Refuelling Business and the Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility and (ii) authorised the WFOE Group to use all assets, property, land and equipment necessary for such operation and management. For details, please refer to the sections headed "Letter from the Board – Very Substantial Acquisition and Connected Transaction – Entrusted Management Agreement – Entrusted Management Agreement" and "Connected Transactions – A. Connected Transactions – 1. Entrusted Management Agreement" in this circular.

The PRC Legal Advisers advised that in all material aspects, all reorganisation steps were legal and valid, and all requisite approvals, permits and licenses required for each stage of Reorganisation within the PRC have been obtained and all the necessary filings and registration have been effected.

RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS (THE "M&A RULES")

As advised by the PRC Legal Advisers, the acquisition of the 3% equity interests in the WFOE by HK company, constituted a foreign investor's acquisition of domestic enterprise regulated by M&A Rules. As HK company is established and controlled by the Independent Third Party, Article 11 of the M&A Rules is not applicable to its acquisition of the 3% equity interests in WFOE and therefore is not subject to the examination and approval of the MOFCOM.

The acquisition of the 97% equity interests in the WFOE by HK Company is subject to the Rules on the Changes of Shareholding of Foreign-invested Enterprise Investor (外商投資企業投資者股權變更的若干規定) instead of the M&A Rules. However, both of the abovementioned two acquisitions are subject to the relevant record filing requirements stipulated in the Interim Measures for Record-filing Administration over the Establishment and Change of Foreign-invested Enterprises promulgated by the Ministry of Commerce on 30 July 2017.

FOREIGN EXCHANGE REGISTRATION UNDER SAFE CIRCULAR NO. 37 AND SAFE CIRCULAR NO. 13

Pursuant to the SAFE Circular No. 37 and the SAFE Circular No. 13, where domestic individual residents conduct investment in offshore special purpose vehicles with their legitimate onshore and offshore assets or equities, they must register with relevant banks with respect to their investments. For details, please see the section headed "Regulatory Overview – Regulations Relating to Foreign Exchange and Overseas Investment" in this circular.

As at the Latest Practicable Date, the following individuals, namely Mr. Zhao, Ms. Xu, Mr. Liu and Mr. Wang, have effected registration as required under the SAFE Circular No. 37 and SAFE Circular No.13.

OVERVIEW

The Target Group is a leading private petroleum station operator (i.e. gasoline and diesel) in Northeast China. According to the F&S Report, assuming the Acquisition Completion has taken place, the Target Group is the largest private petroleum refuelling station operator in Northeast China in terms of refined oil products sales volume in 2019, and the Target Group also took up approximately 1.1% of the total market share (including both private and state-owned petroleum refuelling station operators) in Northeast China in 2019. As at the Latest Practicable Date, (i) our Group operated 16 pure gas refuelling stations, gas parts of 9 mixed stations and 4 gas refuelling stations entrusted by independent third parties and (ii) the Target Business operated 58 petroleum refuelling stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and petroleum parts of 9 mixed stations in Northeast China. Set out below is the breakdown of the number of pure stations and mixed stations under operations by the Group and the Target Business.

	Number of stations					
The Group	Pure gas refuelling stations	Mixed stations (gas part) entrusted by the Target Group to the Group	Mixed stations (gas part) entrusted by Changchun Yitonghe to the Group	Mixed stations (gas part) under the Former Entrusted Petroleum Refuelling Stations	Gas refuelling stations entrusted by independent third parties to the Group	Total
Self-owned gas refuelling stations	15	–	–	2	–	17
Entrusted gas refuelling stations	1	3 *(Note)*	4	–	4	12
Total	16	3	4	2	4	29

	Number of stations				
	Pure petroleum refuelling stations	Mixed stations (petroleum part) held by the Target Group	Mixed stations (petroleum part) held by Changchun Yitonghe	Mixed stations (petroleum part) under the Former Entrusted Petroleum Refuelling Stations	Total
Target Business					
Self-owned Petroleum Refuelling Stations	25	3 *(Note 1)*	–	2	30
Entrusted Petroleum Refuelling Stations	33 *(Note 2)*	–	4	–	37
Total	58	3	4	2	67

Notes:

(1) Following the Acquisition Completion, the Enlarged Group would take over such mixed stations, and therefore, the existing entrustment arrangements are expected to be terminated.

(2) The 33 Entrusted Petroleum Refuelling Stations exclude the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself.

Following the Acquisition Completion, the Enlarged Group will comprise:

	Gas Refuelling Stations (LPG, CNG and LNG)	Petroleum Refuelling Stations	Mixed (gas and petroleum) Refuelling Stations
Self-owned Stations	15	25	5
Entrusted Stations	5	35	4
Total	20	60	9

Division

The Target Group operates in two principal business segments, namely (i) sale of refined oil products and (ii) transportation services. For the years ended 31 December 2016, 2017, 2018 and 2019, approximately 99.6%, 99.5%, 99.6% and 99.5% of its total revenue was derived from the sale of refined oil products, respectively; while approximately 0.4%, 0.5%, 0.4% and 0.5% of its total revenue was derived from transportation services, respectively.

In terms of sales volume, for the years ended 31 December 2016, 2017, 2018 and 2019, approximately 290 thousand tonnes, 330 thousand tonnes, 280 thousand tonnes and 292 thousand tonnes of gasoline and 430 thousand tonnes, 328 thousand tonnes, 297 thousand tonnes and 289 thousand tonnes of diesel were sold by the Target Business, respectively.

The sale of refined oil products segment is further divided into the (a) Petroleum Refuelling Business and (b) Petroleum Wholesale Business:

Petroleum Refuelling Business

The Target Group's Petroleum Refuelling Business is operated through its petroleum refuelling station network of a total of 67 petroleum refuelling stations comprising (i) 28 self-owned petroleum refuelling stations; (ii) 37 Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself); and (iii) two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition

Completion) covering certain prominent cities in Northeast China, mainly Changchun City of Jilin Province and Dandong City of Liaoning Province, of which 43 are located in Jilin Province, 23 are located in Liaoning Province and one is located in Heilongjiang Province. The Target Group operates all these petroleum refuelling stations under the trademark “ ” and the trade name “眾誠連鎖”. The Target Group sourced refined oil from third party suppliers and a related party supplier primarily, and sells such refined oil products primarily to vehicle users through petroleum refuelling stations. The Target Group also possesses storage facilities and refined petroleum transportation vehicle fleet (details of which are set out in the paragraphs headed “Petroleum Wholesale Business” and “Petroleum Transportation Services” below) which enables a stable and timely supply of refined oil to its extensive network of petroleum refuelling stations. The refined oil products that they sell to retail customers are gasoline and diesel.

Petroleum Wholesale Business

To support the Petroleum Refuelling Business, the Target Group, after sourcing refined oil from suppliers (including independent third parties and a related party), stored the refined oil products, which include, amongst others, gasoline and diesel in the two petroleum storage facilities owned by the Target Group and one Entrusted Petroleum Storage Facility entrusted to the Target Group upon the Acquisition Completion. With such storage facilities with an aggregate volume of approximately 63,600 m^3 (equivalent to capacity of approximately 50,000 tonnes) that are located in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province, the PRC, the Target Group is able to provide wholesaling of refined oil products mainly to third party refuelling stations mostly in Northeast China. The Target Group also serves the logistics needs of its refined oil wholesale customers. Leveraging its strong capabilities in securing stable refined oil supply that is underpinned by their long-term and stable relationships with suppliers of refined oil and their storage capabilities, the Target Group is able to cater for the demand for large quantities of refined oil from its wholesale customers.

Petroleum Transportation Services

Alongside with the Petroleum Refuelling Business and the Petroleum Wholesale Business, the Target Group also owns a refined oil transportation vehicle fleet, which serves the logistic needs of its wholesale customers and its petroleum refuelling stations. As at the Latest Practicable Date, the Target Group owns 5 trucks, 18 tractor units and 18 trailers for delivering refined oil products.

During the Track Record Period, the Target Business recorded an increase in revenue from approximately RMB3,428.4 million in 2016 to RMB3,633.2 million in 2017 and further to RMB3,827.6 million in 2018. For the year ended 31 December 2019, the Target Business recorded a revenue of approximately RMB3,603.0 million. The Target Business also recorded a general increasing trend in its gross profit margin, which was approximately 6.4%, 8.0%, 8.0% and 8.9% for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The Target Business recorded a net profit of approximately RMB46.3 million, RMB71.1 million, RMB80.3 million and RMB102.4 million, respectively, for the same periods.

COMPETITIVE STRENGTHS

The Target Group believes the following competitive strengths have contributed, and will continue to contribute to their success and will continue to drive its future growth:

The Target Group is one of the leading private petroleum refuelling station operators in Northeast China.

The Target Group is one of the leading private petroleum refuelling station operators (i.e. gasoline and diesel) in Northeast China. According to the F&S Report, it is the largest private petroleum refuelling station operator in Northeast China in terms of refined oil products sales volume in 2019.

Since the launch of the first petroleum refuelling station in the 1990s, the petroleum refuelling station operations of the Target Group have experienced steady expansion and growth, and it has grown from a small local petroleum refuelling station operator in Changchun City into a regional petroleum refuelling station operator with sizable operational scale in Northeast China. The Target Group has, with over two decades of dedication to business expansion and growth, established a petroleum refuelling station network that covers prominent cities in Northeast China, mainly Changchun City of Jilin Province and Dandong City of Liaoning Province. As at the Latest Practicable Date, assuming Acquisition Completion took place, the Target Group operates "眾誠連鎖" branded petroleum refuelling station network comprising 67 petroleum refuelling stations, which included 28 self-owned petroleum refuelling stations, 37 Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion). During the Track Record Period, the business experienced steady growth, with its revenue increasing from approximately RMB3,428.4 million for the year ended 31 December 2016 to approximately RMB3,827.6 million for the year ended 31 December 2018, representing a CAGR of 5.7% from 2016 to 2018. The net profit for the year ended 31 December 2019 was approximately RMB102.4 million, representing a CAGR of 30.3% from 2016 to 2019.

The Target Group's leading position in the refined oil distribution market in Northeast China reinforces its competitiveness and serves as the foundation for its future growth. The PRC oil distribution market is highly competitive with both opportunities and challenges. The Target Group believes that its leading position and sizable operations have placed them in a better position to capture the growth opportunities in the refined oil distribution market in Northeast China and to take its business to the next stage of development. According to the F&S Report, vehicle possession in Northeast China has increased from approximately 11.2 million units in 2014 to 18.3 million units in 2019, representing a CAGR of 10.3% from 2014 to 2019. As the growth of number of petroleum refuelling stations lags behind against the growth of vehicle possession in Northeast China, it is believed that the Target Group, as a leading operator in the market, is able to capture the business opportunities, since the more sizable operators, for example, the Target Group, are more prepared and have better resources to capture the opportunities than smaller players. With its first petroleum refuelling station opened in Changchun City in Jilin Province, the Target Group believes its long operating history its and proven track record of sustaining market volatility are endorsements of its ability to achieve sustainable growth.

The “眾誠連鎖” brand under the Target Group has strong customer recognition which has been shared with the Group’s existing business.

The Target Group operates the petroleum refuelling stations under the trademark “ ” and the trade name “眾誠連鎖”. As the business continues to grow and benefit from the Target Group’s marketing efforts as well as the pre-existing customer recognition from the Group’s existing business under the same trademark and trade name, “眾誠連鎖” has built strong recognition among existing and potential customers in Northeast China, which has enabled the Target Group to continue to widen its customer base and expand the petroleum refuelling station network as well. As at the Latest Practicable Date, the Target Group has issued over 720,000 membership cards. Launched in December 2017, over 1,200,000 users have registered with the Target Group’s WeChat official account which provides one stop functions from balance checking, top up and payment. In addition, the Target Group has developed a service-oriented and customer-centric business philosophy, and adopt stringent product quality control and offer quality products and services to customers. The competitive prices and discounts offered to customers by the petroleum refuelling stations have also assisted in enhancing customers’ loyalty. As a result of the brand awareness, the “ ” trademark was named a Well-known Service Industry Mark in Changchun City (長春市十大服務業商標) by Well-known Trademark Assessment Committee of Jilin Province (吉林省著名商標評審委員會) in 2016.

According to the F&S Report, vehicle users tend to use the services of petroleum refuelling stations with strong brand image and reputation, as they are more confident in the quality of the products and services provided by these petroleum refuelling stations. As such, brand recognition by local customers, in particular vehicle users, is crucial for the success of the Target Group’s petroleum refuelling stations. The Target Group believes that the “眾誠連鎖” brand name which is already shared with the Group is influential in customers’ choice and allows a seamless transition after the Acquisition Completion given there will be no change in brand name or logo of the Target Group’s existing business. The Target Group also believes that the influence of the “眾誠連鎖” brand will be instrumental in the expansion of the petroleum refuelling station network into new markets.

The Petroleum Wholesale Business and the transportation services serve a solid foundation for the Petroleum Refuelling Business.

The Target Group sells refined oil products under two principal business divisions, namely the Petroleum Refuelling Business and the Petroleum Wholesale Business which serve a diverse and broad range of customers, from petroleum refuelling station operators to individual vehicle users. The business model enables the Target Group to reap synergy, effectively manage and control risks associated with the volatile oil market and maintain profitability. As the Petroleum Refuelling Business and the Petroleum Wholesale Business share the same inventories, the Target Group is able to better manage the inventory level so as to enhance cost efficiency.

The Target Group conducts centralised procurement of refined oil, and store refined oil sourced by them at the storage facilities located in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province, the PRC, for supply to its retail and wholesale operations. The Target Group also owns a transportation vehicle fleet, for necessary product delivery to transport refined oil from the storage facilities to its network of petroleum refuelling stations and its wholesale customers. The centralised procurement system and the infrastructural and logistics supports afforded by the storage facilities and transportation vehicle fleet allow the Target Group to source refined oil products with consistent quality, save procurement costs, optimise operation efficiency and reap synergy through its integrated supply chain.

Additionally, the Target Group has developed robust and reliable information technology systems. In particular, the Target Group uses an online sales IT system to archive and monitor its operational and financial data including sales and inventory levels, and transmit the data to its headquarters on a real-time basis. The information technology systems form an integral part of the Target Group's business model and support its future growth.

The Target Group developed an advanced and standardised management system that can guarantee quality control, workplace safety management and other aspects of its operations and facilitates its business expansion.

The Target Group already established an advanced and standardised management system, which are documented in a comprehensive set of internal rules and procedures and implemented in its refined oil procurement and storage, petroleum refuelling station operations, quality control, workplace safety management and other aspects of its operations. For example, its procurement staff are required to strictly follow the business process flow including supplier evaluation, contract execution, product inspections and delivery. The Target Group has formulated a set of rules and procedures for its refined oil storage and petroleum refuelling station operations, and has provided its employees with operating manuals setting out the procedures and policies for the operation and maintenance of the facilities and equipment of the storage facilities and petroleum refuelling stations. The Target Group has implemented stringent quality control measures, including incoming and outgoing quality assurance measures at the storage facilities where refined oil is stored. It has established a work safety team comprising 11 dedicated staff to take charge of different aspects of safety matters, including workplace safety and fire prevention. Since 2012, the Target Group also engaged a U.S. industrial safety consulting firm to provide regular safety management consultation to them which was then implemented in the Target Group's own system. With the investment of safety training, facility and software upgrades, it has led to significant improvement in the workplace safety management.

The advanced and standardised management system has allowed the Target Group to achieve business flow, improve its operational efficiency and control risks associated with its operations. Not only has it been able to guarantee quality control, workplace safety management and other aspects of its operations, but it has also enabled the Target Group to replicate its success in new markets with lower costs than those incurred by market participants who have not established a sound management system. As such, the advanced and standardised management system makes the Target Group business scalable and serves as a solid foundation for its future growth. It is therefore an important asset that facilitates the Target Group's business expansion.

The Target Group is led by an experienced and visionary management team.

The Target Group possesses a management team comprising dedicated industrial veterans, professionals and managerial personnel. Each of Mr. Ma Haidong, Mr. Song Shuzhe and Mr. Wang Chuang, being senior management members of the Target Group, has over 15 years of experience in the oil and gas industry. These senior management members, apart from having experience in the oil and gas industry chain, have also established the necessary connections with major suppliers and customers in the Northeast China over the course of operation, facilitating the smooth operations of the Target Group. For further details about the experiences of the senior management of the Target Group, please refer to the section headed "Directors and Senior Management" in this circular.

The management team's long-term services in the oil and gas industry helped them develop an in-depth understanding of the market dynamics, valuable market insights, strong project execution and risk management capabilities, enabling them to lead the business through industry cycles and market volatility. The Target Group believes that by leveraging their industrial knowledge and experience as well as their managerial skills and expertise, it will be able to consolidate its leading position in the private refined oil distribution market in Northeast China and formulate and execute growth plans.

BUSINESS STRATEGIES

The Target Group's business objective is to reinforce its leading position in the refined oil products distribution market in Northeast China. To accomplish this objective, we plan to:

Expand the petroleum refuelling station network mainly through acquisitions of private petroleum refuelling station operators, organic growth and/or exploring entrustment arrangements.

The Petroleum Refuelling Business through the operations of the petroleum refuelling stations is the Target Group's core businesses. According to the F&S Report, as China's vehicle possession continues to grow at a fast pace and China's road transportation infrastructures continue to improve, demand for petroleum refuelling stations will continue to trend upward. To capitalise on this trend, the Target Group intends to expand the petroleum refuelling station network so as to reinforce its leading position in the private refined oil distribution market in Northeast China.

The petroleum refuelling station network expansion shall focus on filling the vacancy in places that are not covered by the existing petroleum refuelling station network of the Target Group. The Target Group plans to focus the petroleum refuelling station network expansion in Northeast China. The Target Group plans to expand its presence in Liaoning and Heilongjiang provinces by leveraging its brand recognition and experience gained from their operations in Jilin Province, and further penetrate into the Jilin market.

The Target Group also intends to implement its expansion plans mainly through acquisitions of private petroleum refuelling station operators, in particular established private petroleum refuelling station operators in the Northeast China market. According to the F&S Report, there are over 500 private petroleum refuelling station operators in Northeast China. It is believed through such acquisitions, the Target Group will be able to rapidly expand the coverage of the petroleum refuelling station network thereby achieving desired growth. As at the Latest Practicable Date, the Target Group has not identified any acquisition targets. In selecting acquisition targets, the Target Group will take into account the following factors: economic and social conditions and road network of the localities of the petroleum refuelling stations; financial performance of the petroleum refuelling stations; compliance records of the petroleum refuelling stations; consideration for the acquisitions; and the availability of the logistics and other services to the petroleum refuelling stations. The Target Group also aims to achieve expansion through organic growth, and will closely follow the government's land planning with a view to procuring new locations for the petroleum refuelling station network. The Target Group also plans to explore the opportunities of collaborating with third parties to operate petroleum refuelling stations through equity joint ventures or entrustment arrangements.

Strengthen the Target Group's marketing efforts and broaden its customer base.

The Target Group has achieved sustainable growth through leveraging, among others, market recognition of the "眾誠連鎖" brand. The Target Group will continue to invest in brand-building. It intends to strengthen its marketing efforts to further promote the "眾誠連鎖" brand image and broaden its customer base through various marketing campaigns and WeChat official account.

The Target Group intends to focus on promoting its brand reputation and image via its mobile application and membership programs, which will help increase the customers' loyalty. As at the Latest Practicable Date, over 1,200,000 users have registered with the Target Group's WeChat official account and the Target Group had issued over 720,000 membership cards, which entitled the membership cardholders to purchase refined oil from the Target Group at a discount. It intends to offer additional incentives to its new and existing members, including additional discounts and mobile apps designed to allow its members to access their account information and promotional information.

Explore new growth opportunities associated with technology evolution.

Technology evolution has an increasing influence on people's daily lives. The introduction of new technologies such as mobile internet, mobile payment and big data, has, to a certain extent, changed people's lifestyle and spending habits. To adapt to this trend, the Target Group intends to adopt new technology applications where such new technology arises at the petroleum refuelling stations to improve customers' experience. The Target Group also intends to continuously upgrade its office automation, or OA system, and use big data to aid its sales and marketing activities. The Target Group will keep abreast with the technological developments in the refined oil industry and adapt itself to the technology evolution so as to maintain its competitiveness.

To implement the aforesaid business blueprint in the years to come, the Company intends to continue to operate the Petroleum Refuelling Business and the Petroleum Wholesale Business of the Target Group. Pooling together the collective experience of the Group's and the Target Group's senior management in various key areas such as customers, product solutions, supply chain management, administration, information technology, human resources, social media and marketing, the Company intends to establish (i) an "Integration and Cooperation Steering Committee" comprising a total of five members with two and three professionals from the Petroleum Refuelling Business and the Gas Refuelling Business respectively, each with 15 to 20 years of experience in the relevant business segment; and (ii) an "Integration and Cooperation Team" comprising five other experienced professionals from each of the two business segments. The Integration and Cooperation Steering Committee will formulate the business direction and strategies for the Petroleum Refuelling Business and the Gas Refuelling Business with a view to enhancing the business competitiveness of the Enlarged Group. The Integration and Cooperation Team is tasked with the responsibility of implementing the business direction and strategies drawing on the resources of the Enlarged Group, including the financial, human and technology resources, etc. For further details, please refer to the section headed "Letter from the Board — Reasons and Benefits of the Acquisition and the Entrusted Management Agreement — The Company's intention in respect of the Group's and the Target Group's businesses" in this circular.

It is proposed that the Integration and Cooperation Steering Committee will comprise the following representatives from the Company and the Target Group: (i) Mr. Zhao, Mr. Liu and Mr. Xu Huilin, executive Directors of the Company; and (ii) Mr. Ma Haidong and Mr. Sung Shuzhe, senior management members of the Target Group. The composition of the Integration and Cooperation Team will be formulated upon the Acquisition Completion and the establishment of the Integration and Cooperation Steering Committee.

THE TARGET GROUP'S PRINCIPAL BUSINESSES

The Target Business operates principally in two business segments: (a) sale of refined oil products which can be further divided in to (i) Petroleum Refuelling Business; and (ii) Petroleum Wholesale Business; and (b) the related transportation services. The following table sets forth a breakdown of the Target Business's revenue for the periods indicated:

	Year ended 31 December															
	2016				2017				2018				2019			
	Volume	Revenue	Percentage of revenue	Average selling price[1]	Volume	Revenue	Percentage of revenue	Average selling price[1]	Volume	Revenue	Percentage of revenue	Average selling price[1]	Volume	Revenue	Percentage of revenue	Average selling price[1]
	(thousand tonnes)	*(RMB'000)*	*(%)*	*(RMB/ tonne)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*	*(RMB/ tonne)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*	*(RMB/ tonne)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*	*(RMB/ tonne)*
Petroleum Refuelling Business (refined oil retail) [2]	247.9	1,388,445	40.5	5,601	275.2	1,712,913	47.1	6,224	251.1	1,809,492	47.3	7,203	270.1	1,814,976	50.4	6,720
Petroleum Wholesale Business (refined oil wholesale) [3]	479.6	2,025,133	59.1	4,223	380.4	1,902,275	52.4	5,001	327.7	2,003,754	52.3	6,115	311.0	1,771,544	49.1	5,696
Subtotal	**727.5**	**3,413,578**	**99.6**	**4,692**	**655.6**	**3,615,188**	**99.5**	**5,514**	**578.8**	**3,813,246**	**99.6**	**6,587**	**581.1**	**3,586,520**	**99.5**	**6,172**
Transportation services		14,871	0.4	N/A		17,988	0.5	N/A		14,328	0.4	N/A		16,456	0.5	N/A
Total		**3,428,449**	**100**	**/**		**3,633,176**	**100**	**/**		**3,827,574**	**100**	**/**		**3,602,976**	**100**	**/**

Notes:

1. Average selling price is calculated by the total revenue generated from the sales of each product during the respective period divided by the sales volume for each product during the respective period.

2. The revenue from the Petroleum Refuelling Business were generated from the Target Business's petroleum refuelling stations.

3. The revenue from the Petroleum Wholesale Business were generated from the Target Business's petroleum storage facilities.

The Target Business's revenue was mainly generated from the sale of refined oil products, namely, gasoline and diesel, on a retail and wholesale basis during the Track Record Period. Sales of retail refined oil products under the Petroleum Refuelling Business represented approximately 40.5%, 47.1%, 47.3% and 50.4% of the Target Business's total revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. Sales of wholesale refined oil products under the Petroleum Wholesale Business represented approximately 59.1%, 52.4%, 52.3% and 49.1% of the total revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

The Target Business generates a small portion of revenue from the provision of transportation services. Transportation services represented approximately 0.4%, 0.5%, 0.4% and 0.5% of the Target Business's total revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

The following table sets forth a breakdown of the Target Business's revenue by region for the periods indicated:

	Year ended 31 December							
	2016		2017		2018		2019	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Jilin Province	2,276,426	66.4	2,382,800	65.6	2,583,398	67.5	2,477,664	68.8
Liaoning Province	1,133,379	33.1	1,228,396	33.8	1,226,237	32.0	1,112,349	30.9
Heilongjiang Province	18,644	0.5	21,980	0.6	17,939	0.5	12,963	0.3
Total	3,428,449	100.0	3,633,176	100.0	3,827,574	100.0	3,602,976	100.0

During the Track Record Period, the Target Business's revenue was mainly generated from Jilin Province and the revenue contributed from this region amounted to approximately RMB2,276.4 million, RMB2,382.8 million, RMB2,583.4 million and RMB2,477.7 million, representing approximately 66.4%, 65.6%, 67.5% and 68.8% of the Target Business's total revenue for the years ended 31 December 2016, 2017, 2018 and 2019.

Please refer to the sections headed "Financial Information of the Target Business – Description of Key Income Statement Line Items – Revenue – Average selling prices of refined oil products" in this circular for the average selling price of the refined oil products and "Financial Information of the Target Business – Description of Key Income Statement Line Items – Gross profit and gross profit margin" in this circular for the discussions of gross profit and gross profit margin of the refined oil products.

THE REFINED OIL PRODUCTS

The refined oil products include mainly gasoline and diesel, both of which are traditional transportation vehicle fuels.

Gasoline

Gasoline is the primary transportation vehicle fuel consumed in the PRC. It is used in spark-ignited internal combustion engines, which are commonly installed on automobiles. Gasoline is produced in crude oil refineries by blending components from several refining processes. The octane rating is a standard measure of the performance of the fuel. The higher the number, the greater it can be compressed before it spontaneously ignites.

Diesel

Diesel is one type of fuel that offers a wide range of performances, efficiency and safety features. It is used in diesel engines that are widely applied in many types of transportation, such as trucks, buses and ships as well as industrial heating applications. Diesel is derived from crude oil and is ignited by compression of heat air. In the PRC, diesel oil is categorised by its freezing points and can be further classified into light diesel or heavy diesel.

PETROLEUM REFUELLING BUSINESS

Overview

The Petroleum Refuelling Business is one of the Target Group's core businesses and achieved steady growth during the Track Record Period. The Target Group conducts retail sales of refined oil products through the operations of the petroleum refuelling stations under the trademark “ ” and the trade name “眾誠連鎖”. As at 31 December 2016, 2017, 2018 and 2019 and as at the Latest Practicable Date, the Target Group operated a total of 63, 74, 71, 67 and 67 petroleum refuelling stations in Northeast China, respectively.

Products sold at the petroleum refuelling stations include gasoline and diesel. The Target Business derives a majority of revenue for the Petroleum Refuelling Business from the sales of gasoline. For the years ended 31 December 2016, 2017, 2018 and 2019, approximately 65.5%, 68.9%, 61.2% and 65.1% of the retail sales revenue was derived from the sales of gasoline, respectively.

The following table sets forth a breakdown of the retail sales volume and revenue by product and the percentages of the revenue attributable to the retail sales of these products for the periods indicated:

	Year ended 31 December											
	2016			2017			2018			2019		
	Sale volume	Revenue	Percentage of revenue	Sale volume	Revenue	Percentage of revenue	Sale volume	Revenue	Percentage of revenue	Sale volume	Revenue	Percentage of revenue
	(thousand tonnes)	*(RMB'000)*	*(%)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*
Refined oil												
– Gasoline	147.3	909,503	65.5	171.5	1,180,212	68.9	142.3	1,108,166	61.2	166.6	1,181,655	65.1
– Diesel	100.6	478,942	34.5	103.7	532,701	31.1	108.8	701,326	38.8	103.5	633,321	34.9
Total		1,388,445	100.0		1,712,913	100.0		1,809,492	100.0		1,814,976	100.0

The Target Group procures refined oil to be sold at the petroleum refuelling stations from suppliers in the PRC and stores them at the petroleum storage facilities before transporting to the petroleum refuelling stations. The Target Group prices refined oil to be sold at the petroleum refuelling stations by reference to the market prices and the price ceilings set by the NDRC, and the retail prices are competitive compared with those offered by large-sized state-owned petroleum refuelling station operators. Customers of the petroleum refuelling stations are mainly vehicle users and drivers of public transportation vehicles. The Target Group has launched membership programs to provide customers with membership cards and offers purchase discounts to customers to increase their loyalty. The Target Group generally does not enter into any long-term or framework agreement with retail customers.

The retail networks

As at 31 December 2016, 2017, 2018 and 2019 and as at the Latest Practicable Date, assuming Acquisition Completion took place, the Target Business operated a total of 63, 74, 71, 67 and 67 petroleum refuelling stations in Northeast China, respectively. Set out below is the number of our stations in operation during the Track Record Period:

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at the Latest Practicable Date
Self-owned petroleum refuelling stations					
– Income generating stations from previous year	16	17	22	27	28
– New stations that commenced generating income during the year	1	5	5	1	0
Entrusted Petroleum Refuelling Stations					
– Entrusted Petroleum Refuelling Stations					
– Income generating stations from previous year	44	44	50	42	37
– New stations that commenced generating income during the year	1	7	0	1	1
– Stations ceased operations during the year and did not generate income for the rest of the Track Record Period	(1) *(Note 1)*	(1) *(Note 2)*	(8) *(Note 3)*	(6) *(Note 4)*	(1) *(Note 5)*
Former Entrusted Petroleum Refuelling Stations	2	2	2	2	2
Total	**63**	**74**	**71**	**67**	**67**

Notes:

1. Due to expiry of the relevant cooperation agreement from the then lessor.

2. Cessation of operation caused by repairs works on the petroleum refuelling station. In view of the outbreak of COVID-19, it is expected that the station will re-commence its operation by the fourth quarter of 2020.

3. (a) In respect of one petroleum refuelling station: Cessation of operation caused by repairs works on the petroleum refuelling station. In view of the outbreak of COVID-19, it is expected that the station will re-commence its operation by the fourth quarter of 2020. (b) In respect of one petroleum refuelling station: Due to termination of the relevant cooperation agreement from the then lessor. (c) In respect of six petroleum refuelling stations: sales performance fell short of the Target Group's previous expectation and the Target Group decided to devote resources on managing other more well performing stations.

4. (a) In respect of four petroleum refuelling stations: sales performance fell short of the Target Group's previous expectation, and the Target Group decided to devote resources on managing other more well performing stations. (b) In respect of two petroleum refuelling stations: Due to termination of the relevant cooperation agreements from the then lessors.

5. Ceased operation in January 2020 due to Changchun Yitonghe's failure to successfully bid on the operation rights of the relevant refuelling station.

6. The Target Company Directors confirm that the closures of these stations are not due to non-compliance of the relevant petroleum refuelling stations.

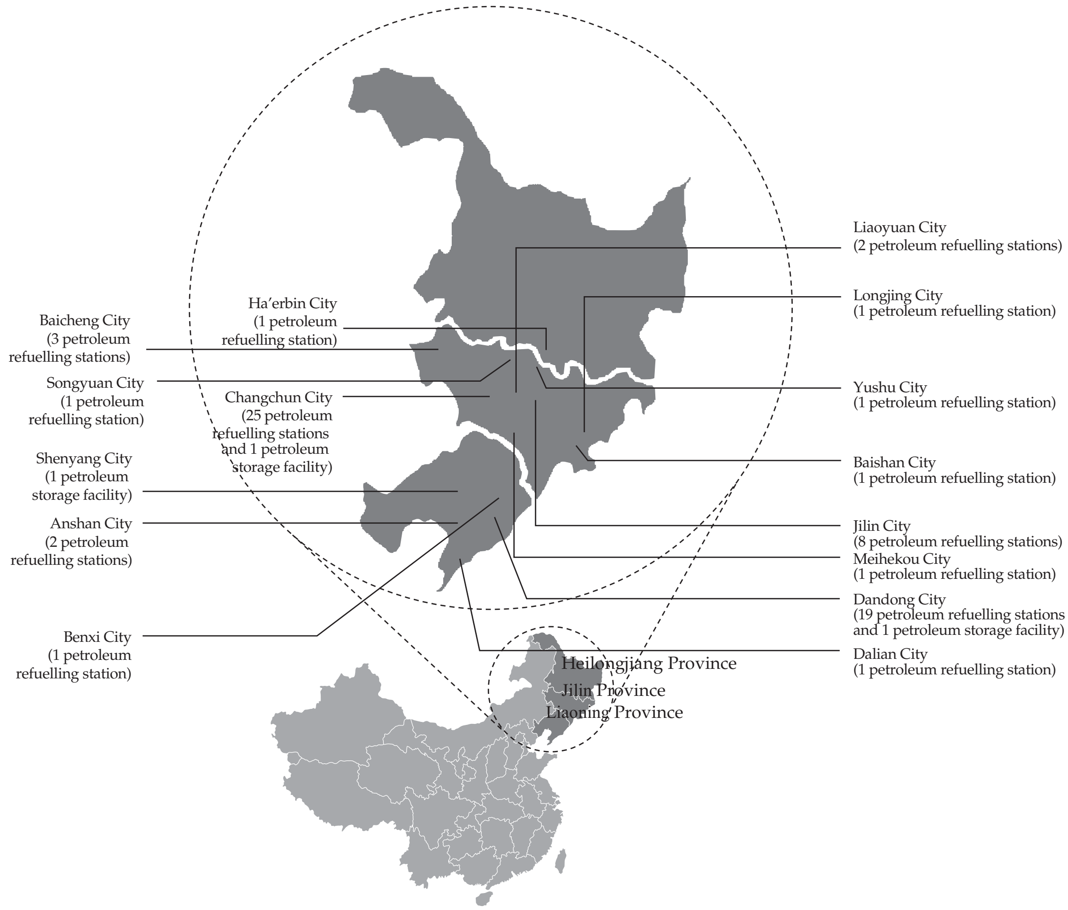
Total revenue generated from those stations that ceased operation during the Track Record Period represented approximately 3.3%, 4.2%, 3.6% and 0.9%, respectively, of the Target Business's total revenue during the Track Record Period. During the Track Record Period, there was one petroleum refuelling station recording a gross loss. Operation of such petroleum refuelling station has been ceased in 2018.

During the Track Record Period, the Target Group opened 21 new petroleum refuelling stations and closed down 16 petroleum refuelling stations. The Target Group plans to expand the petroleum refuelling station network progressively implementation of the short-term and long-term strategies. See paragraph headed "Business strategies — Expand the petroleum refuelling station network mainly through acquisitions of private petroleum refuelling station operators, organic growth and/or exploring entrustment arrangements" in this section for more details about the petroleum refuelling station network expansion plans.

Further details of the opening and closure policies of the petroleum refuelling stations are set out in the paragraph headed "The petroleum refuelling station network — Petroleum refuelling station opening and closure policies" below.

As at the Latest Practicable Date, assuming the Acquisition Completion took place, the Enlarged Group's petroleum refuelling station network comprised 67 petroleum refuelling stations, of which 43 were located in Jilin Province, 23 were located in Liaoning Province and 1 was located in Heilongjiang Province.

The following map shows the geographic locations of the Target Group's petroleum refuelling stations and petroleum storage facilities as at the Latest Practicable Date assuming the Acquisition Completion took place:



Petroleum Refuelling Station network

The following sets forth the name and the location of each of the Target Group's Petroleum Refuelling Stations (assuming the Acquisition Completion became effective) as at the Latest Practicable Date:

Province	City	Name of Self-owned Petroleum Refuelling Station
Jilin	Changchun	1. Jilin Haotuo Xisihuan Petroleum Station (吉林省昊拓石油開發利用有限公司西四環油氣站)
		2. Jilin Haotuo Changchun Jingyang Petroleum Station (吉林省昊拓石油開發利用有限公司長春景陽加油站)
		3. Jilin Haotuo Qianjin Dajie Petroleum Station (吉林省昊拓石油開發利用有限公司前進大街加油加氣站)

Province	City	Name of Self-owned Petroleum Refuelling Station
	Baishan	4. Baishan United Strength Taixing Power Company Limited (白山眾誠泰興能源有限公司)
Liaoning	Dandong	5. Dandong Kuandian Nanhuanlu Petroleum Station (丹東市寬甸石油有限公司南環路加油站)
		6. Dandong Kuandian Dongchukoulu Petroleum Station (丹東市寬甸石油有限公司東出口路加油站)
		7. Dandong Kuandian Shangsong Petroleum Station (丹東市寬甸石油有限公司上蒿加油站)
		8. Dandong Kuandian Changdian Petroleum Station (丹東市寬甸石油有限公司長甸加油站)
		9. Dandong Kuandian Dongyun Petroleum Station (丹東市寬甸石油有限公司東運加油站)
		10. Dandong United Strength Jinshan Petroleum Station (丹東眾誠船舶燃油有限公司金山加油站)
		11. Dandong Kuandian Xihuanlu Petroleum Station (丹東市寬甸石油有限公司西環路加油站)
		12. Dandong Kuandian Guanshui Petroleum Station (丹東市寬甸石油有限公司灌水加油站)
		13. Dandong Kuandian Wulongshan Petroleum Station (丹東市寬甸石油有限公司五龍山加油站)
		14. Dandong Kuandian Liudaohezi Petroleum Station (丹東市寬甸石油有限公司六道河子加油站)
		15. Dandong Kuandian Yangmu Petroleum Station (丹東市寬甸石油有限公司楊木加油站)
		16. Dandong Kuandian Laodaopai Petroleum Station (丹東市寬甸石油有限公司老道排加油站)
		17. Dandong United Strength Gushan Petroleum Station (丹東眾誠船舶燃油有限公司孤山石油經銷處)
		18. Dandong Kuandian Taizigou Petroleum Station (丹東市寬甸石油有限公司台子溝加油站)
		19. Dandong Kuandian Xiaobiangou Petroleum Station (丹東市寬甸石油有限公司小邊溝加油站)
		20. Dandong United Strength Xinnong Petroleum Station (丹東眾誠船舶燃油有限公司新農加油站)
		21. Dandong Kuandian Haicheng Dongfanghong Petroleum Station (丹東市寬甸石油有限公司海城東方紅加油站)
		22. Dandong United Strength Pianling Petroleum Station (丹東眾誠船舶燃油有限公司偏嶺加油站)
		23. Dandong United Strength Xiuyan Donghuan Petroleum Station (丹東眾誠船舶燃油有限公司岫岩東環加油站)

Province	City	Name of Self-owned Petroleum Refuelling Station
	Benxi	24. Dandong Kuandian Huanren Petroleum Station (丹東市寬甸石油有限公司桓仁加油站)
	Anshan	25. Jilin Haotuo Taian Haotuo Petroleum Sales Branch Company (吉林省昊拓石油開發利用有限公司台安昊拓石油銷售分公司)
		26. Dandong Kuandian Xiuyan Petroleum Station (丹東市寬甸石油有限公司岫岩加油站)
	Dalian	27. Jilin Haotuo Bohai Petroleum Sales Branch Company (吉林省昊拓石油開發利用有限公司瓦房店眾誠渤海石油銷售分公司)
Heilongjiang	Ha'erbin	28. Wuchang United Strength Chengxi Petroleum Company Limited (五常眾誠城西石油有限公司)

Province	City	Name of Entrusted Petroleum Refuelling Station
Jilin	Changchun	1. Changchun Yitonghe Shiji Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖世紀加油站)
		2. Changchun Yitonghe Lingdong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖嶺東加油站)
		3. Changchun Yitonghe Pingan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖平安加油站)
		4. Changchun Yitonghe Petroleum Station (長春伊通河石油經銷有限公司(伊通河站))
		5. Changchun Yitonghe Yuanyang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖遠洋加油站)
		6. Changchun Yitonghe Baiyun Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖白雲加油站)
		7. Changchun Yitonghe Jida Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉達加油站)
		8. Changchun Yitonghe Nongan Sanbao Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖農安三寶加油站)
		9. Changchun Yitonghe Xiguang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖西廣加油站)
		10. Changchun Yitonghe Chuncheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖春城加油站)
		11. Changchun Yitonghe Hexin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖合心加油站)

Province	City	Name of Entrusted Petroleum Refuelling Station
		12. Changchun Yitonghe Wanda Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖萬達加油站)
		13. Changchun Yitonghe Shuangxing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖雙星加油站)
		14. Changchun Yitonghe Weixing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖衛星加油站)
		15. Changchun Yitonghe Xinglongshan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖興隆山加油站)
		16. Changchun Yitonghe Yingxin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖迎新加油站)
		17. Changchun Yitonghe Tenglong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖騰龍加油站)
		18. Changchun Yitonghe Dehui Songbai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖德惠松柏加油站)
		19. Changchun Yitonghe Sheling Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖奢嶺加油站)
		20. Changchun Yitonghe Qingnianlu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖青年路加油站)
		21. Changchun Yitonghe Kaixuan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖凱旋加油站)
		22. Changchun Yitonghe Changchun Nansihuan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖南四環加油加氣站)
	Jilin	23. Changchun Yitonghe Jilin Nanjingjie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉林市南京街加油站)
		24. Changchun Yitonghe Jilin Shenzhenjie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉林市深圳街加油站)
		25. Changchun Yitonghe Huadian Jinbo Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖樺甸金箔加油站)

Province	City	Name of Entrusted Petroleum Refuelling Station
		26. Changchun Yitonghe Panshi Anda Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖磐石安達加油站)
		27. Changchun Yitonghe Huadian Xinhai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖樺甸新海加油站)
		28. Changchun Yitonghe Jiaohe Changcheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河長城加油站)
		29. Changchun Yitonghe Jiaohe Hongye Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河紅葉加油站)
		30. Changchun Yitonghe Jiaohe Wanli Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河萬里加油站)
	Baicheng	31. Changchun Yitonghe Baicheng Branch Company Jihe Petroleum Station (長春伊通河石油經銷有限公司白城分公司吉鶴加油站)
		32. Changchun Yitonghe Taonan Yuanzheng Petroleum Station (長春伊通河石油經銷有限公司洮南遠征加油站)
		33. Changchun Yitonghe Zhenlai Zhongcheng Petroleum Station (長春伊通河石油經銷有限公司鎮賚眾誠加油站)
	Songyuan	34. Changchun Yitonghe Songlian Petroleum Station (長春伊通河石油經銷有限公司松煉加油站)
	Meihekou	35. Changchun Yitonghe Meihekou Xingquan Petroleum Station (長春伊通河石油經銷有限公司梅河口興泉加油站)
	Yushu	36. Changchun Yitonghe Yushu Xincheng Petroleum Station (長春伊通河石油經銷有公司眾誠連鎖榆樹新城加油站)
	Liaoyuan	37. Changchun Yitonghe Changchun Liaoyuan Zhonggu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖遼源中固油氣站)

Province	City	Name of Former Entrusted Petroleum Refuelling Station (will be self-owned mixed refuelling stations upon the Acquisition Completion)
Jilin	Liaoyuan	1. Liaoyuan Park Station (遼源市恒泰清潔能源有限公司公園加油加氣站)
	Longjing	2. Longjing United Strength Longhe Station (龍井眾誠能源發展有限公司龍和加油加氣合建站)

The petroleum refuelling stations are equipped with underground oil tanks, oil dispensers and ancillary equipment such as electricity generators. The staff carry out maintenance work according to the operating manual, which sets out the relevant procedures and policies including the corrective actions to be taken in case of dysfunction of these facilities and equipment. The staff are also required to inspect the facilities and equipment regularly and record the results of the inspections for record keeping.

Petroleum refuelling station opening and closure policies

During the petroleum refuelling station site selection process, the Target Group takes into account factors such as proximity to the logistics facilities and management centres, the local economic and transportation conditions and the potential economic benefits. The Target Group has formulated the following petroleum refuelling station opening policies: (i) new petroleum refuelling stations should be within a 200-kilometre radius from one of the storage facilities and a 200-kilometre radius from one of the management centres being cities of Changchun, Shenyang and Dandong of Jilin Province and Liaoning Province; (ii) the opening of the new petroleum refuelling stations should enable the Target Group to fill the vacancy in market presence, increase the density of the petroleum refuelling stations in the network and increase the influences of the brand name; (iii) sufficient considerations should be given to the administrative expenses of each new petroleum refuelling station and its sales growth potential; and (iv) prior to the opening of a new petroleum refuelling station, feasibility study and market research should be conducted. After the Target Group has selected a site for a prospective station, the Target Group will start to apply for the relevant permits, licences and approvals required for the construction and operation of the station. It typically takes two years for the Target Group to complete the government approval procedures and commence operation of the station.

In late 2019, as a result of the local authorities' acceleration of construction of facilities including petroleum refuelling stations ancillary to the planned/built highways in Jilin Province, Changchun Yitonghe received from the relevant authorities relevant approval(s) to operate 12 petroleum refuelling stations for 5 years adjacent to such planned/built highways, construction of which have yet to be completed as at the Latest Practicable Date. The Target Company Directors confirm that the application(s) for construction of these 12 petroleum refuelling stations was submitted in 2015 but there had not been any progress since the application was made until late 2019. In view of (1) the uncertainty as to when the approval for construction and/or operation of such stations would be obtained when the SP Agreement was negotiated; (2) the non-readiness of the opening of the highways, the uncertainty of traffic flow of the highways and the possibility that minimal revenue would be generated from these petroleum refuelling stations during the initial operation period; and (3) high capital expenditure and maintenance and repairment cost are expected to be incurred during the initial stage, the Target Company Directors and the Directors had agreed not to include the operating rights of these petroleum refuelling stations in the Entrusted Management Agreement. In January 2020, Changchun Yitonghe has entrusted the operating rights of such stations for 5 years to an independent third party. The Target Company Directors confirmed that save for these 12 petroleum refuelling stations, there are no other petroleum refuelling stations that are entrusted by Changchun Yitonghe to other third parties. Although Changchun

Yithonghe receives entrustment fee from the independent third party, such amount was equivalent to the amount payable to the government authority by Changchun Yitonghe for the operating rights. Changchun Yitonghe does not receive any actual financial benefits through entrusting these stations to the independent third party given the entrustment fee it received did not exceed the amount it needed to pay to the government authority for the operating rights. The Target Company Directors confirm that upon the expiry of the 5-year period, such petroleum refuelling stations will be subject to open tendering process. Pursuant to the Deed of Non-competition, unless consent from the Company is granted, Changchun Yitonghe is prohibited from tendering for the operation of these stations to avoid any potential competition with the Company. Further, in order to protect the interest of the Enlarged Group, our Controlling Shareholders (as option grantor), pursuant to the Deed of Non-competition, shall grant to the Company (for itself and on behalf of other members of the Enlarged Group) (as the option grantee) an option to obtain, amongst others, the operating rights of these stations in case the independent third party does not continue to operate these stations within the 5-year period for whatever reasons. For details, please refer to the section headed "Relationship with Controlling Shareholders — Competition and Conflict of Interests" in this circular.

The petroleum refuelling station closure policies are to close down petroleum refuelling stations after considering the following factors: (i) adverse changes in the market conditions of the localities of the petroleum refuelling stations persist for a long time, rendering unsatisfactory financial performance of such station for prolonged period and without the prospects of making a turnaround; (ii) road construction or other engineering projects are in progress, or changes in government's land planning have occurred, rendering it impossible for the petroleum refuelling stations to continue to operate; and (iii) in case of petroleum refuelling stations operated on leased properties, no renewals of the leases have been granted by the landlords upon expiry of the leases.

Temporary Suspension of Petroleum Refuelling Station

During the Track Record Period, certain Target Business's petroleum refuelling stations were temporary suspended ("**Suspended Stations**") for undergoing certain environmental improvement works in accordance with the relevant provincial policies that were introduced by the local governmental authorities targeted towards petroleum refuelling stations. Such Suspended Stations amounted to 13, 39 and 2 during the years ended 31 December 2017, 2018 and 2019, respectively. The Suspended Stations were located across the Target Business's petroleum refuelling station network including Changchun City, Baishan City, Dandong City, Benxi City, Anshan City, Jilin City, Baicheng City, Songyuan City, Meihekou City and Yushu City. The Suspended Stations were mainly suspended between the period from the end of 2017 to the end of 2018 and the suspension lasted for an average of 23 days for each Suspended Station. Such average length of suspension was calculated according to the number of suspension days incurred by each Suspended Station. Hence, each of the Suspended Stations that were suspended during 2017, 2018 and 2019, respectively, were re-opened in the same year in which each of those Suspended Stations were suspended. All of the Suspended Stations gradually re-opened towards the end of 2018 and the beginning of 2019. The PRC Legal Advisers confirm that all the petroleum refuelling stations of the Target Business have completed the relevant environmental improvement works in accordance with the relevant provincial policies as at the Latest Practicable Date, hence, it is expected that no further petroleum refuelling stations of the Target Business will be suspended in accordance to the relevant provincial policies going forward. Hence, the Target Company Directors confirmed that there has not been any material adverse impact on the Target Business's operations and financial performance as at the Latest Practicable Date and the Directors expect that there will not be any material adverse impact on the Target Business's operations and financial performance going forward. To the best of the Directors' knowledge, information and belief, there are no further and expected changes to the rules and regulations which may have a material impact on the Target Business.

Types of petroleum refuelling stations

Depending on whether the Target Group owns the relevant operating licences, the petroleum refuelling stations are divided into self-owned Petroleum Refuelling Stations (which the Target Group holds the relevant licenses necessary for operation) and Entrusted Petroleum Refuelling Stations (whereby Changchun Yitonghe, instead of the Target Group, holds the relevant licenses). The Entrusted Petroleum Refuelling Stations will be entrusted to the Target Group via WFOE as a condition precedent to Acquisition Completion. The Target Group owns the operating licences of self-owned Petroleum Refuelling Stations, while the Entrusted Petroleum Refuelling Stations will be operated by the Target Group pursuant to the Entrusted Management Agreement, details of which are set out in the section "Letter from the Board" and "Connection Transaction" of this circular. Assuming Acquisition Completion took place, among the 67 petroleum refuelling stations the Target Group operated as at the Latest Practicable Date, 28 were self-owned Petroleum Refuelling Stations and 37 were Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself). The Petroleum Refuelling Business will also include the two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion). All the petroleum refuelling stations are operated under the trademark " " and the trade name "眾誠連鎖".

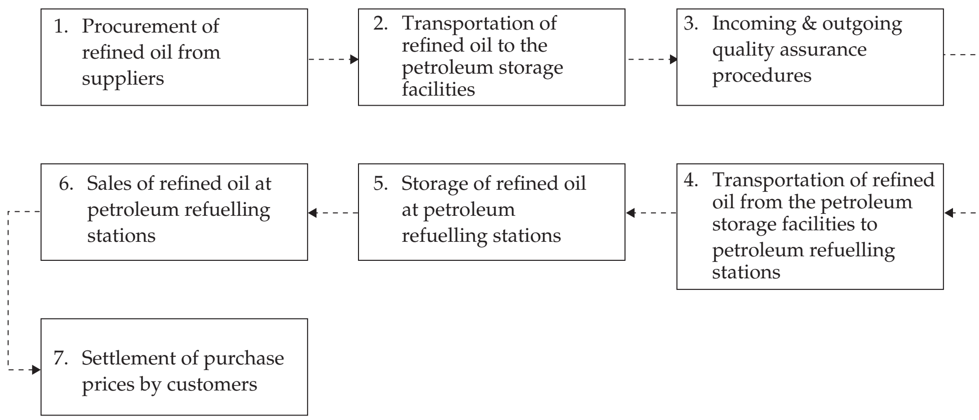
According to Frost & Sullivan, the entrustment arrangements are common in the PRC petroleum refuelling station market.

As at the Latest Practicable Date, the Target Group is not in any process of constructing any petroleum refuelling stations.

Business process

Operations of petroleum refuelling stations

The following diagram illustrates the process of the operations of petroleum refuelling stations:



1. *Procurement of refined oil from suppliers*

The operation department staff monitor the sales and inventory level at the petroleum refuelling stations, which enables them to have an estimate of the supplies required by the petroleum refuelling station operations and aid their formulation of procurement plans. The Target Group conducts centralised procurement of refined oil, and store refined oil sourced by them at the petroleum storage facilities for internal supply to its wholesale and petroleum refuelling station operations. Depending on the storage capacity, location and traffic flow of each station, the petroleum refuelling stations request for refined oil supplies from the storage facilities on varied frequencies, ranging from once every day to once in a few days.

2. *Transportation of refined oil to the petroleum storage facilities*

Refined oil purchased by the Target Group is either delivered by suppliers to the petroleum storage facilities, or collected at the suppliers' premises where the refined oil is stored. The Target Group engages its in-house transportation vehicle fleet, or the Group's subsidiary, Jieli Logistics, to conduct the transportation.

3. *Incoming and outgoing quality assurance procedures*

The product testing centre and quality control staff stationed at the petroleum storage facilities carry out incoming and outgoing quality assurance procedures for refined oil sourced by the Target Group. Refined oil products are sample tested before they are put in storage or transported to the petroleum refuelling stations.

4. *Transportation of refined oil from the petroleum storage facilities to petroleum refuelling stations*

Refined oil is transported by its in-house transportation vehicle fleet or Jieli Logistics from the petroleum storage facilities to petroleum refuelling stations.

5. *Storage of refined oil at petroleum refuelling stations*

The Target Group stores refined oil in the storage tanks at the petroleum refuelling stations.

6. *Sales of refined oil at petroleum refuelling stations*

The sales staff operate oil dispensers to refuel the vehicles according to the customers' requests. The petroleum refuelling stations are equipped with fuel dispensers which are connected to computerised control panels installed with and connected to a transaction recording software. The transaction recording software enables them to record the sales data in the centralised and digitalised sales record database, complete payment by transferring balances from the customers' pre-paid accounts and implement its membership programs through accessing the data on the servers. The sales procedures are carried out by staff of the petroleum refuelling station according to the operating manual.

7. *Settlement of purchase prices by customers*

The Target Group offers diversified payment methods for customers to settle the purchase prices. Individual customers may choose to deduct the purchase prices from their pre-paid cards, pay by cash or electronic means, including WeChat and Alipay. This allows the individual customers to pre-pay online and present the receipt at the petroleum refuelling stations to redeem the petroleum refuelling services.

PETROLEUM WHOLESALE BUSINESS

Overview

The Target Group conducts the Petroleum Wholesale Business with three petroleum storage facilities located in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province. The storage facilities have an aggregate volume of approximately 63,600 m^3 (equivalent to approximately 50,000 tonnes). As the Target Group has established long-term and stable relationships with suppliers of refined oil, including a number of renowned state-owned oil companies, it has stable sources of refined oil supply, and is able to supply large quantities of refined oil with consistent quality to its customers. The Target Group also benefits from the storage capabilities afforded by the petroleum storage facilities and its transportation vehicle fleet, providing strong support to its wholesale operations and allow the Target Group to execute transactions in an efficient manner.

The refined oil products that the Target Group sells to wholesale customers include gasoline and diesel. For the years ended 31 December 2016, 2017, 2018 and 2019, approximately 66.0%, 56.0%, 54.1% and 58.9% of the wholesale revenue was derived from the sales of diesel, respectively, while for the years ended 31 December 2016, 2017, 2018 and 2019, approximately 34.0%, 44.0% , 45.9% and 41.1% of the wholesale revenue was derived from the sales of gasoline, respectively.

The following table sets forth a breakdown of the wholesale volume and revenue by product and the percentages of the revenue attributable to the wholesale of these products for the periods indicated:

	Year ended 31 December											
	2016			2017			2018			2019		
	Sale volume	Revenue	Percentage of revenue	Sale volume	Revenue	Percentage of revenue	Sale volume	Revenue	Percentage of revenue	Sale volume	Revenue	Percentage of revenue
	(thousand tonnes)	*(RMB'000)*	*(%)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*	*(thousand tonnes)*	*(RMB'000)*	*(%)*
Diesel	332.7	1,335,677	66.0	224.3	1,064,865	56.0	187.9	1,083,955	54.1	185.8	1,044,266	58.9
Gasoline	146.9	689,456	34.0	156.1	837,410	44.0	139.8	919,799	45.9	125.2	727,278	41.1
Total		2,025,133	100.0		1,902,275	100.0		2,003,754	100.0		1,771,544	100.0

During the Track Record Period, there were approximately 5,000 customers from Petroleum Wholesale Business.

Customers of the Petroleum Wholesale Business generally include third party petroleum refuelling stations and other industrial users. According to F&S, it is an industry practice for third party refuelling stations to acquire refined oil from refined oil wholesalers instead of refined oil supplier as (i) refined oil suppliers such as oil refinery plants prefer to do business with wholesalers in large lots per each time rather than dispersed downstream third party refuelling stations in smaller size by batch. This can relieve the burden and management cost of upstream oil suppliers to take effort on arranging products delivery and payment collection from downstream players, and also help oil suppliers focus their resources on refining, research and development and sourcing of raw materials for their products; and (ii) refined oil wholesalers play an important role in the distribution of refined oil products in the PRC as wholesalers have the logistics, storage, and network capability to facilitate prompt delivery of refined oil to numerous and dispersed downstream retailers such as third party refuelling stations. Of these third party petroleum refuelling stations, 49 customers use the Target Group's licensed trade name and trademark for operation of petroleum refuelling station as at the Latest Practicable Date.

Since 2018, the Target Group has launched a new sales strategy: pursuant to the relevant refined oil products sales agreement entered with its customers who are individual petroleum refuelling station operators, the Target Group grants to such customers the rights to operate their petroleum refuelling stations under the licensed trademark “” and trade name “眾誠連鎖”. The customers who used the Target Group's licensed trademark and trade name contributed approximately RMB566.3 million and RMB503.1 million, representing approximately 28.3% and 28.4% of the revenue under the Petroleum Wholesale Business for the year ended 31 December 2018 and 2019, respectively. The Target Group believes that the arrangement of the Target Group becoming the exclusive supplier of its customers can further tighten the business relationship with the customers. The Target Group is also of the view that it can further promote the brand image and reputation of the trademark “ ” and trade name “眾誠連鎖” in the region. Set out below is the brief details at the typical agreement entered into between the Target Group and such customer:

Major term:	Grant the customer the non-exclusive right to use in the PRC the licensed trademark of “ “ and the trade name of “眾誠連鎖”
Consideration:	The Target Group shall be the exclusive supplier of refined oil products of the customer unless agreed between the parties otherwise The Target Group supplies refined oil products, which typically include gasoline and diesel according to the market price No separate licensing fee is paid by the customer to the Target Group
Duration:	1 year, subject to renewal

The Target Group requires its customers who use the Target Group's licensed trademark and trade name to hold the relevant licenses, including Refined Oil Retail Business Approval Certificate (成品油零售經營批准證書) and Hazardous Chemical Business Licence (危險化學品經營許可證) for the operation. The Target Group carries out quarterly review on operation management and safety management, product quality management and customer service management over these customers.

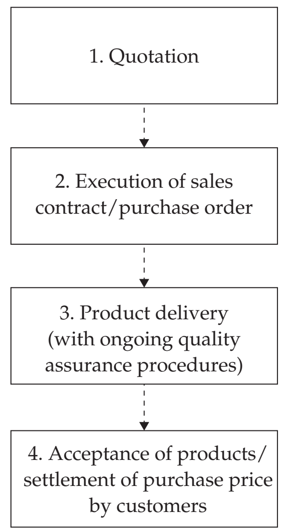
The Target Group generally does not enter into any long-term agreement with customers, but instead, it conducts the sales through entering into one-off sales contracts with or confirming purchase orders placed by customers.

Frost & Sullivan confirms that it is a market practice for individual petroleum refuelling station operators to enter into agreement with well-established petroleum refuelling station operators to use their trademark and/or trade name for their business operation.

As advised by the PRC Legal Advisers, the petroleum supply agreements the Target Group entered into with its customers are legally binding. The Target Group confirms that there had not been any material breaches of the above petroleum supply agreements during the Track Record Period.

Business process

The following diagram illustrates the process of the Petroleum Wholesale Business:



1. Quotation

The Target Group closely monitors the inventory level at the petroleum storage facilities to ensure smooth process flow of the wholesale transactions. The Target Group procures refined oil from amongst others, two of the Big Three Oil Giants in the PRC. See paragraphs "– Refined oil retail – Business process" and "– Raw materials and suppliers" in this section for more details. After it receives a customer's quotation, the sales staff will liaise with the storage facilities operations to confirm that it has sufficient stock to fulfil the request.

2.&3. Execution of sales contract/purchase order and Product delivery

The Target Group carries out quality assurance procedures by performing sample tests on the refined oil products before they are delivered to customers. Depending on the terms of the sales contracts and purchase orders, some customers take delivery of the refined oil purchased from the Target Group at the storage facilities, and for the other customers, the Target Group is responsible for transporting the refined oil from the storage facilities to places designated by customers.

4. Acceptance of products/settlement of purchase price by customer

The customers, upon receiving delivery, confirm with the Target Group on the types and quantity of the products. Depending on, amongst others, the business relationship with the wholesale customers, the Target Group may require prepayment from customers prior to delivery and settlement of the balances upon acceptance of the products, or the Target Group may occasionally allow for a delayed settlement for the purchase price. These customers in generally settle the purchase price by bank transfer.

TARGET GROUP'S STORAGE FACILITIES

The Target Group, upon Acquisition Completion, will operate three petroleum storage facilities in Changchun City of Jilin Province and Shenyang City and Dandong City of Liaoning Province for the Petroleum Wholesale Business. Amongst which, two are self-owned by the Target Group and one will be entrusted to the Target Group. As at the Latest Practicable Date, the storage facilities had an aggregate volume of approximately 63,600 m^3 (equivalent to approximately 50,000 tonnes).

All the petroleum storage facilities are operated under the trademark “ ” and the trade name “眾誠連鎖”.

The Target Group holds the relevant licenses of the self-owned petroleum storage facilities. For the Entrusted Storage Facility, the Target Group will not hold the licenses for the storage facility. Instead, the Target Group will operate the Entrusted Petroleum Storage Facility pursuant to the Entrusted Management Agreement.

The following tables set forth certain key information about the storage facilities as at the Latest Practicable Date:

Storage Facilities	**Number of storage tanks**	**Storage capacity** *(m^3)*
Self-owned Petroleum Storage Facilities		
Shenyang storage facility	12	16,400
Dandong storage facility	9	10,000
Entrusted Petroleum Storage Facility		
Changchun storage facility	22	37,200

Located in key places of its operations, the storage facilities are generally within a 200-kilometre radius from each of the petroleum refuelling stations. Such geographic locations allow the storage facilities to serve the logistics needs of the wholesale and retail businesses and ensure timely product delivery. The employees operate and maintain the storage facilities according to the procedures and policies set out in the operating manual.

PETROLEUM TRANSPORTATION SERVICES

Alongside with the Petroleum Wholesale Business, the Target Business also owns a refined oil transportation vehicle fleet, which delivers products to customers and the refuelling stations through their in-house capabilities. As at the Latest Practicable Date, the Target Business owns 5 trucks, 18 tractor units and 18 trailers for delivering refined oil products to its customers. The Target Business also earns rental income from the leasing of its refined oil transportation vehicle fleet.

The Target Business generates a small portion of revenue from the provision of transportation services. Transportation services represented approximately 0.4%, 0.5%, 0.4% and 0.5% of the Target Business's total revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

THE IT SYSTEMS

The Target Group has developed information technology systems to support its operations. It has implemented an office automation, or OA system, enabling the on-line approval mechanism and data-sharing function among different entities of the Target Group.

The Target Group has implemented an online sales IT system across its operations to archive and monitor the operational and financial data including sales and inventory levels, and transmit the data to the headquarters on a real-time basis. This sales IT system which comprises the transaction recording software is crucial to its operations.

The Target Group also utilises the information technology to aid other aspects of its operations. For example, the petroleum refuelling stations, storage facilities and transportation vehicles are installed with video recording systems, which allow the Target Group to conduct real-time monitoring of workplace safety and control risks associated with its operations.

OCCUPATIONAL SAFETY

The operations of petroleum refuelling stations and storage facilities entail risks and hazards that are inherent in the oil industry. Please refer to the section headed "Risk Factors – Risks Relating to The Target Group's Business and Industry – The business entails inherent risks and occupational hazards. Failure to manage and control these risks and hazards could harm the Target Group's reputation and cause them to incur substantial costs." in this circular for more details. The Target Group places high importance on employees' health and safety, and have implemented stringent occupational safety policies and procedures across its operations.

The Target Group has established a work safety team that is led by the senior management personnel and comprised 11 staff to take charge of different aspects of safety, including workplace safety and fire prevention. This team implements workplace safety rules and procedures and assists in the optimisation of the workplace safety system.

Since 2012, the Target Group engaged a U.S. industrial safety consulting firm to provide regular safety management consultation with which, the Target Group has enhanced the safety management systems, and formulated comprehensive safety management and operating rules and procedures. The Target Group also invested in safety training and facility and software upgrades, and improved its employees' safety awareness.

The storage facilities are installed with video recording systems, enabling them to monitor the safety of storage facilities on a real-time basis. The designated staff conduct regular inspections on the storage facilities, and monitor the quantity, density and temperature levels of the storage tanks, which helps them ensure that the refined oil inventories are in good condition and prevent accidents such as fire and explosion from happening. In the course of loading and offloading refined oil purchased and sold by them, the storage facilities staff follow the procedures set out in the operating manual. The Target Group has also installed fire sprinklers and fire hydrants on the storage tanks stored at the storage facilities.

The Target Group has implemented stringent measures to control accidents and hazards at the petroleum refuelling stations. Refined oil is stored in underground oil tanks at each station, and operation of these oil tanks is limited to designated staff. The petroleum refuelling stations are equipped with fire extinguishers and sand buckets. The Target Group has put in place emergency handling plans that are tailored to coping with accidents in the oil industry. Each of the petroleum refuelling stations is installed with a video recording system which allows the Target Group to monitor and control risks associated with the petroleum refuelling station operations on a real-time basis.

The Target Group closely monitors risks associated with the transportation of refined oil. The Target Group assigns a fixed route to each shipment, and research the road conditions, evaluate the risks and train and evaluate the drivers before undertaking each shipment. The Target Group monitors the route and speed of the transportation vehicles as well as the road and goods conditions through GPS and video recording systems installed on the vehicles.

The safety staff possess the qualifications required for performing safety work. The Target Group provides regular training to the safety staff to enhance their safety awareness. The staff are required to follow the operating manuals and wear protective workwear and masks provided by the Target Group in undertaking relevant works.

The Target Group has established an accident reporting system which requires its staff to report an accident taking place at the workplace to its headquarters within one hour of its occurrence, and formulate a written report within 24 hours of its occurrence. After an accident is reported, the safety and environmental protection department investigates the cause of the accident and implements rectification measures.

The PRC Legal Advisers are of the view that the Target Group and the Entrusted Petroleum Refuelling Stations have complied with the relevant PRC laws and regulations in relation to occupational health and safety and environmental protection in all material respects. The Target Group and the Entrusted Petroleum Refuelling Stations have not been subject to any material legal or administrative actions arising from material non-compliance with PRC laws and regulations in relation to occupational health and safety and environmental protection. No material safety accident had occurred at the petroleum refuelling station operated by the Target Group and Changchun Yitonghe during the Track Record Period and the Target Group and the Entrusted Petroleum Refuelling Stations have complied with the applicable requirements for inspections of the operation facilities from the relevant authorities during the Track Record Period.

In view of the outbreak of COVID-19 in the PRC, the Target Business has adopted a precautionary for pandemic outbreak in starting from January 2020:

(i) enhancing the hygienic level of the Petroleum Refuelling Stations and Petroleum Storage Facilities by cleaning and sanitising areas including office, equipment, production facilities and washrooms regularly;

(ii) performing compulsory daily temperature checks of all employees before and after work and customers when they reach the premises;

(iii) minimising in-person meetings to the extent possible; and

(iv) providing and requesting employees to wear masks at all time during work and report to management of the Target Group promptly whenever they feel unwell. All employees are required to familiarise themselves with requirements of such precautionary for pandemic outbreak and ensure that the measures are properly implemented.

ENVIRONMENTAL AND SOCIAL MATTERS

Environmental Matters

The Target Group is subject to certain environmental laws and regulations on construction projects including the Environmental Impact Appraisal Law of the PRC (《中華人民共和國環境影響評價法》), Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) and the Interim Measures for the Completion Inspections of Environment Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收暫行辦法》) for the construction of the Target Group's petroleum refuelling stations. Please refer to the section headed "Regulatory Overview — Environmental Protection on Construction Projects" in this circular for details of these environmental laws and regulations.

The Target Group takes specific measures to ensure its compliance with the applicable environmental laws and regulations, including: (i) strictly selecting construction contractors and supervising the process of construction; (ii) complying with the laws and regulations about environmental assessments and environmental acceptance report; and (iii) actively adopting environmentally friendly equipment and designs.

None of the constructions of the Target Group's petroleum refuelling stations had received any fines or penalties associated with the breach of any environmental laws or regulations that would have a material adverse impact on the Target Group's business operations or financial position during the Track Record Period and up to the Latest Practicable Date. In this connection, the Target Group had also obtained compliance letters from the relevant competent fire services departments, the environmental protection departments, the market supervision authorities and other departments confirming that during the Track Record Period, all the petroleum refuelling stations and the petroleum storage facilities are in compliance with in all material aspects, including but not limited to (i) fire safety professional regulations, environmental protection regulations and other relevant laws and regulations; (ii) there were no material safety incidents; and (iii) there were no administrative penalties imposed by the competent authorities.

Social Matters

The Target Group emphasised on general welfare of and relationships with its employees, including the provision of competitive remuneration, job training, safety work environment and equal opportunities. In this regard, the Target Group is implementing/shall implement the following systems that are compatible with the Group:

- The Target Group enters into employment contracts with the Target Group's employees to protect the interests of the contract parties.

- The Target Group has annual review system to assess the performance of its employees which forms the basis for salary raises, bonuses and promotion.

- The Target Group provides orientation programmes for new employees and on-the-job trainings.

- The Target Group established guidelines for work safety and has a system to record and handle accidents in accordance with its internal policies.

During the Track Record Period and up to the Latest Practicable Date, the Target Group had not (i) experienced any significant problems with employees or disruptions to operations due to labour disputes; and (ii) been imposed any administrative penalties for any violation of occupational health and safety laws and regulations in the PRC. Thus, the Target Company Directors consider the foregoing systems effective and do not anticipate any major impact on its daily operations and financial positions in (i) complying with the relevant laws and regulations in the PRC; and (ii) ensuring the Target Group's employees are being reasonably and fairly treated. For further details of the social matters, please refer to the paragraphs headed "Business — Employees" and "Business — Occupational safety" in this section and the section headed "Directors and Senior Management — Corporate Governance - Board diversity" in this circular.

RAW MATERIALS AND SUPPLIERS

The Target Business's sales of refined oil products primarily incurs costs for procuring refined oil and other costs incurred in transporting the petroleum to the relevant stations/customers. Procurement of refined oil represented approximately 99.4%, 99.4%, 99.5% and 99.5% of the Target Business's total cost of sales for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. As the Target Group procures refined oil products from upstream suppliers and the purchase price of refined oil products is subject to fluctuation beyond control, the Target Group faces risks associated with fluctuation in fuel costs.

The Target Group selects raw material suppliers mainly based on their qualifications, supply capability, product quality, prices and reliability of on-time delivery. It has at least two suppliers for any principal raw materials, which allows the Target Group to minimise the risks of reliance on any single supplier. The Target Group has procurement procedures to ensure that its sources refined oil based on the terms provided by various suppliers and the best available quotation will be selected. During the Track Record Period, the Target Group did not experience any shortage or delay in the supply of raw materials.

The Target Group conducts centralised procurement of refined oil, and stores all refined oil purchased at the petroleum storage facilities before delivery to the petroleum refuelling stations for sale. The Target Group has maintained amicable business relationship with its suppliers. Amongst which, the Target Group sources refined oil from Songyuan Petrochemical, a connected person of the Target Group. For details of transactions between the Target Group and Songyuan Petrochemical, please refer to the section headed "Connected Transactions — D. Non-exempt Continuing Connected Transactions — 1. Petroleum Supply Agreement" in this circular.

Save for transactions with Songyuan Petrochemical which constitute continuing connected transactions of the Company upon the Acquisition Completion, the Target Group generally does not enter into long-term with suppliers. Instead, it purchases refined oil from suppliers through entering into one-off agreements with them. These one-off agreements contain key terms such as product specifications, quantity, quality, prices, place and time of product delivery and settlement methods.

The Target Group negotiates refined oil purchase prices with suppliers according to the refined oil reference prices promulgated by the government and the prevailing market prices of the locations where the purchases are made. It has not engaged in any hedging activities. Generally, the Target Group will, on best effort basis, pass on increases in the prices of refined oil purchased by them to customers, as any price increase in crude oil or refined oil traded in the midstream refined oil market will normally result in an increase in the prices of refined oil traded in the downstream market, but there may be time gap between the adjustment which could result in decrease in profit margin from sales of refined oil products. For detail of the relevant risks, please refer to the section headed "Risk Factors — Risks Relating to the Target Group's Business and Industry — The gross profit margin and growth in profit may fluctuate in the future as the purchase price and selling price of the petroleum products are sensitive to factors beyond control." in this circular.

Refined oil purchased by the Target Group is either delivered by suppliers to the storage facilities, or collected by the Target Group at the suppliers' premises where the refined oil is stored. In the former case, the suppliers bear the transportation costs and purchase the insurance covering the risks during transit, and the Target Group takes delivery of the goods at the storage facilities; in the latter case, the Target Group takes delivery of the refined oil at the suppliers' premises and are responsible for the transportation of the refined oil. The Target Group purchases insurance to insure against risks during transit.

The Target Group generally makes full prepayments to suppliers including top state-owned oil companies. The Target Group has maintained amicable and stable relationships with its major suppliers.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's five largest suppliers accounted for approximately 97.4%, 90.0%, 89.4% and 75.9% of its total purchases during the same periods, respectively. Songyuan Petrochemical, a connected person of the Company, accounted for approximately 83.7%, 59.4%, 43.6% and 23.3% of its total purchases during the same periods, respectively. During the Track Record Period, the Target Group did not experience any shortage of supply of refined oil products from its suppliers.

For the years ended 31 December 2016

Rank	Supplier's name	Connected Person (Y/N)	Type of purchase	Approximate years of business relationship with the Target Business	Amount purchased *(RMB'000)*	% of total amount purchase
1.	Songyuan Petrochemical	Y	Gasoline and Diesel	6 years	2,600,598	83.7%
2.	Supplier A	N	Diesel	Over 10 years	298,969	9.6%
3.	Supplier B	N	Diesel	5 years	49,855	1.6%
4.	Supplier C	N	Gasoline and Diesel	4 years	40,533	1.3%
5.	Supplier D	N	Gasoline	3 years	34,716	1.1%
Total purchase of top 5 suppliers for the year ended 31 December 2016					**3,024,671**	**97.4%**
Total purchase for the year ended 31 December 2016					**3,105,206**	

Notes:

1. Supplier A principally engages in prospecting, manufacturing and distributing refined oil products. Its shares are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

2. Supplier B principally engages in distribution of refined oil products. The shares of the ultimate holding company of Supplier B are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

3. Supplier C is a company established in Dalian, Liaoning Province, the PRC, in 2014 with registered capital of RMB10 million. Supplier C principally engages in distribution of gasoline, diesel and other chemical products.

4. Supplier D is a company established in Dalian, Liaoning Province, the PRC, in 2014 with registered capital of RMB2 million. Supplier D principally engages in distribution of gasoline, diesel and other chemical products.

For the years ended 31 December 2017

Rank	Supplier's name	Connected Person (Y/N)	Type of purchase	Approximate years of business relationship with the Target Business	Amount purchased *(RMB'000)*	% of total amount purchase
1.	Songyuan Petrochemical	Y	Gasoline and Diesel	6 years	1,988,287	59.4%
2.	Supplier A	N	Diesel	Over 10 years	573,507	17.1%
3.	Supplier B	N	Diesel	5 years	275,792	8.2%
4.	Supplier E	N	Ethanol (an additive for gasoline)	2 years	91,820	2.7%
5.	Supplier D	N	Gasoline	3 years	86,428	2.6%
Total purchase of top 5 suppliers for the year ended 31 December 2017					**3,015,834**	**90.0%**
Total purchase for the year ended 31 December 2017					**3,349,380**	

Notes:

1. Supplier A principally engages in prospecting, manufacturing and distributing refined oil products. Its shares are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

2. Supplier B principally engages in distribution of refined oil products. The shares of the ultimate holding company of Supplier B are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

3. Supplier E is a company established in Jinan in 2016 with registered capital of RMB10 million. Supplier E principally engages in distribution of ethanol and other chemical products.

4. Supplier D is a company established in Dalian, Liaoning Province, the PRC, in 2014 with registered capital of RMB2 million. Supplier D principally engages in distribution of gasoline, diesel and other chemical products.

For the years ended 31 December 2018

Rank	Supplier's name	Connected Person (Y/N)	Type of purchase	Approximate years of business relationship with the Target Business	Amount purchased *(RMB'000)*	% of total amount purchase
1.	Songyuan Petrochemical	Y	Gasoline and Diesel	6 years	1,519,630	43.6%
2.	Supplier A	N	Diesel	Over 10 years	1,085,257	31.1%
3.	Supplier B	N	Diesel	5 years	209,814	6.0%
4.	Supplier D	N	Gasoline	3 years	178,433	5.1%
5.	Supplier F	N	Gasoline and Diesel	1 year	126,438	3.6%
Total purchase of top 5 suppliers for the year ended 31 December 2018					**3,119,572**	**89.4%**
Total purchase for the year ended 31 December 2018					**3,487,930**	

Notes:

1. Supplier A principally engages in prospecting, manufacturing and distributing refined oil products. Its shares are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

2. Supplier B principally engages in distribution of refined oil products. The shares of the ultimate holding company of Supplier B are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

3. Supplier D is a company established in Dalian, Liaoning Province, the PRC, in 2014 with registered capital of RMB2 million. Supplier D principally engages in distribution of gasoline, diesel and other chemical products.

4. Supplier F is a company established in Dalian in 2018 with registered capital of RMB3 million. Supplier F engages in distribution gasoline, diesel and other chemical products.

For the year ended 31 December 2019

Rank	Supplier's name	Connected Person (Y/N)	Type of purchase	Approximate years of business relationship with the Target Business	Amount purchased *(RMB'000)*	% of total amount purchase
1.	Supplier A	N	Diesel	Over 10 years	835,063	26.9%
2.	Songyuan Petrochemical	Y	Gasoline and Diesel	6 years	723,819	23.3%
3.	Supplier F	N	Gasoline and Diesel	1 year	326,245	10.5%
4.	Supplier B	N	Diesel	5 years	260,459	8.4%
5.	Supplier H	N	Gasoline and Diesel	1 year	208,917	6.8%
Total purchase of top 5 suppliers for the year ended 31 December 2019					**2,354,503**	**75.9%**
Total purchase for the year ended 31 December 2019					**3,101,063**	

Notes:

1. Supplier A principally engages in prospecting, manufacturing and distributing refined oil products. Its shares are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

2. Supplier F is a company established in Dalian in 2018 with registered capital of RMB3 million. Supplier F engages in distribution gasoline, diesel and other chemical products.

3. Supplier B principally engages in distribution of refined oil products. The shares of the ultimate holding company of Supplier B are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange.

4. Supplier H is a company established in Panshan City, Liaoning Province in 2018 with registered capital of RMB10 million. Supplier H principally engages in distribution of gasoline, diesel and other chemical products.

Save for Songyuan Petrochemical, a connected person of the Target Group, to the best knowledge of the Target Group, none of Target Group's directors, their respective close associates or any shareholders who, to the best knowledge of Target Group, own more than 5% of the Target Group's issued shares as at the Latest Practicable Date have any interest in any of the five largest suppliers. For details of the proposed continuing connected transaction with Songyuan Petrochemical upon the Acquisition Completion, please refer to the section headed "Connected Transactions — D. Non-exempt Continuing Connected Transactions — 1. Petroleum Supply Agreement" in this circular.

Supplier concentration

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's five largest suppliers accounted for approximately 97.4%, 90.0%, 89.4% and 75.9% of its total purchases during the same periods respectively. The Target Business also sourced refined oil from its connected person, Songyuan Petrochemical, during the Track Record Period. The percentages of the purchases from Songyuan Petrochemical in the Target Business's total purchases reduced from approximately 83.7% for the year ended 31 December 2016 to approximately 43.6% for the year ended 31 December 2018. The total purchase has further reduced to approximately 23.3% for the year ended 31 December 2019. The reduction in purchase from Songyuan Petrochemical was due to the Target Group's plan to diversify the refined oil supply sources.

Our Directors' views

Despite the aforesaid figures during the Track Record Period suggest supplier concentration on refined oil, the Directors are of the view that the risk relating to the supplier concentration can be controlled and that it would not impact the Target Group's results of operations based on the following reasons:

Industry landscape and business nature

Due to the dominance of the upstream oil companies which controlled majority of the supply for the operation of petroleum refuelling stations, it is common to procure raw materials from a few suppliers to ensure consistency in quantity and quality of the raw materials. According to the F&S Report, two of the Big Three Oil Giants which the Target Business mainly purchases petroleum products from are the few major upstream suppliers in the PRC, and they accounted for over 60% of the upstream petroleum supply in the Northeast China during the Track Record Period. The Target Group is of the view in order to maintain consistent supply and quality of petroleum products, the Target Group chooses reputable suppliers for sourcing the petroleum products, i.e., the three Big Oil Giants.

According to the F&S Report, refined oil products are not scarce and supply generally exceeds demand. The Target Group will closely monitor the movements of oil prices and actively obtain market intelligence to assist in the formulation of the refined oil procurement strategies.

Also, while the Target Group endeavours to maintain the established business relationships with its existing suppliers, it also recognises the importance of expanding the supplier base with a view to sustaining long-term growth. The Target Group believes that where there are alternative suppliers available in the market which can supply products at comparable market prices and qualities, it should not have any difficulty in purchasing from alternative suppliers. The Target Group will continue to identify and approach suitable suppliers to expand its supplier base as well as to cope with the Target Group's expansion plan.

INVENTORY CONTROL

The Target Group's inventory primarily consists of refined oil. As the market prices of refined oil could be volatile, the Target Group seeks to strike a balance between maintaining sufficient inventories that can meet customers' demands and its operation requirements in order to reducing its exposures to refined oil price fluctuations. In light of the effective inventory control measures, the Target Business has maintained a relatively low inventory level. For the years ended 31 December 2016, 2017, 2018 and 2019, the average inventory turnover days (being average inventory divided by cost of sales for the period and multiplied by 360 days) were 10.1 days, 13.8 days, 17.9 days and 14.7 days, respectively. The Target Group believes the inventory policy is effective and enables them to avoid stocking up.

Assisted by the transaction recording software, the operation department staff monitor the sales and inventory levels of each of the storage facilities and petroleum refuelling stations on a real-time basis, and formulate procurement plans based on its past performance and sales forecasts. Such real-time recording system also allows the Target Group to promptly adjust the purchase orders to be placed with their suppliers.

SALES AND MARKETING

Overview

The Target Group conducts marketing activities through multi-channels. It promotes the products and services at the petroleum refuelling stations through posters and other promotional material displays. The Target Group also conducts advertising on main roads in urban areas, placing advertising boards on highways, large-screen displays at the airports as well as advertising on the internet and other media. The Target Group's business is generally not subject to any seasonality, except that sales during the Chinese New Year.

Membership programs and WeChat official account

To promote the sales of products and increase customer loyalty, the Target Group has implemented various membership programs during the Track Record Period. As at the Latest Practicable Date, the Target Group had issued over 720,000 membership cards. It also has more than 1,200,000 users which have registered with the Target Group's WeChat official account.

The primary functions of the membership cards are to provide discounts to members and allow them to pre-pay for their purchases thereby making available to them additional discounts and convenience. During the Track Record Period, the discount provided by the Target Group to customers amounted up to RMB0.37 per litre. The membership programs also allow the Target Group to collect business information for internal use, enabling it to improve their service quality and formulate future sales and marketing plans.

Each individual customer may apply for one membership card at the petroleum refuelling stations. The discounts offered to the members vary depending on the types of their membership cards. Members are entitled to upgrade their membership cards if they have purchased certain volumes of gasoline or diesel.

The WeChat official account provides details of the petroleum refuelling stations operated by the Target Group. With the mobile application, the registered users can check, amongst others, previous consumptions at the petroleum refuelling stations, balance of the prepaid card and latest promotion of the petroleum refuelling stations. Users can also top up the balance of prepaid card via the WeChat official account.

PRICING

Refined oil prices are regulated by the PRC government. According to the PRC Pricing Law (《中華人民共和國價格法》) and the Measures for the Administration of Petroleum Prices (《石油價格管理辦法》), the PRC government may direct, guide or fix the prices of public utilities through the pricing schedules prescribed by the central or local government. The retail prices and wholesale prices of refined oil are subject to ceilings set by the NDRC, which are adjusted every 10 working days. Hence, the Target Group's petroleum refuelling stations are required to sell refined oil at prices not exceeding the ceilings set by the NDRC.

The Target Group observes the wholesale and retail price ceilings set by the NDRC in pricing refined oil sold. In addition to the ordinary price ceilings set by the NDRC, according to Notice of the National Development and Reform Commission on Issues concerning Further Improving the Price Formation Mechanism of Refined Oil《國家發展改革委關於進一步完善成品油價格形成機制有關問題的通知》issued on 13 January 2016, in order to improve the price mechanism of refined oil products and further promote the market-oriented reform of refined oil prices, a price floor of USD40 per barrel had been set to restrict the domestic refined oil price from falling below the floor even when the international oil price falls below USD40 per barrel to offer protection to the domestic market players in petroleum refuelling business against adverse global market changes in terms of the oil prices. Apart from this, the Target Group determines refined oil prices taking into account the following factors: the procurement costs (including the transportation costs) of the products; the location of the petroleum refuelling station (in respect of retail sales); the competition from other petroleum refuelling stations in neighbouring areas; business relationships with the customers; payment methods chosen by the customers. In particular, in regions where competition for customers is fierce, the Target Group may adjust the prices downward so as to retain existing customers and attract new customers.

In the light that there is a time gap between procurement of refined oil products and the sale of petroleum products to the Target Group customers, sudden and substantial decrease in the retail price ceiling set by the NDRC may lead to decrease in gross profit of the Target Group's products. For details, please refer to the section headed "Risk Factors — The Target Group's business is subject to the development of PRC government policies and any future unfavourable policies may materially and adversely affect its business development and performance" in this circular.

The Target Group requires managers of the petroleum refuelling stations which are in close proximity to the operations of the competitors to observe, record and report the prices charged by the competitors on a daily basis, so that the management team can decide whether to adjust the retail prices of the petroleum refuelling stations accordingly to make the retail prices competitive. In determining how to react to a change in the price charged by a competitor, the management team takes into account the following factors: the overall sales strategies and the sales strategies for each station; the existing profit margin of the relevant station; the level of competition in the vicinity; the sales strategies adopted by the competitor such as the expected duration of the price cut/hike of the competitor; the product procurement cost. For instance, if the size of a competitor is similar and it is expected that the price cut is temporary, the Target Group may choose not to adjust the price so that higher profit margin can be maintained in spite of a temporary fall in sales volume. Since the Target Group typically prices the products at each station with reference to, among other factors, the competitors' prices, the frequency of price adjustment of each station varies depending on the number of competitors in the vicinity and the frequency of price adjustments by the competitors. The Target Group confirms that during the Track Record Period, while minor price adjustment could happen on a daily basis, there was no frequent significant price adjustments at the petroleum refuelling stations.

CUSTOMERS

The Target Group has a diverse customer base, including drivers of public transportation vehicles, private vehicle users, third party petroleum refuelling stations and other industrial users. The number of customers under the Petroleum Wholesale Business was approximately 5,000 during the Track Record Period. The Target Group generates all of its revenue in the PRC. For the years ended 31 December 2016, 2017, 2018 and 2019, the five largest customers accounted for approximately 14.4%, 11.8%, 7.3% and 8.8% of the Target Business's total revenue during the same periods respectively; the single largest customer accounted for approximately 9.1%, 6.3%, 1.8% and 3.2% of its total revenue during the same periods, respectively. To the best knowledge of the Target Group, save for United Strength Vehicle Service who is one of the major customers of the Target Group during the Track Record Period and also a jointly controlled entity of Changchun Yitonghe, all other five largest customers during the Track Record Period are Independent Third Parties, and none of the Target Group's directors, their respective close associates or any shareholders who, to the best knowledge of the Target Group, own more than 5% of the Target Group's issued shares as at the Latest Practicable Date, have any interest in any of the five largest customers. The transactions with United Strength Vehicle Service will constitute non-exempt continuing connected transactions on the Company upon the Acquisition Completion. For further details of the terms of the proposed transaction, please refer to the section headed "Connected Transactions – D. Non-Exempt Continuing Connected Transactions — 2. Supply of Refined Oil Products by Target Group to United Strength Vehicle Service" in this circular.

The Target Group offers diversified payment methods for customers to settle the purchase prices. In respect of customers at the petroleum refuelling stations, individual customers may choose to deduct the purchase prices from their pre-paid cards, pay by cash or electronic means, including WeChat and Alipay. For wholesale customers, depending on, amongst others, the business relation with the wholesale customers, the Target Group may require prepayment from customers prior to delivery and settlement of the balances upon acceptance of the products, or the Target Group may occasionally allow for a delayed settlement for the purchase of price.

Generally, the Target Group does not enter into long-term agreements with customers. Details are set out in the paragraph headed "Petroleum Wholesale Business — Overview" in this section above. One-off agreements are entered into with other refined oil wholesale customers, or accept purchase orders placed by these customers. These one-off agreements and purchase orders contain key terms such as product specifications, quantity, quality, prices, place and time of product delivery, transportation, insurance and settlement methods.

RISK MANAGEMENT

The Target Group exposed to various risks during its operation. For more details, please refer to the section headed "Risk Factors" in this circular. The Target Group implemented various policies and procedures to ensure effective risk management at each aspect of its operations, including administration of daily operations, financial reporting and recording, treasury management, compliance with applicable laws and regulations on operation safety. The senior management of the Target Group oversees and manages the overall risks associated with the operations. Upon the Acquisition Completion, the audit committee of the Company will review and supervise the financial reporting process and internal control system of the Enlarged Group. Please refer to the section headed "Directors and Senior Management" in this circular for the qualifications and experience of these committee members.

QUALITY CONTROL

The Target Group believes that the quality of its products and services is crucial for its success. The Target Group has established a quality control team comprising 20 staff who conduct product tests at the product testing centre and storage facilities. This team is also responsible for implementing the standardisation management system.

The Target Group has implemented stringent quality control measures in its business process. It purchases raw materials from reliable suppliers who are able to meet the quality standards. Product quality is one of the key factors considered by the Target Group in their selection of suppliers. The Target Group maintains a list of approved suppliers for different types of raw materials, which is derived from the long-term co-operations with suppliers. The Target Group requires the supplier to provide a quality test report issued by a third party to ensure the quality of the products supplied by it.

The product testing centre and quality control staff stationed at the storage facilities carry out incoming and outgoing quality assurance procedures for refined oil sourced by the Target Group and sold to customers or delivered to the petroleum refuelling stations for sale. Before incoming refined oil products are put in storage, the quality control team members perform sample testing and quality analysis on them to ensure that they conform with the agreed specifications and quality standards. If the products do not meet the specifications and standards, they will be returned to the suppliers. The Target Group carries out testing and analysis procedures for outgoing refined oil products sold to customers or before and after transporting to the petroleum refuelling stations. After a test is carried out, a quality report will be produced and the customer will be informed of the test results. The customers may perform inspections on the quality of the products by their own. Upon passing the outgoing quality assurance procedures, refined oil products will be delivered to customers or transferred to transportation vehicles for delivery to customers.

The Target Group also carries out quality assurance procedures for refined oil at storage. The designated storage facilities staff conduct regular inspections on the petroleum storage facilities, and monitor the quantity, density and temperature levels of the storage tanks so as to prevent industrial accidents. The Target Group will ensure products stored at the storage facilities to ensure that no contamination has occurred.

The Target Group has obtained GB/T 19001-2016/ISO9001:2015 quality control accreditations. During the Track Record Period, the Target Group did not receive any material claims or complaints about the quality of the products or services.

INTELLECTUAL PROPERTIES RIGHTS

The Target Group operates petroleum refuelling stations under the trademark, “” and the trade name “眾誠連鎖”. WFOE, as a condition precedent to the Acquisition Completion, entered into the Trademark License Agreement and Trade Name License Agreement with United Strength Vehicle Service on 26 June 2020 pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trademark “ ” and the trade name “眾誠連鎖” in the PRC with its permission for the Target Group to sub-license the trademark “” and the trade name “眾誠連鎖” to third parties as necessary. For details of the Trademark License Agreement and Trade Name License Agreement, please refer to section headed “Connected Transactions — Continuing Connected Transactions — The Business Agreements” of this circular.

Since 2018, the Target Group started to launch the new sales strategy that pursuant to the relevant refined oil products sales agreement entered with its customers who are individual petroleum refuelling station operators, the Target Group grants to such customers the rights to operate their petroleum refuelling stations under the licensed trademark “” and trade name “眾誠連鎖”. As at the Latest Practicable Date, the Target Group has entered into such agreement with 49 individual petroleum refuelling station operators. For further details, please refer to the paragraph headed “Petroleum Wholesale Business — Overview” in this section.

As at the Latest Practicable Date, the Target Group was not aware of any material infringement by them of intellectual property rights owned by third parties, or by third parties of any intellectual property rights owned by them. In addition, as at the Latest Practicable Date, the Target Group had not been involved in any material disputes or legal proceedings in relation to any material claims of infringement, either threatened or pending, of any intellectual property rights initiated by or against them that had a material adverse impact on its business.

COMPETITION

The PRC refined oil products distribution market is fragmented. According to the F&S Report, the refined oil retail market of private petroleum refuelling station operators in Northeast China is relatively fragmented with top 5 players taking up approximately 14.7% of the market share. There are approximately 9,500 petroleum refuelling stations in Northeast China in 2019. The refined oil wholesale market of private wholesalers in Northeast China is relatively less fragmented with top 5 players taking up approximately 67.5% of the market share.

The participants of the PRC refined oil distribution market can be broadly categorised into Big Three Oil Giants and other players, with the Big Three Oil Giants having over 50% of market share. Other players are largely small-sized privately-owned companies. Big Three Oil Giants have a dominant position in the PRC refined oil distribution market due to, among others, their reputation, large operational sizes and abundant financial resources. Participants of the PRC refined oil distribution market compete in the areas of industry knowledge and experience, financial resources, sales channels, product quality and product prices. Additionally, petroleum refuelling station business faces competition from new energy vehicles. Please refer to the section headed "Industry Overview — Development Trends and Challenges" for more details.

The Target Group believes that the established presence in locations where it operates, its in-depth understanding of the market dynamics, extensive experience and strong project execution and risk management capabilities will enable the Target Group to gain a competitive edge in the refined oil distribution market. New entrants of the refined oil distribution market may not be able to obtain the requisite certification from the government or to secure stable raw material supplies. Moreover, vehicle users may be more willing to patronise well-established local petroleum refuelling stations, as they are more confident in the quality of the products and services provided by these petroleum refuelling stations.

INSURANCE

The Target Group maintains insurance policies to cover potential losses and damages arising from fire, natural disasters and accidents at the petroleum storage facilities and petroleum refuelling stations. The assets at the petroleum refuelling stations and the petroleum storage facilities, such as the buildings, building structures, storage tanks, equipment and computers, are essential to its operations and are covered by property all risks insurance. The vehicles are covered by motor vehicle insurances. The insurance policies are generally renewed on an annual basis. In respect of the

Entrusted Petroleum Refuelling Stations and Entrusted Storage Facility, pursuant to the Entrusted Management Agreement, Changchun Yitonghe, as the entrusting party, shall be responsible for arranging necessary insurance policies for the assets and equipment for the Petroleum Refuelling Business and Petroleum Wholesale Business at the relevant Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility at the request of the Target Group. During the Track Record Period and up to the Latest Practicable Date, the Target Group had not made any significant claims under these insurance policies.

The Target Group is of the view that the coverage of the insurances maintained by it is adequate for its current operations and is in line with the industry norm. Nevertheless, significant damages to the operation facilities or any of the properties, whether as a result of fire and/or any other cause, could still have a material adverse impact on the operation results. Please refer to the section headed "Risk Factors — Risks Relating to the Target Group's Business and Industry — The Target Group's business entails inherent risks and occupational hazards. Failure to manage and control these risks and hazards could harm the Target Group's reputation and cause the Target Group to incur substantial costs" in this circular for further details.

LICENSES

The Target Group is required to obtain various licenses from competent government authorities in order to conduct its business. Where the stations and/or storage facilities are operated pursuant to the Entrusted Management Agreement, the licenses are held by the entrusting party.

Petroleum Refuelling Business: the operating entity is required to obtain (i) Refined oil retail business approval certificate (成品油零售經營批准證書) and (ii) Hazardous chemical business licence (危險化學品經營許可證).

Petroleum Wholesale Business: the operating entity is required to obtain (i) Refined oil wholesale business approval certificate (成品油批發經營批准證書) and (ii) Hazardous chemical business licence (危險化學品經營許可證).

Transportation Services: the operating entity is required to obtain road transport business licence (道路運輸經營許可證).

Set out below the number of licenses obtained by the Target Group which are material to the operation the Petroleum Refuelling Business, Petroleum Wholesale Business and transportation services:

Types of license	Number of licenses and their remaining period of validity from the Latest Practicable Date — Within one year(Note)	More than one year
Petroleum Refuelling Business		
Petroleum products retail business approval certificate (成品油零售經營批准證書)	9(Note 2 and 3)	58
Hazardous chemical business licence (危險化學品經營許可證)	22(Note 4)	47
Petroleum Wholesale Business		
Petroleum products wholesale business approval certificate (成品油批發經營批准證書)	2	1
Hazardous chemical business licence (危險化學品經營許可證)	2	1
Transportation Services		
Road transportation operation licence (道路運輸經營許可證)	–	1

Note: The Target Group will submit renew applications of these licenses before expiry date. As advised by the PRC Legal Advisers, there is no legal impediment for the renewal of these licenses from the relevant authorities.

Note 2: In respect of two newly constructed petroleum refuelling stations, namely, Dandong United Strength Xiuyan Donghuan Petroleum Station (丹東眾誠船舶燃油有限公司岫岩東環加油站) and Changchun Yitonghe Changchun Nansihuan Refuelling Station (長春伊通河石油經銷有限公司眾誠連鎖南四環加油加氣站), notwithstanding that the Target Group has submitted application for petroleum products retail business approval certificate, due to the function adjustment of government departments, the Target Group has not received the relevant licenses as at the Latest Practicable Date. As advised by the PRC Legal Advisers, the relevant companies have received written confirmation from the relevant authorities on the approval of operation of such refuelling stations in the absence of the licenses for the time being.

Note 3: Notwithstanding that the Target Group has submitted application for the renewal of petroleum products retail business approval certificates, the Target Group has not received the renewal of license for seven petroleum refuelling stations as at the Latest Practicable Date. As advised by the PRC Legal Advisers, provided that the Target Group had submitted all necessary documents required by the authorities, there is no material legal impediment for the Target Group to obtain the renewal of the such licenses.

Note 4: Notwithstanding that the Target Group has submitted application for the renewal of hazardous chemical business license, the Target Group has not received the renewal of license for two petroleum refuelling stations as at the Latest Practicable Date. As advised by the PRC Legal Advisers, provided that the Target Group had submitted all necessary documents required by the authorities, there is no material legal impediment for the Target Group to obtain the renewal of the such licenses.

As advised by the PRC Legal Advisers and the Target Company Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the Target Group had complied with all relevant laws and regulations in all material respects, and had obtained and maintained all valid licenses that were material for its operations.

EMPLOYEES

As at the Latest Practicable Date, the Target Group had 1,113 full-time employees all based in the PRC. The following table sets forth a breakdown of the employees by function as at the Latest Practicable Date:

Employees	As at the Latest Practicable Date	
	Number of employees	%
Senior management	8	0.7
Administration	35	3.1
Finance	17	1.5
Safety and equipment	19	1.7
Quality control	20	1.8
Human resources	29	2.6
IT	1	0.1
Operation	984	88.4
Total	1,113	100

The Target Group recruits employees based on its business expansion plans and job vacancies, and take into account the employee candidates' educational background and work experience. The Target Group enters into labour contracts with all of its employees. The Target Group determines the remunerations of the employees mainly based on their position, nature of work and performance. Regular training covering induction, health and safety and technical training are provided to employees.

Under the relevant PRC laws and regulations, the Target Group is required to contribute to various social security funds including basic pension insurance, unemployment insurance, occupational injury insurance, medical insurance and maternity insurance fund and the housing provident fund for its employees. As advised by the PRC Legal Advisers, based on the confirmation from the relevant authorities, during the Track Record Period, the Target Group had complied with the applicable PRC laws and regulations in relation to the social insurance fund and housing provident fund in all material respects.

The Target Group does not have a labour union. During the Track Record Period, the Target Group did not experience any material labour dispute with its employees, nor were they involved in any material labour-related legal proceedings.

PROPERTIES

The Target Group occupies certain properties in the PRC in connection with its business operations for 28 self-owned petroleum refuelling stations, 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself), two self-owned petroleum storage facilities and one Entrusted Petroleum Storage Facility. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for (i) the Petroleum Refuelling Business; (ii) the Petroleum Wholesale Business; and (iii) offices. As at 31 December 2019, each of such properties had a carrying amount below 15% of the Target Business's consolidated total assets. On this basis, no property valuation report in respect of the Target Business's property interests is required in reliance upon the exemption provided by Rule 5.01A of the Listing Rules, which requires a valuation report with respect to all of the Target Business's interests in land or buildings.

Owned properties

As at the Latest Practicable Date, the Target Group had land use rights with respect to 36 parcels of land in China, located in the cities of Changchun, Jilin and Dandong, with a total area of approximately 100,000 sq.m. for operation of the Petroleum Refuelling Business and office premises. The Target Group has obtained the land use rights certificates for all these 36 parcels of land.

As at the Latest Practicable Date, the Target Group had land use rights with respect to 3 parcels of land in the PRC, located in the cities of Changchun, Shenyang and Dandong, Jilin Province and Liaoning Province, with a total area of approximately 100,000 sq.m for operation of the Petroleum Wholesale Business. The Target Group has obtained the land use rights certificate for all these 3 parcels of land.

As at the Latest Practicable Date, the Target Group had obtained the relevant building ownership certificates in respect of the buildings and structures erected on these land parcels.

As advised by the PRC Legal Advisers, the Target Group has complied with the relevant PRC laws and regulations with respect to its owned properties in all material respects, and have obtained the land use right certificates and building ownership certificates for the aforementioned land parcels and premises, and are entitled to use these land parcels and legally own all of these premises.

Properties which the Target Group is authorized to use for operation

Apart from owned properties, as at the Latest Practicable Date, the Target Group is authorized to use 31 parcel of land and premises in the PRC for the operation of the Petroleum Refuelling Business. The Target Group confirms that it has the right to use these properties pursuant to the arrangements with the relevant lessors. For the risk relating to termination of lease by the relevant lessors, please refer to the section headed "Risk Factors — Risks Relating to the Target Group's Business and Industry — Certain of the Target Group's petroleum refuelling stations are operated on leased properties. Failure to renew the leases could cause serious disruptions to the Target Group's operations and could materially and adversely affect the Target Group's performance." of this circular for further details.

The following table sets out the number of the parcels of properties which the Target Group is authorised to use for operation of the petroleum refuelling stations:

Number of the parcels of properties expiring in	**FY2020**	**FY2021**	**FY2022 and beyond**	**Other**
Jilin Province	–	5	16	2(Note 1)
Liaoning Province	1	–	6	–
Heilongjiang Province	–	–	1	–
Sub-total	**1**	**5**	**23**	**2**

Note 1: The Target Group has been permitted by the relevant lessors to use other two parcels of land (one of which is an Independent Third Party and the other of which is a government department) for operation of the petroleum refuelling stations with no specific expiration date.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, none of the members of the Target Group, any of its subsidiaries or any of the Target Group's directors or the Entrusted Petroleum Refuelling Stations was involved in any material litigation, arbitration or administrative proceedings or claims that could have a material adverse effect on its financial condition or results of operations of the Target Group or the Entrusted Petroleum Refuelling Stations. To the best of the Target Group's knowledge, no such material litigation, arbitration or administrative proceedings or claims have been threatened against the Target Group or any of its subsidiaries or the Entrusted Petroleum Refuelling Stations. As advised by the PRC Legal Advisers, the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility currently operated by Changchun Yitonghe have not been subject to any material non-compliance incident and have not been involved in any litigation, arbitration or any significant event that could have a material adverse effect on the Target Group during the Track Record Period.

OUR CONTROLLING SHAREHOLDERS

Immediately following the Acquisition Completion and the Placing Completion, Golden Truth and Propitious Peak will, in aggregate directly hold approximately 53.92% of the issued share capital of our Company. Propitious Peak is wholly owned by Golden Truth, and Golden Truth is wholly owned by Mr. Zhao, being one of our founders, an executive Director and the Chairman, and a director of the Target Company. For the purpose of the Listing Rules, Golden Truth, Propitious Peak and Mr. Zhao are a group of the Controlling Shareholders of our Company. Certain of the Target Company Directors and the senior management members of the Target Group also hold various positions in Yitonghe Group.

Our Controlling Shareholders and Directors confirm that save as disclosed in this section, none of them or their respective close associates has any interest in a business, apart from the business of the Enlarged Group, which competes or is likely to compete, directly or indirectly, with business of the Enlarged Group, which would require disclosure under Rule 8.10 of the Listing Rules.

DELINEATION OF BUSINESSES AND COMPETITION

Business of the Enlarged Group

The Enlarged Group's business activities include the operation and management of Petroleum Refuelling Business and Petroleum Wholesale Business, the sales of natural gas in the form of CNG and LNG to vehicular end-users by operating CNG stations and LNG stations which sells CNG and LNG, i.e. Gas Refuelling Business, in Northeast China.

Business of United Strength Investment Group

As at the Latest Practicable Date, United Strength Investment is beneficially owned as to approximately 60.90% by Mr. Zhao, as to approximately 12.34% by Ms. Xu, as to approximately 8.23% by Mr. Liu, as to approximately 0.82% by Mr. Wang, as to approximately 7.63%, 6.30% and 3.78% by Changchun Rundeshidai Investment Consulting Centre (Limited Partnership)* (長春潤德時代投資諮詢中心（有限合夥）), Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership)* (長春盛隆時代投資諮詢中心（有限合夥）) and Changchun Huizhongshidai Investment Consulting Centre (Limited Partnership)* (長春滙眾時代投資諮詢中心（有限合夥）), as at the Latest Practicable Date. Mr. Zhao had been a director of United Strength Investment up to 17 March 2017. Prior to the Reorganisation, the United Strength Investment Group has been principally engaged in the storage, processing and wholesale of oil and petroleum, the Petroleum Refuelling Business, investment business and other businesses. Subsequent to the completion of Reorganisation, subsidiaries of United Strength Investment Group that principally engaged in the Petroleum Refuelling Business, Petroleum Wholesale Business and transportation service became part of the Target Group. As at the Latest Practicable Date, the United Strength Investment Group comprises more than 10 companies, which engage in various kinds of businesses including sales of petroleum by-products, investment consultancy and laboratory testing, etc.

Petroleum refuelling business and petroleum wholesale business undertaken by non-wholly owned subsidiary of United Strength Investment

The following table sets forth the details and reasons for exclusion of certain business undertaken in United Strength Investment's non-wholly subsidiary in the Target Group's business:

	Name of company	Owner	Operation and current status	Reason for exclusion
1.	Sanhe City Jiabao Petroleum Company Limited (三河市佳寶石油有限公司) ("**Sanhe Jiabao**")	100% by 北京眾誠嘉業化工貿易有限公司 (Beijing United Strength Jiaye Petrochemical Trading Company Limited) ("**Beijing United Strength**"), which is in turn 55%-owned by United Strength Investment and 45%-owned by Mr. Zhang Jian (張建), an Independent Third Party	Petroleum refuelling business in Sanhe City, Hebei Province, the PRC	The Target Group obtained a written confirmation from Beijing United Strength, indicating that Mr. Zhang Jian refused to dispose of the equity interests in Sanhe Jiabo of Beijing United Strength. The petroleum refuelling station operated by Sanhe Jiabo has been managed by Mr. Zhang, and United Strength Investment did not participate in the management of the subject petroleum refuelling station. In September 2018, the subject petroleum refuelling station was entrusted to another independent third party to operate. As advised by the Target Company Directors, upon the expiry of the entrustment arrangement with the independent third party in September 2025, subject to consent from Mr. Zhang, the Controlling Shareholders shall procure Sanhe Jiabao to entrust the subject petroleum refuelling station to the Enlarged Group.

Save for the investment in Sanhe Jiabao as disclosed above, during the Track Record Period and as at the Latest Practicable Date, the United Strength Investment Group (i) did not engage in the Gas Refuelling Business, and (ii) upon Acquisition Completion shall only retain the business and investment which are not in competition with the Enlarged Group's business, for instance, the petroleum commodity exchange centre business under United Strength Investment Group.

Business of Yitonghe Group

As at the Latest Practicable Date, Changchun Yitonghe is beneficially owned as to approximately 60.90% by Mr. Zhao, as to approximately 12.34% by Ms. Xu, as to approximately 8.23% by Mr. Liu, as to approximately 0.82% by Mr. Wang, as to approximately 7.63%, 6.30% and 3.78% by Changchun Rundeshidai Investment Consulting Centre (Limited Partnership), Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership) and Changchun Huizhongshidai Investment Consulting Centre (Limited Partnership), respectively. Mr. Zhao had been directors of Changchun Yitonghe up to 17 March 2017.

The Target Company Directors confirm that the shareholders of Changchun Rundeshidai Investment Consulting Centre (Limited Partnership)* (長春潤德時代投資諮詢中心(有限合夥)), Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership)* (長春盛隆時代投資諮詢中心(有限合夥)) and Changchun Huizhongshidai Investment Consulting Centre (Limited Partnership)* (長春滙眾時代投資諮詢中心(有限合夥)) are employees of the companies controlled by Mr. Zhao, amongst which, one employee is also daughter of Mr. Zhao. Theses companies are set up as an incentive and for the benefits of the welfare of the employees of companies controlled by Mr. Zhao who are provided with the possible opportunities to become a shareholder of Changchun Yitonghe. Save as disclosed herein, there is no other past or present relationship, transaction, agreement, arrangement or understanding between each of (A) the limited partnerships and their ultimate beneficial owners and (B) the Group, the Directors, the Shareholders and senior management of the Group or any of their respective associates, and the Group's customers and suppliers.

Prior to the Acquisition Completion, Yitonghe Group is principally engaged in the Petroleum Refuelling Business and Petroleum Wholesale Business, sales of petroleum products and other petroleum-related businesses. Upon Acquisition Completion, the business of Yitonghe Group will only include petroleum exploitation and refining, and research and development of petroleum products. Notwithstanding upon Acquisition Completion, Changchun Yitonghe will still hold equity interests in certain of the Petroleum Refuelling Business and the Petroleum Wholesale Business, in effect, Yitonghe Group will no longer be involved in the operation of these businesses. Instead, through the Entrusted Management Agreement, pursuant to which Changchun Yitonghe as the entrusting party shall entrust the WFOE Group as the operating party with (i) an exclusive right to operate and manage the Petroleum Refuelling Business and the Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility and (ii) authorised the WFOE Group to use all assets, property, land and equipment necessary for such operation and management. For details of the Entrusted Management Agreement, please refer to the section headed "Connected Transactions — A. Connected Transactions — 1. Entrusted Management Agreement" of this circular. The Entrusted Management Agreement will last for a terms of 10 years from the date of the Acquisition Completion, and in accordance with the Entrusted Management Agreement, WFOE shall be entitled to the right of first refusal in relation to the renewal of the Entrusted Management Agreement, pursuant to which Changchun Yitonghe can only enter into entrusted management agreement(s) in relation to any Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility with other third parties after WFOE has decided not to renew the Entrusted Management Agreement. Further, Changchun Yitonghe (as option grantor) granted WFOE (for itself and on behalf of other members of the WFOE Group) (as the option grantee) an option to purchase the Petroleum Refuelling Business of the relevant Entrusted Petroleum Refuelling Stations and the Petroleum Wholesale Business of the Entrusted Petroleum Storage Facility, and the assets, property, land and equipment related to its operation and owned by Changchun Yitonghe. Our Directors are of the view that through the Entrusted Management Agreement, the operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business will fully fall under the Enlarged Group's ambit and control and therefore no competition shall arise between the Enlarged Group and Yitonghe Group upon the Acquisition Completion in this regard.

Set forth below are certain petroleum related businesses undertaken by Changchun Yitonghe and its subsidiaries/close associates but excluded from the Target Group for the purpose of the proposed Acquisition:

1. United Strength Vehicle Service (owned as to 45.1% by Changchun Yitonghe)

Petroleum refuelling business undertaken by United Strength Vehicle Service and its branch companies

The following table sets forth the details and reasons for exclusion of certain business undertaken in United Strength Vehicle Service and its branch companies:

	Name of company	Owner	Operation and current status	Reason for exclusion
1.	United Strength Vehicle Service	54.9% by Beijing Zhonghui Hongcheng Investment Management Company Limited (北京眾輝弘晟投資管理有限公司) ("**Beijing Zhonghui**"), an Independent Third Party, and 45.1% by Changchun Yitonghe	Operation and management of petroleum refuelling stations in Jilin Provinces. As at the Latest Practicable Date, four petroleum refuelling stations are owned and operated by United Strength Vehicle Service.	The Target Group obtained a written confirmation from Beijing Zhonghui, indicating that it refused to dispose of the equity interests in United Strength Vehicle Service. The petroleum refuelling stations operated by United Strength Vehicle Service have been managed by Beijing Zhonghui, and Changchun Yitonghe, as a minority shareholder and a passive investor, did not participate in the management of the subject petroleum refuelling stations.
a.	Jilin Province United Strength Automobile Service Chain Company Limited Lishu Petroleum Station (吉林省眾誠汽車服務連鎖有限公司梨樹加油站)	Branch companies of United Strength Vehicle Service	Petroleum refuelling stations	

	Name of company	Owner	Operation and current status	Reason for exclusion
b.	Jilin Province United Strength Automobile Service Chain Company Limited Jihai Petroleum Station (吉林省眾誠汽車服務連鎖有限公司吉海加油站)			
c.	Jilin Province United Strength Automobile Service Chain Company Limited Gongzhuling Service Area North Area Petroleum Station (吉林省眾誠汽車服務連鎖有限公司公主嶺服務區北區加油站)			
d.	Jilin Province United Strength Automobile Service Chain Company Limited Gongzhuling Service Area Southern Area Petroleum Station (吉林省眾誠汽車服務連鎖有限公司公主嶺服務區南區加油站)			

2. Jilin Yitonghe (owned as to 45% by Changchun Yitonghe)

Petroleum refuelling business undertaken by Jilin Zhongyou Yitonghe Petroleum Sales Co., Ltd ("Jilin Yitonghe") and its branch companies

The following table sets forth the details and reasons for exclusion of certain business undertaken in Jilin Yitonghe and its branch companies:

	Name of company	Owner	Operation and current status	Reason for exclusion
1.	Jilin Yitonghe	55% by China National Petroleum Corporation ("**CNPC**") and 45% by Changchun Yitonghe	Operation and management of certain petroleum refuelling stations in Jilin Province. As at the Latest Practicable Date, five petroleum refuelling stations are in operation.	CNPC refused to dispose of the equity interests in Jilin Yitonghe. The petroleum refuelling stations operated by Jilin Yitonghe have been managed by CNPC, and Changchun Yitonghe, as a minority shareholder and a passive investor, did not participate in the management of the subject petroleum refuelling stations.
a.	Jilin Zhongyou Yitonghe Petroleum Sales Company Limited Gonglama Petroleum Station (Wula Street Station) (吉林中油伊通河石油銷售有限責任公司公拉瑪加油站(烏拉街站))	Branch companies of Jilin Yitonghe	Petroleum refuelling stations	
b.	Jilin Zhongyou Yitonghe Petroleum Sales Company Limited Zuojia Petroleum Station (吉林中油伊通河石油銷售有限責任公司左家加油站)			
c.	Jilin Zhongyou Yitonghe Petroleum Sales Company Limited Qingyang Petroleum Station (吉林中油伊通河石油銷售有限責任公司慶陽加油站)			
d.	Jilin Zhongyou Yitonghe Petroleum Sales Company Limited Jimingshan Petroleum Station (吉林中油伊通河石油銷售有限責任公司雞鳴山加油站)			
e.	Jilin Zhongyou Yitonghe Petroleum Sales Company Limited Changde Petroleum and Gas Station (吉林中油伊通河石油銷售有限責任公司長德油氣站)			

3. Companies that own petroleum refuelling stations not yet put into operation (together with the branch companies of Changchun Yitonghe that had ceased operation of petroleum refuelling stations, the "Relevant Refuelling Stations")

The permitted scope of business of the following companies include the operation of, amongst others, petroleum refuelling business. The table below sets forth the petroleum refuelling stations of such companies that are still in construction and/or not yet put into operation. As the applications for construction and operation of these stations were made by the relevant companies prior to the reorganisation of the Target Group, notwithstanding that the transfer of ownership of following companies is permissible under the relevant PRC legal and policy requirement, such transfer is unduly burdensome and involves complicated administrative steps of having to re-comply with the approval procedures and requirements for future planning and constructions of the petroleum refuelling stations. As a result, such companies are not included in Target Group for the proposed Acquisition:

Name of company	Owner	Previous operation and current status
Harbin Shengshi United Strength Petroleum Natural Gas Distribution Company Limited (哈爾濱盛世眾誠石油天然氣經銷有限公司) ("**Harbin Shengshi United Strength**")	90% by Heilongjiang Shengshi United Strength Vehicle Energy Development Company Limited (黑龍江盛世眾誠汽車能源發展有限公司) (an 85.40%-owned subsidiary of Changchun Yitonghe) and 10% by (Mr. Cai Binbin (蔡斌斌) (an Independent Third Party)	Permitted scope of business included construction and operation of mixed refuelling station, currently has not commenced business
Yanbian Xinyuan Refined Oil Distribution Company Limited (延邊鑫源成品油經銷有限公司)	100% by Changchun Yitonghe	Permitted scope included petroleum refuelling station construction but no plan for construction yet
Jarud Banner United Strength Petroleum Sales Company Limited (扎魯特旗眾誠石油銷售有限公司)	77% by United Strength Investment and 18% by Changchun Yitonghe	Pre-construction stage

In order to protect the interest of the Enlarged Group, the Controlling Shareholders (as option grantor), pursuant to the Deed of Non-competition, shall grant to the Company (for itself and on behalf of other members of the Enlarged Group) (as option grantee) an option to acquire the companies possessing the Relevant Refuelling Stations (which shall include the assets, property, land and equipment related to its operation). The option is exercisable by the Enlarged Group (or other member of the Enlarged Group) (under the supervision of the Board) upon the fulfilment of the relevant condition for its exercise and subject to the agreement of the minority shareholders of the Relevant Refuelling Stations (in respect of Harbin Shengshi United Strength). For details, please refer to the paragraph headed"COMPETITION AND CONFLICT OF INTERESTS" in this section below.

4. Branch companies of Changchun Yitonghe that had ceased operation of petroleum refuelling stations (together with the companies that own petroleum refuelling stations not yet put into operation, the "Relevant Refuelling Stations")

Certain branch companies of Changchun Yitonghe had ceased operation of petroleum refuelling stations. However, due to commercial considerations, Changchun Yitonghe and the Target Company believe the licenses and permit of such branch companies can be retained, mainly for continuing to communicate with the government on planning changes, compensation for demolition, and also in consideration of whether there can be business potential of these petroleum refuelling stations in the future. There are currently such 4 branch companies of Changchun Yitonghe which are not included in the Target Group for the proposed Acquisition. In order to protect the interest of the Enlarged Group, the Controlling Shareholders (as option grantor), pursuant to the Deed of Non-competition, shall grant to the Company (for itself and on behalf of other members of the Enlarged Group) (as the option grantee) an option to purchase, amongst others, these stations and the related assets, property, land and equipment related to its operation and owned by Changchun Yitonghe. For details, please refer to the paragraph headed "COMPETITION AND CONFLICT OF INTERESTS" in this section below. If such petroleum refuelling stations have not been acquired by the Enlarged Group when they are put into operation, these stations shall be operated by the Enlarged Group through entrustment arrangements:

1. Changchun Yitonghe Lubao Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖綠保加油站)

2. Changchun Yitonghe Zilaishui Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖自來水加油站)

3. Changchun Yitonghe Jiecheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖捷成加油站)

4. Changchun Yitonghe Jixing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉興加油站) (together, "**Changchun Yitonghe Petroleum Refuelling Stations (Ceased)**")

5. Petroleum refuelling stations entrusted by Changchun Yitonghe to independent third party ("I3P Entrusted Stations")

As disclosed in the section headed "Business of the Target Group – Petroleum Refuelling business – Petroleum Refuelling Station Network – Petroleum Refuelling Station Opening and Closure Policy" of this circular, having considered reasons set forth thereof, the Target Company Directors and our Directors had agreed not to include the operation rights of 12 petroleum refuelling stations which Changchun Yitonghe was granted to operate in the Entrusted Management Agreement. As a means to avoid potential competition with the Enlarged Group, Changchun Yitonghe has entrusted the operating rights of such stations for 5 years to an independent third party in January 2020, rendering Changchun Yitonghe not able to have any operation of the petroleum refuelling stations. Although Changchun Yithonghe receives entrustment fee from the independent third party, such amount was equivalent to the amount payable to the government authority by Changchun Yitonghe for the operating rights. The Target Company Directors confirmed that save for these 12 petroleum refuelling stations, there are no other petroleum refuelling stations that are entrusted by Changchun Yitonghe to other third parties.

Upon the expiry of the 5-year period, such petroleum refuelling stations will be subject to open tendering process, which the Enlarged Group will have the right to bid for the operation of such petroleum refuelling stations after reviewing the business performance of these stations. In view of the above, our Directors considered that the competition issues have been duly considered and resolved from commercial point of view with the Directors having chosen to exercise their rights to exclude those stations not bringing positive business and/or financial impact to the Enlarged Group in the course of negotiation of the SP Agreement and direct Changchun Yitonghe to entrust the operation rights to third party until its right to operate expires. Changchun Yitonghe does not receive any actual financial benefits through entrusting these stations to the independent third party given the entrustment fee it received did not exceed the amount it needed to pay to the government authority for the operating rights. In order to protect the interest of the Enlarged Group, our Controlling Shareholders (as option grantor), pursuant to the Deed of Non-competition, shall grant to the Company (for itself and on behalf of other members of the Enlarged Group) (as the option grantee) an option to obtain, amongst others, the operating rights of these stations in case the independent third party does not continue to operate these I3P Entrusted Stations within the 5-year period for whatever reasons. For details, please refer to the paragraph headed"COMPETITION AND CONFLICT OF INTERESTS" in this section below.

Directors' View on Non-Competition

In light of the foregoing factors, and (i) the steps taken under the reorganisation of the Group to exclude entities with potential future competition between the businesses of Yitonghe Group and that of the Enlarged Group and (ii) the Deed of Non-competition given by the Controlling Shareholders in favour of our Company (for itself and on behalf of other members of the Enlarged Group), our Directors are of the view that there is no or minimal competition between the Enlarged Group and Yitonghe Group, and that there is clear delineation of businesses between the Target Group's principal business and the business of Yitonghe Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Save as disclosed in this section and the section headed "Connected Transactions" in this circular, our Directors do not expect that there will be any other significant transactions between the Enlarged Group and our Controlling Shareholders upon or shortly after Acquisition Completion. The Enlarged Group is capable of carrying on our business independently from and does not place undue reliance on our Controlling Shareholders, taking into consideration the following factors:

Management independence

Our Board of the Company shall comprise five executive Directors upon Acquisition Completion and three INEDs. Mr. Zhao, one of our executive Directors, is one of our Controlling Shareholders.

Each of our Directors is aware of his/her fiduciary duties as a Director, which require (among other things) that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. If there is a potential conflict of interest arising out of any transaction to be entered into between the Enlarged Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Apart from our executive Directors who oversee the daily operations of our Group, we have an independent management team to carry out the business decisions of our Group and to perform all essential management functions without unduly requiring the support of our Controlling Shareholders. In particular, one of our executive Directors, Mr. Yuan Limin, does not have any relationship with the Target Group. Our INEDs have sufficient and competent industry knowledge and experience, and will bring independent judgment to the decision making process of our Board, taking into account the advice of the senior management of our Group.

Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Acquisition Completion.

Business independence

Since the Listing and up to the Latest Practicable Date, save for the connected transactions that have been disclosed in the Prospectus and the announcement(s) of the Company dated 19 January 2018 and the circular of the Company dated 14 February 2018 and the related party transactions disclosed in note 26 of the accountants' report set out in Appendix I to this circular, there were no material business dealings between our Group and our Controlling Shareholders or their respective close associates, also our Group and our Controlling Shareholders did not have any common or shared facilities or resources. Upon the Acquisition Completion, such relationships will be governed by, amongst others, the Entrusted Management Agreement and the Business Agreements, details of which are set out in the section headed "Connected Transactions" in this circular.

Since the Listing and up to the Latest Practicable Date, our Group and our Controlling Shareholders did not have any overlapping facilities or resources. Save as disclosed in the section headed "Business of the Target Group – Raw materials and our suppliers", neither our Controlling Shareholders nor any of their respective close associates is a supplier of the Target Group. We have independent access to our customers. Our Directors believe that our Group has not unduly relied on our Controlling Shareholders or their respective close associates to carry on its business during the Track Record Period and it is expected to be so upon the Acquisition Completion.

Financial independence

During the Track Record Period, the Target Group principally financed its operations through a combination of paid-in capital and retained earnings. As at 31 December 2016, 2017, 2018 and 2019, unsecured and unguaranteed short term loans from related parties of the Target Business amounted to approximately RMB70.0 million, RMB50.0 million, RMB90.0 million and RMB30.0 million, respectively. The unsecured and unguaranteed loans from related parties of the Target Business will be settled by the Target Group upon the Acquisition Completion. As at 31 December 2016, 2017, 2018 and 2019, long term bank and other loans which were secured by property, plant and equipment of the Target Business and guaranteed by related parties amounted to approximately nil, RMB10.0 million, RMB28.8 million and RMB27.4 million, respectively. The guarantee by related parties for the Target Business's long term bank and other loans is expected to be released upon Acquisition Completion. Prior to the Acquisition Completion, all non-trade nature loans, advances and balances due to and from our Controlling Shareholders and their respective close associates will be fully settled. The guarantee by related parties for the Target Business's long term bank and other loans is expected to be released upon the Acquisition Completion.

During the Track Record Period and up to the Latest Practicable Date, we had independent financial and accounting and internal control systems, independent treasury function for receiving cash and making payments and we had independent access to third party financing. Our Group is capable of making financial decisions according to our own business needs. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders and their respective close associates.

Our Group does not rely on our Controlling Shareholders and/or their respective close associates by virtue of their provision of financial assistance.

Operational independence

Our Group has our own management team to carry out our business and operations, including business development, marketing and sales operations, which will operate separately and independently from our Controlling Shareholders. Such management team comprises managers who have considerable experience in the Gas Refuelling Business and the Petroleum Refuelling Business. Our Group does not rely on referral of business opportunities from our Controlling Shareholders, and the management team of our Group will be able to seek business opportunities for our Group. Our Group is able to continue to operate independently from our Controlling Shareholders.

COMPETITION AND CONFLICT OF INTERESTS

Undertakings given by Controlling Shareholders

Each of our Controlling Shareholders has confirmed, represented and warranted to us, other than his/its interest in the Enlarged Group (for the avoidance of doubt, which includes their interests in the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility), that as of the date of the Deed of Non-competition, he/it, his/its close associates, the Relevant Refuelling Stations (as defined below), Songyuan Petrochemical and its branch company and/or companies controlled by him/it currently is/are not engaged or interested in the Restricted Activity, and each of them further undertakes to our Company, other than his/its interest in the Enlarged Group, that at any time during the Relevant Period (as defined below) subject to certain exceptions as set out below, he/it shall not and shall procure that his/its close associates, the Relevant Refuelling Stations and Songyuan Petrochemical and its branch company not to engage or interest in the Restricted Activity (as defined below) in any Relevant Capacity (as defined below) (other than through the Enlarged Group), or any part thereof, or participate or hold any equity interest or is otherwise interested in any company or entity or firm which is principally engaged in the Restricted Activity, which in each case directly or indirectly, competes or may compete with the business of the Enlarged Group.

To protect our Group from any potential competition, our Controlling Shareholders have given the Deed of Non-competition in favour of our Company (for itself and on behalf of other members of the Enlarged Group), pursuant to which each of our Controlling Shareholders has, among other matters, unconditionally and irrevocably undertaken to us on a joint and several basis that, each of our Controlling Shareholders shall, and shall procure that his/its close associates and/or companies controlled by him/it (other than the Enlarged Group):

(i) at any time during the Relevant Period, not directly or indirectly, alone or jointly with another person, in any form be interested, involved, engaged in or assist or support any third party in the operation of, or invest, participate, acquire or hold any right or interest (in each case whether for his/its own account or for that of any person, firm or company other than any member of the Enlarged Group or the mere ownership of the Relevant Refuelling Stations and whether through the medium of any company which is its close associate (for which purpose there shall be aggregated with its shareholding or ability to exercise control the shares held or controlled by any of its close associates) or as principal, shareholder, partner, director, employee, consultant, agent or otherwise and whether for profit, reward or otherwise ("**Relevant Capacity**")) in any business (other than the Enlarged Group) which is the same or similar to that carried on by the Enlarged Group and/or which competes or may compete directly or indirectly with the business currently and from time to time engaged by the Enlarged Group (including but not limited to (i) the engagement in petroleum refuelling business by way of operation and management of petroleum refuelling stations, (ii) engagement in petroleum wholesale business to petroleum refuelling station operators (but not including upstream petroleum supply), (iii) provision of transportation services and other business activities engaged under the Target Business from time to time (the "**Restricted Activity**")); whereby the petroleum refuelling stations, if such petroleum refuelling stations have not been acquired by the Enlarged Group, shall be operated by the Enlarged Group through entrustment arrangements;

(ii) at any time during which securities of our Company are listed on the Stock Exchange and for so long as our Controlling Shareholders and/or their respective close associates directly or indirectly hold, whether individually or taken together, 30% or more of the issued shares in our Company or are regarded as the controlling shareholders of our Company under the Listing Rules and for a period of two years thereafter, in any Relevant Capacity:

a. not directly or indirectly solicit, interfere with, employ or endeavour to entice away from any member of the Enlarged Group any person who, to his/its knowledge, is now, was or has during the Track Record Period and up to the date of the Deed of Non-competition been, a client, customer or employee of the Enlarged Group for employment (excluding the existing employees of the Yitonghe Group) by or otherwise dealing with him/it or his/its close associates (excluding the Enlarged Group); and/or

b. other than (a) for the purpose of conducting business of or relating to the Enlarged Group or (b) being authorized to use the trade name (商號) of "眾誠連鎖" owned and the trademark " " owned by United Strength Vehicle Service, at any time, not use the name or trading style of any member of the Enlarged Group, or any trademarks, patents or logos or device or intellectual property rights similar in appearance to those of any member of the Enlarged Group, in the PRC, Hong Kong or any other part of the world, or represent himself/itself as carrying on or continuing or being connected with any member of the Enlarged Group or its business for any purposes whatsoever.

(iii) not without prior written consent from our Company, disclose to any person, or make use of any information pertaining to the business, accounts or finances of the Enlarged Group, or any of its clients', suppliers' or customers' transactions or affairs, which may, or may have, come to his/its knowledge in his/its capacity as a shareholder of our Company and/or a Director (as the case may be) for any purpose and shall use his/its best endeavours to prevent the publication or disclosure of such information;

(iv) at any time during the Relevant Period if there is any project or new business opportunity that relates to the Restricted Activity, first refer within a reasonable period of time (and in any event not more than 15 days after such opportunity being aware of by the relevant Controlling Shareholders or his/its close associates) such project or new business opportunity including the information in relation thereto to our Company (including the INEDs) for consideration. In this connection, our Company has the right within one month thereafter to take up such opportunity and in the event that our Company decides to take up the opportunity, each of our Controlling Shareholders will and will procure his/its close associate(s) to use his/its best endeavour to assist the Enlarged Group to obtain such opportunity.

Approvals for allowing our Controlling Shareholders to participate in the Restricted Activity

The above undertaking is subject to the exception that any of our Controlling Shareholders and/or his/its close associates (excluding the Enlarged Group) is entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity containing or for the pursuit of the Restricted Activity, regardless of value, where such project or business opportunity shall have been offered or made available to the Enlarged Group and rejected by our Company in our Board meeting(s) after steps of careful scrutiny and approval from our Board will have been taken, provided always that information about the principal terms thereof has been disclosed to our Company and our Directors.

Our Board meeting for considering such project or business opportunity shall be participated by the INEDs, who should be allowed a reasonable period of time to consider the subject matters and without the attendance by any Directors with beneficial interest in such project or business opportunity at the meeting, in which resolutions have been duly passed by a majority of such INEDs that the Enlarged Group has rejected such project or business opportunity and/or otherwise not to be involved or engaged, or not to participate, in the relevant Restricted Activity and that the principal terms on which that the relevant Controlling Shareholder and/or his/its close associate(s) invest, participate or engage in the Restricted Activity are substantially the same as or not more favourable than those disclosed to and considered by our Company.

Notwithstanding the taking up of the new projects or business opportunities (if any), Mr. Zhao shall, as a Director, always perform his duties in good faith and in the interest of our Company and shall not (at any time when he is an executive Director) allow his commitment to devote substantially all of his time to the Enlarged Group be undermined in any way.

Other exceptions for our Controlling Shareholders to participate in the Restricted Activity

Notwithstanding the undertakings given under the Deed of Non-competition, any of our Controlling Shareholders and their respective close associates (excluding the Enlarged Group, the Relevant Refuelling Stations and its branch company) are entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity, regardless of value, which (i) are the direct or indirect investments of the relevant Controlling Shareholder and/or his/its close associates (excluding the Enlarged Group and the Relevant Refuelling Stations) in any member of the Enlarged Group or its associated companies and/or (ii) any other companies which the relevant Controlling Shareholder does not hold more than 5% interest and does not participate in the management of such company and at all times there is a holder of such shares or securities holding (together, where appropriate, with its close associate(s)) a larger percentage of the shares or securities of such company than our Controlling Shareholder and his/its close associate(s) together hold.

Option granted to the Enlarged Group to purchase the companies possessing the Relevant Refuelling Stations

Pursuant to the Deed of Non-competition, our Controlling Shareholders has, jointly and severally, grant to our Company (for itself and on behalf of other members of the Enlarged Group) an option to acquire the companies possessing the Relevant Refuelling Stations (which shall include the assets, property, land and equipment related to its operation). The purchase price shall be determined based on arm's length negotiations, and the option is exercisable from the date on which the Relevant Refuelling Stations having obtained the "Certificate of Retail Sales of Refined Oil Products" (《成品油零售經營批准證書》) and "The Business License for Hazardous Chemicals" (《危險化學品經營許可證》) and the Relevant Refuelling Stations satisfying all pre-conditions for the actual business operation of a petroleum refuelling stations. The option is exercisable by the Enlarged Group (or other member of the Enlarged Group) (under the supervision of the Board) upon the fulfilment of the relevant condition for its exercise and subject to the agreement of the minority shareholders of the Relevant Refuelling Stations (in respect of Harbin Shengshi United Strength). Our Company will comply with the requirements under Chapter 14 and 14A of the Listing Rules when it exercises the option. Our Directors confirm that it is our Company's policy direction to consider to acquire the petroleum refuelling stations as priority, instead of operating them through entrustment arrangement, whenever the conditions to acquire the petroleum refuelling stations become legally permissible. Subject to factors that are similar to the petroleum refuelling station opening policies, for instance, proximity to the logistics facilities and management centres, the local economic and transportation conditions and the potential economic benefits (including, amongst others, the acquisition cost and cashflow of the Enlarged Group), details of which are set of in the section headed "Business of the Target Group — The petroleum refuelling station network — Petroleum refuelling station opening and closure policies" in this circular, our Company shall choose to acquire the petroleum refuelling stations when it is legally permissible and in the best interest of the Shareholders as a whole for such acquisition.

In the event that the Enlarged Group decided not to continue to operate any of the petroleum refuelling stations for whatever reason, our Controlling Shareholders will be subject to the approval mechanism as set out in the Deed of Non-Competition before they can participate in the operation of the petroleum refuelling stations. For details, please refer to the paragraph headed "Approvals for allowing our Controlling Shareholders to participate in the Restricted Activity" in this section.

Option granted to the Enlarged Group to purchase the Changchun Yitonghe Petroleum Refuelling Stations (Ceased)

Further, pursuant to the Deed of Non-competition, our Controlling Shareholders (as option grantor) shall grant to our Company (for itself and on behalf of other members of the Enlarged Group) (as the option grantee) an option to purchase the Changchun Yitonghe Petroleum Refuelling Stations (Ceased) and the related assets, property, land and equipment related to their operation and owned by Changchun Yitonghe. The purchase price shall be determined based on arm's length negotiations. The option is exercisable by our Company (or other member of the Enlarged Group) (under the supervision of the Board) upon the fulfilment of the relevant condition for its exercise. Our Company will comply with the requirements under Chapter 14 and 14A of the Listing Rules when it exercises the option. The exercise period is exercisable from the date on which under the applicable laws and regulations, the operating entity of the related licenses, permits and approval documents of the Changchun Yitonghe Petroleum Refuelling Stations (Ceased) can be changed in an efficient manner, such as the investing/operating entity of the "Certificate of Retail Sales of Refined Oil Products" (《成品油零售經營批准證書》) and "The Business License for Hazardous Chemicals" (《危險化學品經營許可証》) of those petroleum refuelling stations can be changed from Changchun Yitonghe to third parties directly without de-registration of the existing operator. Our Directors confirm that it is our Company's policy direction to consider to acquire the petroleum refuelling stations as priority, instead of operating them through entrustment arrangement, whenever the conditions to acquire the petroleum refuelling stations and facilities become legally permissible. Subject to factors that are similar to the petroleum refuelling station opening policies, for instance, proximity to the logistics facilities and management centres, the local economic and transportation conditions and the potential economic benefits (including, amongst others, the acquisition cost and cashflow of the Enlarged Group), details of which are set of in the section headed "Business of the Target Group — The petroleum refuelling station network — Petroleum refuelling station opening and closure policies" in this circular, our Company shall choose to acquire the petroleum refuelling stations when it is legally permissible and in the best interest of the Shareholders as a whole for such acquisition.

In the event that the Enlarged Group decided not to continue to operate any of the petroleum refuelling stations for whatever reason, our Controlling Shareholders will be subject to the mechanism as set out in the Deed of Non-Competition before they can participate in the operation of the petroleum refuelling stations. For details, please refer to the paragraph headed "Approvals for allowing our Controlling Shareholders to participate in the Restricted Activity" in this section.

Option granted to the Enlarged Group to obtain the operating rights of I3P Entrusted Stations

Further, pursuant to the Deed of Non-competition, the Controlling Shareholders (as option grantor) shall grant to the Company (for itself and on behalf of other members of the Enlarged Group) (as the option grantee) an option to obtain the operating rights of the I3P Entrusted Stations (as defined in this section above) when the incumbent independent third party operator chooses not to continue to operate these I3P Entrusted Stations within the 5-year period for whatever reasons. The consideration shall be determined based on arm's length negotiations. The option is exercisable by the Company (or other member of the Enlarged Group) (under the supervision of the Board) upon the fulfilment of the relevant condition for its exercise. The Company will comply with the requirements under Chapter 14 and 14A of the Listing Rules when it exercises the option. The exercise period is exercisable from the date on which incumbent independent third party operator notifies Changchun Yitonghe in writing its decision not to continue to operate the I3P Entrusted Stations and until the expiry of the 5-year period where Changchun Yitonghe no longer has the operating rights of these stations.

In the event that the Enlarged Group decided not to continue to operate any of the I3P Entrusted Stations for whatever reason, the Controlling Shareholders will be subject to the mechanism as set out in the Deed of Non-Competition before they can participate in the operation of the I3P Entrusted Stations. For details, please refer to the paragraph headed "Approvals for allowing our Controlling Shareholders to participate in the Restricted Activity" in this section.

First rights of refusal agreed to be given by our Controlling Shareholders to our Company

Pursuant to the Deed of Non-competition, our Controlling Shareholders have, jointly and severally, granted first rights of refusal to our Company (for itself and on behalf of other members of the Enlarged Group) for acquiring from the relevant Controlling Shareholders and/or his/its close associates any new business (not being the Restricted Activity) then engaged or invested by such Controlling Shareholder and/or his/its close associates, which rights may be exercisable by our Company at any time when the Enlarged Group engages or starts engaging in any such business.

Applicability of terms of the Deed of Non-Competition on the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility

For the avoidance of doubt, our Controlling Shareholders have confirmed and undertaken that (i) they shall procure Changchun Yitonghe to take all necessary actions to facilitate the exercise of the purchase option pursuant to the Entrusted Management Agreement; and (ii) the terms of the Deed of Non-Competition shall also apply to the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility, subject to the terms of the Entrusted Management Agreement, i.e.:

- in the event that the option to purchase the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility becomes exercisable by WFOE and yet WFOE decided not to exercise it, the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility will be continued to be operated by the WFOE Group pursuant to the Entrusted Management Agreement (instead of by Changchun Yitonghe by whatever means for compliance with the terms of the Deed of Non-competition); and

- in the event that the Enlarged Group decided not to continue to operate any of the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility for whatever reason (either through acquisition or entrustment arrangement), our Controlling Shareholders will be subject to the approval mechanism as set out in the Deed of Non-Competition before they can participate in the operation of Entrusted Petroleum Refuelling Stations or the Entrusted Petroleum Storage Facility. For details, please refer to the paragraph headed "Approvals for allowing our Controlling Shareholders to participate in the Restricted Activity" in this section.

Undertakings by our Controlling Shareholders to provide information etc.

Each of our Controlling Shareholders has also undertaken under the Deed of Non-competition that he/it shall:

(i) provide or procure the provision to our Company and/or our Directors (including our INEDs) from time to time all information necessary for annual review by our INEDs with regard to the compliance of the terms of the Deed of Non-competition by the relevant Controlling Shareholders and his/its close associates;

(ii) to allow our Directors, their respective representatives and the auditors of the Enlarged Group to have sufficient access to the records (including but not limited to financial records and business contracts) of the relevant Controlling Shareholder and his/its close associates to ensure their compliance with the terms and conditions under the Deed of Non-competition;

(iii) issue an annual declaration to our Company on compliance with the terms of the Deed of Non-competition, setting out therein his/its interests (if any) in any projects or business opportunities (and including any changes thereof) and consenting to the disclosure of such declaration in the annual reports of our Company or the announcements published by our Company regarding the decisions of the INEDs on matters referred to in the Deed of Non-competition;

(iv) supply to our Company upon signing of the Deed of Non-competition with full and accurate details of any business or interest (if any) which the relevant Controlling Shareholder and/or his/its close associates have or may have which competes or may compete with the business from time to time carried on by the Enlarged Group and any other conflicts of interests (if any) which the relevant Controlling Shareholder has or may have with the Enlarged Group and whether the relevant Controlling Shareholder and/or his/its close associates intend or do not intend to inject such business or interest into the Enlarged Group;

(v) at any time during which the Shares of our Company are listed on the Stock Exchange and for so long as the relevant Controlling Shareholder and/or his/its close associates are regarded, whether individually or taken together, as controlling shareholders of our Company within the meaning of the Listing Rules, notify our Company forthwith of any changes of the details and information referred to in paragraph (iv) above so as to enable our Company to, if so required by the Stock Exchange or pursuant to the Listing Rules, disclose such information by way of an announcement and include such information in such circulars, annual reports, half-year reports and/or quarterly reports required to be issued by our Company pursuant to the Listing Rules;

(vi) procure any Director from time to time nominated by the relevant Controlling Shareholder:

(a) to disclose to our Company upon signing of the Deed of Non-competition and at any time during which the Shares of our Company are listed on the Stock Exchange full and accurate details of any business or interest (if any) which such Director and/or his/her close associates have or may have which competes or may compete with the business from time to time carried on by the Enlarged Group and any other conflicts of interest (if any) which such Director has or may have with the Enlarged Group;

(b) to notify our Company forthwith of any changes of the details and information referred to in paragraph (vi)(a) above, including any such business or interest acquired by such Director and/or his/her close associates after the Acquisition Completion so as to enable our Company to, if so required by the Stock Exchange or pursuant to the Listing Rules, disclose such information by way of an announcement and include such information in such circulars, annual reports, half-year reports and/or quarterly reports required to be issued by our Company pursuant to the Listing Rules.

Our Controlling Shareholders acknowledge that and, if so required by our Company, procure such Director(s) referred to in paragraph (vi) above to acknowledge that the information supplied to our Company pursuant to paragraphs (iv), (v) and/or (vi) above will or may be disclosed by our Company in the circulars, reports, announcements and other statements to the Stock Exchange and/or any regulatory authorities and their respective officers and employees from time to time issued by our Company and that such disclosure is required by our Company in order to comply with the requirements of the Stock Exchange and/or other regulatory bodies.

Conditions precedent to the Deed of Non-competition becoming effective

The provisions contained in the Deed of Non-competition are conditional on the conditions stated in the paragraph headed "Conditions Precedent" under the section headed "Letter from the Board – The Acquisition" in this circular being fulfilled or, to the extent permitted, waived by the relevant party. If such conditions are not fulfilled or, to the extent permitted, waived on or before 5:00 p.m. on 30 September 2020 or such later date as the parties to the SP Agreement may agree, the Deed of Non-competition shall become null and void and cease to have effect and no party shall have any liability thereunder (without prejudice to any right of the party in respect of antecedent breaches).

Relevant Refuelling Stations

For the above purpose, the "Relevant Refuelling Stations" means the four petroleum refuelling stations owned by Changchun Yitonghe that had ceased operations and the three petroleum refuelling stations that are expected to be constructed by Yanbian Xinyuan Refined Oil Distribution Company Limited (延邊鑫源成品油經銷有限公司), Jarud Banner United Strength Petroleum Sales Company Limited (扎魯特旗眾誠石油銷售有限公司) and Harbin Shengshi United Strength Petroleum Natural Gas Distribution Company Limited (哈爾濱盛世眾誠石油天然氣經銷有限公司) as at the date of the Deed of Non-competition.

Relevant Period

For the above purpose, the "Relevant Period" means the period commencing from the Acquisition Completion and shall expire and terminate on the earlier of the dates below:

(i) the date on which our Controlling Shareholders and their respective close associates (individually or taken as a whole) cease to own at least 30% of the then issued share capital of our Company directly or indirectly or cease to be the controlling shareholders (as defined from time to time in the Listing Rules) of our Company and do not have power to control our Board and there is at least one other Shareholder holding more Shares in our Company than our Controlling Shareholders and their close associates then taken together; and

(ii) the date on which the Shares of our Company cease to be listed on the Stock Exchange.

Others

The Controlling Shareholders further acknowledge that the deed of non-competition and other undertakings dated 21 September 2017 and made by Mr. Zhao and Golden Truth in favour of the Company, which contains certain non-compete undertakings and other undertaking given in favour of the Company, further details of which were set out in the section headed "Relationship with our Controlling Shareholders" in the Prospectus (the "**2017 Deed of Non-competition**"), shall remain in full force and effect. The Deed of Non-competition is without prejudice and in addition to the 2017 Deed of Non-competition, save for no same claims or actions shall be allowed for the same breach under the Deed of Non-competition and 2017 Deed of Non-competition. In case of any inconsistency between the terms of the Deed of Non-competition and the 2017 Deed of Non-competition, the Deed of Non-competition shall prevail. Upon Acquisition Completion, the Controlling Shareholders will be bound by both the Deed of Non-competition and 2017 Deed of Non-Competition, i.e., restricting them in engaging in the Petroleum Refuelling Business, Petroleum Wholesale Business and Gas Refuelling Business pursuant to the respective terms of the Deed of Non-competition and 2017 Deed of Non-Competition.

Confirmation given by our Directors

Save as disclosed in this section, each Director confirms that he/she does not have any competing business with our Group.

Corporate governance

In order to properly manage any potential or actual conflict of interests between the Enlarged Group and our Controlling Shareholders in relation to compliance and enforcement of the Deed of Non-competition, we shall adopt the following corporate governance measures:

(a) the INEDs would review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders and if any, the options, pre-emptive rights or first rights of refusals provided by our Controlling Shareholders and/or their respective close associates on their existing or future competing businesses. Such options, pre-emptive rights or first rights of refusals relate to business which our Group may engage in the future;

(b) our Company shall disclose decisions with basis on matters reviewed by the INEDs relating to non-compliance and enforcement of the Deed of Non-competition (including whether to take up the options, pre-emptive rights or first rights of refusals) either through annual report, or by way of announcement and/or other documents issued or published by our Company as required under the Listing Rules;

(c) our Company shall disclose in the corporate governance report of the annual reports on how the terms of the Deed of Non-competition are complied with and enforced;

(d) in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-competition or other proposed transactions in which such Directors and/or their respective close associates have material interest, such Director(s) may not vote on the resolutions of our Board considering and approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles; and

(e) where the advice from independent professional, such as that from financial adviser, is reasonably requested by our Directors (including the INEDs), the appointment of such independent professional will be made at our Company's expenses.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and the Enlarged Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

A. CONNECTED TRANSACTIONS

As a condition precedent to the Acquisition Completion, the Target Group entered into the Entrusted Management Agreement which will constitute connected transactions of the Company, details are set out below.

1. Entrusted Management Agreement

WFOE, as a condition precedent to the Acquisition Completion, entered into the Entrusted Management Agreement with Changchun Yitonghe on 26 June 2020, pursuant to which Changchun Yitonghe as the entrusting party shall entrust the WFOE Group as the operating party with (i) an exclusive right to operate and manage the Petroleum Refuelling Business and the Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility and (ii) authorised the WFOE Group to use all assets, property, land and equipment necessary for such operation and management.

The following is a summary of the principal terms of the Entrusted Management Agreement:

Date	:	26 June 2020
Parties	:	WFOE, as operating party (whether by itself or through other members of the WFOE Group), has the right to use all assets, property, land and equipment for operation and management of the Petroleum Refuelling Business and the Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility.

Changchun Yitonghe, as entrusting party, which is beneficially owned as to approximately 60.90% by Mr. Zhao, a Controlling Shareholder of the Company and an executive Director and the chairman of the Board, as to approximately 12.34% by Ms. Xu, a substantial Shareholder, as to approximately 8.23% by Mr. Liu, a Shareholder and an executive Director, as to approximately 0.82% by Mr. Wang (who was an executive Director of the Company up to 27 November 2018), as to approximately 7.63% by Changchun Rundeshidai Investment Consulting Centre (Limited Partnership)* (長春潤德時代投資諮詢中心(有限合夥)), as to approximately 6.30% by Changchun Shenglongshidai Investment Consulting Centre (Limited Partnership)* (長春盛隆時代投資諮詢中心(有限合夥)), and as to approximately 3.78% by Changchun Huizhongshidai Investment Consulting Centre (Limited Partnership)* (長春滙眾時代投資諮詢中心(有限合夥)), as at the Latest Practicable Date. Therefore, Changchun Yitonghe is a connected person of the Company pursuant to the Listing Rules. Prior to the Acquisition Completion, Changchun Yitonghe and its subsidiaries are principally engaged in the distribution of petroleum to vehicular end-users by operating petroleum refuelling stations, sales of petroleum products and other petroleum-related businesses, including petroleum exploitation and refining, upstream petroleum supplies and research and development of petroleum products.

Changchun Yitonghe, which held the ownership or right-of-use of assets of 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility, is responsible for, amongst other, costs in relation to repair and maintenance and overhaul of the assets and equipment for the Petroleum Refuelling Business and Petroleum Wholesale Business at 39 Entrusted Petroleum Refuelling Stations and one Entrusted Petroleum Storage Facility.

Term	:	10 years from the date of the Acquisition Completion (for illustrative purpose, assuming the Acquisition Completion takes place on 30 June 2020, period from 30 June 2020 to 29 June 2030)

Entrustment fee	:	RMB50,000,000 per annum. The entrustment fee shall be settled annually and is determined by the parties to the Entrusted Management Agreement (on arm's length basis and in good faith) with reference to the aggregate amount of expected annual depreciation, repair and maintenance costs, insurance costs, and the operations rights in connection with the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility. The annual entrustment fee shall be reviewed and adjusted every three years and such adjustment will be subject to a maximum 10% increment from the previously agreed adjusted entrustment fee.
Responsibilities and rights of parties	:	Changchun Yitonghe, as the entrusting party shall be responsible for, among others: – costs in relation to repair and maintenance (including arranging for necessary insurance policies) and overhaul of the assets and equipment for the Petroleum Refuelling Business and Petroleum Wholesale Business at the relevant Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility at the request of the operating party; – insurance cost; and – payment of rent to the land owner for the relevant Entrusted Petroleum Refuelling Stations under lease. WFOE, as the operating party: – shall be entitled to all and any income deriving from the operation of Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility; – shall bear all and any loss occasioned from the operation of the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility; and

– shall bear the relevant costs (except for those costs borne by the entrusting party), expenses and taxes incurred in the operation of the Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility.

In respect of expenditure to be incurred for facility improvement at the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility, the entrusting party shall seek prior written consent from the operating party before incurring such expenditure, the expenses of which shall be borne by the entrusting party. Further, Changchun Yitonghe undertook to WFOE that in the event that conditions for transforming the Entrusted Petroleum Refuelling Stations into a mixed refuelling stations are fulfilled, Changchun Yitonghe should facilitate such transformation by not unreasonably withholding such request made by the operating party.

Purchase Option : Changchun Yitonghe (as option grantor) granted WFOE (for itself and on behalf of other members of the WFOE Group) (as the option grantee) an option to purchase the Petroleum Refuelling Business of the relevant Entrusted Petroleum Refuelling Stations and the Petroleum Wholesale Business of the Entrusted Petroleum Storage Facility, and the assets, property, land and equipment related to its operation and owned by Changchun Yitonghe. The purchase price shall be determined based on arm's length negotiations which should not exceed the carrying amount of leased assets of Changchun Yitonghe under the entrustment arrangement pursuant to the Entrusted Management Agreement.

The option is exercisable by WFOE (or other member of the WFOE Group) (under the supervision of the Board) upon the fulfilment of the relevant condition for its exercise. The Company will comply with the requirements under Chapter 14 and 14A of the Listing Rules when it exercises the option.

Consideration for the grant of the option is RMB1. The exercise period is within the term of the Entrusted Management Agreement and is exercisable from the date on which under the applicable laws and regulations, the operating entity of the related licenses, permits and approval documents of relevant Entrusted Petroleum Refuelling Stations and/or the Entrusted Petroleum Storage Facility can be changed in an efficient manner, such as the investing/operating entity of the "Certificate of Retail Sales of Refined Oil Products" (《成品油零售經營批准證書》), "Certificate of Wholesale of Refined Oil Products" (《成品油批發經營批准證書》) and "The Business License for Hazardous Chemicals" (《危險化學品經營許可証》) of relevant Entrusted Petroleum Refuelling Stations and/or the Entrusted Petroleum Storage Facility can be changed from Changchun Yitonghe to third parties direct without de-registration of the existing operator or the afresh application of the new operator.

Renewal : WFOE shall be entitled to the right of first refusal in relation to the renewal of the Entrusted Management Agreement, pursuant to which Changchun Yitonghe can only enter into entrusted management agreement(s) in relation to any Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility with other third parties after WFOE has decided not to renew the Entrusted Management Agreement.

Termination : Prior to the expiry of the Entrusted Management Agreement, any party (the non-breaching party) may forthwith terminate the Entrusted Management Agreement by giving written notice to the breaching party upon any of the following events:

(a) the occurrence of a material breach or continuing breach of the terms of the Entrusted Management Agreement by the breaching party (except for a breach which has been remedied within a reasonable time following written notice given by the non-breaching party to remedy the breach); or

(b) the liquidation or winding-up of the breaching party (either voluntary or involuntary), where the breaching party is found to be insolvent or the filing of a petition to wind up the breaching party (or any process which has a similar effect on the breaching party).

Furthermore, pursuant to the Deed of Non-Competition, the Controlling Shareholders shall procure Changchun Yitonghe to take all necessary actions to facilitate the exercise of the above purchase option. The Entrusted Petroleum Refuelling Stations and Entrusted Petroleum Storage Facility will be continued to be operated by WFOE Group pursuant to the Entrusted Management Agreement if WFOE decides not to exercise the purchase option where feasible. In the event that the Enlarged Group decides not to continue to operate the Entrusted Petroleum Refuelling Stations or Entrusted Petroleum Storage Facility (either through acquisition or entrustment arrangement), the Controlling Shareholders will be subject to the approval mechanism as set out in the Deed of Non-Competition before they can participate in the operation of Entrusted Petroleum Refuelling Stations or the Entrusted Petroleum Storage Facility. For details, please refer to the section headed "Relationship with Controlling Shareholders — Undertaking given by Controlling Shareholders — Approvals for allowing our Controlling Shareholders to participate in the Restricted Activity" in this circular.

Entrustment fees and basis of determination

The entrustment fee under the Entrusted Management Agreement is an annual fee. The entrustment fee is at RMB50,000,000 per annum, subject to adjustment under the mechanism set out in the paragraph headed "Entrusted Management Agreement — Entrustment fee" above.

Listing Rules implications:

As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Entrusted Management Agreement, in aggregate exceed(s) 100%, the Entrusted Management Agreement constitutes a very substantial acquisition and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Shareholders' approval in general meeting requirements under Chapter 14 and Chapter 14A of the Listing Rules.

Directors' view:

The Directors (including the INEDs after taking into account the advice and recommendations of the Independent Financial Adviser) are of the view that the Entrusted Management Agreement and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Group, are on normal commercial terms (or on terms which are no less favourable to the Group) and that the terms of the Entrusted Management Agreement are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole. Accordingly, the Directors have approved the Entrusted Management Agreement and the transactions contemplated thereunder.

CONTINUING CONNECTED TRANSACTIONS – THE BUSINESS AGREEMENTS

As a condition precedent to the Acquisition Completion, the Target Group entered into the Trademark License Agreement, the Trade Name License Agreement and the Petroleum Supply Agreement on 26 June 2020, which will constitute continuing connected transactions of the Company. The Target Group also entered into the Transportation Vehicles Lease Agreement on 26 June 2020, which will constitute connected transactions of the Company upon Acquisition Completion. Details of these agreements are set out below.

B. EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Trademark License Agreement

WFOE, as a condition precedent to the Acquisition Completion, entered into the Trademark License Agreement with United Strength Vehicle Service on 26 June 2020 pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trademark “ ” in the PRC.

The following is a summary of the principal terms of the Trademark License Agreement:

Date	:	26 June 2020
Parties	:	United Strength Vehicle Service as the licensor; and WFOE as the licensee.
Term	:	From the date of the Acquisition Completion to 31 December 2022, which will be automatically renewed unless both parties mutually agree to terminate
License fee	:	Nil

Responsibilities and rights of parties:	:	United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trademark “ ” in the PRC for the services in respect of, among others, petroleum refuelling stations. United Strength Vehicle Service also agreed the non-exclusive right to use the trademark “ ” in the PRC shall cover the services in respect of vehicle repair and maintenance, vehicle cleaning and vehicle service stations, notwithstanding the Target Group did not provide such services to its customers during the Track Record Period.

2. Trade Name License Agreement

WFOE, as a condition precedent to the Acquisition Completion entered into the Trade Name License Agreement with United Strength Vehicle Service on 26 June 2020 pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trade name “眾誠連鎖” in the PRC.

The following is a summary of the principal terms of the Trade Name License Agreement:

Date	:	26 June 2020
Parties	:	United Strength Vehicle Service as the licensor; and The WFOE as the licensee.
Term	:	From the date of the Acquisition Completion to 31 December 2022, which will be automatically renewed unless both parties mutually agree to terminate
License fee	:	Nil
Responsibilities and rights of parties:	:	United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trade name “眾誠連鎖” at the petroleum and gas refuelling stations operated by WFOE Group in the PRC.

Listing Rules implications:

As there is no financial commitment on the part of the WFOE Group for the use of the trademark and trade name, all the size tests for each of the Trademark License Agreement and the Trade Name License Agreement under the Listing Rules are nil. As such, the Trademark License Agreement and the Trade Name License Agreement constitute exempt continuing connected transactions for the Company and are not subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Directors' view:

The Directors consider that the terms of each of the Trademark License Agreement and the Trade Name License Agreement are on arm's length basis and in the interest of the Group as a whole. The Directors are also of the view that the relevant risks arising from the termination or non-renewal of the Trademark License Agreement and Trade Name License Agreement is low given (i) United Strength Vehicle Service has granted to the Company and the Target Company for the use of trademark " " and trade name "眾誠連鎖" since the adoption of trademark and tradename in 2003; and (ii) the well-established and stable business relationship between United Strength Vehicle Service and the Target Group, for instance, United Strength Vehicle Service has commenced purchasing refined oil products from the Target Group for operation of its petroleum refuelling stations before 2010.

C. EXEMPT CONNECTED TRANSACTION

Transportation Vehicles Lease Agreement

As a condition precedent to the Acquisition Completion, the Petroleum Refuelling Business and the Petroleum Wholesale Business will be owned by or under the management of the Group. The vehicles owned by Yitonghe Group for transportation of petroleum will be leased to Jieli Logistics, an indirectly wholly-owned subsidiary of the Company which is responsible for the transportation of gas and petroleum of the Group and Yitonghe Group.

Jieli Logistics as a condition precedent to the Acquisition Completion entered into the Transportation Vehicles Lease Agreement with Changchun Yitonghe on 26 June 2020 pursuant to which Changchun Yitonghe will lease certain petroleum transportation vehicles to Jieli Logistics.

The Directors are of the opinion that the Transportation Vehicles Lease Agreement falls into the definition of lease of IFRS 16, Leases. As such, the Company will recognise an asset representing its right to use the transportation vehicles under the Transportation Vehicles Lease Agreement in accordance with the requirements under IFRS 16. This constitutes an acquisition pursuant to the requirements under Chapter 14 of the Listing Rules.

The following is a summary of the principal terms of the Transportation Vehicles Lease Agreement:

Date	:	26 June 2020
Parties	:	Changchun Yitonghe as the lessor; and Jieli Logistics as the lessee.
Term	:	From the date of the Acquisition Completion to 31 December 2022

Number of vehicles under lease	:	32
Determination of rental	:	Changchun Yitonghe will charge Jieli Logistics a monthly rental of RMB62,200, payable monthly, or an annual rental of RMB746,400. The rental is subject to annual review based on the condition of the transportation fleet. The rental of the vehicles under the Transportation Vehicles Lease Agreement is based on the annual depreciation of the individual vehicle and adding the insurance premium, inspection fee with additional 10% margin.
Responsibilities and rights of parties:	:	Changchun Yitonghe shall be responsible for the registration fee, insurance and maintenance expenses not relating to normal wear and tear of the transportation fleet. Jieli Logistics: – shall be entitled to all and any income deriving from the operation of transportation fleet; – shall bear all and any loss occasioned from the operation of the transportation fleet; and – shall bear the relevant costs, expenses and taxes incurred in the operation of the transportation fleet.

In determining the rental, the Directors have considered generally (a) the market rental rate of comparable transportation vehicle in Northeast China; and (b) the condition of the transportation fleet.

Listing Rules implications:

As none of the applicable percentage ratios (as defined under Chapter 14A of the Listing Rules) in respect of the value of right-of-use asset under Transportation Vehicles Lease Agreement exceed(s) 5% and such amount does not exceed HK$3,000,000, the Transportation Vehicles Lease Agreement constitutes exempt connected transactions for the Company and is not subject to reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Directors' view:

The Directors consider that the terms of the Transportation Vehicles Lease Agreement are on arm's length basis and in the interest of the Group as a whole.

D. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Petroleum Supply Agreement

WFOE, as a condition precedent to the Acquisition Completion, entered into the Petroleum Supply Agreement with Songyuan Petrochemical on 26 June 2020 pursuant to which Songyuan Petrochemical will supply refined oil products to the Group.

The following is a summary of the principal terms of the Petroleum Supply Agreement:

Date	:	26 June 2020
Parties	:	Songyuan Petrochemical as the supplier; and WFOE as the customer (for itself and on behalf of the WFOE Group).
Term	:	From the date of the Acquisition Completion to 31 December 2022
Determination of refined oil products charge	:	The refined oil products charge will be determined by the parties (on arm's length and in good faith) with reference to prevailing market price of petroleum supplied by Songyuan Petrochemical to other Independent Third Parties. Pursuant to the "Measures for the Administration of Petroleum Prices"《石油價格管理辦法》promulgated by the National Development and Reform Commission on 13 January 2016, the adjustment guide prices are issued every 10 working days. Under this mechanism, the refined oil trading enterprises can, based on market conditions and under the premise of not exceeding the statutory price, determine (by itself or between the demand and supply side) the specific price.
Responsibilities and rights of parties	:	WFOE (or the relevant subsidiaries of the WFOE Group) shall pay the refined oil products charge at the end of each month.

Historical Amount

Set out below are the volumes and amounts of refined oil purchase from Songyuan Petrochemical in connected with the Petroleum Refuelling Business and Petroleum Wholesale Business for the four years ended 31 December 2016, 2017, 2018 and 2019 for comparison purposes:

Year ended 31 December	**Volume** *(tonnes)*	**Amount** *(RMB'000)*
2016	584,907	2,600,598
2017	367,942	1,988,287
2018	243,036	1,519,630
2019	133,577	723,819

Annual caps and basis of determination

The Board estimates that the annual refined oil products charge under the Petroleum Supply Agreement for the three years ending 31 December 2022 will not exceed the following annual caps set forth in the table below:

Year ending 31 December	**Cap** *(RMB'000)*
2020 *(note)*	1,200,000
2021	1,400,000
2022	1,600,000

In determining the above annual caps, the Directors have considered generally (a) the historical amount of refined products purchased from Songyuan Petrochemical in connection with Petroleum Refuelling Business and Petroleum Wholesale Business; (b) the anticipated market prices of petroleum and the fluctuation of refined products market price in the past four years with an estimated increment buffer of 15% per annum; and (c) WFOE Group's demand for the refined products supply from Songyuan Petrochemical by taking into account its target to maintain supply of not more than 30% of the WFOE Group's total refined products procurement amount for each year with a view to striking balance between maintaining stable refined products supply and over relying on a connected supplier.

Listing Rules implications:

As one or more of the applicable percentage ratios (as defined under Chapter 14A of the Listing Rules) in respect of the Petroleum Supply Agreement exceed(s) 5%, the Petroleum Supply Agreement constitutes non-exempt continuing connected transactions for the Company and is subject to reporting, announcement, annual review and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Directors' view:

The Directors (including our INEDs after taking into account the advice and recommendations of the Independent Financial Adviser) are of the view that the Petroleum Supply Agreement and the transactions contemplated thereunder are on normal commercial terms (or on terms which are no less favourable to the Group), in the ordinary and usual course of business of the Group and that the terms of the Petroleum Supply Agreement as well as the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole. Accordingly, the Directors have approved the Petroleum Supply Agreement and the transactions contemplated thereunder.

2. Supply of Refined Oil Products by Target Group to United Strength Vehicle Service

Following the Acquisition Completion, the Target Business will be operated under the Enlarged Group. As United Strength Vehicle Service has been one of the Target Business's customers during the Track Record Period, it is expected that such transactions will continue following the Acquisition Completion, and it will constitute a non-exempt continuing connected transaction on the Company upon Acquisition Completion.

The following is a summary of the principal terms of the Refined Oil Products Supply Agreement.

Date	:	26 June 2020
Parties and their relationship	:	(1) WFOE, as the supplier (whether by itself or through other members of the WFOE Group); and (2) United Strength Vehicle Service as the customer. United Strength Vehicle Service is a limited liability company established under the laws of the PRC, which is beneficially owned as to approximately 54.9% and approximately 45.1% by Beijing Zhonghui Hongcheng Investment Management Company Limited* (北京眾輝弘晟投資管理有限公司), an Independent Third Party, and Changchun Yitonghe respectively as at the Latest Practicable Date.

Mr. Zhao, one of the Controlling Shareholders, owned more than 30% of the registered capital in Changchun Yitonghe. Given (1) United Strength Vehicle Service was owned as to 45.1% by Changchun Yitonghe; (2) it has been a customer of the Target Business during the Track Record Period; and (3) United Strength Vehicle Service will grant the WFOE Group the non-exclusive right to use the trademark “” and trade name “眾誠連鎖”, United Strength Vehicle Service is regarded as an associate of Mr. Zhao, and hence a connected person of the Company pursuant to Rule 14A.12(1)(c) of the Listing Rules.

The supply of refined oil products by the WFOE Group to United Strength Vehicle Service will continue after the Acquisition Completion, thereby constituting continuing connected transaction of the Company under the Listing Rules.

Reasons for the transactions	:	As at the Latest Practicable Date, United Strength Vehicle Service operates petroleum refuelling stations in the cities of Jilin and Siping, Jilin Province. During the Track Record Period, United Strength Vehicle Service procured refined oil products from Yitonghe Group for the operation of its petroleum refuelling stations.
Major terms of the transaction	:	WFOE and United Strength Vehicle Service entered into the Refined Oil Products Supply Agreement, pursuant to which WFOE (for itself and on behalf of other members of the WFOE Group) agreed to supply refined oil products to United Strength Vehicle Service, in consideration for the payment of procuring refined petroleum products charges to the WFOE Group. The WFOE Group is under no obligation to satisfy any demand for refined oil products on the part of United Strength Vehicle Service. The Refined Oil Products Supply Agreement will take effect upon the Acquisition Completion.
Term	:	From the date of the Acquisition Completion to 31 December 2022
Determination charges of refined oil products and other terms	:	The charges of refined petroleum products are determined by the parties (on arm's length basis and in good faith) with reference to prevailing market prices of refined oil products supplied by the WFOE Group to other Independent Third Parties. Pursuant to the "Measures for the Administration of Petroleum Prices"《石油價格管理辦法》promulgated by the National Development and Reform Commission on 13 January 2016, the adjustment guide prices are issued every 10 working days. Under this mechanism, the refined oil trading enterprises can, based on market conditions and under the premise of not exceeding the statutory price, determine (by itself or between the demand and supply side) the specific price.
Payment term	:	To be settled on or before the completion of each refined oil products transaction.

Historical Amount:

During the Track Record Period, the refined oil products charges incurred by United Strength Vehicle Service were set out below:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB thousand)	*(RMB thousand)*	*(RMB thousand)*	*(RMB thousand)*
Refined oil products charges	312,278	227,994	56,633	29,439

Annual caps and basis of determination:

The Directors estimate that the annual transaction amount for the refined oil products charges for the three years ending 31 December 2022 will not exceed the following annual caps set forth in the table below:

	Year ending 31 December		
	2020 *(note)*	**2021**	**2022**
	(RMB thousand)	*(RMB thousand)*	*(RMB thousand)*
Refined oil products charges	17,000	17,000	17,000

In determining the above annual caps, the Directors have considered generally: (a) the historical transaction amounts; (b) the expected demand of refined oil products for the three years ending 31 December 2022; and (c) the anticipated market prices of refined oil products having regard to the fluctuation of petroleum market price. In anticipating the annual caps, the Directors have also taken into account the decreasing transaction amount with United Strength Vehicle Service during the Track Record Period caused by the suspension of petroleum refuelling stations of United Strength Vehicle Service. The number of petroleum refuelling stations operated by United Strength Vehicle Service has reduced from seven as at 1 January 2016 to four as at the Latest Practicable Date.

Listing Rules implications:

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the proposed annual caps on the transaction amount pursuant to the Refined Oil Products Supply Agreement is more than 0.1% but less than 5% and all of the applicable percentage ratios are less than 5%, the transaction contemplated pursuant to the Refined Oil Products Supply Agreement is therefore subject to the reporting, announcement and annual review requirements, but exempt from the independent Shareholders' approval requirement in relation to the proposed annual caps.

Directors' view:

The Directors (including our INEDs) are of the view that the Refined Oil Products Supply Agreement and the transactions contemplated thereunder are entered into on normal commercial terms (or on terms which are no less favourable to the Group), in the ordinary and usual course of business of the Group (upon Acquisition Completion) and that the terms of the Refined Oil Products Supply Agreement as well as the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders taken as a whole. Accordingly, the Directors have approved the Refined Oil Products Supply Agreement and the transactions contemplated thereunder.

Internal Control

The Company has implemented the following measures relating to the internal control system of its connected transactions:

(a) The finance department of the Company will be responsible for regularly collecting the detailed information of the said connected transactions and reporting to the manager of the finance department regularly. The cost control department and finance department of the Company will assist in reviewing and controlling particular terms and conditions and actual transaction amounts of the continuing connect transactions.

(b) The Company will supervise whether the transaction terms and prices and other terms of the agreements are in compliance with the principles set out therein assessing the fairness of the transaction terms and pricing terms, and reporting relevant information to the head of cost control department on a timely manner.

(c) The secretary to the Board will collect the reports from the manager of finance department and report to the Board in such regard on a regular basis. The Board shall be responsible for the inspecting and supervising the control of connected transactions of the Company as well as the implementation of connected transaction control system by the Directors, senior management and connect persons of the Company.

(d) In addition, the INEDs will review the continuing connected transactions under the Petroleum Supply Agreement to ensure that such agreements are entered into on normal commercial terms or on terms no less favourable to terms available from independent third parties, are fair and reasonable and the transactions are conducted pursuant to the terms of such agreements by checking whether the above measures are duly taken. The auditor of the Company will also conduct annual review on the pricing terms and annual caps of the continuing connected transactions.

OVERVIEW

The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title	Date of joining our Group	Date of first becoming a Director	Roles and responsibilities
Mr. Zhao Jinmin (趙金岷先生)	51	Chairman/ Executive Director	July 2007	19 December 2016	Planning our business and marketing strategies and supervising the overall operations of our Group
Mr. Liu Yingwu (劉英武先生)	52	Executive Director	February 2012	16 March 2017	Overseeing the management and operation of our businesses
Mr. Xu Huilin (徐輝林先生)	44	Chief Executive Officer/ Executive Director	16 March 2017*	16 March 2017	Planning our business and marketing strategies and overseeing the daily management of our businesses
Mr. Yuan Limin (原立民先生)	60	Executive Director	27 November 2018	27 November 2018	Planning our capital investment strategies
Ms. Su Dan (蘇丹女士)	39	INED	21 September 2017	21 September 2017	Participating in meetings of the Board to bring an independent judgment on issues which are material to our Group as and when required; taking the lead where potential conflicts of interest arise and serving on the Audit Committee, Remuneration Committee and Nomination Committee (as the case may be)
Mr. Lau Ying Kit (劉英傑先生)	46	INED	21 September 2017	21 September 2017	Same as above
Mr. Zhang Zhifeng (張志峰先生)	57	INED	27 November 2018	27 November 2018	Same as above

* Mr. Xu Huilin first served as the vice president of United Strength Investment from May 2016 to March 2017, and was officially engaged by our Group in March 2017.

DIRECTORS

Our Board is responsible for and has general powers for managing and leading our business. Our Board consists of four executive Directors and three INEDs.

Executive Directors

Mr. Zhao Jinmin (趙金岷先生), aged 51, is the Chairman of our Board and an executive Director. He is primarily responsible for supervising the overall operations of our Group and planning our business and marketing strategies. Mr. Zhao was appointed as a Director on 19 December 2016 upon the incorporation of our Company and was re-designated as an executive Director on 21 March 2017.

As one of the founders of our Group, Mr. Zhao has about 20 years of experience in the oil and gas industry. Since March 1999 up to March 2017, he has been a director of Changchun Yitonghe. He was mainly responsible for Changchun Yitonghe's business development, strategic planning and investment. Since March 2004, Mr. Zhao has also been the chairman of United Strength Investment, a company principally engaged in storage, process and wholesale of oil and petroleum, the petroleum refuelling and investment business.

Mr. Zhao is currently a director of Yanbian United Strength Energy Technology Development Company Limited (延邊眾誠能源技術開發有限公司) and the sole director of United Strength BVI and United Strength HK.

Mr. Zhao was awarded a Bachelor degree in Industrial Engineering and Management (工業管理工程專業) from the School of Management, Jilin University of Technology (吉林工業大學) (now renamed as Jilin University (吉林大學)), the PRC, in July 1990.

Mr. Zhao has been a key management of the following companies incorporated in the PRC, which have been cancelled under the AIC registration records. Details of the following companies are set out below:

Name of company	Nature of business immediately prior to cancellation	Position in the company
Changchun Chunhui Chemical Co., Ltd. (長春春輝化工有限公司)	Trading of chemical products such as kerosene and oil residue	Chairman
Yingkou Economic and Technological Development Zone Zhengmao Petrochemical Distribution Co., Ltd. (營口經濟技術開發區正茂石化經銷有限公司)	Trading of chemical products, equipment, hardware and building materials, and department stores	Executive director

Name of company	Nature of business immediately prior to cancellation	Position in the company
Dongning United Strength New Energy Development Company Limited (東寧眾誠新能源開發有限公司)	Development of oil shale and mineral development	Executive director and general manager
Linjiang City United Strength Energy Development Company Limited (臨江市眾誠能源發展有限公司)	Preparation of gas refuelling station	Director

Mr. Zhao confirmed that the above companies were solvent immediately before their respective dates of cancellation and the cancellation of the companies has not resulted in any liability or obligation imposed against him.

Mr. Zhao is the sole shareholder of Golden Truth, one of our Controlling Shareholders directly holding 130,148,240 Shares, representing approximately 55.5% of the total issued share capital of our Company as at the Latest Practicable Date.

Mr. Liu Yingwu (劉英武先生), aged 52, is an executive Director. He is primarily responsible for overseeing the operation and management of our businesses. Mr. Liu was appointed as a Director on 16 March 2017 and was redesignated as an executive director on 21 March 2017.

As one of the founders of our Group, Mr. Liu has about 20 years of experience in the oil and gas industry. He has been a director of Changchun Yitonghe since March 1999 up to March 2017, responsible for overseeing the management and supervising the operation of the Gas Refuelling Business.

Mr. Liu is currently a director of Changchun Sinogas, Jilin Chinese Petroleum Clean Energy Environmental Protection Company Limited (吉林中油潔能環保有限責任公司) and Jilin Dongkun Gas Company Limited (吉林東昆燃氣有限公司). He is also the sole director and the general manager of Liaoyuan City Hengtai Clean Energy Company Limited (遼源市恒泰清潔能源有限公司).

Mr. Liu was awarded a Bachelor degree in Industrial Engineering and Management (工業管理工程專業) from the School of Management, Jilin University of Technology (吉林工業大學 (now renamed as Jilin University (吉林大學)), the PRC, in July 1990.

Mr. Liu has been a key management of the following companies incorporated in the PRC, which have been cancelled under AIC registration records. Details of the following companies are set out below:

Name of company	Nature of business immediately prior to cancellation	Position in the company
Changchun Chunhui Chemical Co., Ltd. (長春春輝化工有限公司)	Trading of chemical products such as kerosene and oil residue	Director
Jilin Sanli Industrial Co., Ltd. (吉林市三立實業有限責任公司)	Trading of building materials, daily necessities and chemical raw materials	Director
Yingkou Economic and Technological Development Zone Mao Petrochemical Distribution Co., Ltd. (營口經濟技術開發區茂石化經銷有限公司)	Trading of chemical products, equipment, hardware and building materials, and general merchandise	Supervisor

Mr. Liu confirmed that the above companies were solvent immediately before their respective dates of cancellation and the cancellation of the companies has not resulted in any liability or obligation imposed against him.

Mr. Liu is the sole shareholder of Heroic Year, one of our Shareholders directly holding 17,587,600 Shares, representing approximately 7.5% of the total issued share capital of our Company as at the Latest Practicable Date.

Mr. Xu Huilin (徐輝林先生), aged 44, is an executive Director and the Chief Executive Officer who joined our Group in March 2017. He is primarily responsible for planning our business and marketing strategies and overseeing the daily management of our businesses. Mr. Xu was appointed as a Director on 16 March 2017 and was redesignated as an executive Director on 21 March 2017.

Since May 2016 up to March 2017, he has been the vice president of United Strength Investment responsible for handling corporate finance projects and mergers and acquisition as well as strategic planning and investment.

Before he joined our Group, Mr. Xu has over 14 years of experience in the oil and gas industry and finance management, including over 12 years of experience in the Sinochem Group (中國中化集團公司), which is principally engaged in, among other businesses, trading, distribution, development of sale networks of oil and gas products. Mr. Xu had been serving in various subsidiaries of the Sinochem Group and joint ventures of the Sinochem Group and TOTAL S.A., a France-based oil and gas company under various management titles as assistant general manager, deputy general manager and general manager. He was generally responsible for general management and participation in the business operation and development.

Mr. Xu obtained a Bachelor degree and a Master degree in the Department of Chemical Engineering (化學工程系) from Tsinghua University (清華大學), the PRC, in July 1999 and January 2002, respectively. Mr. Xu subsequently obtained an Executive Master of Business Administration (EMBA) degree at China Europe International Business School (中歐國際工商學院), the PRC, in June 2014.

Mr. Yuan Limin (原立民先生), aged 60, is an executive Director who joined our Group on 28 December 2018. He has a wealth of experience in the capital, investment and financial analysis, and handled certain listing and fund raising projects in China and Hong Kong. Mr. Yuan is currently a director of United Strength Investment Limited and Sino Regent International Limited, which are subsidiaries of the Company. Mr. Yuan was appointed as an executive director, deputy chairman of the board and CEO of China Graphene Group Limited (stock code: 0063), a company listed on the Main Board of the Stock Exchange from November 2015 to January 2018. Mr. Yuan was also a non-executive director of Asia Fashion Holdings Limited (stock code: BQI), a company listed on the main board of The Singapore Exchange Limited, during the period from December 2013 to October 2015. Mr. Yuan was a director in the PRC region (中國區董事) with American Etech Securities Inc. Beijing Company (美國億泰證券集團北京公司) from 2009 to 2012. He was the general manager of the CAD Company of the China Ministry of Aerospace (北京航天計算機輔助設計技術聯合公司) from 1987 to 1998. Mr. Yuan graduated with a Bachelor Degree in Finance at the Beijing Institute of Technology.

Mr. Yuan has been a key management of the following companies incorporated in the PRC, which have been revoked or cancelled under the AIC registration records. Details of the following companies are set out below:

Name of company	Nature of business immediately prior to revocation or cancellation	Position in the company
Beijing Dupont Century Technology Development Co., Ltd. (北京都蓬世紀科技發展有限公司)	Trading	Supervisor
Beijing Hongyuange Culture and Art Development Co., Ltd. (北京鴻緣閣文化藝術發展有限公司)	Trading	Supervisor

Mr. Yuan confirmed that the above companies were solvent immediately before their respective dates of revocation or cancellation (as the case may be) and the revocation or cancellation (as the case may be) of the companies has not resulted in any liability or obligation imposed against him.

INEDs

Ms. Su Dan (蘇丹女士), aged 39, was appointed as our INED on 21 September 2017.

Ms. Su obtained a Bachelor degree in Language and Literature (文學學士) at the Beijing Foreign Studies University (北京外國語大學), the PRC, in July 2002. Ms. Su subsequently obtained a Master degree in Public Administration from the Columbia University, the USA, in October 2005. She was awarded the certificate of independent director qualification (獨立董事資格證書) issued by the Shanghai Stock Exchange in September 2012.

Ms. Su has over ten years of experience in the banking and financial industry. Currently, she is a director of Chinaway International Development Ltd. (漢通國際發展有限公司), a company principally engaged in the provision of market analysis and corporate finance advisory service and is responsible for providing consultancy services to corporate clients. During the period from January 2007 to December 2012, Ms. Su has worked under various managing position in a number of banks or financial institutes, including ICEA Capital Limited (工商東亞融資有限公司), ICBC International Capital Limited (工銀國際融資有限公司) and HSBC Private Bank (Suisse) SA, Hong Kong Branch (匯豐私人銀行(瑞士)有限公司香港分行).

Mr. Lau Ying Kit (劉英傑先生), aged 46, was appointed as our INED on 21 September 2017.

Mr. Lau obtained a Bachelor degree of Business from the Victoria University of Technology, Australia in October 2003 and obtained a Master degree in Finance from the City University of Hong Kong, Hong Kong in November 2008. Mr. Lau is a fellow member of the HKICPA.

Mr. Lau has a wealth of experience in accounting and financial areas. From December 2003 to November 2017, Mr. Lau has been the chief financial officer and company secretary of four listed companies in Hong Kong, namely, Sing Lee Software (Group) Limited (stock code: 8076), whose shares are listed on the GEM of the Stock Exchange, China Glass Holdings Limited (stock code: 3300), Success Dragon International Holdings Limited (formerly known as C Y Foundation Group Limited) (stock code: 1182) and Great Harvest Maeta Group Holdings Limited (stock code: 3683), each of whose shares are listed on the Main Board of the Stock Exchange. His major responsibilities in such companies include overseeing and handling finance matters and company secretarial matters.

Mr. Lau had been a director of Allied Creation Corporation Limited ("**Allied Creation**") which was a private company incorporated in Hong Kong. Allied Creation was dissolved by deregistration on 4 March 2011 pursuant to Section 291AA of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong), which was repealed by the Companies Ordinance on 3 March 2014. Prior to being dissolved by deregistration, Allied Creation was principally engaged in media and advertising business. Mr. Lau confirmed that Allied Creation was solvent immediately before its date of dissolution and the dissolution of the company had not resulted in any liability or obligation imposed against him.

Mr. Lau has served as an independent non-executive director of Shandong Chenming Paper Holdings Limited (stock code: 1812) for the period from April 2007 to April 2010. Since November 2006, May 2012 and December 2013, respectively, he has also been serving as an independent non-executive director of Kingdom Holdings Limited (stock code: 528), Xiezhong International Holdings Limited (stock code: 3663) and China Wood Optimization (Holding) Limited (stock code: 1885), whose shares are listed on the Main Board of the Stock Exchange. Since June 2011, he has also been serving as a director of Adex Mining Inc. (TSXV stock code: ADE), a listed company on the TSX Venture Exchange in Canada.

Mr. Zhang Zhifeng (張志峰), aged 57, was appointed as our INED on 27 November 2018. Mr. Zhang has more than 37 years of experience in banking and financing industry. Mr. Zhang is currently a senior manager of Changchun Branch of the Industrial and Commercial Bank of China Limited ("**ICBC**"). Mr. Zhang has previously held various management positions in different branches of ICBC. Mr. Zhang graduated with a undergraduate diploma (本科) in Economic Management at the Jilin Provincial Party School of the Communist Party of China (中共吉林省委黨校) in March 2002.

General

Save as disclosed above, there is no other information relating to our Directors that needs to be disclosed under the requirements under Rule 13.51(2) of the Listing Rules.

Save as disclosed above, none of our Directors:

(i) held any other positions in our Company or other members of our Group as at the Latest Practicable Date;

(ii) had any other relationship with any Directors, senior management of our Company or Substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date;

(iii) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and

(iv) is a director or an employee of a company which has an interest or short position in the Shares and underlying Shares of our Company.

As at the Latest Practicable Date, except for such interests of Mr. Zhao, Mr. Liu which are disclosed above and in paragraph 6 under "Appendix V — Statutory and general information" to this circular, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO. Subject to and as disclosed in the section headed "Relationship with Controlling Shareholders" in this circular, each of our Directors has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

BOARD COMMITTEES

The Audit Committee, Remuneration Committee, and Nomination Committee were approved to be established by resolutions passed by our Board on 21 September 2017. The membership of such committees as at the Latest Practicable Date is as follows:

Name of Director	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors			
Mr. Zhao	–	–	–
Mr. Liu	–	Member	–
Mr. Xu	–	–	Member
Mr. Yuan Limin	–	–	–
INEDs			
Ms. Su Dan	Member	Member	Chairman
Mr. Lau Ying Kit	Chairman	–	–
Mr. Zhang Zhifeng	Member	Chairman	Member

Each of the above committees has written terms of reference. The functions of the above three committees are summarised as follows:

Audit Committee

Our Audit Committee has written terms of reference in compliance with Code C.3 of the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and material and provide advice in respect of financial reporting, risk management and oversee the internal control systems of our Company.

Remuneration Committee

Our Remuneration Committee has written terms of reference in compliance with Code B.1 of the CG Code as set out in Appendix 14 to the Listing Rules. The primary functions of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group; to review performance-based remuneration and ensure none of our Directors determine their own remuneration.

Nomination Committee

Our Nomination Committee has written terms of reference in compliance with Codes A.5 of the CG Code as set out in Appendix 14 to the Listing Rules. The primary functions of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experiences) of the Board at least annually and make recommendation to the Board on any proposed changes to the Board to complement our Company's corporate strategy; to identify individuals suitably qualified as potential board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of INEDs; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning of Directors, in particular that of our Chairman and the Chief Executive Officer.

Proposed Integration and Cooperation Steering Committee

Upon the Acquisition Completion, to pool together the collective experience of the Group's and the Target Group's senior management in various key areas, the Company intends to establish, amongst others, an "Integration and Cooperation Steering Committee" which will formulate the business direction and strategies for the Petroleum Refuelling Business and the Gas Refuelling Business with a view to enhancing the business competitiveness of the Enlarged Group. For further details, please refer to the sections headed "Letter from the Board — Reasons and Benefits of the Acquisition and the Entrusted Management Agreement — The Company's intention in respect of the Group's and the Target Group's businesses" and "Business of the Target Group — Business Strategies — Explore new growth opportunities associated with technology evolution." in this circular.

CORPORATE GOVERNANCE

Our Directors recognise the importance of incorporating elements of corporate governance in the management structures and internal control of our Group so as to achieve accountability.

Our Company has adopted the provisions stated in the CG Code as set forth in Appendix 14 to the Listing Rules. Our Board has a balanced composition of executive Directors and INEDs, allowing the Board to effectively exercise independent judgment.

Board Diversity

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of skills, experience and diversity perspectives of our Board that are relevant to our business growth to support the execution of our business strategy. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our Board comprises seven members, including four executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including business development, operation management, strategic development and finance experiences. Our Board members also obtained degrees or diplomas in different majors such as engineering and financial management. Furthermore, the ages of our Directors range from approximately 40 years old to 60 years old, with both male and female board members.

Our nomination committee is responsible for compliance with relevant codes governing board diversity under the CG Code. Our nomination committee will review the board diversity policy and our diversify profile from time to time to ensure its continued effectiveness and we will disclose the implementation of the board diversity policy in our corporate governance report on an annual basis.

COMPANY SECRETARY

Mr. Lo Wai Kit (盧偉傑先生), aged 47, is the Chief Financial Officer and Company Secretary of our Company who joined our Group in March 2017. He is mainly responsible for overseeing the finance, accounting and company secretarial matters of our Group. Mr. Lo obtained a Bachelor degree of Arts (Honours) in Accountancy from the City University of Hong Kong, Hong Kong in November 1995. He is an associate member of the Association of Chartered Certified Accountants, a fellow member of the HKICPA and a Chartered Financial Analyst.

Mr. Lo has over 20 years of experience in accounting and financial areas. Prior to joining our Group, Mr. Lo has been the company secretary and qualified accountant of Asia Cement (China) Holdings Corporation from December 2007 to March 2017, responsible for handling the finance and company secretarial matters.

BOARD OF DIRECTORS OF THE TARGET COMPANY

The following table sets forth certain information of the directors of the Target Company as at the Latest Practicable Date and their roles and responsibilities in the Target Company:

Name	Age	Position/ Title	Date of joining the Target Group	Date of appointment as a director of the Target Company	Roles and responsibilities	Relationship with other directors of the Target Company
Mr. Zhao Jinmin (趙金岷先生)	51	Director	April 1997	1 February 2019	Responsible for business development, strategic planning and investment of the Target Group	None

Name	Age	Position/ Title	Date of joining the Target Group	Date of appointment as a director of the Target Company	Roles and responsibilities	Relationship with other directors of the Target Company
Ms. Xu Hang (徐航女士)	51	Director	April 1997	1 February 2019	Overseeing the operation and management of the Target Group	None
Mr. Liu Yingwu (劉英武先生)	52	Director	April 1997	1 February 2019	Overseeing the management and supervising the operation of the Petroleum Refuelling Business of the Target Group	None
Mr. Wang Qingguo (王慶國先生)	50	Director	February 1998	1 February 2019	Responsible for financial planning and management of the Target Group	None
Ms. Lo Siu Lucy (羅霄女士)	36	Director	November 2018	20 November 2018	Representative of board of directors of the Target Company for Harvest Day	None

Mr. Zhao Jinmin (趙金岷先生), aged 51, is a director of the Target Company. He is primarily responsible for the business development, strategic planning and investment of the Target Group.

As one of the founders of the Target Group, Mr. Zhao has over 20 years of experience in the oil and gas industry. Since March 1999 up to March 2017, he has been a director of Changchun Yitonghe. Since March 2017, Mr. Zhao has been serving as the Chairman of the Board and an executive Director of the Company.

Mr. Zhao has been serving as a director of the Target Company and HK Company since February 2019. Mr. Zhao was a director of Wuchang United Strength from June 2011 to December 2018 and Baishan United Strength from May 2010 to July 2017.

Mr. Zhao, being the sole shareholder of Golden Truth which owns the entire issued share capital of Propitious Peak, indirectly holds 7,178 shares of the Target Company, representing approximately 71.78% of the entire issued share capital of the Target Company, as at the Latest Practicable Date.

Please also refer to the paragraph headed "Directors – Executive Directors" in this section for further information about Mr. Zhao.

Ms. Xu Hang (徐航女士), aged 51, is a director of the Target Company. She is primarily responsible for overseeing the operation and management of the Target Group.

As one of the founders of the Target Group, Ms. Xu has over 20 years of experience in the oil and gas industry. Ms. Xu has been serving as the chairman of the board of directors of Changchun Yitonghe since March 2017.

Ms. Xu has been serving as a director of the Target Company and HK Company since February 2019.

Ms. Xu obtained a Bachelor degree in Economics from Jilin Finance and Trade College (吉林財貿學院) (now renamed as Jilin University of Finance and Economics (吉林財經大學)) in July 1991.

Ms. Xu, being the sole shareholder of Dynamic Fame which owns the entire issued share capital of Immense Ocean, indirectly holds 1,455 shares of the Target Company, representing approximately 14.55% of the entire issued share capital of the Target Company, as at the Latest Practicable Date.

Mr. Liu Yingwu (劉英武先生), aged 52, is a director of the Target Company. He is primarily responsible for overseeing the management and supervising the operation of the Petroleum Refuelling Business of the Target Group.

As one of the founders of the Target Group, Mr. Liu has over 20 years of experience in the oil and gas industry. He has been a director of Changchun Yitonghe since March 1999 up to March 2017. Since March 2017, Mr. Liu has been serving as an executive Director of the Company.

Mr. Liu has been serving as a director of the Target Company and HK Company since February 2019. He has been serving as a director of WFOE since November 2018. He was the sole director and general manager of Jilin Haotuo from November 2016 to March 2017. Mr. Liu was appointed as the general manager and director of Dandong Kuandian in March 2005 and July 2007, respectively, and ceased to be the director and general manager of Dandong Kuandian in March 2017. Since May 2010, Mr. Liu has been serving as the general manager of Dandong United Strength.

Mr. Liu, being the sole shareholder of Heroic Year which owns the entire issued share capital of Amber Heyday, indirectly holds 970 shares of the Target Company, representing approximately 9.70% of the entire issued share capital of the Target Company, as at the Latest Practicable Date.

Please also refer to the paragraph headed "Directors – Executive Directors" for further information about Mr. Liu.

Mr. Wang Qingguo (王慶國先生), aged 50, is a director of the Target Company. He is primarily responsible for financial planning and management of the Target Group. He was an executive Director of the Company between 16 March 2017 and 27 November 2018.

As one of the founders of the Target Group, Mr. Wang has over 20 years of experience in financial planning, financial management and overseeing finance matters. He has been the financial controller of Changchun Yitonghe since February 1998 up to March 2017. Mr. Wang also served as an executive Director of the Company from March 2017 up to his resignation in November 2018.

Mr. Wang has been serving as a director of the Target Company and HK Company since February 2019 and a director of Dandong Kuandian since July 2007.

Mr. Wang completed his studies in Financial Management (財務管理專業) at Jilin University of Technology (吉林工業大學) (now renamed as Jilin University (吉林大學)), the PRC, in July 1996.

Mr. Wang, being the sole shareholder of Noble Praise which owns the entire issued share capital of Triumphal Diligent, indirectly holds 97 shares of the Target Company, representing approximately 0.97% of the entire issued share capital of the Target Company, as at the Latest Practicable Date.

Ms. Lo Siu Lucy (羅霄女士), aged 36, is a director of the Target Company. She is the representative of the board of directors of the Target Company for Harvest Day. Ms. Lo has been serving as a director of the Target Company and HK Company since November 2018 and December 2018 respectively.

Ms. Lo has over 15 years of experience in business administration and education industry. Ms. Lo founded Amazing Learning Group Limited, a Hong Kong company with limited liability focuses on providing extracurricular activities and classes for children. She has been an analyst of the investment management division of Goldman Sachs (Asia) L. L. C. in Hong Kong for several years from May 2007. Since May 2015, She has been serving as the school principal of Clarity Academy Education Centre, an education institution in Hong Kong focusing on English learning for children, teenagers and adults.

Ms. Lo obtained a Master of Business Administration from the University of Hong Kong in November 2013.

Ms. Lo had been a director of Giant Right Infrastructure Limited ("**Giant Right**"), Shing Dai Investment (H.K.) Limited ("**SD Investment**"), Shing Dai Medicine Technology Limited ("**SD Medicine**") and Max Yield International Holdings Limited ("**Max Yield**"), which were private companies incorporated in Hong Kong. Giant Right, SD Investment and SD Medicine were dissolved by deregistration on 20 January 2017, 1 September 2017 and 2 January 2015, respectively, pursuant to Section 751(3) of the Companies Ordinance. Max Yield was dissolved by deregistration on 25 October 2013 pursuant to Section 291AA of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong), which was repealed by the Companies Ordinance on 3 March 2014. Ms. Lo confirmed that Giant Right, SD Investment, SD Medicine and Max Yield were solvent immediately before the dates of dissolution and the dissolution of the companies had not resulted in any liability or obligation imposed against her.

SENIOR MANAGEMENT OF THE TARGET GROUP

The following table sets out certain information in respect of the senior management of the Target Group as at the Latest Practicable Date and their roles and responsibilities in the Target Group:

Name	Age	Position/Title	Date of joining the Target Group	Date of becoming a member of the senior management of the Target Group	Roles and responsibilities
Mr. Ma Haidong *(Note)* (馬海東先生)	41	Head of Operation Department of the Target Group	April 2004	March 2018	Management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's petroleum refuelling station operation, which involves general operations, procurement and marketing affairs
Mr. Peng Wei (彭偉先生)	55	Head of Information Management Department of the Target Group	September 2004	September 2004	Management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's information technology system management
Mr. Song Shuzhe (宋舒哲先生)	58	Head of Safety Department of the Target Group	February 2002	February 2002	Management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's operation safety and management of the petroleum refuelling stations and storage facilities

Name	Age	Position/Title	Date of joining the Target Group	Date of becoming a member of the senior management of the Target Group	Roles and responsibilities
Mr. Wang Chuang (王闖先生)	49	Head of Storage and Logistics Department of the Target Group	March 2004	March 2004	Management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the management of and daily operation of the petroleum storage facilities and the transportation vehicle fleet
Mr. Zhang Hongtu (張宏圖先生)	44	Vice head of Safety Department of the Target Group	July 2009	July 2009	Management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's operation safety and management of the petroleum refuelling stations and storage facilities
Ms. Liu Guowei (劉國偉女士)	41	Head of Human Resources Department of the Target Group	August 2012	August 2012	Management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's human resources management including recruitment and manpower deployment

Note: Subject to approval by Shareholders at the EGM, Mr. Ma Haidong, a member of the senior management team of the Target Company, will be appointed as an executive Director, with effect from the Acquisition Completion.

Mr. Ma Haidong (馬海東先生), aged 41, is the head of Operation Department of the Target Group. He is primarily responsible for the management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's petroleum refuelling station operation, which involves general operations, procurement and marketing affairs. Subject to approval by Shareholders at the EGM, Mr. Ma will be appointed as an executive Director, with effect from the Acquisition Completion. Following the Acquisition Completion, he will cease to hold any positions in the Yitonghe Group upon the Acquisition Completion.

Mr. Ma has over 15 years of experience in the oil and gas industry. Mr. Ma joined the Target Group as a gas station master in April 2004. He worked as a manager at Changchun Longxing Liquified Gas Company (長春隆興液化氣公司) between March 2006 and February 2011 and was the manager of Shenyang Xinxin between June 2014 and March 2018. He has been serving as an assistant to president of Changchun Yitonghe since March 2018. He has been serving as a director of Shenyang United Strength since May 2017.

Mr. Ma obtained a Bachelor degree in Management from Shenyang Institute of Chemical Technology (瀋陽化工學院) (now renamed as Shenyang University of Chemical Technology (瀋陽化工大學)), the PRC, in July 2004. Mr. Ma obtained the qualification as a senior economist conferred by Jilin Province Human Resources and Social Security Protection Department* (吉林省人力資源和社會保障廳) in January 2011. Mr. Ma was a committee member of the Shenyang City Shenbei New District Committee of the PRC Political Consultative Conference* (中國人民政治協商會議瀋陽市瀋北新區政協委員會) from February 2015 to October 2017.

Mr. Peng Wei (彭偉先生), aged 55, is the head of Information Management Department of the Target Group. He is mainly responsible for the management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's information technology system management.

Mr. Peng has more than 15 years of experience in information systems development and management. Mr. Peng joined Changchun Yitonghe in September 2004 and is currently a vice president of the company. He has also been working as the sole director and general manager of Jilin Haotuo since April 2017.

Mr. Peng graduated from the China Textile University (中國紡織大學) (now renamed as Donghua University (東華大學)), the PRC in July 1988 and specialised his studies in Industrial Electrical Automation (工業電氣自動化專業). He also obtained the qualification as a senior engineer in computer science (計算機專業) conferred by Jilin Province Human Resources Protection Department* (吉林省人力資源保障廳) in January 2012. Mr. Peng has been a committee member of the Jilin Province Changchun City Erdao District Committee of the PRC Political Consultative Conference* (中國人民政治協商會議吉林省長春市二道區政協委員) with the effective period from October 2016 to October 2021.

Mr. Peng has been a key management of the following company incorporated in the PRC, which has been revoked under the AIC registration records. Details of the following company are set out below:

Name of company	Nature of business immediately prior to revocation	Position in the company
Changchun Weida Labor Affairs Service Co., Ltd. (長春市偉達勞動事務服務有限公司)	Labour agency service	Executive director

Mr. Peng confirmed that the above company was solvent immediately before its date of revocation and the revocation of the company has not resulted in any liability or obligation imposed against him.

Mr. Song Shuzhe (宋舒哲先生), aged 58, is the head of Safety Department of the Target Group. He is primarily responsible for the management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's operation safety and management of the petroleum refuelling stations and storage facilities.

Mr. Song has over 17 years of experience in the oil and gas industry. He joined Changchun Yitonghe in February 2002 and is currently a vice president of the company. He worked for the People's Liberation Army of the PRC between 1980 and 1986.

Mr. Song completed his tertiary studies at Liaoning Kunshou Committee Party School* (遼寧刊授黨校), the PRC, in December 1993.

Mr. Song has been a key management of the following company incorporated in the PRC, which has been cancelled under the AIC registration records. Details of the following company are set out below:

Name of company	Nature of business immediately prior to cancellation	Position in the company
Changchun Zhongfang Joy Culture Industry Co., Ltd. (長春眾方喜悅文化產業有限公司)	Advertising, marketing and event planning	Supervisor

Mr. Song confirmed that the above company was solvent immediately before its date of cancellation and the cancellation of the company has not resulted in any liability or obligation imposed against him.

Mr. Wang Chuang (王闖先生), aged 49, is the head of Storage and Logistics Department of the Target Group. He is primarily responsible for the management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the management of and daily operation of the petroleum storage facilities and the transportation vehicle fleet.

Mr. Wang Chuang has over 15 years of experience in the oil and gas industry. Mr. Wang Chuang joined Changchun Yitonghe in March 2004 and is currently an assistant to president.

Mr. Wang Chuang obtained a Bachelor degree in Engineering and a Master degree in Business Administration from Dalian University of Technology (大連理工大學), the PRC, in July 1992 and June 2001, respectively.

Mr. Zhang Hongtu (張宏圖先生), aged 44, is the vice head of Safety Department of the Target Group. He is primarily responsible for the management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's operation safety and management of the petroleum refuelling stations and storage facilities.

Mr. Zhang has over 20 years of experience in overseeing the administrative operations of a business. He joined Changchun Yitonghe in July 2009 and is currently an assistant to president of the company. Prior to joining the Target Group, Mr. Zhang was the chief administrative officer* (行政總監) of Jilin Province GOME Appliances Company Limited* (吉林市國美電器有限公司) between March 2003 and July 2009. Mr. Zhang served at Changchan Asia Department Store Company Limited* (長春亞細亞百貨大厦有限責任公司) as the head of the enterprise management department and enterprise planning department from September 1998 to March 2001.

Mr. Zhang has been a key management of the following companies incorporated in the PRC, which have been cancelled under AIC registration records. Details of the following companies are set out below:

Name of company	Nature of Business immediately prior to cancellation	Position in the company
Longtai Commercial Hotel, Economic and Technological Development Zone (經濟技術開發區龍泰商務賓館)	Hotel	Legal representative
Jilin Runlong Economic and Trade Co., Ltd (吉林省潤龍經貿有限公司)	Trading of building materials, hardware and daily necessities	Director
Siping Hongfa Economic and Trade Co., Ltd. (四平市鴻發經貿有限公司)	Trading of metal and building materials and other supplies	Director
Jilin Guomei Audio and Video Co., Ltd. Oriental Audio and Video Plaza (吉林國美音像有限公司東方廣場音像商城)	Sale of audio and visual products and household appliances	Legal representative

Mr. Zhang confirmed that the above companies were solvent immediately before their respective dates of cancellation and the cancellation of the companies has not resulted in any liability or obligation imposed against him.

Mr. Zhang completed his studies in economic law at Jilin Province Institute of Technology* (吉林工學院) (now renamed as Changchun University of Technology (長春工業大學)), the PRC, in July 1998, and further completed his studies in law and obtained a graduation certificate of Self-taught Higher Education Examinations* (高等教育自學考試) from Jilin Province Higher Education Self-study Examination Committee (吉林省高等教育自學考試委員會) and Jilin University (吉林大學), the PRC, in December 2004.

Ms. Liu Guowei (劉國偉女士), aged 41, is the head of Human Resources Department of the Target Group. She is mainly responsible for the management and operation of the Petroleum Refuelling Business and the Petroleum Wholesale Business, focusing on the Target Business's human resources management including recruitment and manpower deployment.

Ms. Liu has been serving in various human resources management roles at Changchun Yitonghe since August 2012 and is currently an assistant to president of the company.

Ms. Liu completed her studies in secretarial profession* (文秘專業) and obtained a graduation certificate of Self-taught Higher Education Examinations* (高等教育自學考試畢業證書) from Jilin Province Higher Education Self-study Examination Committee (吉林省高等教育自學考試委員會) and Jilin University, the PRC, in December 2005.

Human Resources of the Target Group

The Target Group maintains good employee relations. The Target Group has not experienced any significant problems with the recruitment or retention of experienced employees. In addition, the Target Group has not suffered from any material disruption of normal business operations as a result of labour disputes or strikes. The remuneration payable to its employees includes salaries and allowances.

As at the Latest Practicable Date, the Target Group had 1,113 employees, most of whom are located in PRC. Please refer to the section headed "Business of the Target Group – Employees" in this circular for details of breakdown of the Target Group's employees by function.

Benefits and social insurance

As required by the Chinese regulations on social insurance, the Target Group participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance, maternity insurance and housing fund.

For the four years ended 31 December 2019, the Target Group accrued (i) staff's salaries, wages and other benefits in the sum of approximately RMB59.1 million, RMB69.5 million, RMB78.4 million and RMB86.6 million respectively and (ii) contributions to defined contribution retirement plans in the sum of approximately RMB9.3 million, RMB11.5 million, RMB12.8 million and RMB10.7 million respectively.

Remuneration Policy

The aggregate amounts of remuneration of the Target Company Directors for the four years ended 31 December 2019 were nil, nil, nil and nil respectively. The aggregate amount of the directors' fee of the Target Company Directors and other emoluments payable to the Target Company Directors for the year ending 31 December 2020 is estimated to be nil (excluding any discretionary bonuses).

The Target Company Directors and its senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Target Group. The Target Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Target Company or executing their functions in relation to its operations. Upon Acquisition Completion, the Company shall regularly review and determine the remuneration and compensation packages of directors of the Target Company and its senior management.

After the Acquisition Completion, the Remuneration Committee will review and determine the remuneration and compensation packages of the Target Company Directors and its senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Target Company Directors and performance of the Enlarged Group. During the Track Record Period, no remuneration was paid by the Target Company to, or received by, the Target Company Directors as an inducement to join or upon joining the Target Company.

You should read the following discussion and analysis in conjunction with the Target Business's financial information as of and for the years ended 31 December 2016, 2017, 2018 and 2019 included in the Accountants' Report in Appendix I to this circular, together with the accompanying notes. The Target Business's combined financial information included in the Accountants' Report on the Target Business (the "Combined Financial Information") has been prepared in accordance with IFRSs.

This discussion contains forward-looking statements that involve risks and uncertainties. The Target Business's actual results may differ materially from these forward-looking statements as a result of many factors, including but not limited to those described under "Risk Factors" and elsewhere in this circular.

OVERVIEW

The Target Business is a leading private petroleum station operator (i.e. gasoline and diesel) in Northeast China. The Target Business operates in two principal business segments, namely (i) sale of refined oil products and (ii) transportation services. For the years ended 31 December 2016, 2017, 2018 and 2019, approximately 99.6%, 99.5%, 99.6% and 99.5% of its revenue was derived from the sale of refined oil products respectively; while approximately 0.4%, 0.5%, 0.4% and 0.5% of its total revenue was derived from transportation services.

The sale of refined oil products segment is further divided into the (a) Petroleum Refuelling Business and (b) Petroleum Wholesale Business. The Target Business's Petroleum Refuelling Business is operated through its petroleum refuelling station network of a total of 67 petroleum refuelling stations comprising 28 self-owned petroleum refuelling stations, 37 Entrusted Petroleum Refuelling Stations (excluding the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and two Former Entrusted Petroleum Refuelling Stations (will be self-owned mixed refuelling stations upon the Acquisition Completion) covering certain prominent cities in Northeast China, mainly Changchun City of Jilin Province and Dandong City of Liaoning Province. The Target Business's Petroleum Wholesale Business supports the Petroleum Refuelling Business by (i) sourcing refined oil from suppliers (including independent third parties and a related party); (ii) storing the refined oil products (which include, amongst others, gasoline and diesel) in the two petroleum storage facilities owned by the Target Business and one Entrusted Petroleum Storage Facility entrusted to the Target Business upon the Acquisition Completion; and (iii) providing wholesaling of refined oil products mainly to third party refuelling stations in Northeast China. The Target Business also owns a refined oil transportation vehicle fleet which serves the logistic needs of its petroleum refuelling stations and its wholesale customers.

BASIS OF PREPARATION AND PRESENTATION

During the Track Record Period, the Target Business was carried out by Liaoning Oilfield, Shenyang United Strength, Dandong Kuandian, Baishan United Strength, Dandong United Strength, Wuchang United Strength, Shenyang Xinxin, Jilin Haotuo (collectively, the "**Operating Companies**") and Changchun Yitonghe as its branches or divisions manage and operate separately from the other economic activities of Changchun Yitonghe (the "**Petroleum Segment of Changchun Yitonghe**").

Prior to the Acquisition Completion, all of the Operating Companies and Changchun Yitonghe were directly or indirectly controlled by Mr. Zhao. To rationalise the corporate structure for the Acquisition, a reorganisation was undergone (the "**Reorganisation**"). Upon completion of the Reorganisation, the Target Business will be transferred to and conducted by the Target Group. Changchun Yitonghe will also pass on the assets, the right-of-use assets and liabilities in relation to the operation of the Entrusted Petroleum Refuelling Station and the Entrusted Petroleum Storage Facility of the Target Business to the Group. Mr. Zhao controlled the Target Business before and after the Reorganisation and continues to control the Target Business through the Target Company after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to Mr. Zhao. Accordingly, the Reorganisation is treated as a combination of businesses under common control. The Historical Financial Information has been prepared using the merger basis of accounting as if the Reorganisation were completed and the Target Business had been combined at the beginning of the Track Record Period.

Assets and liabilities included in the Historical Financial Information have been stated at the existing book values from the perspective of Mr. Zhao. Parent's net investment is shown in lieu of shareholders' equity in the Historical Financial Information to represent the cumulative interest of Mr. Zhao in the Target Business. The proportionate interest in the operating results and net assets not attributable to Mr. Zhao is presented as attributable to the non-controlling interests in the Historical Financial Information.

For further details in relation to the basis of preparation of the Target Business's historical financial information, please refer to Note 1 of Appendix I in this circular.

SIGNIFICANT FACTORS AFFECTING THE TARGET BUSINESS'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

During the Track Record Period, the following factors have significantly affected the Target Business's results of operations and financial condition:

The gross profit margin and growth in profit may fluctuate in the future as the purchase price and selling price of the refined oil products are sensitive to factors beyond control.

Gasoline and diesel are important raw materials for the Petroleum Refuelling Business and Petroleum Wholesale Business and constitute a majority of the Target Business's costs of sales. The costs of sales and gross profit margin are directly affected by the fluctuations of the purchase price of petroleum. Market prices of refined oil generally follow the trend of NDRC's guiding price in the PRC and international crude oil market, which is driven by market forces such as demand and supply, development of alternative energy technology, government regulations, geographic politics and global and domestic economic conditions, all of which are beyond the Target Business's control. Affected by these factors, oil prices could fluctuate significantly.

The fluctuations in gross profit margin are contributed by the changes in the procurement cost, the retail selling price and the wholesale selling price which are affected by a range of factors over which the Target Group has limited control. The selling price of the refined petroleum products takes into consideration, amongst others, procurement cost, and competition with its competitors, and these are factors which are beyond control. Market demand by end-customers, and competitive landscape of each refuelling station and the wholesale customers may also impact the selling price. In particular, when the Target Business's competitors undercut the selling price, we may suffer from lower profit margin (if aiming at maintaining sales volume) or lower sales volume (if aiming at maintaining profit margin). As such, the ability to timely adjust the retail selling price will affect the gross profit and gross profit margin.

For the four years ended 31 December 2019, the Target Business's gross profit margin was approximately 6.4%, 8.0%, 8.0% and 8.9%, respectively. The fluctuations in the gross profit margin are contributed by, amongst others, the changes in the procurement cost and average selling price which are affected by a range of factors aforementioned over which the Target Group has limited control. The Target Business also does not engage in any hedging activities. Any significant fluctuations of refined oil price could pose challenges to the Target Business's operations and adversely affect the Target Business's financial condition and results of operation. If the Target Business is unable to pass on the impact of the increase in purchase prices of the refined petroleum products to the customers by adjusting the selling price in a timely manner or at all due to price competition with other competitors which manage to procure petroleum products at lower costs, or if the Target Business misjudges the extent of adjustment of the retail selling price and wholesale selling price, the gross profit, cash flow and results of operations will be materially and adversely affected. Please refer to the section headed "Business of the Target Group — Pricing" in this circular for details of the Target Group's pricing strategy.

The Target Business operates mainly in Jilin and Liaoning provinces and the Target Business's business and operating results depend heavily on the economic and social conditions of these regions.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business derived approximately 66.4%, 65.6%, 67.5% and 68.8% of the Target Business's total revenue from operations in Jilin Province and approximately 33.1%, 33.8%, 32.0% and 30.9% of the Target Business's total revenue from operations in Liaoning Province. As of the Latest Practicable Date, the Target Business operated a total of 67 petroleum refuelling stations, of which 43 petroleum refuelling stations were located in Jilin Province, 23 petroleum refuelling stations were located in Liaoning Province and one petroleum refuelling station was located in Heilongjiang Province. The Target Business expects that its business expansion will continue to focus on these regions in the short- to mid-term. Due to such geographic concentration, the Target Business's business and operating results depend heavily on the economic and social conditions of Jilin and Liaoning provinces. The general economic conditions in these regions and local people's spending power, the road-network and urban planning in these regions, the popularity of alternative fuel vehicles among the local population, as well as the level of local government's support for alternative fuel vehicles may all have an impact on the Target Business's operations and business expansion. For example, if the local government increases its support for alternative fuel vehicles, which results in increased preference for alternative fuel vehicles by local customers, demand for refined oil products could decline and the Target Business could be adversely affected. Moreover, if there is any significant economic downturn or unfavourable change in the economic environment in these regions, or if any natural disaster or epidemic outbreak occurs in these regions, economic activities in these regions may be materially and adversely affected, which, in turn, may reduce the demand for refined oil products and adversely affect the Target Business's performance. There is no assurance that the Target Business will be able to maintain its historical revenue or profit levels in times of unfavourable and uncertain economic or social conditions in these regions, and the Target Business's historical performance shall not be relied upon as an indication of its future performance.

SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target Business is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Sale of goods

The Target Business recognises revenue from the sale of goods when the goods are delivered which is taken to be the point in time when the customer has accepted the goods and control over the goods is transferred to the customer.

Render of services

Revenue from the render of services is recognised progressively based on percentage of completion.

Interest income

The Target Business recognises interest income as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses:

– right-of-use assets arising from leases over leasehold properties where the Target Business is not the registered owner of the property interest;

– buildings situated on leasehold properties; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
• Buildings and properties	over the shorter of the term of lease and their estimated useful lives
• Motor vehicles and other equipment	3-10 years
• Refuelling equipment, storage facilities and related equipment	3-15 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

Leased assets

At inception of a contract, the Target Business assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Target Business has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a leasee

Where the contract contains lease component(s) and non-lease component(s), the Target Business has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Business recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Business enters into a lease in respect of a low-value asset, the Target Business decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Business' estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Business will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Target Business presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

As a lessor

When the Target Business acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Target Business allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(q)(iii) of Appendix I in this circular.

Adoption of IFRS 9, IFRS 15 and IFRS 16

The IASB has issued a number of new/revised IFRSs during the Track Record Period. IFRS 9, *Financial instruments*, and IFRS 15, *Revenue from contracts with customers,* are effective for financial periods beginning on or after 1 January 2018, replacing IAS 39, *Financial instruments: recognition and measurement*, and IAS 18, *Revenue*, respectively. IFRS 16, *Leases*, is effective for financial periods beginning on or after 1 January 2019, replacing IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases — incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. For the purpose of preparing the Target Business's historical financial information, it has adopted all applicable new and revised IFRSs, including IFRS 9, IFRS 15 and IFRS 16 consistently throughout the Track Record Period. It is considered that the adoption of (i) IFRS 9, compared to IAS 39; and (ii) IFRS 15, compared to IAS 18, will not have a significant impact on our combined financial position and performance. During the Track Record Period, the Target Business's leased assets mainly include land use rights and petroleum refuelling stations. After due and careful consideration and taking into account the significance of the operating leases to the Target Business among other things, the Directors have elected to early apply IFRS 16 consistently throughout the Track Record Period.

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, *Operating leases — incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

IFRS 16 will result in almost all leases being recognised on the combined statements of financial position of the lessees, as the distinction between operating leases and finance leases has been removed. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Target Business. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the period of lease term and the expected useful life of the underlying asset on a straight-line basis.

Assets and liabilities arising from the leases are initially measured on a present value basis. Lease liabilities include the present value of fixed lease payments (including in-substance fixed payments), less any lease incentives, variable lease payments that depend on a rate, the exercise price of a purchase option if the receivable lessee is reasonably certain to exercise that option and payments of penalties for terminating the lease if the lease term reflects the lessee exercising the option to terminate the lease. The lease payments are discounted using the incremental borrowing rate of the Target Business. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs and an estimate of costs to be incurred by the Target Business in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying assets to the condition required by the terms and conditions of the lease.

Payments associated with short-term leases with a lease term of 12 months or less and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

The management of the Target Business determines the lease term for lease contracts in which it is a lease that includes renewal option. The assessment of whether the Target Business is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Directors are of the view that the adoption of IFRS 16 would have impact on the Target Business's financial position, financial performance and cash flows. For illustration purpose, if the Target Business had applied IAS 17 for the years ended 31 December 2016, 2017, 2018 and 2019, the estimated impact on the combined statements of financial position as at 31 December 2016, 2017, 2018 and 2019, and the combined statements of profit or loss and our financial ratios for the years ended 31 December 2016, 2017, 2018 and 2019 affected by the adoption of IFRS 16 are as follows:

(a) Impact to combined statements of financial position

Based on the Target Business's initial assessment, if IAS 17 was applied instead of IFRS 16 throughout the Track Record Period, the management of the

Target Business estimates that the key items in the Target Business's combined statements of financial position as at 31 December 2016, 2017, 2018 and 2019 would have been affected as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As if reported under IAS 17:				
Right-of-use assets, included in "property, plant and equipment"	–	–	–	–
Investment properties	27,288	28,259	28,153	43,025
Total assets	530,243	631,436	743,447	838,189
Lease liabilities	–	–	–	–
Total liabilities	206,102	227,865	331,862	341,201
Total equity	324,141	403,571	411,585	496,988
Currently reported under IFRS 16:				
Right-of-use assets, included in "property, plant and equipment"	230,058	245,994	207,361	161,864
Investment properties	29,936	30,662	30,218	43,234
Total assets	661,242	757,809	836,879	902,304
Lease liabilities	138,939	140,114	107,295	78,213
Total liabilities	354,207	384,716	462,357	438,824
Total equity	307,035	373,093	374,522	463,480

During the Track Record Period, the Target Business's leased properties mainly include land use rights, and petroleum refuelling stations.

According to IFRS 16, the Target Business as a lessee is required to recognise a right-of-use asset, included in "property, plant and equipment", representing its right to use the underlying leased asset and a leased liability (i.e. current and non-current liabilities) representing its obligation to make lease payments resulting in the increase in the Target Business's total non-current assets, current liabilities and non-current liabilities and the decrease in the Target Business's net assets.

(b) Impact to combined statements of profit or loss and other comprehensive income

If IAS 17 was applied instead of IFRS 16 throughout the Track Record Period, the key items in the Target Business's combined statements of profit or loss during the Track Record Period would have been affected as follows:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As if reported under IAS 17:				
Revenue	3,428,449	3,633,176	3,827,574	3,602,976
Depreciation expenses	28,303	23,876	24,733	26,761
Other operating expenses	66,234	83,257	80,255	57,141
Finance costs	3,705	3,465	3,688	10,332
Profit for the year	56,204	83,654	86,184	103,102
Currently reported under IFRS 16:				
Revenue	3,428,449	3,633,176	3,827,574	3,602,976
Depreciation expenses	45,803	47,591	48,483	46,726
Other operating expenses	50,088	61,795	53,177	33,363
Finance costs	12,333	14,555	13,517	17,028
Profit for the year	46,342	71,058	80,298	102,447

The adoption of IFRS 16 would have impacts on the composition of certain profit and loss items (such as depreciation expenses, other operating expenses and finance costs) mainly due to the recognition of depreciation on right-of-use assets and interest expenses on leases liabilities as well as de-recognition of operating lease charges. The impact of IFRS 16 on the Target Business's profit or loss depends on the pattern of expenses recognised (i.e. depreciation on right-of-use assets and interest expenses on lease liabilities). The depreciation on right-of-use assets was charged on a straight-line basis, whereas the finance charges on lease liabilities was charged based on the effective interest rate method. The combination of depreciation and finance charge recognised in accordance with IFRS 16 results in an expenses recognition pattern where a higher charge will be recognised on the statements of profit or loss and other comprehensive income in the initial years of the lease and lead to a lower net profit in the initial year as compared to the subsequent years.

(c) Impact to combined statements of cash flows

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As if reported under IAS 17:				
Net cash generated from/(used in) operating activities	102,289	(2,331)	135,315	280,945
Net cash (used in)/generated from financing activities	(56,518)	62,817	(85,040)	(237,484)
As if reported under IFRS 16:				
Net cash generated from/(used in) operating activities	129,518	41,398	158,959	304,810
Net cash (used in)/generated from financing activities	(83,747)	19,088	(108,684)	(261,349)

The adoption of IFRS 16 would result in an increase in the Target Business's net cash generated from/(used in) operating activities and a decrease on net cash (used in)/generated from financing activities which was mainly due to the classification of lease rentals paid from operating activities to financial activities. The major difference in the classification and recognition of cash flows in relation to lease payment between IFRS 16 and IAS 17 is that the payment of leases is classified as cash outflow under financing activities under IFRS 16, whereas it was classified as a cash outflow under operating activities under the IAS 17.

(d) Impact to certain key financial ratios

	Ratio without the adoption of IFRS 16 at 31 December/for the year ended 31 December				Ratio with the adoption of IFRS 16 at 31 December/for the year ended 31 December			
	2016	**2017**	**2018**	**2019**	**2016**	**2017**	**2018**	**2019**
Current ratio	1.5 times	1.8 times	1.5 times	1.6 times	1.3 times	1.4 times	1.2 times	1.4 times
Quick ratio	1.2 times	0.9 time	1.0 time	1.3 times	1.0 time	0.7 time	0.8 time	1.1 times
Gearing ratio	21.6%	29.7%	33.7%	19.2%	68.1%	69.7%	65.7%	37.5%
Debt to equity ratio	0.6 time	0.6 time	0.8 time	0.7 time	1.2 times	1.0 time	1.2 times	0.9 time
Interest coverage	20.5 times	32.6 times	32.1 times	14.4 times	6.0 times	7.6 times	9.0 times	9.1 times
Return on total assets	10.6%	13.2%	11.6%	12.3%	7.0%	9.4%	9.6%	11.4%
Return on equity	25.5%	30.2%	30.0%	29.7%	22.8%	28.8%	32.0%	32.7%
Gross profit margin	6.4%	8.0%	8.0%	8.9%	6.4%	8.0%	8.0%	8.9%
Net profit margin	1.6%	2.3%	2.3%	2.9%	1.4%	2.0%	2.1%	2.8%

DESCRIPTION OF KEY INCOME STATEMENT LINE ITEMS

The following table sets forth selected items in the Target Business's combined statements of profit or loss:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	3,428,449	3,633,176	3,827,574	3,602,976
Cost of sales	(3,209,600)	(3,342,433)	(3,520,516)	(3,283,533)
Gross profit	218,849	290,743	307,058	319,443
Other income	19,866	10,252	7,877	12,860
Staff costs	(68,399)	(81,043)	(91,166)	(97,310)
Depreciation expenses	(45,803)	(47,591)	(48,483)	(46,726)
Other operating expenses	(50,088)	(61,795)	(53,177)	(33,363)
Profit from operations	74,425	110,566	122,109	154,904
Finance costs	(12,333)	(14,555)	(13,517)	(17,028)
Profit before taxation	62,092	96,011	108,592	137,876
Income tax	(15,750)	(24,953)	(28,294)	(35,429)
Profit for the year	46,342	71,058	80,298	102,447
Attributable to:				
Parent's net investment	28,662	45,463	59,110	73,106
Non-controlling interests	17,680	25,595	21,188	29,341
Profit for the year	46,342	71,058	80,298	102,447

Revenue

The Target Business generates revenue primarily in two principal business segments, namely (i) sales of refined oil (include gasoline and diesel) and (ii) provision of transportation services. The sales of refined oil segment is further divided into (a) the Petroleum Refuelling Business, engaged in refined oil retail, and (b) the Petroleum Wholesale Business, engaged in refined oil wholesale. The Target Business's total revenue amounted to approximately RMB3,428.4 million, RMB3,633.2 million, RMB3,827.6 million and RMB3,603.0 million for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

The fluctuation of revenue during the Track Record Period was mainly due to changes in (i) average selling prices of retail and wholesale gasoline and diesel and (ii) the sales volume of gasoline and diesel.

Revenue by division

The following table sets forth the Target Business's revenue by division for the respective years indicated:

	Year ended 31 December							
	2016		2017		2018		2019	
	Revenue	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Petroleum Refuelling Business [(1)]								
Diesel	478,942	14.0	532,701	14.7	701,326	18.3	633,321	17.5
Gasoline	909,503	26.5	1,180,212	32.5	1,108,166	29.0	1,181,655	32.7
Petroleum Wholesale Business[(2)]								
Diesel	1,335,677	39.0	1,064,865	29.3	1,083,955	28.3	1,044,266	29.0
Gasoline	689,456	20.1	837,410	23.0	919,799	24.0	727,278	20.2
Transportation services	14,871	0.4	17,988	0.5	14,328	0.4	16,456	0.5
Total	3,428,449	100.0	3,633,176	100.0	3,827,574	100.0	3,602,976	100.0

Note (1): The revenue from the Petroleum Refuelling Business was generated from the Target Business's petroleum refuelling stations.

(2): The revenue from Petroleum Wholesale Business was generated from the Target Business's petroleum storage facilities.

The Target Business's revenue was mainly generated from the sale of refined oil, namely, gasoline and diesel, on a retail and wholesale basis during the Track Record Period. Sales of retail refined oil under the Petroleum Refuelling Business represented approximately 40.5%, 47.2%, 47.3% and 50.3% of the Target Business's total revenue for the years ended 31 December 2016, 2017, 2018 and and 2019, respectively. Sales of wholesale refined oil under the Petroleum Wholesale Business represented approximately 59.1%, 52.3%, 52.3% and 49.2% of the total revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business sold an aggregate of approximately 147.3 thousand tonnes, 171.5 thousand tonnes, 142.3 thousand tonnes and 166.6 thousand tonnes of gasoline and 100.6 thousand tonnes, 103.7 thousand tonnes, 108.8 thousand tonnes, and 103.5 thousand tonnes of diesel through the petroleum refuelling stations, respectively. For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business sold an aggregate of approximately 146.9 thousand tonnes, 156.1 thousand tonnes, 139.8 thousand tonnes and 125.2 thousand tonnes of gasoline and 332.7 thousand tonnes, 224.3 thousand tonnes, 187.9 thousand tonnes and 185.8 thousand tonnes of diesel through wholesale channels, respectively.

The Target Business also generates a small portion of revenue from the provision of transportation services in which the Target Business delivers products to its wholesale customers and the petroleum refuelling stations through its own refined oil transportation vehicle fleet. Transportation services represented approximately 0.4%, 0.5%, 0.4% and 0.5% of the Target Business's total revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Revenue by types of petroleum refuelling stations

The table below sets forth the Petroleum Refuelling Business's revenue by self-owned refuelling stations and Entrusted Petroleum Refuelling Stations for the respective years indicated:

	Year ended 31 December							
	2016		2017		2018		2019	
	Revenue	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*	*Revenue*	*Percentage of revenue*
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Self-owned petroleum refuelling stations	186,699	13.4%	263,330	15.4%	361,253	19.9%	413,395	22.8%
Entrusted Petroleum Refuelling Stations	1,201,746	86.6%	1,449,583	84.6%	1,448,239	80.1%	1,401,581	77.2%
Total	1,388,445	100.0%	1,712,913	100.0%	1,809,492	100.0%	1,814,976	100.0%

For the years ended 31 December 2016, 2017, 2018 and 2019, the majority of the Petroleum Refuelling Business's revenue was generated from Entrusted Petroleum Refuelling Stations, representing approximately 86.6%, 84.6%, 80.1% and 77.2% of the revenue generated from the Petroleum Refuelling Business, respectively. Such revenue contribution aligns with the greater number of Entrusted Petroleum Refuelling Stations over self-owned petroleum refuelling stations during the Track Record Period and the Entrusted Petroleum Refuelling Stations are mainly located in prime locations in Changchun City and Jilin City while self-owned petroleum refuelling stations are primarily located in Dandong City. For details of the Target Business's movement in number of stations during the Track Record Period, please refer to the section headed "Business — Petroleum Refuelling Business — The retail networks" in this circular.

Revenue by petroleum refuelling stations

The following sets forth the revenue of each of the Target Business's petroleum refuelling stations during the Track Record Period:

	For the year ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Self-owned Petroleum Refuelling Stations				
1. Jilin Haotuo Xisihuan Petroleum Station (吉林省昊拓石油開發利用有限公司西四環油氣站)	–	7,739	45,945	56,357
2. Jilin Haotuo Changchun Jingyang Petroleum Station (吉林省昊拓石油開發利用有限公司長春景陽加油站)	–	–	5,689	16,353
3. Jilin Haotuo Qianjin Dajie Petroleum Station (吉林省昊拓石油開發利用有限公司前進大街加油加氣站)	–	–	262	37,312
4. Jilin Haotuo Bohai Petroleum Sales Branch Company (吉林省昊拓石油開發利用有限公司瓦房店眾誠渤海石油銷售分公司)	–	–	7,277	16,118
5. Dandong Kuandian Nanhuanlu Petroleum Station (丹東市寬甸石油有限公司南環路加油站)	16,847	19,084	20,198	16,571
6. Dandong Kuandian Dongchukoulu Petroleum Station (丹東市寬甸石油有限公司東出口路加油站)	11,711	15,407	13,488	12,412
7. Dandong Kuandian Shangsong Petroleum Station (丹東市寬甸石油有限公司上蒿加油站)	11,439	15,163	14,596	17,408
8. Dandong Kuandian Changdian Petroleum Station (丹東市寬甸石油有限公司長甸加油站)	10,500	13,216	13,974	11,700
9. Dandong Kuandian Dongyun Petroleum Station (丹東市寬甸石油有限公司東運加油站)	10,561	11,589	9,378	6,711
10. Dandong United Strength Jinshan Petroleum Station (丹東眾誠船舶燃油有限公司金山加油站)	–	10,173	34,603	42,943
11. Dandong Kuandian Xihuanlu Petroleum Station (丹東市寬甸石油有限公司西環路加油站)	6,595	9,738	10,192	9,776
12. Dandong Kuandian Guanshui Petroleum Station (丹東市寬甸石油有限公司灌水加油站)	7,457	8,298	7,606	8,321
13. Dandong Kuandian Wulongshan Petroleum Station (丹東市寬甸石油有限公司五龍山加油站)	1,629	7,124	6,579	5,924
14. Dandong Kuandian Liudaohezi Petroleum Station (丹東市寬甸石油有限公司六道河子加油站)	5,928	7,077	6,922	7,273
15. Dandong Kuandian Yangmu Petroleum Station (丹東市寬甸石油有限公司楊木加油站)	3,597	5,999	8,292	4,484
16. Dandong Kuandian Laodaopai Petroleum Station (丹東市寬甸石油有限公司老道排加油站)	3,731	4,064	3,229	2,845
17. Dandong United Strength Gushan Petroleum Station (丹東眾誠船舶燃油有限公司孤山石油經銷處)	3,932	4,029	2,756	3,223

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
18. Dandong Kuandian Taizigou Petroleum Station (丹東市寬甸石油有限公司台子溝加油站)	2,710	3,375	3,565	2,782
19. Dandong Kuandian Xiaobiangou Petroleum Station (丹東市寬甸石油有限公司小邊溝加油站)	1,345	2,213	947	1,368
20. Dandong United Strength Xinnong Petroleum Station (丹東眾誠船舶燃油有限公司新農加油站)	1,307	863	724	779
21. Dandong Kuandian Haicheng Dongfanghong Petroleum Station (丹東市寬甸石油有限公司海城東方紅加油站)	–	–	669	4,721
22. Dandong United Strength Pianling Petroleum Station (丹東眾誠船舶燃油有限公司偏嶺加油站)	–	–	3,477	7,879
23. Baishan United Strength Taixing Power Company Limited (白山眾誠泰興能源有限公司)	24,379	29,857	33,289	29,901
24. Wuchang United Strength Chengxi Petroleum Company Limited (五常眾誠城西石油有限公司)	18,634	21,969	17,926	12,963
25. Dandong Kuandian Huanren Petroleum Station (丹東市寬甸石油有限公司桓仁加油站)	–	8,502	12,826	10,527
26. Jilin Haotuo Taian Haotuo Petroleum Sales Branch Company (吉林省昊拓石油開發利用有限公司台安昊拓石油銷售分公司)	–	3,419	13,029	8,540
27. Dandong Kuandian Xiuyan Petroleum Station (丹東市寬甸石油有限公司岫岩加油站)	–	1,665	13,969	11,470
28. Liaoyuan Rank Station (遼源市恒泰清潔能源有限公司公園加油加氣站)	31,940	37,572	34,352	33,580
29. Longjing United Strength Longhe Station (龍井眾誠能源發展有限公司龍和加油加氣合建站)	11,207	13,201	12,944[(1)]	12,974
30. Dandong United Strength Xiuyan Donghuan Petroleum Station (丹東眾誠船舶燃油有限公司岫岩東環加油站)	–	–	–	2,705
Entrusted Petroleum Refuelling Stations				
1. Changchun Yitonghe Shiji Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖世紀加油站)	71,558	89,030	99,134	118,691
2. Changchun Yitonghe Lingdong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖嶺東加油站)	53,576	67,668	68,197	74,857
3. Changchun Yitonghe Pingan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖平安加油站)	54,507	66,885	54,700	63,963
4. Changchun Yitonghe Petroleum Station (長春伊通河石油經銷有限公司(伊通河站))	47,674	64,685	69,193	78,668
5. Changchun Yitonghe Yuanyang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖遠洋加油站)	42,168	56,600	62,613	64,856
6. Changchun Yitonghe Baiyun Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖白雲加油站)	43,247	51,183	43,505	39,974

		For the year ended 31 December			
		2016	2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
7.	Changchun Yitonghe Jida Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉達加油站)	36,019	47,339	60,828	60,935
8.	Changchun Yitonghe Nongan Sanbao Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖農安三寶加油站)	51,278	45,606	42,965	45,277
9.	Changchun Yitonghe Xiguang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖西廣加油站)	33,596	40,010	38,980	39,952
10.	Changchun Yitonghe Chuncheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖春城加油站)	31,709	38,988	41,337	44,000
11.	Changchun Yitonghe Hexin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖合心加油站)	23,248	37,922	45,456	47,501
12.	Changchun Yitonghe Wanda Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖萬達加油站)	31,760	37,451	55,797	45,947
13.	Changchun Yitonghe Shuangxing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖雙星加油站)	28,509	37,190	34,483	53,407
14.	Changchun Yitonghe Weixing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖衛星加油站)	25,966	33,668	36,034	40,013
15.	Changchun Yitonghe Xinglongshan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖興隆山加油站)	23,899	26,782	33,776	38,183
16.	Changchun Yitonghe Yingxin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖迎新加油站)	27,727	26,722	16,965[(2)]	22,681
17.	Changchun Yitonghe Tenglong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖騰龍加油站)	7,553	23,347	33,313	30,424
18.	Changchun Yitonghe Dehui Songbai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖德惠松柏加油站)	22,415	21,649	19,081	23,781
19.	Changchun Yitonghe Sheling Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖奢嶺加油站)	19,018	21,290	22,346	25,712
20.	Changchun Yitonghe Qingnianlu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖青年路加油站)	16,710	19,199	23,468	27,189
21.	Changchun Yitonghe Jilin Nanjingjie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉林市南京街加油站)	35,922	47,544	37,450	38,358
22.	Changchun Yitonghe Jilin Shenzhenjie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉林市深圳街加油站)	31,773	40,667	34,085	33,238
23.	Changchun Yitonghe Huadian Jinbo Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖樺甸金箔加油站)	26,183	27,318	24,236	24,033

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
24. Changchun Yitonghe Panshi Anda Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖磐石安達加油站)	35,381	26,903	28,747	21,998
25. Changchun Yitonghe Huadian Xinhai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖樺甸新海加油站)	24,479	23,667	22,135	21,193
26. Changchun Yitonghe Jiaohe Changcheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河長城加油站)	14,652	14,156	19,758	19,007
27. Changchun Yitonghe Jiaohe Hongye Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河紅葉加油站)	11,658	12,137	12,770	12,403
28. Changchun Yitonghe Jiaohe Wanli Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河萬里加油站)	8,328	7,474	5,977	6,329
29. Changchun Yitonghe Baicheng Branch Company Jihe Petroleum Station (長春伊通河石油經銷有限公司白城分公司吉鶴加油站)	10,906	24,742	18,181	18,691
30. Changchun Yitonghe Baicheng Branch Company Dongfeng Petroleum Station (長春伊通河石油經銷有限公司白城分公司東風加油站)	12,196	16,722	12,686	4,339(8)
31. Changchun Yitonghe Baicheng Branch Company Jiali Petroleum Station (長春伊通河石油經銷有限公司白城分公司加力加油站)	18,856	14,998	12,675	5,795(8)
32. Changchun Yitonghe Taonan Yuanzheng Petroleum Station (長春伊通河石油經銷有限公司洮南遠征加油站)	18,587	13,722	8,449(3)	7,703(10)
33. Changchun Yitonghe Zhenlai Zhongcheng Petroleum Station (長春伊通河石油經銷有限公司鎮賚眾誠加油站)	9,644	10,730	11,120	12,727
34. Changchun Yitonghe Songlian Petroleum Station (長春伊通河石油經銷有限公司松煉加油站)	15,224	19,282	16,175	26,590
35. Changchun Yitonghe Meihekou Xingquan Petroleum Station (長春伊通河石油經銷有限公司梅河口興泉加油站)	7,104	5,599	4,492(4)	3,103
36. Changchun Yitonghe Yushu Xincheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖榆樹新城加油站)	28,400	28,069	19,620	17,245
37. Changchun Yitonghe Keyun Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖客運加油站)	42,600	53,791	58,891	57,503
38. Changchun Yitonghe Shitoukoumen Service Area Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖石頭口門服務區加油站)	–	42,243	19,836(5)	–

		For the year ended 31 December			
		2016	2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
39.	Changchun Yitonghe Kaixuan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖凱旋加油站)	46,316	58,490	64,136	59,821
40.	Changchun Yitonghe Jixing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉興加油站)	25,685	26,110	9,804(6)	–
41.	Changchun Yitonghe Nongan Huangzhong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖農安環中加油站)	13,057	15,493	12,457	3,206(9)
42.	Changchun Yitonghe Beiyan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖北燕加油站)	6,720	6,490	592(6)	–
43.	Changchun Yitonghe Nongji Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖農機加油站)	5,595	3,710	8,667(6)	–
44.	Changchun Yitonghe Yushu Beihuang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖榆樹北環加油站)	–	2,863	11,689(6)	–
45.	Changchun Yitonghe Yushu Dajie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖榆樹大街加油站)	–	2,733	11,176(6)	–
46.	Changchun Yitonghe United Strength Benchi Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖奔馳加油站)	23,596	–(7)	–	–
47.	Changchun Yitonghe Yongjiu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖長嶺縣永久加油站)	19,666	12,052	14,672	2,219(9)
48.	Changchun Yitonghe Yongming Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖長嶺縣永明加油站)	–	3,598	–(6)	–
49.	Changchun Yitonghe Yongcai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖長嶺縣永財加油站)	–	2,853	293(6)	–
50.	Changchun Yitonghe Zhongxin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖伊通眾興加油站)	–	9,395	27,346	8,221(9)
51.	Changchun Yitonghe United Strength Chaluhe Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖岔路河加油站)	18,331	24,812	20,499	9,143(9)
52.	Changchun Yitonghe Liaoyuan Zhonggu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖遼源中固油氣站)	–	–	–	180

Notes:

1. This petroleum refuelling station is located in relatively remote area in Yan Bian, Jilin Province and its financial performance in 2018 has fallen short of the Target Group's previous expectation. The Target Group will continue to monitor the sales performance of this petroleum refuelling station going forward.

2. The relatively large decrease in sales revenue as compared to the previous year was partly due to the temporary suspension of the petroleum refuelling station for undergoing certain environmental improvement works in accordance with the relevant provincial policies. The length of suspension amounted to 85 days from July 2018 to October 2018. For details, please refer to the section headed "Business — Petroleum Refuelling Business — Petroleum Refuelling Station Network — Temporary Suspension of Petroleum Refuelling Station" in this circular.

3. The relatively large decrease in sales revenue as compared to the previous year was partly due to the temporary suspension of the petroleum refuelling station for undergoing certain environmental improvement works in accordance with the relevant provincial policies. The length of suspension amounted to 88 days from October 2018 to December 2018. For details, please refer to the section headed "Business — Petroleum Refuelling Business — Petroleum Refuelling Station Network — Temporary Suspension of Petroleum Refuelling Station" in this circular.

4. This petroleum refuelling station is located in relatively remote area in in Tong Hua, Jilin Province and its financial performance in 2018 has fallen short of the Target Group's previous expectation. The Target Group will continue to monitor the sales performance of this petroleum refuelling station going forward.

5. The relatively large decrease in sales revenue as compared to the previous year was primarily due to repairs works being carried out on the petroleum refuelling station during 2018. It is expected that the station will re-commence its operation by the fourth quarter of 2020. Hence, no revenue generated from this petroleum refuelling station for the year ended 31 December 2019.

6. The sales performance of the petroleum refuelling stations have fallen short of the Target Group's previous expectation. The Target Group decided to devote resources on managing other more well performing stations, hence, these petroleum refuelling stations ceased operations during 2018 and no revenue was generated from these refuelling stations for the year ended 31 December 2019.

7. The petroleum refuelling station has ceased operation during 2016 due to the expiry of the relevant cooperation agreement from the then lessor. Hence, no revenue was derived since 2017.

8. Due to termination of the relevant cooperation agreements from the then lessors, these petroleum refuelling stations ceased operations during 2019. As a result, there was a relatively large decrease in the sales revenue as compared to the previous year.

9. The sales performance of the petroleum refuelling stations have fallen short of the Target Group's previous expectation. The Target Group decided to devote resources on managing other more well performing stations, hence, these petroleum refuelling stations ceased operations during 2019. As a result, there was a relatively large decrease in revenue as compared to the previous year.

10. This petroleum refuelling station is located in relatively remote area in Baicheng City and its financial performance in 2019 have fallen short of the Target Group's previous expectation. The Target Group will continue to monitor the sales performance of this petroleum refuelling station going forward.

Average selling prices of refined oil products

The following table sets forth the revenue, sales volume and average selling price of refined oil products for the respective years indicated:

	Year ended 31 December											
	2016			2017			2018			2019		
	Sales volume	Revenue	Average selling price(1)	Sales volume	Revenue	Average selling price(1)	Sales volume	Revenue	Average selling price(1)	Sales volume	Revenue	Average selling price(1)
	thousand tonnes	*RMB'000*	*RMB/tonne*	*thousand tonnes*	*RMB'000*	*RMB/tonne*	*thousand tonnes*	*RMB'000*	*RMB/tonne*	*thousand tonnes*	*RMB'000*	*RMB/tonne*
Petroleum Refuelling Business(2)												
Gasoline	147.3	909,503	6,174	171.5	1,180,212	6,882	142.3	1,108,166	7,788	166.6	1,181,655	7,093
Diesel	100.6	478,942	4,761	103.7	532,701	5,137	108.8	701,326	6,446	103.5	633,321	6,119
Total		1,388,445			1,712,913			1,809,492			1,814,976	
Petroleum Wholesale Business(3)												
Gasoline	146.9	689,456	4,693	156.1	837,410	5,365	139.8	919,799	6,579	125.2	727,278	5,809
Diesel	332.7	1,335,677	4,015	224.3	1,064,865	4,747	187.9	1,083,955	5,769	185.8	1,044,266	5,620
Total		2,025,133			1,902,275			2,003,754			1,771,544	

Note (1): Average selling price is calculated by the total revenue generated from the sales of each product during the respective year divided by the sales volume for each product during the respective year.

(2): The revenue from the Petroleum Refuelling Business were generated from the Target Business's petroleum refuelling stations.

(3): The revenue from the Petroleum Wholesale Business were generated from the Target Business's petroleum storage facilities.

Refined oil prices are regulated by the PRC government. The NDRC promulgates retail prices of gasoline and diesel every 10 working days, and such prices are the maximum statutory prices for wholesale and retail at which the products can be sold during the relevant periods. The NDRC's guiding price of refined oil is generally affected by the price of international crude oil. The price of international crude oil had been on a general increasing trend, save for 2019, and amounted to approximately USD43.6 per barrel, USD54.1 per barrel, USD71.3 per barrel and USD64.3 per barrel for years 2016, 2017, 2018 and 2019, respectively. For wholesale and retail refined oil, the Target Business observes the wholesale and retail price ceilings set by the NDRC and determines the refined oil prices by taking into account other factors including but not limited to procurement costs (including transportation costs) of the products, the location of the petroleum refuelling stations (in respect of retail sales) and the competition from other nearby petroleum refuelling stations. For details regarding the pricing of the Target Business's products, please refer to the section headed "Business of the Target Group – Pricing" in this circular.

The average selling price of retail gasoline was approximately RMB6,174 per tonne, RMB6,882 per tonne, RMB7,788 per tonne and RMB7,093 per tonne for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The average selling price of wholesale gasoline was approximately RMB4,693 per tonne, RMB5,365 per tonne, RMB6,579 per tonne and RMB5,809 per tonne for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The fluctuation in the average selling price of gasoline during the Track Record Period was primarily affected by (i) the market supply and demand of gasoline and (ii) the changes to the NDRC's guiding price of refined oil due to the fluctuation of the price of international crude oil during the same period.

The average selling price of retail diesel was approximately RMB4,761 per tonne, RMB5,137 per tonne, RMB6,446 per tonne and RMB6,119 per tonne for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The average selling price of wholesale diesel was approximately RMB4,015 per tonne, RMB4,747 per tonne, RMB5,769 per tonne and RMB5,620 per tonne for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The fluctuation in the average selling price of diesel during the Track Record Period was primarily affected by (i) the market supply and demand of diesel and (ii) the changes to the NDRC's guiding price of refined oil due to the fluctuation of the price of international crude oil during the same period.

Revenue by region

The table below sets forth the Target Business's revenue by region for the respective years indicated:

	Year ended 31 December							
	2016		2017		2018		2019	
	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue	Revenue	Percentage of revenue
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Jilin Province	2,276,426	66.4%	2,382,800	65.6%	2,583,398	67.5%	2,477,664	68.8%
Liaoning Province	1,133,379	33.1%	1,228,396	33.8%	1,226,237	32.0%	1,112,349	30.9%
Heilongjiang Province	18,644	0.5%	21,980	0.6%	17,939	0.5%	12,963	0.3%
Total	3,428,449	100.0%	3,633,176	100.0%	3,827,574	100.0%	3,602,976	100.0%

Note: Revenue by region is measured based on the location of the petroleum refuelling station and storage facility.

During the Track Record Period, the Target Business's revenue was mainly generated from Jilin Province and the revenue contributed from this region amounted to approximately RMB2,276.4 million, RMB2,382.8 million, RMB2,583.4 million and RMB2,477.7 million, representing approximately 66.4%, 65.6%, 67.5% and 68.8% of the Target Business's total revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. Revenue generated from Liaoning Province amounted to approximately RMB1,133.4 million, RMB1,228.4 million, RMB1,226.2 million and RMB1,112.3 million, representing approximately 33.1%, 33.8%, 32.0% and 30.9% of the Target Business's revenue for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Cost of sales

The Target Business's cost of sales consisted primarily of procurement of petroleum and other costs incurred in transporting the petroleum to the relevant stations. For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's cost of sales amounted to approximately RMB3,209.6 million, RMB3,342.4 million, RMB3,520.5 million and RMB3,283.5 million, respectively.

The table below sets forth the breakdown of the Target Business's cost of sales for the respective years indicated:

	Year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Gasoline	1,431,752	44.6	1,771,735	53.0	1,805,602	51.3	1,639,663	49.9
Diesel	1,724,033	53.7	1,516,676	45.4	1,656,139	47.0	1,588,659	48.4
Delivery charges	34,568	1.1	34,361	1.0	41,516	1.2	45,019	1.4
Transportation services	12,380	0.4	12,472	0.4	11,954	0.3	12,155	0.4
Others *(Note)*	6,867	0.2	7,189	0.2	5,305	0.2	3,339	0.1
Reversal of write-down of inventories	–	–	–	–	–	–	(5,302)	(0.2)
Total	3,209,600	100.0	3,342,433	100.0	3,520,516	100.0	3,283,533	100.0

Note: Others refer to wastage of refined oil at the Target Business's petroleum storage facilities for the Petroleum Wholesale Business.

The tables below set forth the procurement cost, sales volume and average cost of refined oil products for the respective periods indicated by product type:

	Year ended 31 December											
	2016			2017			2018			2019		
	Sales volume	**Procurement cost**	**Average cost**	**Sales volume**	**Procurement cost**	**Average cost**	**Sales volume**	**Procurement cost**	**Average cost**	**Sales volume**	**Procurement cost**	**Average cost**
	thousand tonnes	*RMB'000*	*RMB/tonne*	*thousand tonnes*	*RMB'000*	*RMB/tonne*	*thousand tonnes*	*RMB'000*	*RMB/tonne*	*thousand tonnes*	*RMB'000*	*RMB/tonne*
Gasoline	294.2	1,431,752	4,866	327.6	1,771,735	5,408	282.2	1,805,602	6,399	291.8	1,639,663	5,619
Diesel	433.3	1,724,033	3,979	328.0	1,516,676	4,624	296.7	1,656,139	5,582	289.3	1,588,659	5,491
Total procurement cost		3,155,785			3,288,411			3,461,741			3,228,322	

Note: Average cost is calculated by the procurement cost of each product during the respective period divided by the sales volume for each product during the respective years.

The increase in the cost of sales for the years ended 31 December 2016, 2017 and 2018 was primarily due to the increase in the average cost of procuring gasoline and diesel. The decrease in the cost of sales for the year ended 31 December 2019 was primarily due to the decrease in the average cost of procuring gasoline and diesel, which is in line with the price trend of the international crude oil price. The fluctuation in the average cost by product type was generally in line with the fluctuation in the average selling price of the Target Business's products for the years ended 31 December 2016, 2017, 2018 and 2019.

The tables below sets forth a sensitivity analysis illustrating the hypothetical changes in the Target Business's gross profit and gross profit margin for the years ended 31 December 2016, 2017, 2018 and 2019 based on historical fluctuations during Track Record Period if the purchase price of refined oil per unit was 7%, 16% and 19% (representing the period to period change in purchase price of refined oil per unit for the year ended 31 December 2017, 2018 and 2019) higher or lower, respectively, assuming other factors affecting the Target Business's gross profit and gross profit margin remained the same:

Impact on gross profit

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross profit	218,849	290,743	307,058	319,443
Change of per unit purchase price of refined oil by:				
+/-7%	-/+220,905	-/+230,189	-/+242,322	-/+225,983
+/-16%	-/+504,926	-/+526,146	-/+553,879	-/+516,532
+/-19%	-/+599,599	-/+624,798	-/+657,731	-/+613,381

Impact on gross profit margin

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
Gross profit margin	6.4%	8.0%	8.0%	8.9%
Change of per unit purchase price of refined oil by:				
+/-7%	-/+6.4%	-/+6.3%	-/+6.3%	-/+6.3%
+/-16%	-/+14.7%	-/+15.3%	-/+16.2%	-/+14.3%
+/-19%	-/+17.5%	-/+18.2%	-/+19.2%	-/+17.0%

Gross profit and gross profit margin

The fluctuation in the Target Business's gross profit and gross profit margin during the Track Record Period was attributable to factors including the fluctuations in the procurement price and selling price of refined oil.

The table below sets forth the breakdown of the Target Business's gross profit and gross profit margin by division for the respective years indicated:

	Year ended 31 December							
	2016		2017		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Petroleum Refuelling Business (refined oil retail)								
Gasoline	144,542	15.9	220,939	18.7	175,643	15.8	221,805	18.8
Diesel	65,779	13.7	49,459	9.2	81,438	11.6	51,289	8.1
Sub-total	210,321	15.1	270,398	15.8	257,081	14.2	273,094	15.0
Petroleum Wholesale Business (refined oil wholesale)								
Gasoline	2,012	0.3	1,022	0.1	19,297	1.9	18,595	2.1
Diesel	1,034	0.1	13,554	1.2	24,928	2.1	15,643	1.4
Sub-total	3,046	0.1	14,576	0.7	44,225	2.0	34,238	1.7
Transportation services	12,349	45.5	12,958	46.4	11,057	43.6	10,148	40.7
Others*(Note)*	(6,867)	N/A	(7,189)	N/A	(5,305)	N/A	(3,339)	N/A
Reversal of write-down of inventories	–	–	–	–	–	–	5,302	N/A
Total	218,849	6.4	290,743	8.0	307,058	8.0	319,443	8.9

Note: Others refer to wastage of refined oil for the Petroleum Wholesale Business stored at the Target Business's petroleum storage facilities.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's overall gross profit amounted to approximately RMB218.8 million, RMB290.7 million, RMB307.1 million and RMB319.4 million, respectively, in which the gross profit attributable to the Petroleum Refuelling Business was approximately RMB210.3 million, RMB270.4 million, RMB257.1 million and RMB273.1 million, representing approximately 96.1%, 93.0%, 83.7% and 85.5% of the Target Business's total gross profit, respectively. For gross profit attributable to the Target Business's Petroleum Wholesale Business, the Target Business recorded approximately RMB3.0 million, RMB14.6 million, RMB44.2 million and

RMB34.2 million, representing approximately 1.4%, 5.0%, 14.4% and 10.7% of the Target Business's total gross profits for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's gross profit margin[(Note)] attributable to the Petroleum Refuelling Business was approximately 15.1%, 15.8%, 14.2% and 15.0%, respectively while the gross profit margin attributable to the Petroleum Wholesale Business amounted to approximately 0.1%, 0.7%, 2.0% and 1.7%, respectively. The relatively low gross profit margin of the Petroleum Wholesale Business as compared with that of the Petroleum Refuelling Business was primarily due to its wholesale nature. The Petroleum Wholesale Business renders the Target Business the flexibility to purchase refined oil products in bulk at a relatively lower procurement cost which enables the Target Business to enjoy a cost advantage in refined oil products. In addition, the large demand derived from the Petroleum Wholesale Business enables the Target Business to maintain a long-term and stable relationship with refined oil suppliers in the market and thus secure a stable and reliable source of refined oil products. The main factors that affect the gross profit margin the Target Business are the price of international crude oil, the NDRC's guiding price on refined oil and the average selling prices of its neighboring competitors.

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's gross profit for transportation services remained stable, amounting to approximately RMB12.3 million, RMB13.0 million, RMB11.1 million and RMB10.1 million, respectively.

The following sets forth the gross profit of each of the Target Business's petroleum refuelling stations during the Track Record Period:

	For the year ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Self-owned Petroleum Refuelling Stations				
1. Jilin Haotuo Xisihuan Petroleum Station (吉林省昊拓石油開發利用有限公司西四環油氣站)	–	75	2,641	5,338
2. Jilin Haotuo Changchun Jingyang Petroleum Station (吉林省昊拓石油開發利用有限公司長春景陽加油站)	–	–	332	1,633
3. Jilin Haotuo Qianjin Dajie Petroleum Station (吉林省昊拓石油開發利用有限公司前進大街加油加氣站)	–	–	35	2,780
4. Jilin Haotuo Bohai Petroleum Sales Branch Company (吉林省昊拓石油開發利用有限公司瓦房店眾誠渤海石油銷售分公司)	–	–	358	2,093
5. Dandong Kuandian Nanhuanlu Petroleum Station (丹東市寬甸石油有限公司南環路加油站)	3,446	3,357	1,849	2,695

Note: For the purpose of calculating the Target Business's gross profit margin, the wastage of refined oil and reversal of write-down of inventory is excluded from the calculation.

		For the year ended 31 December			
		2016	2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
6.	Dandong Kuandian Dongchukoulu Petroleum Station (丹東市寬甸石油有限公司東出口路加油站)	2,875	3,372	2,347	2,641
7.	Dandong Kuandian Shangsong Petroleum Station (丹東市寬甸石油有限公司上嵩加油站)	2,638	3,345	2,536	2,629
8.	Dandong Kuandian Changdian Petroleum Station (丹東市寬甸石油有限公司長甸加油站)	2,547	2,849	2,472	2,368
9.	Dandong Kuandian Dongyun Petroleum Station (丹東市寬甸石油有限公司東運加油站)	1,647	1,076	584	358
10.	Dandong United Strength Jinshan Petroleum Station (丹東眾誠船舶燃油有限公司金山加油站)	–	1,275	1,709	3,804
11.	Dandong Kuandian Xihuanlu Petroleum Station (丹東市寬甸石油有限公司西環路加油站)	1,797	2,581	1,936	2,347
12.	Dandong Kuandian Guanshui Petroleum Station (丹東市寬甸石油有限公司灌水加油站)	1,853	1,906	1,400	1,516
13.	Dandong Kuandian Wulongshan Petroleum Station (丹東市寬甸石油有限公司五龍山加油站)	343	1,084	786	970
14.	Dandong Kuandian Liudaohezi Petroleum Station (丹東市寬甸石油有限公司六道河子加油站)	1,476	1,508	1,186	1,328
15.	Dandong Kuandian Yangmu Petroleum Station (丹東市寬甸石油有限公司楊木加油站)	837	1,112	981	971
16.	Dandong Kuandian Laodaopai Petroleum Station (丹東市寬甸石油有限公司老道排加油站)	909	872	606	588
17.	Dandong United Strength Gushan Petroleum Station (丹東眾誠船舶燃油有限公司孤山石油經銷處)	257	328	212	318
18.	Dandong Kuandian Taizigou Petroleum Station (丹東市寬甸石油有限公司台子溝加油站)	672	737	647	569
19.	Dandong Kuandian Xiaobiangou Petroleum Station (丹東市寬甸石油有限公司小邊溝加油站)	303	293	177	160
20.	Dandong United Strength Xinnong Petroleum Station (丹東眾誠船舶燃油有限公司新農加油站)	95	68	57	97
21.	Dandong Kuandian Haicheng Dongfanghong Petroleum Station (丹東市寬甸石油有限公司海城東方紅加油站)	–	–	110	521
22.	Dandong United Strength Pianling Petroleum Station (丹東眾誠船舶燃油有限公司偏嶺加油站)	–	–	126	332
23.	Baishan United Strength Taixing Power Company Limited (白山眾誠泰興能源有限公司)	1,956	2,066	1,690	935
24.	Wuchang United Strength Chengxi Petroleum Company Limited (五常眾誠城西石油有限公司)	1,805	1,221	843	646
25.	Dandong Kuandian Huanren Petroleum Station (丹東市寬甸石油有限公司桓仁加油站)	–	903	1,480	825

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
26. Jilin Haotuo Taian Haotuo Petroleum Sales Branch Company (吉林省昊拓石油開發利用有限公司台安昊拓石油銷售分公司)	–	34	646	630
27. Dandong Kuandian Xiuyan Petroleum Station (丹東市寬甸石油有限公司岫岩加油站)	–	196	1,000	1,036
28. Liaoyuan Rank Station (遼源市恒泰清潔能源有限公司公園加油加氣站)	2,536	1,345	2,191	2,281
29. Longjing United Strength Longhe Station (龍井眾誠能源發展有限公司龍和加油加氣合建站)	2,442	2,220	1,054[(1)]	1,589
30. Dandong United Strength Xiuyan Donghuan Petroleum Station (丹東眾誠船舶燃油有限公司岫岩東環加油站)	–	–	–	424
Entrusted Petroleum Refuelling Stations				
1. Changchun Yitonghe Shiji Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖世紀加油站)	11,983	16,380	19,863	23,393
2. Changchun Yitonghe Lingdong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖嶺東加油站)	8,364	12,736	11,707	15,605
3. Changchun Yitonghe Pingan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖平安加油站)	9,987	13,121	10,356	12,612
4. Changchun Yitonghe Petroleum Station (長春伊通河石油經銷有限公司（伊通河站）)	8,392	12,634	13,810	16,184
5. Changchun Yitonghe Yuanyang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖遠洋加油站)	6,947	9,318	10,588	10,901
6. Changchun Yitonghe Baiyun Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖白雲加油站)	7,247	9,369	8,510	8,169
7. Changchun Yitonghe Jida Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉達加油站)	5,186	8,461	10,632	9,914
8. Changchun Yitonghe Nongan Sanbao Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖農安三寶加油站)	7,944	7,307	6,444	6,090
9. Changchun Yitonghe Xiguang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖西廣加油站)	5,292	7,403	6,498	8,249
10. Changchun Yitonghe Chuncheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖春城加油站)	4,924	7,129	6,818	9,431
11. Changchun Yitonghe Hexin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖合心加油站)	3,436	6,103	6,789	7,182
12. Changchun Yitonghe Wanda Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖萬達加油站)	4,803	5,794	6,403	5,798
13. Changchun Yitonghe Shuangxing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖雙星加油站)	4,645	5,682	5,174	5,869

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
14. Changchun Yitonghe Weixing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖衛星加油站)	4,113	6,381	6,197	8,524
15. Changchun Yitonghe Xinglongshan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖興隆山加油站)	3,981	4,546	4,445	5,583
16. Changchun Yitonghe Yingxin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖迎新加油站)	2,295	3,020	1,467(2)	1,358
17. Changchun Yitonghe Tenglong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖騰龍加油站)	1,133	4,234	5,173	4,825
18. Changchun Yitonghe Dehui Songbai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖德惠松柏加油站)	3,170	3,461	2,674	3,425
19. Changchun Yitonghe Sheling Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖奢嶺加油站)	3,224	3,901	3,517	3,922
20. Changchun Yitonghe Qingnianlu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖青年路加油站)	2,887	3,716	4,131	5,198
21. Changchun Yitonghe Jilin Nanjingjie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉林市南京街加油站)	5,299	7,943	5,778	6,575
22. Changchun Yitonghe Jilin Shenzhenjie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉林市深圳街加油站)	4,423	6,857	5,532	5,975
23. Changchun Yitonghe Huadian Jinbo Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖樺甸金箔加油站)	3,635	3,940	3,146	2,941
24. Changchun Yitonghe Panshi Anda Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖磐石安達加油站)	4,279	3,333	3,332	3,013
25. Changchun Yitonghe Huadian Xinhai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖樺甸新海加油站)	2,960	2,646	2,004	1,559
26. Changchun Yitonghe Jiaohe Changcheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河長城加油站)	1,931	1,541	1,794	1,304
27. Changchun Yitonghe Jiaohe Hongye Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河紅葉加油站)	1,663	1,693	1,533	1,040
28. Changchun Yitonghe Jiaohe Wanli Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖蛟河萬里加油站)	782	500	348	308

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
29. Changchun Yitonghe Baicheng Branch Company Jihe Petroleum Station (長春伊通河石油經銷有限公司白城分公司吉鶴加油站)	1,072	2,692	1,987	1,651
30. Changchun Yitonghe Baicheng Branch Company Dongfeng Petroleum Station (長春伊通河石油經銷有限公司白城分公司東風加油站)	1,340	2,167	1,605	309(8)
31. Changchun Yitonghe Baicheng Branch Company Jiali Petroleum Station (長春伊通河石油經銷有限公司白城分公司加力加油站)	1,703	1,508	1,259	223(8)
32. Changchun Yitonghe Taonan Yuanzheng Petroleum Station (長春伊通河石油經銷有限公司洮南遠征加油站)	1,430	1,101	500(3)	223(10)
33. Changchun Yitonghe Zhenlai Zhongcheng Petroleum Station (長春伊通河石油經銷有限公司鎮賚眾誠加油站)	972	1,223	1,102	850
34. Changchun Yitonghe Songlian Petroleum Station (長春伊通河石油經銷有限公司松煉加油站)	2,474	3,163	2,060	2,622
35. Changchun Yitonghe Meihekou Xingquan Petroleum Station (長春伊通河石油經銷有限公司梅河口興泉加油站)	365	331	77(4)	93
36. Changchun Yitonghe Yushu Xincheng Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖榆樹新城加油站)	3,574	3,686	2,223	2,292
37. Changchun Yitonghe Keyun Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖客運加油站)	6,541	9,796	11,609	11,761
38. Changchun Yitonghe Shitoukoumen Service Area Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖石頭口門服務區加油站)	–	4,911	1,803(5)	–
39. Changchun Yitonghe Kaixuan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖凱旋加油站)	7,961	11,183	13,183	12,326
40. Changchun Yitonghe Jixing Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖吉興加油站)	4,645	4,694	1,694(6)	–
41. Changchun Yitonghe Nongan Huangzhong Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖農安環中加油站)	1,839	2,358	1,897	353(9)
42. Changchun Yitonghe Beiyan Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖北燕加油站)	564	389	(14)(6)	–
43. Changchun Yitonghe Nongji Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖農機加油站)	681	420	388(6)	–

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
44. Changchun Yitonghe Yushu Beihuang Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖榆樹北環加油站)	–	362	926[(6)]	–
45. Changchun Yitonghe Yushu Dajie Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖榆樹大街加油站)	–	441	1,242[(6)]	–
46. Changchun Yitonghe United Strength Benchi Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖奔馳加油站)	4,787	–[(7)]	–	–
47. Changchun Yitonghe Yongjiu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖長嶺縣永久加油站)	2,451	1,680	1,629	140[(9)]
48. Changchun Yitonghe Yongming Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖長嶺縣永明加油站)	–	486	–[(6)]	–
49. Changchun Yitonghe Yongcai Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖長嶺縣永財加油站)	–	261	31[(6)]	–
50. Changchun Yitonghe Zhongxin Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖伊通眾興加油站)	–	1,147	2,664	187[(9)]
51. Changchun Yitonghe United Strength Chaluhe Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖岔路河加油站)	2,563	3,427	2,558	666[(9)]
52. Changchun Yitonghe Liaoyuan Zhonggu Petroleum Station (長春伊通河石油經銷有限公司眾誠連鎖遼源中固油氣站)	–	–	–	29

Notes:

1. This petroleum refuelling station is located in relatively remote area in Yan Bian, Jilin Province and its financial performance in 2018 has fallen short of the Target Group's previous expectation. The Target Group will continue to monitor the sales performance of this petroleum refuelling station going forward.

2. The relatively large decrease in gross profit as compared to the previous year was partly due to the temporary suspension of the petroleum refuelling station for undergoing certain environmental improvement works in accordance with the relevant provincial policies. The length of suspension amounted to 85 days from July 2018 to October 2018. For details, please refer to the section headed "Business — Petroleum Refuelling Business — Petroleum Refuelling Station Network — Temporary Suspension of Petroleum Refuelling Station" in this circular.

3. The relatively large decrease in gross profit as compared to the previous year was partly due to the temporary suspension of the petroleum refuelling station for undergoing certain environmental improvement works in accordance with the relevant provincial policies. The length of suspension amounted to 88 days from October 2018 to December 2018. For details, please refer to the section headed "Business — Petroleum Refuelling Business — Petroleum Refuelling Station Network — Temporary Suspension of Petroleum Refuelling Station" in this circular.

4. This petroleum refuelling station is located in relatively remote area in Tong Hua, Jilin Province and its financial performance in 2018 has fallen short of the Target Group's previous expectation. The Target Group will continue to monitor the sales performance of this petroleum refuelling station going forward.

5. The relatively large decrease in gross profit as compared to the previous year was primarily due to repairs works being carried out on the petroleum refuelling station during 2018. It is expected that the station will re-commence its operation by the fourth quarter of 2020. Hence, no gross profit was generated from this petroleum refuelling station for the year ended 31 December 2019.

6. The sales performance of the petroleum refuelling stations have fallen short of the Target Group's previous expectation. The Target Group decided to devote resources on managing other more well performing stations, hence, these petroleum refuelling stations ceased operations during 2018 and no gross profit was generated from these refuelling stations for the year ended 31 December 2019.

7. The petroleum refuelling station has ceased operation during 2016 due to the expiry of the relevant cooperation agreement from the then lessor. Hence, no gross profit was derived since 2017.

8. Due to termination of the relevant cooperation agreements from the then lessors, these petroleum refuelling stations ceased operations during 2019. As a result, there was a relatively large decrease in gross profit as compared to the previous year.

9. The sales performance of the petroleum refuelling stations have fallen short of the Target Group's previous expectation. The Target Group decided to devote resources on managing other more well performing stations, hence, these petroleum refuelling stations ceased operations during 2019. As a result, there was a relatively large decrease in gross profit as compared to the previous year.

10. This petroleum refuelling station is located in relatively remote area in Baicheng City and its financial performance in 2019 have fallen short of the Target Group's previous expectation. The Target Group will continue to monitor the sales performance of this petroleum refuelling station going forward.

Other income

The table below sets forth a breakdown of the Target Business's other income for the respective years indicated:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Rental income				
– from operating leases	16,142	8,033	4,870	4,552
– from entrustment arrangements with related parties	1,310	1,310	1,751	2,663
Net gain/(loss) on disposal of property, plant and equipment and investment properties	947	(169)	(219)	2,897
Interest income	183	256	459	502
Others	1,284	822	1,016	2,246
Total	19,866	10,252	7,877	12,860

Other income consisted primarily of rental income from operating leases and entrustment arrangements with related parties. The properties which generated rental income from operating leases mainly include transportation vehicles, office buildings leased to Jieli Logistics and buildings and structures erected on a parcel of land leased to United Strength Vehicle Service for the operation of petroleum refuelling stations. Such lease was terminated during the year ended 31 December 2017 as a result of the cessation of operation of such petroleum refuelling stations. The rental income from operating lease from our Group for the years ended 31 December 2016, 2017, 2018 and 2019 amounted to approximately RMB7.0 million, RMB4.2 million, RMB4.3 million and RMB3.5 million, respectively. Rental income from entrustment arrangements with related parties represents the entrustment fee in connection with gas refuelling stations entrusted to our Group. For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's other income amounted to approximately RMB19.9 million, RMB10.3 million, RMB7.9 million and RMB12.9 million, respectively. The net gain arising from the disposal of right-of-use assets represents the Target Business's accounting treatment for the termination of the operating leases.

Staff costs

Staff costs consisted of staff's salaries, wages and other benefits and contributions to defined contribution retirement plans of the Target Business. For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's staff costs amounted to approximately RMB68.4 million, RMB81.0 million, RMB91.2 million and RMB97.3 million, respectively.

Depreciation expenses

Depreciation expenses are primarily related to the depreciation of (i) buildings and properties; (ii) refuelling equipment, storage facilities and related equipment; (iii) motor vehicles and other equipment; (iv) right-of-use assets; and (v) investment properties. For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's depreciation expenses amounted to approximately RMB45.8 million, RMB47.6 million, RMB48.5 million and RMB46.7 million, respectively. The Target Business's right-of-use assets represented the main contributor to the depreciation expenses, representing approximately 41.8%, 54.7%, 54.6% and 48.6% of the Target Business's total depreciation expenses for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Other operating expenses

For the years ended 31 December 2016, 2017, 2018 and 2019, the Target Business's other operating expenses amounted to approximately RMB50.1 million, RMB61.8 million, RMB53.2 million and RMB33.4 million, respectively. The Target Business's other operating expenses primarily consisted of (i) repairment expenses; (ii) marketing and entertainment expenses; (iii) third party service fees; (iv) insurance expenses; (v) other taxation; (vi) reversal of impairment losses/impairment losses on trade receivables; (vii) utilities expenses; (viii) office supplies; (ix) maintenance expenses; (x) travelling expenses which was mainly used for business trip travelling and accommodation; and (xi) other expenses which relate to miscellaneous expenses such as bank charges, inspection costs and telecommunication expenses. Repairment expenses which represented expenses on repairment of the petroleum refuelling stations and storage facilities amounted to approximately RMB13.2 million, RMB15.4 million, RMB7.9 million and RMB5.9 million, representing approximately 26.3%, 25.0%, 14.8% and 17.8% of the total other operating expenses for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. The following table sets forth a breakdown of the Target Business's other operating expenses for the respective years indicated:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Repairment expenses	13,150	15,426	7,864	5,935
Marketing and entertainment expenses	9,090	11,568	7,523	7,389
Insurance expenses	3,852	3,992	4,278	4,073
Third party service fees	2,818	2,174	2,262	2,158
Other taxation	7,098	7,926	6,596	5,580
Impairment (gain)/losses on trade receivables	(384)	2,488	2,662	844
Reversal of previously written off trade receivables	–	–	–	(9,942)
Impairment losses on inventories	–	–	5,302	–
Utilities expenses	4,740	4,821	5,192	4,267
Office supplies	2,110	3,144	1,969	2,682
Maintenance expenses	1,012	1,211	174	163
Travelling expenses	2,720	4,039	3,831	4,259
Others	3,882	5,006	5,524	5,955
Total	50,088	61,795	53,177	33,363

Finance costs

The following table sets forth a breakdown of the Target Business's finance costs for the respective years indicated:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest expenses on:				
– bank and other loans	3,705	3,465	3,688	10,332
– lease liabilities	8,628	11,090	9,829	6,696
Total	12,333	14,555	13,517	17,028

The Target Business's finance costs consisted of interest expenses on (i) bank and other loans; and (ii) lease liabilities in relation to lease payables for its petroleum refuelling stations and other leased assets, which amounted to approximately RMB12.3 million, RMB14.6 million, RMB13.5 million and RMB17.0 million for the years ended 31 December 2016, 2017, 2018 and 2019, respectively. No borrowing costs have been capitalised for the years ended 31 December 2016, 2017, 2018 and 2019.

Income tax expense

Pursuant to the rules and regulations of the BVI, the Target Company is not subject to any income tax in the BVI.

No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Target Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the Track Record Period.

The Target Business established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% during the Track Record Period.

The income tax expense for the years ended 31 December 2016, 2017, 2018 and 2019 amounted to approximately RMB15.8 million, RMB25.0 million, RMB28.3 million and RMB35.4 million, respectively and the effective tax rates for the same period were approximately 25.4%, 26.0%, 26.1% and 25.7%, respectively. During the Track Record Period and up to the Latest Practicable Date, the Target Business had fulfilled all of its tax obligations and did not have any unresolved tax disputes.

RESULTS OF OPERATIONS

Year ended 31 December 2019 compared to the year ended 31 December 2018

Revenue

The Target Business's revenue decreased by approximately 5.9% to RMB3,603.0 million for the year ended 31 December 2019 from RMB3,827.6 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in revenue of Petroleum Wholesale Business from approximately RMB2,003.8 million for the year ended 31 December 2018 to approximately RMB1,771.5 million for the year ended 31 December 2019. Such decrease was mainly attributable to (i) the decrease in sales volume of gasoline and diesel from the Petroleum Wholesale Business by approximately 10.4% and 1.1% respectively from 139.8 thousand tonnes and 187.9 thousand tonnes for the year ended 31 December 2018 to 125.2 thousand tonnes and 185.8 thousand tonnes for the year ended 31 December 2019, which was primarily due to the decrease in traffic flow of logistics vehicles mainly because of the closure of certain roads in light of the 70th anniversary of the founding of the PRC; and (ii) the decrease in average selling price of both gasoline and diesel from approximately RMB6,579 per tonne and RMB5,769 per tonne for the year ended 31 December 2018 to approximately RMB5,809 per tonne and RMB5,620 per tonne for the year ended 31 December 2019 respectively, which was mostly affected by decreasing trend of the price of international crude oil from approximately USD71.3 per barrel in 2018 to USD64.3 per barrel in 2019. In addition, the decrease in the Target Business's revenue was partially caused by the decrease in sales volume of diesel from the Petroleum Refuelling Business by approximately 4.9% from 108.8 thousand tonnes for the year ended 31 December 2018 to 103.5 thousand tonnes for the year ended 31 December 2019, which was primarily due to the closure of certain petroleum refuelling stations during 2019. For details of the closure or decrease in revenue of these petroleum refuelling stations, please refer to the section headed "Financial Information of the Target Business – Description of Key Income Statement Line Items – Revenue – Revenue by petroleum refuelling stations" in this circular.

Cost of sales

The Target Business's cost of sales decreased by approximately 6.7% to RMB3,283.5 million for the year ended 31 December 2019 from RMB3,520.5 million for the year ended 31 December 2018. The decrease was generally in line with the decrease in revenue for the same period.

Gross profit and gross profit margin

The Target Business's gross profit margin increased to approximately 8.9% for the year ended 31 December 2019 from approximately 8.0% for the year ended 31 December 2018. Such increase was primarily due to the rising trend in the price of international crude oil in the second half of 2019 and the procurement cost of the Target Business's refined oil in the second half of 2019 did not rise as quick as its average selling price, leading to a higher gross profit margin.

The Target Business's gross profit increased by approximately 4.0% to RMB319.4 million for the year ended 31 December 2019 from RMB307.1 million for the year ended 31 December 2018. Such increase in gross profit of the Target Business was primarily due to the increase of gross profit margin as disclosed above.

Other income

The Target Business's other income increased by approximately 63.3% to RMB12.9 million for the year ended 31 December 2019 from RMB7.9 million for the year ended 31 December 2018. The increase was primarily due to the increase in (i) the net gain on disposal of property, plant and equipment and investment properties and (ii) the rental income from entrusted arrangements with related parties. The net gain of approximately RMB2.3 million was primarily resulted from the early termination of leases during the year.

Staff costs

The Target Business's staff costs increased by approximately 6.7% to RMB97.3 million for the year ended 31 December 2019 from RMB91.2 million for the year ended 31 December 2018. The increase was primarily due to the increment in salaries level and bonuses during the year.

Depreciation expenses

The Target Business's depreciation expenses remained relatively stable at approximately RMB46.7 million for the year ended 31 December 2019 as compared to RMB48.5 million for the year ended 31 December 2018.

Other operating expenses

The Target Business's other operating expenses decreased by approximately 37.2% to RMB33.4 million for the year ended 31 December 2019 from RMB53.2 million for the year ended 31 December 2018. The decrease was primarily due to the gain from the reversal of impairment losses on trade receivables which was originally made during 2018.

Profit from operations and operating margin

As a result of the foregoing factors, the Target Business's profit from operations increased from approximately RMB122.1 million for the year ended 31 December 2018 to RMB154.9 million for the year ended 31 December 2019.

The Target Business's operating margin increased by approximately 1.1% to 4.3% for the year ended 31 December 2019 from 3.2% for the year ended 31 December 2018.

Finance costs

The Target Business's finance costs increased by approximately 25.9% to RMB17.0 million for the year ended 31 December 2019 from RMB13.5 million for the year ended 31 December 2018 primarily due to the increase in the amount of interest expense resulting from higher bank and other loans balance during 2019.

Profit before taxation

As a result of the foregoing, the Target Business's profit before tax increased by approximately 27.0% to RMB137.9 million for the year ended 31 December 2019 from RMB108.6 million for the year ended 31 December 2018.

Income tax

The Target Business's income tax increased by approximately 25.2% to RMB35.4 million for the year ended 31 December 2019 from RMB28.3 million for the year ended 31 December 2018. The increase aligned with the increase in profit before tax.

Profit for the year

As a result of the foregoing, the Target Business's net profit after tax increased by approximately 27.5% to RMB102.4 million for the year ended 31 December 2019 from RMB80.3 million for the year ended 31 December 2018.

Year ended 31 December 2018 compared to the year ended 31 December 2017

Revenue

The Target Business's revenue increased by approximately 5.4% to RMB3,827.6 million for the year ended 31 December 2018 from RMB3,633.2 million for the year ended 31 December 2017. The increase was primarily due to the increase in sales from the Target Business's retail and wholesale divisions as a result of the increase in average selling prices of retail and wholesale gasoline and diesel due to the increase in the NDRC's guiding price of refined oil and the increase in the price of international crude oil from approximately USD54.1 per barrel in 2017 to USD71.3 per barrel in 2018. Such increase in average selling price was offset by the decrease in the sales volume of retail gasoline from approximately 171.5 thousand tonnes for the year ended 31 December 2017 to approximately 142.3 thousand tonnes for the year ended 31 December 2018 due to the impact of certain Target Business's petroleum refuelling stations being temporary suspended ("**Suspended Stations**") for undergoing certain environmental improvement works in accordance with the relevant provincial policies that were introduced by the local governmental authorities targeted towards petroleum refuelling stations. Such environmental improvement works have been completed and such Suspended Stations gradually re-opened towards the end of 2018 and the beginning of 2019. For details of the Target Business's Suspended Stations, please refer to "Business — Petroleum Refuelling Business — Petroleum Refuelling Station Network — Temporary Suspension of Petroleum Refuelling Station" in this circular. Likewise, the sales volume of wholesale gasoline and diesel decreased from 156.1 thousand tonnes and 224.3 thousand tonnes for the year ended 31 December 2017 to approximately 139.8 thousand tonnes and 187.9 thousand tonnes for the year ended 31 December 2018 respectively, as the third party petroleum refuelling station customers of the Target Business also had to undergo environmental improvement works in accordance with the relevant provincial policies and the sales attributable to United Strength Vehicle Service decreased due to the suspension of some of its petroleum refuelling stations during the period. In addition, the decrease in sales volume of Petroleum Refuelling Business was caused by the temporary cessation of operation of two petroleum refuelling stations caused by the repair works on the relevant petroleum refuelling station. In view of the outbreak of COVID-19, it is expected that these two petroleum refuelling stations will re-commence its operation by the fourth quarter of 2020.

Cost of sales

The Target Business's cost of sales increased by approximately 5.3% to RMB3,520.5 million for the year ended 31 December 2018 from RMB3,342.4 million for the year ended 31 December 2017. The increase was in line with the increase in revenue during the same period.

Gross profit and gross profit margin

The Target Business's gross profit margin remained stable at approximately 8.0% for the year ended 31 December 2018 as compared to that for the year ended 31 December 2017.

The Target Business's overall gross profit increased by approximately 5.6% to RMB307.1 million for the year ended 31 December 2018 from RMB290.7 million for the year ended 31 December 2017. The increase in gross profit was primarily due to the increase in revenue during the year.

Other income

The Target Business's other income and gains decreased by approximately 23.3% to RMB7.9 million for the year ended 31 December 2018 from RMB10.3 million for the year ended 31 December 2017. The decrease was primarily due to the decrease in rental income from operating leases amounting to approximately RMB3.2 million due to the termination of certain operating leases.

Staff costs

The Target Business's staff costs increased by approximately 12.6% to RMB91.2 million for the year ended 31 December 2018 from RMB81.0 million for the year ended 31 December 2017. The increase was primarily due to the increase in the number of staff and increment in salaries level during the year.

Depreciation expenses

The Target Business's depreciation expenses remained stable at approximately RMB48.5 million for the year ended 31 December 2018 as compared to RMB47.6 million for the year ended 31 December 2017.

Other operating expenses

The Target Business's other operating expenses decreased by approximately 13.9% to RMB53.2 million for the year ended 31 December 2018 from RMB61.8 million for the year ended 31 December 2017. The decrease was primarily attributable to the combined effect of (i) the decrease in repairment expenses as a result of less repairment works performed on the Target Business's storage facility in 2018; and (ii) the decrease in marketing expenses due to the decrease in membership programme related promotion activities, thereby leading to decreases in expenses on advertisements and gifts, offset by the increase in write-down of inventories due to the decrease in its net realisable value as a result of the decrease in the price of international crude oil towards the end of 2018.

Profit from operations and operating margin

The Target Business's operating margin remained stable at approximately 3.2% for the year ended 31 December 2018 as compared to approximately 3.0% for the year ended 31 December 2017.

As a result of the foregoing factors, the Target Business's profit from operations increased by approximately 10.4% to RMB122.1 million for the year ended 31 December 2018 from RMB110.6 million for the year ended 31 December 2017.

Finance costs

The Target Business's finance costs decreased by approximately 7.5% to RMB13.5 million for the year ended 31 December 2018 from RMB14.6 million for the year ended 31 December 2017. The decrease was in line with the decrease in the amount of lease liabilities across the periods.

Profit before taxation

As a result of the foregoing, the Target Business's profit before tax increased by approximately 13.1% to RMB108.6 million for the year ended 31 December 2018 from RMB96.0 million for the year ended 31 December 2017.

Income tax expense

The Target Business's income tax expense increased by approximately 13.2% to RMB28.3 million for the year ended 31 December 2018 from RMB25.0 million for the year ended 31 December 2017. The increase was in line with the increase in profit before taxation during the year.

Profit for the year

As a result of the foregoing, the Target Business's net profit after tax increased by approximately 12.9% to RMB80.3 million for the year ended 31 December 2018 from RMB71.1 million for the year ended 31 December 2017.

Year ended 31 December 2017 compared to the year ended 31 December 2016

Revenue

The Target Business's revenue increased by approximately 6.0% to RMB3,633.2 million for the year ended 31 December 2017 from RMB3,428.4 million for the year ended 31 December 2016. The increase was primarily due to the increase in sales from the Target Business's retail and wholesale gasoline as a result of (i) the increase in average selling prices of retail and wholesale gasoline as a result of the increase in the NDRC's guiding price of refined oil due to the increase in the price of international crude oil from approximately USD43.6 per barrel in 2016 to USD54.1 per barrel in 2017; and (ii) the increase in sales volume of retail gasoline from 147.3 thousand tonnes for the year ended 31 December 2016 to approximately 171.5 thousand tonnes for the year ended 31 December 2017 due to the commencement of operations of seven new petroleum refuelling stations during 2017. The increase in revenue was partially offset by the decrease in wholesale revenue as a result of the decrease in the sales volume of diesel from approximately 332.7 thousand tonnes for the year ended 31 December 2016 to approximately 224.3 thousand tonnes for the year ended 31 December 2017. Such decrease was mainly due to the decrease in the sales attributable to United Strength Vehicle Service caused by the suspension of some of its petroleum refuelling stations from approximately RMB312.3 million for the year ended 31 December 2016 to RMB228.0 million for the year ended 31 December 2017.

Cost of sales

The Target Business's cost of sales increased by approximately 4.1% to RMB3,342.4 million for the year ended 31 December 2017 from RMB3,209.6 million for the year ended 31 December 2016. The increase was in line with the increase in revenue during the same year.

Gross profit and gross profit margin

The increase in gross profit margin from approximately 6.4% for the year ended 31 December 2016 to 8.0% for the year ended 31 December 2017 was due to a rising trend in the price of international crude oil throughout the year of 2017. Nonetheless, the procurement cost of the Target Business's refined oil in 2017 did not rise as quick as its average selling price, leading to a higher gross profit margin of approximately 8.0% for the year ended 31 December 2017.

The Target Business's overall gross profit increased by approximately 32.9% to RMB290.7 million for the year ended 31 December 2017 from RMB218.8 million for the year ended 31 December 2016. The increase in gross profit aligns with the increase in revenue and gross profit margin during the year.

Other income

The Target Business's other income and gains decreased by approximately 48.2% to RMB10.3 million for the year ended 31 December 2017 from RMB19.9 million for the year ended 31 December 2016. The decrease was primarily due to the decrease in rental income from operating leases due to the termination of operating leases.

Staff costs

The Target Business's staff costs increased by approximately 18.4% to RMB81.0 million for the year ended 31 December 2017 from RMB68.4 million for the year ended 31 December 2016. The increase was primarily due to the increase in the number of staff and increment in salaries level during the year.

Depreciation expenses

The Target Business's depreciation expenses remained stable at approximately RMB47.6 million for the year ended 31 December 2017 as compared to RMB45.8 million for the year ended 31 December 2016.

Other operating expenses

The Target Business's other operating expenses increased by approximately 23.4% to RMB61.8 million for the year ended 31 December 2017 from RMB50.1 million for the year ended 31 December 2016. The increase was primarily due to the increase in repairment expenses and marketing and entertainment expenses and the increase in loss on trade receivables resulting from the increase in the Target Business's exposure to credit risk and expected credit losses for trade receivables.

Profit from operations and operating margin

The Target Business's operating margin increased to approximately 3.0% for the year ended 31 December 2017 from 2.2% for the year ended 31 December 2016.

As a result of the foregoing factors, the Target Business's profit from operations increased by approximately 48.7% to RMB110.6 million for the year ended 31 December 2017 from RMB74.4 million for the year ended 31 December 2016.

Finance costs

The Target Business's finance costs increased by approximately 18.7% to RMB14.6 million for the year ended 31 December 2017 from RMB12.3 million for the year ended 31 December 2016. The increase was primarily due to the increase in the amount of lease liabilities due to the increase in the number of petroleum refuelling stations.

Profit before taxation

As a result of the foregoing, the Target Business's profit before tax increased by approximately 54.6% to RMB96.0 million for the year ended 31 December 2017 from RMB62.1 million for the year ended 31 December 2016.

Income tax expense

The Target Business's income tax expense increased by approximately 58.2% to RMB25.0 million for the year ended 31 December 2017 from RMB15.8 million for the year ended 31 December 2016. The increase was in line with the increase in profit before taxation during the years.

Profit for the year

As a result of the foregoing, the Target Business's net profit after tax increased by approximately 53.6% to RMB71.1 million for the year ended 31 December 2017 from RMB46.3 million for the year ended 31 December 2016.

ILLUSTRATIVE FINANCIAL INFORMATION OF THE TARGET BUSINESS

The following table sets forth the illustrative financial information of the Target Business, which contains selected items in the pro forma consolidated statement of profit or loss of the Target Business for the year ended 31 December 2019:

	The Target Business for the year ended 31 December 2019	Illustrative adjustments *(Note)*		The Target Business for the year ended 31 December 2019 after illustrative adjustments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	3,602,976	–	–	3,602,976
Cost of sales	(3,283,533)	–	–	(3,283,533)
Gross profit	**319,443**	**–**	**–**	**319,443**
Other income	12,860	(7,754)	–	5,106
Staff costs	(97,310)	–	–	(97,310)
Depreciation expenses	(46,726)	28,665	(32,913)	(50,974)
Other operating expenses	(33,363)	11,374	–	(21,989)
Profit from operations	**154,904**	**32,285**	**(32,913)**	**154,276**
Finance costs	(17,028)	5,316	(22,716)	(34,428)
Profit before taxation	**137,876**	**37,601**	**(55,629)**	**119,848**
Income tax	(35,429)	(9,400)	13,907	(30,922)
Profit for the year	**102,447**	**28,201**	**(41,722)**	**88,926**
Attributable to:				
Equity shareholders of the Company	–	–	–	–
Parent's net investment	73,106	20,243	(29,948)	63,401
Non-controlling interests	29,341	7,958	(11,774)	25,525
Profit for the year	**102,447**	**28,201**	**(41,722)**	**88,926**

Note: For details of the pro forma adjustments, please refer to the section headed "A. Pro Forma Financial Information of the Enlarged Group — 6. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group" in Appendix III to this circular.

During the Track Record Period, the Petroleum Refuelling Business and Petroleum Wholesale Business were conducted through certain companies now comprising the

WFOE Group and Changchun Yitonghe (through its branches or divisions) which manage and operate the Petroleum Refuelling Business and Petroleum Wholesale Business separately from the Petroleum Segment of Changchun Yitonghe. Among which, the Petroleum Segment of Changchun Yitonghe held the ownership or right-of-use of assets of 39 Entrusted Petroleum Refuelling Stations (including the 2 Entrusted Petroleum Refuelling Stations which were temporarily suspended from operation as at Latest Practicable Date due to repair work on the adjacent highway and the station itself) and one Entrusted Petroleum Storage Facility. These assets are recognised as properties, plant and equipment in the unaudited combined financial statements of the Target Business. Accordingly, depreciation and other relevant expenses are recorded. The pro forma financial statements of the Target Business have been prepared on combined and historical basis taking into consideration the impacts of the entrustment arrangements under the Entrusted Management Agreement.

Upon Acquisition Completion, the Target Business will be transferred to and conducted by the Target Group. The ownership or right-of-use of assets and liabilities associated with the Target Business will be controlled by the Target Group except for certain assets and liabilities of Petroleum Segment of Changchun Yitonghe will be retained by Changchun Yitonghe upon Acquisition Completion. In addition, the Target Business will recognise right-of-use assets representing its rights to use the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility. Under IFRS 16, where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses. For further details on the basis of preparation of the unaudited pro forma consolidated statements of profit or loss, please refer to the section headed "A. Unaudited Pro Forma Financial Information of the Enlarged Group – 1. Introduction to the unaudited pro forma financial information of the Enlarged Group" in Appendix III to this circular.

For illustrative purposes and for the preparation of the unaudited pro forma consolidated statements of profit or loss, it is assumed that the Acquisition took place on 1 January 2019, representing the beginning of the year ended 31 December 2019.

The major line items affecting the pro forma consolidated statements of profit or loss are set out below:

Other income

The pro form adjustments were principally made as a result of the deduction in other income due to the deduction in rental income from operating lease and certain entrustment arrangements of mixed refuelling stations with related parties, as a result of the termination of the Former Gas Business Entrustment Agreement with Changchun Yitonghe.

Depreciation expenses

The pro forma adjustments were principally made as a result of (i) the addition in depreciation expenses due to the recognition of right-of-use assets, representing the rights to use the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility following the Acquisition; and (ii) the deduction in depreciation expenses due to exclusion of certain assets which will not be acquired by the Target Group..

Other operating expenses

The pro forma adjustments were made principally as a result of (i) the decrease in other operating expenses due to the deduction in repair and maintenance and insurance cost in relation to certain assets which will not be acquired by the Target Group.

Finance costs

The pro forma adjustments were made principally as a result of (i) the increase in finance costs due to the recognition of right-of-use assets in relation to the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility following the Acquisition.

In view of the foregoing, net profit of the Target Business for the year ended 31 December 2019 would decrease from RMB102.4 million to RMB88.9 million assuming that the Acquisition took place on 1 January 2019.

FINANCIAL POSITION

The following table summarises the combined statements of financial position from the Target Business's combined financial statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this circular:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Non-current assets				
Property, plant and equipment	322,222	365,597	360,650	346,486
Investment properties	29,936	30,662	30,218	43,234
Deferred tax assets	514	1,065	3,774	3,796
	352,672	397,324	394,642	393,516
Current assets				
Inventories	71,647	184,028	166,202	102,064
Trade and bills receivables	13,857	30,462	34,708	35,534
Prepayments, deposits and other receivables	104,668	39,091	123,031	94,239
Amounts due from related parties	80,438	46,656	67,938	248,550
Income tax recoverable	–	16	1,573	186
Cash at bank and on hand	37,960	60,232	48,785	28,215
	308,570	360,485	442,237	508,788
Current liabilities				
Bank and other loans	70,000	111,000	111,400	76,400
Lease liabilities	28,057	31,754	30,861	28,246
Trade and bills payables	7,631	4,607	62,667	73,102
Accrued expenses and other payables	135,887	116,582	152,774	188,750
Income tax payable	1,007	2,690	118	2,676
	242,582	266,633	357,820	369,174
Net current assets	65,988	93,852	84,417	139,614
Total assets less current liabilities	418,660	491,176	479,059	533,130

	At 31 December			
	2016	2017	2018	2019
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Non-current liabilities				
Bank and other loans	–	9,000	27,400	19,000
Lease liabilities	110,882	108,360	76,434	49,967
Deferred tax liabilities	743	723	703	683
	111,625	118,083	104,537	69,650
NET ASSETS	307,035	373,093	374,522	463,480
CAPITAL AND RESERVES				
Parent's net investment	203,021	246,449	250,682	313,612
Non-controlling interests	104,014	126,644	123,840	149,868
TOTAL EQUITY	307,035	373,093	374,522	463,480

DESCRIPTION OF SELECTED ITEMS IN COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

The Target Business's property, plant and equipment during the Track Record Period mainly comprised buildings and properties, refuelling equipment and storage facilities, motor vehicles and other equipment, construction in progress and right-of-use assets.

The table below sets forth the balance of the Target Business's property, plant and equipment as at the respective dates indicated:

	Buildings and properties	Refuelling equipment, storage facilities and related equipment	Motor vehicles and other equipment	Construction in progress	Right-of-use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount						
As at 31 December 2019	63,178	71,489	25,853	24,102	161,864	346,486
As at 31 December 2018	53,264	63,129	31,313	5,583	207,361	360,650
As at 31 December 2017	36,443	42,291	31,024	9,845	245,994	365,597
As at 31 December 2016	25,786	29,752	29,669	6,957	230,058	322,222

As at 31 December 2016, 2017, 2018 and 2019, the Target Business's balance of property, plant and equipment amounted to approximately RMB322.2 million, RMB365.6 million, RMB360.7 million and RMB346.5 million, respectively. The balance of property, plant and equipment increased from approximately RMB322.2 million as at 31 December 2016 to approximately RMB365.6 million as at 31 December 2017 primarily due to the additions to refuelling equipment and storage facilities and related equipment such as oil tanks at petroleum refuelling stations. The Target Business's balance of property, plant and equipment decreased from approximately RMB365.6 million as at 31 December 2017 to approximately RMB360.7 million as at 31 December 2018 primarily attributable to the decrease in right-of-use assets as a result of the termination and amortisation of operating leases, offset by the additions to refuelling equipment and storage facilities and related equipment. The Target Business's balance of property, plant and equipment decreased from approximately RMB360.7 million as at 31 December 2018 to approximately RMB346.5 million as at 31 December 2019 primarily due to the decrease in rights-of-use assets as a result of the termination and depreciation of these right-of-use assets. The Target Business's balance of construction in progress increased from approximately RMB5.6 million as at 31 December 2018 to approximately RMB24.1 million as at 31 December 2019 primarily due to the construction of a new petroleum refuelling station. The construction of such petroleum refuelling station is expected to be completed in the year ending 31 December 2020 and such amount will then be transferred to the Target Business's property, plant and equipment.

Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest by the Target Business to earn rental income and/or for capital appreciation. All the investment properties owned by the Target Business are located in the PRC. As at 31 December 2016, 2017 and 2018, the Target Business's investment properties remained stable at approximately RMB29.9 million, RMB30.7 million and RMB30.2 million, respectively. The Target Business's investment properties increased to approximately RMB43.2 million as at 31 December 2019 primarily due to the opening of a gas refuelling station which was entrusted by Changchun Yitonghe to our Group. Such gas refuelling station was recognised as the Target Business's investment properties. The depreciation charged on the investment properties amounted to approximately RMB1.6 million, RMB1.4 million, RMB1.1 million and RMB1.1 million for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Inventories

The following table sets forth a breakdown of the Target Business's inventories balance as at the respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Refined oil	69,707	181,937	163,919	99,372
Spare parts	1,940	2,091	2,283	2,692
Total	71,647	184,028	166,202	102,064

The Target Business's balance of inventories was approximately RMB71.6 million, RMB184.0 million, RMB166.2 million and RMB102.1 million as at 31 December 2016, 2017, 2018 and 2019, respectively. The increase in inventories from approximately RMB71.6 million as at 31 December 2016 to RMB184.0 million as at 31 December 2017 was primarily due to (i) the increase in the price of international crude oil and (ii) the increase in the number of petroleum refuelling stations. The decrease in inventories from approximately RMB184.0 million as at 31 December 2017 to RMB166.2 million as at 31 December 2018 was primarily due to the trade war between the United States of America and the PRC, leading to a temporary decrease in the price of international crude oil during the last quarter of 2018. As a result, provision for write-down has been made by the Target Business. Such write down of inventories was reversed when such refined oil inventory was sold during the year ended 31 December 2019. The decrease in inventories from approximately RMB166.2 million as at 31 December 2018 to RMB102.1 million as at 31 December 2019 was primarily due to the decrease in the number of petroleum refuelling stations and the Target Business's strategy to reduce its inventory to lower its inventory risk in anticipation of the higher volatility of the refined oil market in 2020. Hence, the Target Business held less inventory.

All of the inventories are expected to be recovered within one year.

The inventory turnover days (being average inventory divided by cost of sales for the period and multiplied by 360 days) for the years ended 31 December 2016, 2017, 2018 and 2019 were 10.1 days, 13.8 days, 17.9 days and 14.7 days, respectively. The fluctuation in the average inventories turnover days for the years ended 31 December 2016, 2017, 2018 and 2019 was mainly due to the reasons for the fluctuations in the balance of inventories throughout the periods.

As at 30 April 2020, approximately RMB71.6 million or 100%, RMB184.0 million or 100%, RMB166.2 million or 100% and RMB101.0 million or 99.0%, of the Target Business's balance of inventories as at 31 December 2016, 2017, 2018 and 2019, respectively, were subsequently utilised.

Trade and bills receivables

The following table sets forth the Target Business's trade and bills receivables balance as at respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade receivables, net of loss allowance due from:				
– third parties	13,695	24,850	34,295	35,534
– related parties	–	5,516	413	–
Bills receivables due from				
– third parties	162	96	–	–
Total	13,857	30,462	34,708	35,534

The Target Business's trade and bills receivables mainly consisted of receivables from third parties including other petroleum refuelling stations in relation to the Target Business's Petroleum Wholesale Business. The Target Business's trade and bills receivables amounted to approximately RMB13.9 million, RMB30.5 million, RMB34.7 million and RMB35.5 million as at 31 December 2016, 2017, 2018 and 2019, respectively and trade and bills receivables from third parties accounted for approximately 100.0%, 81.9%, 98.8% and 100.0% of the Target Business's total trade and bills receivables.

The increase in trade and bills receivables as at 31 December 2016, 2017 and 2018 was in line with the increase in sales performance of the Target Business during the same period. The increase in Target Business's trade receivables by approximately 2.3% from approximately RMB34.7 million as at 31 December 2018 to RMB35.5 million as at 31 December 2019 was attributable to sales to certain wholesale corporate customers which the Target Business has granted credit to.

Individual credit evaluations are performed by the Target Business on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer and debtor operates. The Target Business's customers include individual and corporate customers, and cash before delivery is generally required for all individual customers, where credit terms of one month are granted to corporate customers. Normally, the Target Business does not obtain collateral from customers. Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect the economic conditions over which the historical data has been collected, current conditions and the Target Business's view of economic conditions over the expected lives of the receivables.

The following table sets forth the movement in the loss allowance amount in respect of the trade receivables during the Track Record Period:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balances at 1 January	690	306	2,794	5,456
(Reversal of impairment losses)/impairment losses recognised during the year	(384)	2,488	2,662	844
Balances at 31 December	306	2,794	5,456	6,300

The movement in the loss allowance account in respect of trade receivables during the Track Record Period was in line with the movement in the Target Business's balance of trade receivables during the same period.

The table below sets forth the Target Business's trade receivables turnover days for the respective periods indicated:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
Trade and bills receivables turnover days*(Note)*	1.4	2.2	3.1	3.5

Note: Average trade receivables turnover days are based on the average balance of trade receivables divided by revenue for the relevant period and multiplied by 360 days. Average balance of trade receivables is calculated as the average of the beginning balance and ending balance of a given period.

The Target Business's trade receivables turnover days was minimal during the Track Record Period.

The following table sets forth an aging analysis of the Target Business's trade receivables based on the invoice date and net of allowance as at the dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Within 1 month	12,543	24,734	20,931	18,552
2 to 3 months	696	3,785	9,390	7,485
3 to 6 months	618	1,943	4,387	9,497
Total	13,857	30,462	34,708	35,534

The following table provides information about the Target Business' exposure to credit risk and expected credit losses for trade receivables at 31 December 2016, 2017, 2018 and 2019:

		At 31 December							
		2016		**2017**		**2018**		**2019**	
	Expected loss rate	**Gross carrying amount**	**Loss allowance provision**	**Gross carrying amount**	**Loss allowance provision**	**Gross carrying amount**	**Loss allowance provision**	**Gross carrying amount**	**Loss allowance provision**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables:									
Current (not past due)	0.8%	12,481	100	24,837	199	21,100	169	18,702	150
1 - 30 days past due	3%	718	22	3,902	117	9,680	290	7,717	232
31 - 60 days past due	10%	428	43	1,398	140	3,906	391	6,557	655
61 - 90 days past due	30%	262	78	512	153	733	220	3,269	981
91 - 120 days past due	50%	74	37	302	151	455	227	2,179	1,090
120 - 150 days past due	70%	38	26	584	409	436	305	724	506
More than 150 days past due	100%	–	–	1,625	1,625	3,854	3,854	2,686	2,686
		14,001	306	33,160	2,794	40,164	5,456	41,834	6,300

The Target Business measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix.

As at 30 April 2020, approximately RMB13.9 million or 100%, RMB30.5 million or 100%, RMB34.7 million or 100% and RMB34.6 million or 97.4%, of the Target Business's balance of net trade receivables as at 31 December 2016, 2017, 2018 and 31 December 2019, respectively, were subsequently settled.

Prepayments, deposits and other receivables

The following table sets forth the Target Business's prepayments, deposits and other receivables as at the respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Prepayments for purchase of inventories and services to:				
– third parties	28,964	4,490	115,251	81,530
– related parties	67,707	22,204	–	–
	96,671	26,694	115,251	81,530
Deposits	5,412	6,879	3,024	2,724
Receivables of entrustment fee from related parties	–	160	565	700
Receivables from issuance of shares of the Target Company	–	–	1	70
Advances to staff	666	960	398	736
VAT recoverable	448	3,057	3,191	7,091
Others	1,471	1,341	601	1,388
Total	104,668	39,091	123,031	94,239

Prepayments

The Target Business's prepayments primarily consisted of prepayments to suppliers for the purchase of refined oil. The suppliers generally require the Target Business to make prepayments for the refined oil purchases. The balance of prepayment will decrease upon the taking of delivery of the refined oil. The Target Business's prepayments for purchase of inventories and services to related parties represents the refined oil purchased from Songyuan Petrochemical, a connected person of the Target Business. As part of the Target Business's plan to diversify the refined oil supply sources, the Target Business's prepayments for purchase of inventories to third parties have been on an increasing trend during the Track Record Period. Prepayments for purchase of inventories and services decreased from approximately RMB96.7 million as at 31 December 2016 to approximately RMB26.7 million as at 31 December 2017, primarily due to the decrease of balances of prepayments for purchase of refined oil to Songyuan Petrochemical from approximately RMB67.7 million to as at 31 December 2016 to approximately RMB22.2 million as at 31 December 2017 resulting from the Target Business's plan to diversify the refined oil supply sources. Prepayments for purchase of inventories and services increased from approximately RMB26.7 million as at 31 December 2017 to approximately RMB115.3 million as at 31 December 2018, primarily due to the prepayments made by the Target Business to third party refined oil suppliers. Such increase in prepayments corresponds with the Target Business's plan to diversify its refined oil supply sources by decreasing its purchases from Songyuan Petrochemical and increasing its purchases of refined oil from third parties which normally require prepayments in advance to secure future supplies. Prepayments for purchase of inventories and services to third parties decreased from approximately RMB115.3 million as at 31 December 2018 to approximately RMB81.5 million as at 31 December 2019 primarily due to the Target Business's strategy to reduce the purchase of inventories to lower its inventory risk in anticipation of the higher volatility of the refined oil market in 2020, leading to smaller prepayment for inventories purchase.

Deposits

Deposits mainly represented the deposits paid for the Target Business's land and prepayments to suppliers for the construction on land. As at 31 December 2016, 2017, 2018 and 2019, the balance of the Target Business's deposits was approximately RMB5.4 million, RMB6.9 million, RMB3.0 million and RMB2.7 million, respectively. The Target Business's deposits increased by approximately 27.8% from approximately RMB5.4 million as at 31 December 2016 to approximately RMB6.9 million as at 31 December 2017 primarily due to the payment of land reservation deposit for the construction of a petroleum refuelling station. It decreased by approximately 56.5% to approximately RMB3.0 million as at 31 December 2018 primarily due to the conversion of certain land reservation deposits into right-of-use assets. The Target Business's deposits remained relatively stable at approximately RMB3.0 million as at 31 December 2018 as compared to RMB2.7 million as at 31 December 2019.

Receivables of entrustment fee from related parties

Receivables of entrustment fee from related parties represented receivables in relation to entrustment fee in connection with gas refuelling stations entrusted by Changchun Yitonghe.

Amounts due from related parties

Amounts due from related parties primarily represented the current account with Changchun Yitonghe. Amounts due from related parties comprise the balance of cash and cash equivalents in the bank accounts of Changchun Yitonghe from the daily operation, i.e. combining the effect of (i) the net profit, adjusting the non-cash items recognized in profit or loss; (ii) the changes in working capital; and (iii) investing and financing cash flows. Amounts due from related parties were approximately RMB80.4 million, RMB46.7 million, RMB67.9 million and RMB248.6 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, respectively. Amounts due from related parties increased from approximately RMB67.9 million at 31 December 2018 to RMB248.6 million at 31 December 2019 mainly due to (1) an increase in net profits of the Petroleum Segment of Changchun Yitonghe; (2) net increase in the working capital, including (i) a decrease in inventory level; (ii) a decrease in the balances of prepayments for purchase of inventories; and (iii) an increase in the balances in advances. Approximately RMB191.8 million out of total balance in 2019 represents the balance which will not be acquired by the Target Group under the terms of SP Agreement, while the remaining balance of approximately RMB56.7 million is not of trading nature and will be settled prior to the Acquisition Completion. Petroleum Segment of Changchun Yitonghe did not exercise operational control over the cash and cash equivalents in the bank accounts of Changchun Yitonghe. The balances of cash and cash equivalents from the daily operation of the Petroleum Segment of Changchun Yitonghe were therefore not considered as cash and cash equivalents of the Target Business and were not included as such in the historical financial information. For the purposes of the historical financial information of the Target Business, net changes of amounts in the bank accounts attributable to cash transactions of the Petroleum Segment of Changchun Yitonghe for the Track Record Period were included in the amounts due from related parties.

Trade and bills payable

The table below sets forth the amount of the Target Business's trade and bills payables as at the respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Trade payables due to:				
– third parties	2,403	3,700	18,852	29,352
– related parties	228	907	3,815	41,750
	2,631	4,607	22,667	71,102
Bills payables				
– related parties	5,000	–	40,000	2,000
Total	7,631	4,607	62,667	73,102

Trade and bills payable

The Target Business's trade payables mainly consisted of the procurement of refined oil from the Target Business's suppliers. The Target Business's trade payables as at 31 December 2016, 2017, 2018 and 2019 was approximately RMB2.6 million, RMB4.6 million, RMB22.7 million and RMB71.1 million, respectively. The Target Business generally makes prepayments for the procurement of refined oil and as such, the balance of trade payables remained low throughout the Track Record Period. The relatively high amount of trade payables due to third parties as at 31 December 2019 was primarily due to the purchase of refined oil from a supplier and such supplier was willing to grant a longer credit period to the Target Business.

The Target Business's bills payable mainly represents amounts due to Songyuan Petrochemical, a related party to the Target Business, for the procurement of refined oil which is of trade nature. As at 31 December 2016, 2017, 2018 and 2019, the Target Business's bills payable amounted to approximately RMB5.0 million, nil, RMB40.0 million and RMB2.0 million, respectively. The Target Business's outstanding bills payable as at 31 December 2019 is expected to be settled within one year.

As at 30 April 2020, approximately RMB7.6 million or 100%, RMB4.6 million or 100%, RMB62.7 million or 100.0% and RMB66.4 million or 90.1% of the Target Business's balance of trade and bills payables as at 31 December 2016, 2017, 2018 and 2019, respectively were subsequently settled.

The following table sets forth an aging analysis of the Target Business's trade and bills payables based on the invoice date as at the respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Within 1 month	2,617	3,204	22,480	71,690
1 to 3 months	14	26	1	1,412
4 to 6 months	5,000	–	40,186	–
Over 6 months	–	1,377	–	–
Total	7,631	4,607	62,667	73,102

The following table sets forth the Target Business's trade and bills payables turnover days for the respective years indicated:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
Trade and bills payables turnover days*(Note)*	0.6	0.7	3.4	7.4

Note: Average trade payables turnover days are based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by 360 days. Average balance of trade payables is calculated as the average of the beginning balance and ending balance of a given period.

The Target Group's trade and bills payables turnover days were 0.6, 0.7, 3.4 and 7.4 during the Track Record Period. The relatively high trade and bills payables turnover days for the year ended 31 December 2018 and year ended 31 December 2019 was primarily due to (i) the bills payables to a related party in the amount of RMB40 million and (ii) the trade payables due to third parties in relation to the purchase of refined oil from a supplier as mentioned above for the periods.

Accrued expenses and other payables

The table below sets forth a breakdown of the Target Business's accrued expenses and other payables as at the respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Payables for acquisition of property, plant and equipment	217	7,294	7,428	7,489
Payables for staff related costs	520	695	1,705	1,734
Payables for other taxes	2,227	1,728	435	220
Others	2,301	4,653	5,376	6,003
Financial liabilities measured at amortised cost	5,265	14,370	14,944	15,446
Receipts in advance due to:				
– third parties	123,531	102,209	136,304	156,878
– related parties	7,091	3	1,526	16,426
	130,622	102,212	137,830	173,304
Total	135,887	116,582	152,774	188,750

The Target Business's accrued expenses and other payables mainly represented payables for acquisition of property, plant and equipment and land use rights and receipt in advances due to customers in the Petroleum Refuelling Business for their prepaid cards and prepayments from customers in the Petroleum Wholesale Business. As at 31 December 2016, 2017, 2018 and 2019, the Target Business's accrued expenses and other payables amounted to approximately RMB135.9 million, RMB116.6 million, RMB152.8 million and RMB188.8 million, respectively. The relatively high accrued expenses and other payables of the Target Business as at 31 December 2019 was primarily attributable to prepayment of purchase orders by certain wholesale customers of the Target Business, leading to higher receipts in advance due to third parties.

Bank and other loans

The Target Business's bank and other loans during the Track Record Period primarily consisted of short term and long term loans denominated in Renminbi. The following table sets forth a breakdown of the Target Business's short term bank and other loans as at the respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Bank loans:				
Secured by property, plant and equipment and restricted bank deposits of the Target Business and guaranteed by related parties	–	60,000	20,000	38,000
Other loans:				
Unsecured and unguaranteed loans from related parties of the Target Business	70,000	50,000	90,000	30,000
Add: current portion of long-term bank and other loans	–	1,000	1,400	8,400
Total	70,000	111,000	111,400	76,400

As at 31 December 2016, none of the short term bank and other loans were secured by property, plant and equipment of the Target Business or guaranteed by a related party. Such amount of banks and other loans was repaid in 2017.

As at 31 December 2017, RMB60.0 million of the short term bank loans was secured by property, plant and equipment and restricted bank deposits of the Target Business.

As at 31 December 2018, RMB20.0 million of the short term bank loans was secured by property, plant and equipment and restricted bank deposits of the Target Business.

As at 31 December 2019, RMB38.0 million of the short term bank loans was secured by property, plant and equipment and restricted bank deposits of the Target Business.

The unsecured and unguaranteed loans from related parties of the Target Business will be settled by the Target Business upon the Acquisition Completion.

The following table sets forth a breakdown of the Target Business's long term bank and other loans as at the respective dates indicated:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Bank loans:				
Secured by property, plant and equipment of the Target Business and guaranteed by related parties	–	10,000	28,800	27,400
Less: current portion of long-term bank and other loans	–	(1,000)	(1,400)	(8,400)
Total	–	9,000	27,400	19,000

As at 31 December 2016, the Target Business did not have any long term bank and other loans.

As at 31 December 2017, RMB10.0 million of the long term bank loans was secured by property, plant and equipment of the Target Business and guaranteed by a related party.

As at 31 December 2018 and 31 December 2019, RMB28.8 million and RMB27.4 million of the long term bank loans was secured by property, plant and equipment of the Target Business and guaranteed by a related party, respectively.

The guarantee by related parties for the Target Business's long term bank and other loans is expected to be released upon the Acquisition Completion.

Certain of the Target Business' bank and other loans and banking facilities are secured by the following assets of the Target Business:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment				
– pledged for bank loans *(Note (i))*	–	1,474	12,224	10,846
– pledged for bank loans and bank acceptance bills facilities *(Note (ii))*	5,542	5,289	5,036	4,955
	5,542	6,763	17,260	15,801
Restricted bank deposits pledged for bank loans and bank acceptance bills facilities	17,500	30,000	30,000	20,000
	23,042	36,763	47,260	35,801

Notes:

(i) At 31 December 2016, 2017 and 2018 and 2019, bank loans of the Target Business of nil, RMB10.0 million, RMB28.8 million and RMB27.4 million, respectively, were secured by the Target Business' property, plant and equipment and guaranteed by Mr Sun Zhicheng and United Strength Investment. The bank loan of RMB27.4 million secured by Mr. Sun Zhicheng and United Strength Investment has been fully settled as at Latest Practicable Date.

(ii) At 31 December 2016, 2017, 2018 and 2019, bank loans and bank acceptance bills facilities of the Target Business of RMB35.0 million, RMB60.0 million, RMB60.0 million and RMB50.0 million, respectively, were secured by property, plant and equipment and restricted bank deposits of the Target Business and guaranteed by Mr Zhao Jinmin, Mr Liu Yingwu, Mr Sun Zhicheng, Ms Cui Yueshun, Ms Ma Dan, Ms Ji Yuanyuan and Changchun Yitonghe. Such personal guarantees by Mr. Zhao Jinmin, Mr. Liu Yingwu, Mr. Sun Zhicheng, Ms. Cui Yueshun, Ms. Ma Dan and Ms. Ji Yuanyuan have been released as at the Latest Practicable Date.

At 31 December 2016, 2017, 2018 and 2019, the above bank loans and bank acceptance bills facilities were utilised to the extent of RMB5.0 million, RMB60.0 million, RMB20.0 million and RMB40.0 million, respectively.

Lease liabilities

The following table shows the remaining contractual maturities of the Target Business' lease liabilities as at the respective dates indicated:

	At 31 December							
	2016		2017		2018		2019	
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*	
	Present value of the minimum lease payments	*Total minimum lease payments*	*Present value of the minimum lease payments*	*Total minimum lease payments*	*Present value of the minimum lease payments*	*Total minimum lease payments*	*Present value of the minimum lease payments*	*Total minimum lease payments*
Within 1 year	28,057	29,592	31,754	33,567	30,861	32,706	28,246	28,766
After 1 year but within 2 years	28,589	32,249	26,936	30,269	22,128	24,527	9,515	10,720
After 2 years but within 5 years	50,214	64,355	48,461	63,119	34,373	45,376	24,447	31,678
After 5 years	32,079	58,303	32,963	57,699	19,933	34,231	16,005	27,998
	138,939	184,499	140,114	184,654	107,295	136,840	78,213	99,162
Less: total future interest expenses		(45,560)		(44,540)		(29,545)		(20,949)
Present value of lease liabilities		138,939		140,114		107,295		78,213

Lease liabilities represents the obligation of lease payments and interests on the Target Business's right-of-use assets for the Target Business's petroleum refuelling stations. The present value of minimum lease payments that are due within 1 year amounted to approximately RMB28.1 million, RMB31.8 million, RMB30.9 million and RMB28.2 million as at 31 December 2016, 2017, 2018 and 2019, respectively. Such amounts represents approximately 20.2%, 22.7%, 28.8% and 36.1% of the Target Business's total present value of lease liabilities.

The decrease in the present value of lease liabilities from approximately RMB140.1 million as at 31 December 2017 to RMB107.3 million as at 31 December 2018 and further to RMB78.2 million as at 31 December 2019 was mainly due to the decrease in the number of petroleum refuelling stations under operating leases. For details of the Target Business's petroleum refuelling stations under operating leases, please refer to the section headed "Business of the Target Group — Petroleum Refuelling Business — The retail networks" in this circular.

CAPITAL COMMITMENTS

Capital commitments

The Target Business's capital commitments outstanding at the dates indicated below not provided for were as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Commitments in respect of property, plant and equipment:				
– contracted for	2,874	1,514	6,187	1,515

For details of the Target Business's capital commitments, please refer to note 24 of the Accountants' Report in Appendix I to this circular.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, the Target Business funded its working capital requirement principally by cash generated from its operations and bank and other loans.

CASH FLOW

The following table summarises key information on the Target Business's cash flows during the Track Record Period:

	Year ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from operating activities	129,518	41,398	158,959	304,810
Net cash used in investing activities	(35,953)	(50,714)	(61,722)	(54,031)
Net cash (used in)/generated from financing activities	(83,747)	19,088	(108,684)	(261,349)
Net increase/(decrease) in cash and cash equivalents	9,818	9,772	(11,447)	(10,570)
Cash and cash equivalents at the beginning of year	10,642	20,460	30,232	18,785
Cash and cash equivalents at the end of year	20,460	30,232	18,785	8,215

Cash flow from operating activities

Cash from operations was mainly generated from receipts of payments for the sales of refined oil products and the provision of transportation services. Cash used in operations mainly comprised payment for procurement cost of refined oil, employee benefit expenses, taxes and other operating expenses.

The Target Business recorded net cash generated from operating activities of approximately RMB304.8 million for the year ended 31 December 2019, which was mainly attributable to the cash generated from operations of approximately RMB336.3 million, partially offset by income tax paid of approximately RMB31.5 million. The cash generated from operations was mainly attributable to the profit before taxation of approximately RMB137.9 million, after (i) adjustments for non-cash or non-operating activities related items which mainly include the depreciation expenses of approximately RMB46.7 million and finance costs of approximately RMB17.0 million, and (ii) adjustments for changes in working capital which mainly include the increase in accrued expenses and other payables of approximately RMB35.5 million, the decrease in inventories of approximately RMB64.1 million and the decrease in prepayments, deposits and other receivables of approximately RMB28.9 million, partially offset by the increase in trade and bills receivables of approximately RMB0.8 million.

The Target Business recorded net cash generated from operating activities of approximately RMB159.0 million for the year ended 31 December 2018, which was mainly attributable to the cash generated from operations of approximately RMB194.1 million, partially offset by income tax paid of approximately RMB35.2 million. The cash generated from operations was mainly attributable to the profit before taxation of approximately RMB108.6 million, after (i) adjustments for non-cash or non-operating activities related items which mainly include the depreciation expenses of approximately RMB48.5 million and finance costs of approximately RMB13.5 million, and (ii) adjustments for changes in working capital which mainly include the increase in trade and bills payables of approximately RMB58.1 million, and increase in accrued expenses and other payables of approximately RMB36.1 million, partially offset by the increase in prepayments, deposits and other receivables of approximately RMB83.9 million.

The Target Business recorded net cash generated from operating activities of approximately RMB41.4 million for the year ended 31 December 2017, which was mainly attributable to the cash generated from operations of approximately RMB65.3 million, partially offset by income tax paid of approximately RMB23.9 million. The cash generated from operations was mainly attributable to the profit before taxation of approximately RMB96.0 million, after (i) adjustments for non-cash or non-operating activities related items which mainly include the depreciation expenses of approximately RMB47.6 million and finance costs of approximately RMB14.6 million, and (ii) adjustments for changes in working capital which mainly include the decrease in prepayments, deposits and other receivables of approximately RMB65.6 million, partially offset by the increase in inventories of approximately RMB112.4 million and the decrease in accrued expenses and other payables of approximately RMB26.4 million.

The Target Business recorded net cash generated from operating activities of approximately RMB129.5 million for the year ended 31 December 2016, which was mainly attributable to the cash generated from operations of approximately RMB143.2 million, partially offset by income tax paid of approximately RMB13.7 million. The cash generated from operations was mainly attributable to the profit before taxation of approximately RMB62.1 million, after (i) adjustments for non-cash or non-operating activities related items which mainly include the depreciation expenses of approximately RMB45.8 million and finance costs of approximately RMB12.3 million, and (ii) adjustments for changes in working capital which mainly include the decrease in inventories of approximately RMB37.2 million, partially offset by the increase in prepayments, deposits and other receivables of approximately RMB22.0 million.

Cash flow from investing activities

For the year ended 31 December 2019, the Target Business had net cash outflow amounting to approximately RMB54.0 million from investing activities. The major cash outflow was for purchase of property, plant and equipment amounting to approximately RMB56.8 million. The major cash inflow was for the proceeds from the disposal of property, plant and equipment and investment properties amounting to approximately RMB2.2 million.

For the year ended 31 December 2018, the Target Business had net cash outflow amounting to approximately RMB61.7 million from investing activities. The major cash outflow was for the purchase of property, plant and equipment amounting to approximately RMB65.6 million. The major cash inflow was for the proceeds from the disposal of property, plant and equipment amounting to approximately RMB3.4 million.

For the year ended 31 December 2017, the Target Business had net cash outflow amounting to approximately RMB50.7 million from investing activities. The major cash outflow was for the purchase of property, plant and equipment amounting to approximately RMB53.8 million. The major cash inflow was for the proceeds from the disposal of property, plant and equipment amounting to approximately RMB2.8 million.

For the year ended 31 December 2016, the Target Business had net cash outflow amounting to approximately RMB36.0 million from investing activities. The major cash outflow was for the purchase of property, plant and equipment amounting to approximately RMB38.7 million. The major cash inflow was for the proceeds from the disposal of property, plant and equipment amounting to approximately RMB2.5 million.

Cash flow from financing activities

For the year ended 31 December 2019, the Target Business had net cash outflow amounting to approximately RMB261.3 million to financing activities. The major cash outflow was for (i) the repayment of bank loans amounting to approximately RMB82.3 million; (ii) the payments of capital element of lease rentals of approximately RMB17.2 million; (iii) the payments of interest element of lease rentals of approximately RMB6.7 million; (iv) the payments for the acquisition of the subsidiaries of the Target Business amounting to approximately RMB13.1 million; (v) the increase in the amounts due from related parties amounting to approximately RMB180.6 million; and (vi) interest paid amounting to approximately RMB10.3 million. The major cash inflow was the proceeds from bank and other loans amounting to approximately RMB38.9 million.

For the year ended 31 December 2018, the Target Business had net cash outflow of approximately RMB108.7 million to financing activities. The major cash outflow for the year was due to (i) the repayment of bank and other loans amounting to approximately RMB111.2 million; (ii) the distributions of approximately RMB35.1 million; (iii) the payments of capital element of lease rentals of approximately RMB13.8 million; (iv) the payments of interest element of lease rentals of approximately RMB9.8 million; (v) the payments for the acquisition of the PRC subsidiaries of the Target Business amounting to approximately RMB53.7 million; (vi) the increase in the amounts due from related parties amounting to approximately RMB21.3 million; and (vii) interest paid amounting to approximately RMB3.7 million. The major cash inflow was the proceeds from bank and other loans amounting to approximately RMB130.0 million and the proceeds from capital contribution of a subsidiary of the Target Business amounting to approximately RMB10.0 million.

For the year ended 31 December 2017, the Target Business had net cash inflow of approximately RMB19.1 million to financing activities. The major cash inflow was for the proceeds from bank and other loans amounting to approximately RMB120.0 million and the decrease in the amounts due from the related parties amounting to approximately RMB33.8 million. The major cash outflow for the year was due to (i) the repayment of bank and other loans amounting to approximately RMB70.0 million; (ii) the distributions of approximately RMB5.0 million; (iii) the payments of capital element of lease rentals of approximately RMB32.6 million; (iv) the payments of interest element of lease rentals of approximately RMB11.1 million; (v) the increase in pledged and restricted bank deposits amounting to approximately RMB12.5 million; and (vi) interest paid amounting to approximately RMB3.5 million.

For the year ended 31 December 2016, the Target Business had net cash outflow of approximately RMB83.7 million to financing activities. The major cash outflow for the year was due to (i) the repayment of bank and other loans amounting to approximately RMB30.0 million; (ii) the distributions of approximately RMB5.0 million; (iii) the payments of the capital element of lease rentals of approximately RMB18.6 million; (iv) the payments of the interest element of lease rentals of approximately RMB8.6 million; (v) the net increase in the amounts due from the related parties amounting to approximately RMB70.3 million; (vi) the increase in pledged and restricted bank deposits amounting to approximately RMB17.5 million; and (vii) interest paid amounting to approximately RMB3.7 million. The major cash inflow was for the proceeds from bank and other loans amounting to approximately RMB70.0 million.

For details of and reasons for fluctuations of each non-cash or working capital items as mentioned above, please refer to the paragraph headed "Financial Information of the Target Business — Description of Selected Items in Combined Statements of Financial Position" in this section.

WORKING CAPITAL

The table below sets forth the Target Business's current assets, current liabilities and net current assets as at the respective dates indicated:

	At 31 December				At 30 April
	2016	2017	2018	2019	2020
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)
Current assets					
Inventories	71,647	184,028	166,202	102,064	68,820
Trade and bills receivables	13,857	30,462	34,708	35,534	24,600
Prepayments, deposits and other receivables	104,668	39,091	123,031	94,239	324,104
Amounts due from related parties	80,438	46,656	67,938	248,550	200,152
Income tax recoverable	–	16	1,573	186	213
Cash at bank and on hand	37,960	60,232	48,785	28,215	28,848
	308,570	360,485	442,237	508,788	646,737
Current liabilities					
Bank and other loans	70,000	111,000	111,400	76,400	119,000
Lease liabilities	28,057	31,754	30,861	28,246	26,348
Trade and bills payables	7,631	4,607	62,667	73,102	73,684
Accrued expenses and other payables	135,887	116,582	152,774	188,750	218,282
Income tax payable	1,007	2,690	118	2,676	2,850
	242,582	266,633	357,820	369,174	440,164
Net current assets	65,988	93,852	84,417	139,614	206,573

As at 30 April 2020, the net current assets increased by approximately RMB67.0 million to approximately RMB206.6 million as compared to that as at 31 December 2019, primarily due to (i) the increase in current assets of approximately RMB137.9 million, which was primarily attributable to the increase in prepayments, deposits and other receivables of approximately RMB230.0 million which was mainly due to the Target Group's strategy to negotiate and enter into several framework agreements with refined oil products suppliers in view of the downtrend of the international crude oil price in March 2020 to render the Target Group more flexibility to procure refined oil products at lower cost, partially offset by the decrease in amounts due from related parties of approximately RMB48.4 million and decrease in inventory of approximately RMB33.2 million and (ii) partially offset by the increase in current liabilities of approximately RMB71.0 million, which was mainly driven by the increase in bank and other loans of approximately RMB42.6 million and the increase in accrued expenses and other payables of approximately RMB29.5 million.

As at 31 December 2019, the net current assets increased by approximately RMB55.2 million to approximately RMB139.6 million as compared to that as at 31 December 2018, primarily due to (i) the increase in current assets of approximately RMB66.6 million, which was primarily attributable to the increase of amounts due from related parties of approximately RMB180.6 million, and (ii) partially offset by (i) the decrease in prepayments, deposits and other receivables of approximately RMB28.8 million and (ii) offset by the increase in current liabilities of approximately RMB11.4 million, which was mainly driven by the increase in accrued expenses and other payables of approximately RMB36.0 million.

As at 31 December 2018, the net current assets decreased by approximately RMB9.4 million to approximately RMB84.4 million as compared to that as at 31 December 2017, primarily due to (i) the increase in current liabilities of approximately RMB91.2 million, which was primarily attributable to the increase in trade and bills payables of approximately RMB58.1 million, and the increase in accrued expenses and other payables of approximately RMB36.2 million, and (ii) offset by the increase in current assets of approximately RMB81.8 million, which was mainly driven by the increase in prepayments, deposits and other receivables of approximately RMB83.9 million.

As at 31 December 2017, the net current assets increased by approximately RMB27.9 million to approximately RMB93.9 million as compared to that as at 31 December 2016, primarily due to (i) the increase in current assets of approximately RMB51.9 million, which was primarily attributable to the increase in inventories of approximately RMB112.4 million, and partially offset by the decrease in prepayments, deposits and other receivables of approximately RMB65.6 million, and (ii) offset by the increase in current liabilities of approximately RMB24.1 million, which was mainly driven by the increase in bank and other loans of RMB41.0 million, and partially offset by the decrease in accrued expenses and other payables of approximately RMB19.3 million.

WORKING CAPITAL CONFIRMATION

In view of the cash generated/to be generated from operating activities and the currently available financial resources, the Directors and the proposed Director have confirmed that the Enlarged Group have sufficient working capital for present requirements for at least the next 12 months commencing from the date of this circular.

INDEBTEDNESS

As at 30 April 2020, the Enlarged Group had total outstanding bank and other loans of approximately RMB240.9 million and lease liabilities of approximately RMB119.8 million.

As at 30 April 2020, the Target Group had total outstanding bank and other loans of approximately RMB167 million and lease liabilities of approximately RMB78.4 million. The Target Group had unutilised banking facilities of RMB10.0 million as at 30 April 2020. Save as disclosed in the table below and apart from intra-group liabilities, as at 30 April 2020, the Target Business did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

	At 30 April 2020		
	The Target Business *RMB'000*	**The Group** *RMB'000*	**Total** *RMB'000*
Short-term bank and other loans:			
Bank loans:			
Secured by land use rights and restricted bank deposits of the Target Business and guaranteed by a subsidiary of the Target Group	38,000	–	38,000
Secured by property, plant and equipment and land use rights of the Group and guaranteed by a subsidiary	–	25,000	25,000
Guaranteed by a subsidiary of the Target Group	30,000	–	30,000
Guaranteed by a third party guarantee company	49,000	–	49,000
	117,000	25,000	142,000
Add: current portion of long-term bank and other loans	2,000	–	2,000
	119,000	25,000	144,000
Long-term bank and other loans			
Bank loans:			
Secured by property, plant and equipment and land-use-rights of the Target Business and guaranteed by a subsidiary of the Target Group	50,000	–	50,000
Other loans:			
Secured by property, plant and equipment of the Group	–	4,243	4,243
Secured by the equity interest of a subsidiary of the Group and guaranteed by the controlling shareholder and a related party	–	44,664	44,664
	50,000	48,907	98,907
Less: current portion of long-term bank and other loan	2,000	–	2,000
	48,000	48,907	96,907
Lease liabilities:			
Current	26,348	15,964	42,312
Non-current	52,090	25,432	77,522
	78,438	41,396	119,834
	245,438	115,303	360,741

The short term other loans from related parties will be settled upon the Acquisition Completion. The guarantees by Controlling Shareholders and related parties for the long term bank and other loans will be released upon the Acquisition Completion.

The Directors and the proposed Director have confirmed that (i) the Enlarged Group had not defaulted or delayed in any payment or breach of financial covenants during the Track Record Period and up to the Latest Practicable Date; (ii) there are no material covenants relating to the Enlarged Group's outstanding debts (if any); and (iii) up to the Latest Practicable Date, there has been no material change in indebtedness and contingent liabilities of the Enlarged Group since 30 April 2020.

KEY FINANCIAL RATIOS

The following table summarises the Target Business's key financial ratios as at the respective dates for the purpose indicated:

	At/Year ended 31 December			
	2016	**2017**	**2018**	**2019**
Current ratio(1)	1.3 times	1.4 times	1.2 times	1.4 times
Quick ratio(2)	1.0 time	0.7 time	0.8 time	1.1 times
Gearing ratio(3)	68.1%	69.7%	65.7%	37.5%
Debt to equity ratio(4)	1.2 times	1.0 time	1.2 times	0.9 time
Interest coverage(5)	6.0 times	7.6 times	9.0 times	9.1 times
Return on total assets(6)	7.0%	9.4%	9.6%	11.4%
Return on equity(7)	22.8%	28.8%	32.0%	32.7%
Gross profit margin(8)	6.4%	8.0%	8.0%	8.9%
Net profit margin(9)	1.4%	2.0%	2.1%	2.8%

Notes:

(1) Current ratio equals to total current assets divided by total current liabilities as at the end of each year.

(2) Quick ratio equals to total current assets less inventories divided by total current liabilities as at the end of each year.

(3) Gearing ratio equals to interest-bearing liabilities divided by total equity as at the end of each year.

(4) Debt to equity ratio equals to total liabilities divided by total equity as at the end of each year.

(5) Interest coverage equals to profit before finance costs and income tax expense for the respective year divided by finance costs for the respective year.

(6) Return on total assets equals to profit for the respective year divided by total assets as at the end of each year multiplied by 100%.

(7) Return on equity equals to profit for the respective year divided by parent's net investment as at the end of each year multiplied by 100%.

(8) Gross profit margin is calculated based on the gross profit divided by the revenue for the respective year multiplied by 100%.

(9) Net profit margin is calculated based on the profit divided by the revenue for the respective year multiplied by 100%.

Current ratio

The Target Business's current ratio was approximately 1.3, 1.4, 1.2 and 1.4 as at 31 December 2016, 2017, 2018 and 2019, respectively. The Target Business's current ratio remained stable throughout the Track Record Period.

Quick ratio

The Target Business's quick ratio decreased from approximately 1.0 as at 31 December 2016 to approximately 0.7 as at 31 December 2017 mainly due to the increase in bank and other loans as at 31 December 2017 and the decrease in prepayments, deposits and other receivables as at 31 December 2017. The Target Business's quick ratio increased to approximately 0.8 as at 31 December 2018 mainly due to the increase in amounts due from related parties and the increase in prepayments, deposits and other receivables as at 31 December 2018. The increase in the Target Business's quick ratio to approximately 1.1 as at 31 December 2019 was primarily due to the decrease in inventories.

Gearing ratio

The Target Business's gearing ratio remained relatively stable at approximately 68.1% for the year 31 December 2016 as compared to approximately 69.7% for the year ended 31 December 2017 and approximately 65.7% for the year ended 31 December 2018. The Target Business's gearing ratio decreased to approximately 37.5% for the year ended 31 December 2019, which was mainly due to the decreased in long-term lease liabilities and bank and other loans as at 31 December 2019.

Debt to equity ratio

The Target Business's debt to equity ratio was approximately 1.2, 1.0, 1.2 and 0.9 as at 31 December 2016, 2017, 2018 and 2019, respectively. The Target Business's debt to equity ratio remained stable as at 31 December 2016, 2017 and 2018. The Target Business's debt to equity ratio decreased from approximately 1.2 as at 31 December 2018 to approximately 0.9 as at 31 December 2019 primarily due to the decrease in long-term lease liabilities and bank and other loans as at 31 December 2019.

Interest coverage

The Target Business's interest coverage increased from approximately 6.0 times for the year ended 31 December 2016 to approximately 7.6 times for the year ended 31 December 2017 mainly due to the combined effects of the significant increase in profit from operations for the year ended 31 December 2017, offset by the slight increase in finance cost during the same period. The Target Business's interest coverage increased to approximately 9.0 times for the year ended 31 December 2018 mainly due to the increase in profit from operations for the year ended 31 December 2018 and the slight decrease in finance cost for the year ended 31 December 2018. The Target Business's interest coverage remained stable at approximately 9.1 times for the year ended 31 December 2019 as compared to 9.0 times for the year ended 31 December 2018.

Return on total assets

The Target Business's return on total assets increased from approximately 7.0% for the year ended 31 December 2016 to approximately 9.4% for the year ended 31 December 2017 mainly due to the increase in net profit for the year ended 31 December 2017. The Target Business's return on total asset remained stable at approximately 9.6% for the year ended 31 December 2018 as compared to 9.4% for the year ended 31 December 2017. The Target Business's return on total assets further increased to approximately 11.4% for the year ended 31 December 2019 mainly due to the increase in net profit for the year ended 31 December 2019.

Return on equity

The Target Business's return on equity increased from approximately 22.8% for the year ended 31 December 2016 to approximately 28.8% for the year ended 31 December 2017, and further increased to approximately 32.0% for the year ended 31 December 2018. Such increasing trend was mainly due to the increase in net profit for the years ended 31 December 2016, 2017 and 2018. The Target Business's return on equity increased from approximately 32.0% for the year ended 31 December 2018 to approximately 32.7% for the year ended 31 December 2019 mainly due to the increase in net profit for the year ended 31 December 2019.

Gross profit margin

For details on the Target Business's fluctuation in gross profit margin during the Track Record Period, please refer to the section headed "Financial Information of the Target Business — Results of operations" in this circular.

Net profit margin

The Target Business's net profit margin increased from approximately 1.4% for the year ended 31 December 2016 to 2.0% for the year ended 31 December 2017 mainly due to the Target Business's growth in its gross profit margin as a result of the increasing trend of the price of international crude oil throughout the year of 2017, offset by the decrease in other income due to the decrease in rental income from operating leases. The Target Business's net profit margin remained stable at approximately 2.1% for the year ended 31 December 2018 as compared to 2.0% for the year ended 31 December 2017. The Target Business's net profit margin increased from approximately 2.1% for the year ended 31 December 2018 to approximately 2.8% for the year ended 31 December 2019 mainly due to the Target Business's growth in its gross profit margin. For details regarding the Target Business's gross profit margin, please refer to the section headed "Financial Information of the Target Business — Results of Operations — Year ended 31 December 2019 compared to the year ended 31 December 2018 — Gross profit and gross profit margin" in this circular.

TRANSACTIONS WITH RELATED PARTIES

During the Track Record Period, the Target Group has entered into a number of transactions with its related parties which were principally comprising (i) purchase of refined oil products from Songyuan Petrochemical; (ii) sales of refined oil products to United Strength Vehicle Service for the operation of its petroleum refuelling stations; (iii) purchase of transportation and other services pursuant to the Former Petroleum Transportation Services Agreement; and (iv) supply of refined oil products to Jieli Logistics pursuant to the cooperation arrangement under the Cooperation Agreement. Please refer to Note 25 to the Accountants' Report in Appendix I to this circular for further details. The transactions (i) and (ii) will continue upon the Acquisition Completion and will constitute non-exempt continuing connected transactions on part of the Company. For further details, please refer to section headed "Connected Transaction" in this circular. The transactions (iii) and (iv) will be terminated upon the Acquisition Completion. For details, please refer to the section headed "Letter from the Board — Termination of the Former Agreements" in this circular.

The Target Company Directors confirm that all related party transactions during the Track Record Period were negotiated on an arm's length basis.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Credit risk

The Target Business's credit risk is primarily attributable to trade receivables. The Target Business's exposure to credit risk arising from bills receivables and cash at bank and on hand is limited because the counterparties are banks with high credit standing. The Target Business does not provide any guarantees which would expose the Target Business to credit risk.

The Target Business's exposure to credit risk is influenced mainly by the individual characteristics of the customer or debtor rather than the industry in which the customers or debtors operate and therefore significant concentrations of credit risk primarily arise when the Target Business has significant exposure to individual customers or debtors. As at 31 December 2016, 2017, 2018 and 2019, 19%, 18%, 31% and 15% of the trade receivables, respectively, were due from the Target Business's largest trade debtor, 58%, 58%, 60% and 35% of the trade receivables, respectively, were due from the Target Business's five largest trade debtors.

Individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customer and debtor as well as pertaining to the economic environment in which the customer and debtor operates. The Target Business's customers include individual and corporate customers, and cash before delivery is generally required for all individual customers, where credit terms of one month are granted to corporate customers. Normally, the Target Business does not obtain collateral from customers.

Liquidity risk

The Target Business's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at 31 December 2016, 2017, 2018 and 2019 of the Target Business's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 31 December 2016, 2017, 2018 and 2019) and the earliest dates the Target Business can be required to pay:

	At 31 December 2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other loans	70,878	–	–	–	70,878	70,000
Trade and bills payables	7,631	–	–	–	7,631	7,631
Accrued expenses and other payables measured at amortised cost	5,265	–	–	–	5,265	5,265
Lease liabilities	29,592	32,249	64,355	58,303	184,499	138,939
	113,366	32,249	64,355	58,303	268,273	221,835

	At 31 December 2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other loans	114,373	1,556	8,192	–	124,121	120,000
Trade and bills payables	4,607	–	–	–	4,607	4,607
Accrued expenses and other payables measured at amortised cost	14,370	–	–	–	14,370	14,370
Lease liabilities	33,567	30,269	63,119	57,699	184,654	140,114
	166,917	31,825	71,311	57,699	327,752	279,091

	At 31 December 2018					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other loans	119,884	9,910	19,428	–	149,222	138,800
Trade and bills payables	62,667	–	–	–	62,667	62,667
Accrued expenses and other payables measured at amortised cost	14,944	–	–	–	14,944	14,944
Lease liabilities	32,706	24,527	45,376	34,231	136,840	107,295
	230,201	34,437	64,804	34,231	363,673	323,706

	At 31 December 2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other loans	79,955	19,428	–	–	99,383	95,400
Trade and bills payables	73,102	–	–	–	73,102	73,102
Accrued expenses and other payables measured at amortised cost	15,446	–	–	–	15,446	15,446
Lease liabilities	28,766	10,720	31,678	27,998	99,162	78,213
	197,269	30,148	31,678	27,998	287,093	262,161

Interest rate risk

The Target Business's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Target Business to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the interest rate profile of the Target Business's borrowings at 31 December 2016, 2017, 2018 and 2019:

	At 31 December							
	2016		2017		2018		2019	
	Effective interest rate %	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*
Fixed rate borrowings								
Bank loans	–	–	4.80% ~ 6.2%	70,000	4.25% ~ 6.8%	48,800	4.25% ~ 6.8%	65,400
Other loans	7.0%	70,000	8.0%	50,000	8.0%	90,000	8.0%	30,000
		70,000		120,000		138,800		95,400

Fair value measurement

Fair value of financial instruments carried at other than fair value.

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016, 2017, 2018 and 2019.

DIVIDENDS

During the Track Record Period, certain subsidiaries of the Target Business made distributions of RMB5.0 million, RMB5.0 million, RMB35.1 million and nil for the years ended 31 December 2016, 2017, 2018 and 2019. All the above-mentioned Dividends have been paid out as the Latest Practicable Date.

The Target Company currently does not have a dividend policy or any pre-determined dividend distribution ratio and may declare dividends by way of cash or by other means that the directors of the Target Group consider appropriate.

Upon the Acquisition Completion, declaration of dividend/distribution shall be decided by the Board. The Directors shall decide and recommend the amount of dividends (or decide not to recommend any dividend) based on the Enlarged Group's earnings, cash flows, financial condition, capital requirements, future plans of the Enlarged Group and any other conditions that the Directors deem relevant at such time. The foregoing, including the dividend distribution record, should not be viewed as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future. There is no guarantee or representation or indication that the Directors must or will recommend and that the Enlarged Group must or will pay dividends or declare and pay dividends at all.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

The proposed Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

TRANSACTION EXPENSES

Transaction expenses represent listing fee, professional fees and other expenses incurred in connection with the reverse takeover.

Transaction expenses in relation to the reverse takeover to be borne by the Enlarged Group is estimated to be approximately HK$39.3 million, of which approximately HK$5.0 million is directly attributable to the issue of new Placing Shares and will be accounted for as a deduction from equity, and approximately HK$17.5 million was incurred and reflected in the consolidated statements of profit or loss of the Enlarged Group. Approximately HK$16.8 million of the transaction expenses are expected to be reflected in the consolidated statements of profit or loss of the Enlarged Group after the Track Record Period. The estimated transaction expenses are the latest best estimate and are for reference only.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group is prepared in accordance with paragraph 4.29 of the Listing Rules and is set out below to illustrate the effect of the Acquisition on the consolidated net tangible assets of the Enlarged Group attributable to equity shareholders of our company as at 31 December 2019 as if the Acquisition took place on 31 December 2019.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 31 December 2019 or at any future date.

	Unaudited net tangible assets of the Group as of 31 December 2019	Unaudited net tangible assets of the Group per share as of 31 December 2019	Unaudited pro forma adjusted net tangible assets of the Enlarged Group as of 31 December 2019	Unaudited pro forma adjusted net tangible assets of the Enlarged Group per share as of 31 December 2019
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*
	(Note (1))	*(Note (2))*	*(Note (3))*	*(Note (3))*
Net tangible assets attributable to equity shareholders of the Company	292,500	1.25	497,642	1.33

Notes:

(1) The unaudited consolidated net tangible assets of the Group as at 31 December 2019 is based on the amount of unaudited net tangible assets attributable to the equity shareholders of the Company as at 31 December 2019, which is extracted from the annual report of the Company for the year ended 31 December 2019.

(2) The number of shares used for the calculation of unaudited net tangible assets of the Group per share is 234,502,000, being the number of ordinary shares of the Company in issue as of 31 December 2019.

(3) The unaudited pro forma adjusted net tangible assets of the Enlarged Group as at 31 December 2019 is based on the amount of the unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the Company as at 31 December 2019, which is extracted from the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

The number of shares used for the calculation of the unaudited pro forma adjusted net tangible assets of the Enlarged Group per share is 374,502,000, comprising 234,502,000 ordinary shares in issue as of 31 December 2019, 40,000,000 Placing Shares and 100,000,000 Consideration Shares to be issued upon the Acquisition Completion.

The Placing Completion and the Acquisition Completion are inter-conditional and it is expected that the Consideration Shares and the Placing Shares shall be allotted and issued simultaneously.

RECENT DEVELOPMENT IN RELATION TO INTERNATIONAL CRUDE OIL PRICE

Recent Overview

Since 1 January 2020 and up to the Latest Practicable Date, the international crude oil price has experienced a plummet after OPEC's failure to strike a deal with its allies on the output cut in March 2020 and Saudi Arabia's reaction intensified the situation by way of cutting oil prices and boosting production. The WTI Crude Oil Price has substantially dropped from approximately US$61 per barrel on 1 January 2020 to a negative price in April 2020, and has gradually rebounded to around approximately US$37.1 per barrel on 15 June 2020, being the Latest Practicable Date. As advised by PRC Legal Advisor, according to Notice of the NDRC on Issues concerning Further Improving the Price Formation Mechanism of Refined Oil《國家發展改革委關於進一步完善成品油價格形成機制有關問題的通知》issued on 13 January 2016, in order to improve the price mechanism of refined oil products and further promote the market-oriented reform of refined oil prices, the retail and wholesale price ceilings of refined oil are adjusted timely along with the international crude oil price fluctuation. An adjustment mechanism was also set to restrict the domestic retail and wholesale refined oil price from falling when the international crude oil price falls below US$40 per barrel with the retail and wholesale refined oil prices being fixed at the latest published guiding price to offer protection to the domestic market players in petroleum refuelling business against adverse global market changes in terms of the oil prices. According to F&S, the price limits set by the PRC authorities have taken into the consideration that, the PRC, being both a large oil importing and consuming country and a large oil producing country, material fluctuation in refined oil product prices may bring in certain adverse effects. For instance, if the refined oil product price is too high, it will increase the burden on the oil industry and consumers and affect the stable operation of the national economy, while on the other hand if such price is too low, it will affect the development of the domestic crude oil mining industry, weaken the self-sufficiency, and lead to a further increase in external dependence, which is also not conducive to ensuring national energy security.

As further advised by F&S, if the crude oil price in the international market lingers lower than US$40 per barrel or even being negative in a short term or long-term, the business operation and gross profit of petroleum refuelling station operators in the PRC will not be adversely impacted as the retail and wholesale price of the refined oil products and the procurement cost of the refined oil products shall move along with reference to the retail and wholesale price ceilings set by the NDRC and be fixed when the international crude oil price hits the US$40 per barrel price floor. On the other hand, the adoption of the Target Business' aggressive pricing strategy to adjust the selling price in a timely manner led to a lower per unit selling price and thus the gross profit margin for the four months ended 30 April 2020. Having considered the aforementioned factors, the Directors and the Target Company Directors expect that the gross profit margin of the Target Business shall continually remain relatively stable for the year ending 31 December 2020.

RECENT DEVELOPMENT IN RELATION TO COVID-19

Recent Overview

An outbreak of respiratory disease caused by COVID-19 first emerged in Wuhan City, Hubei Province, the PRC in late 2019 and continues to expand within the PRC and globally. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by draconian measures imposed by the PRC government in various regions of the nation including travel restrictions in major cities. On 17 February 2020, the Guiding Opinion on Scientific Prevention and Control of Accurate Policy Division and Classification to prevent and control of the Novel Coronavirus Disease (《關於科學防治精準施策分區分級做好新冠肺炎疫情防控工作的指導意見》) ("**Guiding Opinion**") was published by the Joint Prevention and Control Mechanism of the State Council (國務院聯防聯控機制). Under the Guiding Opinion, relevant government authorities at county level in the PRC are required to formulate specific measures to prevent and control the outbreak of COVID-19 in such area. With the strengthened policies to control the outbreak of COVID-19, it is anticipated that businesses and daily life of citizens can resume to normal. As at the Latest Practicable Date, confirmed cases of COVID-19 have been reported in more than 30 provinces in the PRC and had spread across 25 countries and territories globally, and death toll and number of infected cases continued to rise. The outbreak of COVID-19, which is expected to result in a high number of fatalities, is likely to have an adverse impact on the livelihood of the people and the economy in the PRC, particularly Wuhan city and Hubei province.

As advised by F&S, the COVID-19 epidemic in Northeast China has basically under control, especially in Jilin and Liaoning Province. As at 22 June 2020, save for five newly confirmed cases in Liaoning Province, there were no newly confirmed cases in Jilin Province and Liaoning Province since 24 May 2020 and 13 May 2020 respectively. Also, as advised by F&S, since May 2020, industrial enterprises above designated size (with annual revenue no less than RMB20 million) in Northeast China have resumed their operations in full, indicating that the refined oil wholesale and retail market in Northeast China is expected to resume. In addition, by end of March 2020, each of Liaoning Province, Jilin Province and Heilongjiang Province has lowered the coronavirus emergency response to level III[*(Note)*]. With the interruption of economic activities in China brought by COVID-19, the operation and financial results of the Group, in particular the CNG refuelling stations for vehicles in Jilin Province in China, is

Note: According to the National Emergency Plan for Public Health Emergencies (《國家突發公共衛生事件應急預案》) and the Grading Standard for Public Health Emergencies (《突發公共衛生事件分級標準》), the public health emergencies are divided into four levels: particularly significant (Level I), significant (Level II), relatively large (Level III) and general (Level IV) based on the nature, degree of harm, scope and spread trend of public health emergencies. Following the lowering of the coronavirus emergency response to Level III, on 19 March 2020, the Office of Leading Group for Prevention and Control of Pneumonia in New Coronavirus Infection in Changchun (長春市新型冠狀病毒感染的肺炎疫情防控工作領導小組辦公室) announced that Changchun City should resume to normal business and life order through, amongst others, resumption of all sorts of manufacturing and operation activities, active promotion activities, extended business hours, organization of tours within the province and upgrade of the city cleanliness so as to encourage consumption and restore vitality.

expected to be affected in light of the decrease in services of public transports as major CNG vehicle users mainly include taxi drivers, and corporate customers such as bus operators, logistics companies and driving schools.

Short-term Impact

The PRC economy may be adversely affected by the economy slowdown and/or negative sentiment as well as decrease in foreign investments. Due to the outbreak of COVID-19, provinces and cities have implemented travel bans and traffic control, closing some highway entrances temporarily and stop interprovincial shuttle buses. In addition, the first-level emergency responses of 31 provincial-level regions previously imposed have suspended the gathering of people to prevent the outbreak of COVID-19. With the implementation of the above measures, the use of motor vehicles and public transportations has been reduced. With the interruption of economic activities in China brought by COVID-19, the operation and financial results of the Group, in particular the CNG refuelling stations for vehicles in Jilin Province in China, may also be affected as major CNG vehicle users mainly include taxi drivers, and corporate customers such as bus operators, logistics companies and driving schools. As for the Target Business, however, according to F&S, the outbreak of COVID-19 is expected to bring minimal impacts on the PRC's petroleum refuelling industry as the general public intends to use private cars (which are primarily using petroleum) more frequently for commuting in light of the decrease in services of public transport.

Based on the aforementioned current situation assessment in Northeast China, the Directors and the Target Company Directors are of the view that the impact of COVID-19 has no material adverse impact on refined oil wholesale and retail market in Northeast China as well as the supply chain of the Target Business.

Target Group's response to COVID-19 and its Short-term Impact

Given the nature of operation of the petroleum refuelling stations and the petroleum storage facilities where it is not feasible to shift the location of their operation within a short period of time, the Target Group did not formulate a contingency plan for relocating its operations in view of the outbreak of COVID-19. That said, the Target Group did not cease the operations of the petroleum refuelling stations and the petroleum storage facilities due to the outbreak of COVID-19, and as part of the Target Business precautionary to prevent any widespread of COVID-19 in the Petroleum Refuelling Stations, Petroleum Storage Facilities and office, the Target Group has established an epidemic prevention and control working group to undertake various precautionary measures such as (i) enhancing the hygienic level of the Petroleum Refuelling Stations and Petroleum Storage Facilities by cleaning and sanitising areas including office, equipment, production facilities and washrooms regularly; (ii) performing compulsory daily temperature checks of all employees before and after work and customers when they reach the premises; (iii) minimising in-person meetings to the extent possible; and (iv) providing and requesting employees to wear masks at all time during work and report to management of the Target Group promptly whenever they feel unwell. All employees are required to familiarise themselves with requirements of such precautionary for pandemic outbreak and ensure that the measures are properly implemented. The Directors and the

Target Company Directors believe that such measures are effective in reducing the risk of spreading of COVID-19 among the employees of the Target Business. As at the Latest Practicable Date, none of the employees of the Target Business had been suspected or confirmed to have contracted COVID-19. For details, please refer to the section headed "Business of the Target Group — Occupational Safety" in this circular. The Target Company Directors confirmed that the cost of the precautionary measures to be incurred, which included the procurement of masks and thermometers, as well as cleaning and sanitizing products, which amounted to less than RMB500,000 for the year ending 31 December 2020, are immaterial vis-à-vis the Target Business' scale of operation.

Customers/Suppliers Relation under COVID-19

Given the nature of the Target Business with customers being individual drivers and operators of petroleum refuelling stations, the Target Group generally does not enter into any long-term agreement with customers, but instead, it conducts sales through entering into one-off sales contracts with or confirming purchase orders placed by customers for the Petroleum Wholesale Business. Up to the Latest Practicable Date, the Target Group is able to discharge its obligations to supply the products to its customers and no cancellation or postponement of the existing contracts with customers were reported as at Latest Practicable Date.

The Target Group has maintained amicable and stable relationships with its major suppliers. Also, the Target Group generally makes full prepayments to suppliers including top state-owned oil companies. The Target Group was informed by its major suppliers that they remained normal operations. As at the Latest Practicable Date, to the Target Company Directors' best knowledge and understanding, there is no material disruption for the supply chain of its major suppliers' petroleum products (and their raw materials).

Long-term Impact

In the long run, the impact of the outbreak of COVID-19 is expected being limited due to the fact that (i) the demand for petroleum will unlikely be affected as most of the corporations in the PRC have gradually resumed their business operations; and (ii) there is a growing demand from companies, especially for those in the logistics sector, for enhanced logistics solutions and services to support other business operations in order to avoid spread of disease through physical contacts. Further, according to F&S, the epidemic has gradually improved in the PRC as the number of newly reported cases of COVID-19 kept decreasing. As enterprises gradually restart business operations and employees resume working, the customers' business or office operation has gradually resumed starting from around mid-March 2020.

OVERALL RECENT DEVELOPMENT

Based on the unaudited management account of the Target Business , the revenue in the first quarter of 2020 remained relatively stable as compared to the same periods in 2019 despite the (i) recent outbreak of COVID-19 in the PRC, (ii) recent slump of international crude oil price, and (iii) decline in international crude oil price which led to decrease in the average unit selling price of refined oil products. The Directors and the Target Company Directors believed that revenue of the Target Business was not being materially and severely impacted during the period because: (i) Liaoning and Jilin Provinces were less affected by the spread of COVID-19, with only 154 and 155 cases respectively recorded as at 22 June 2020 representing only approximately 0.18% and 0.18% of the total confirmed cases in the PRC, possibly owing to the distance from Hubei Province and the effective measures undertaken by the government authorities in Liaoning and Jilin to prevent the spread of COVID-19 in these two provinces; (ii) although there were restrictions on the free entry and exit among cities in Liaoning and Jilin Provinces, necessary community within the cities and in their vicinity to a limited extent still took place, the general public used private cars more frequently for commuting in light of the decrease in services of public transports in the Northeast China, leading to relatively stable demand for refined oil products from January to April 2020 as compared to the corresponding period in 2019. For the four months ended 30 April 2020, the sales volume of refined oil products amounted to approximately 177,000 tonnes, as compared to 150,000 tonnes for the same period in 2019, and (iii) the Target Business adopted a more aggressive pricing strategy and adjusted the selling price in a timely manner. In view of the foregoing, the Target Company Directors and the Directors are of the view that the recent decline of the international crude oil price and outbreak of COVID-19 would not pose any adverse and material impact to the Target Business in short term.

The Directors and the Target Company Directors believe that, based on the current information available to them and assuming that the outbreak of COVID-19 will not be prolonged significantly, it has no long term material adverse effect on the Target Business's continuing business operation, results of operations, financial positions and prospects due to the fact that (i) none of the Petroleum Refuelling Stations had ceased it operations during the outbreak of COVID-19; (ii) the major customers and suppliers are not from Hubei Province; (iii) the Target Group has no business operation and does not have any employees staffed in Hubei Province; (iv) there have been no incidents where the employees failed to report duty due to the outbreak of COVID-19; and (v) there was no material adverse change in the supply chain, market condition or regulatory conditions in the Target Business's industry and environment in which it operates.

Considering the financial and business performance of the Target Business for the year ending 31 December 2020, notwithstanding that the Target Business's revenue remained relatively stable for the three months ended 31 March 2020, our Directors and the Target Company Directors anticipate that the revenue of the Target Business for the year ending 31 December 2020 will decrease as compared to 2019 mainly due to (a) decline in international crude oil price as compared to 2019, (b) the expected decrease in overall refined oil consumption in Northeast China in 2020 as a result of the recent economic downturns in the first half of 2020, as advised by F&S and (c) the Target Business's intended pricing strategy to cope with the expected decrease in overall refined oil consumption in Northeast China in 2020.

As for the gross profit margin, the overall gross profit margin of the Target Business for the four months ended 30 April 2020 is comparable to approximately 8.9% for the year ended 31 December 2019. The stable gross profit margin was mainly due to the pricing strategy adopted by the Target Business to adjust the selling price of the refined oil products in a timely manner, having considered the factors including (a) the procurement cost of the refined oil products making reference with the national pricing mechanism under Notice of the National Development and Reform Commission on Issues concerning Further Improving the Price Formation Mechanism of Refined Oil, whereby the retail and wholesale price of the refined oil products and the procurement cost of the refined oil products shall move along with reference to the retail and wholesale price ceilings set by the NDRC and be fixed when the international crude oil price hits the US$40 per barrel price floor; (b) the location of the respective petroleum refuelling station; and (c) the competition from other petroleum refuelling stations in neighbouring areas. For details of the pricing strategy adopted by the Target Business, please refer to section headed "Business — Pricing" in this circular. Having considered the aforementioned factors, the Directors and the Target Company Directors expect that the gross profit margin of the Target Business shall continually remain relatively stable for the year ending 31 December 2020. As for net profit, coupled with the decline in revenue as aforementioned and that no reversal of previously written-off trade receivables is expected to be made in 2020 as compared to the reversal amount of approximately RMB9.9 million made in 2019, it is expected that there will be an overall decrease in net profit for the year ending 31 December 2020 as compared to the year ended 31 December 2019.

In the extreme and unlikely event that the business operations of the Target Business are completely suspended on a temporary basis and no sales revenue is recorded, (i) based on its cash and bank balance as at 30 April 2020 (being the latest date for liquidity disclosure in the circular), the amount due from related parties and trade and other receivables collection, and refund of prepayments under such circumstances, the currently available unutilised banking facilities, the anticipated trade and bills payables settlement in full amount, estimated short-term bank and other loans on a 50% partial settlement basis under the expectation of the remainder short-term bank and other loans being extended, on the basis that the Directors and the Target Company Directors considered that "Several policy measures on responding to the impact of the epidemic and supporting the healthy development of the service industry" (《關於應對疫情影響支持服務業健康發展的若干政策舉措》) issued by Jilin Government in March has included, amongst others, measures for increasing financial support to enterprises in Jilin Province such as (i) strengthening credit supply (強化信貸供給); (ii) no blind withdrawal, termination, suppression of loans for enterprises being much impacted by the epidemic but extension or renewal of loans instead (對受疫情影響較大的企業不得盲目抽貸、斷貸、壓貸，還款困難的予以展期或續貸); and (iii) green channel for credit approval and reservation of special credit scale (開通信貸審批綠色通道，預留專項信貸規模), and monthly fixed costs, such as staff costs at 50% of the prevailing level, interest expenses, and lease and rents at the prevailing level; and (ii) whether or not the amount of net proceeds from the Placing of approximately HK$10.7 million is received, the Directors and the Target Company Directors believe that the Target Business will have sufficient working capital for our business and remain financially viable for the next 12 months from the date of this circular.

Please refer to the section headed "Risk Factors — The Target Group's business operations and financial results may be adversely affected by the outbreak of COVID-19 in PRC" in this circular. The Target Group is constantly monitoring the situations of the COVID-19 outbreak as well as various regulatory and administrative measures adopted by the local governments to prevent and control the epidemics. If the situations deteriorate, the Directors and the Target Company Directors will continue to evaluate the impact of this outbreak on the Target Business and may enhance measures to mitigate any adverse effect on the Target Business' business operations, results of operations, financial positions and prospects.

No Material Adverse Change

After due and careful consideration, Target Company Directors confirm that, up to the date of this circular, there has been no material adverse change in the Target Business's financial or trading position or prospects since 31 December 2019 (being the date to which the Target Business's latest combined audited financial results were prepared), and there has been no event since 31 December 2019 which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this circular.

SHARE CAPITAL

The authorised and issued share capital in the Company as at the Latest Practicable Date and immediately following the issue of the Consideration Shares and the Placing Shares will be as follows:

(i) As at the Latest Practicable Date

Authorised share capital:		*HK$*
800,000,000	Shares of HK$0.10 each	80,000,000
Issued and fully paid:		
234,502,000	Shares of HK$0.10 each	23,450,200

(ii) Immediately following the issue of the Consideration Shares and the Placing Shares:

Authorised share capital:		*HK$*
800,000,000	Shares of HK$0.10 each	80,000,000
Issued and fully paid:		
374,502,000	Shares of HK$0.10 each	37,450,200

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the total number of issued Shares of our Company in the hands of the public (as defined in the Listing Rules).

In the event that upon the Acquisition Completion our Company is not able to satisfy the minimum public float requirement, appropriate steps shall be taken by the Controlling Shareholders to restore the public float, subject to the conditions of temporary waivers to be granted by the Stock Exchange. For details, please refer to the section headed "Letter from the Board — Placing of the Placing Shares" in this circular.

RANKING

The Consideration Shares and the Placing Shares will rank equally with all of the Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid on the Shares after Acquisition Completion.

The following is the text of a report set out on pages I-1 to I-65, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF UNITED STRENGTH POWER HOLDINGS LIMITED, ZHONGTAI INTERNATIONAL CAPITAL LIMITED AND FIRST CAPITAL INTERNATIONAL FINANCE LIMITED

INTRODUCTION

We report on the historical financial information of the Target Business (as defined on page I-13) set out on page I-4 to I-65, which comprises the combined statements of financial position of the Target Business as at 31 December 2016, 2017, 2018 and 2019 and the statements of financial position of Eternal Global Investment Limited (the "**Target Company**") as at 31 December 2018 and 2019, and the combined statements of profit or loss, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined cash flow statements, for each of the years ended 31 December 2016, 2017, 2018 and 2019 (the "**Track Record Period**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-65 forms an integral part of this report, which has been prepared for inclusion in the circular of United Strength Power Holdings Limited (the "**Company**") dated 30 June 2020 (the "**Circular**") in connection with the proposed acquisition of the entire issued share capital of the Target Company (the "**Proposed Acquisition**").

DIRECTORS' RESPONSIBILITY FOR HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Business' financial position as at 31 December 2016, 2017, 2018 and 2019 and the Target Company's financial position as at 31 December 2018 and 2019, and of the Target Business' financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 June 2020

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Business for the Track Record Period, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

1. Combined statements of profit or loss

*(Expressed in Renminbi ("**RMB**"))*

		Years ended 31 December			
		2016	**2017**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	3,428,449	3,633,176	3,827,574	3,602,976
Cost of sales		(3,209,600)	(3,342,433)	(3,520,516)	(3,283,533)
Gross profit	*4(b)*	218,849	290,743	307,058	319,443
Other income	*5*	19,866	10,252	7,877	12,860
Staff costs	*6(b)*	(68,399)	(81,043)	(91,166)	(97,310)
Depreciation expenses	*6(c)*	(45,803)	(47,591)	(48,483)	(46,726)
Other operating expenses		(50,088)	(61,795)	(53,177)	(33,363)
Profit from operations		74,425	110,566	122,109	154,904
Finance costs	*6(a)*	(12,333)	(14,555)	(13,517)	(17,028)
Profit before taxation	*6*	62,092	96,011	108,592	137,876
Income tax	*7*	(15,750)	(24,953)	(28,294)	(35,429)
Profit for the year		46,342	71,058	80,298	102,447
Attributable to:					
Parent's net investment		28,662	45,463	59,110	73,106
Non-controlling interests		17,680	25,595	21,188	29,341
Profit for the year		46,342	71,058	80,298	102,447
Earnings per share (RMB)					
– Basic and diluted	*10*	N/A	N/A	N/A	N/A

The accompanying notes form part of the Historical Financial Information.

2. Combined statements of profit or loss and other comprehensive income

(Expressed in RMB)

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit for the year	46,342	71,058	80,298	102,447
Other comprehensive income for the year (after tax):				
Items that may be reclassified subsequently to profit or loss:				
– Exchange differences on translation into presentation currency	–	–	–	(418)
Total comprehensive income for the year	46,342	71,058	80,298	102,029
Attributable to:				
Parent's net investment	28,662	45,463	59,110	72,737
Non-controlling interests	17,680	25,595	21,188	29,292
Total comprehensive income for the year	46,342	71,058	80,298	102,029

The accompanying notes form part of the Historical Financial Information.

3. Combined statements of financial position
(Expressed in RMB)

		At 31 December			
		2016	**2017**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*11*	322,222	365,597	360,650	346,486
Investment properties	*12*	29,936	30,662	30,218	43,234
Deferred tax assets	*21(b)*	514	1,065	3,774	3,796
		352,672	397,324	394,642	393,516
Current assets					
Inventories	*13*	71,647	184,028	166,202	102,064
Trade and bills receivables	*14*	13,857	30,462	34,708	35,534
Prepayments, deposits and other receivables	*15*	104,668	39,091	123,031	94,239
Amounts due from related parties	*25(c)*	80,438	46,656	67,938	248,550
Income tax recoverable	*21(a)*	–	16	1,573	186
Cash at bank and on hand	*16*	37,960	60,232	48,785	28,215
		308,570	360,485	442,237	508,788
Current liabilities					
Bank and other loans	*17(a)*	70,000	111,000	111,400	76,400
Lease liabilities	*18*	28,057	31,754	30,861	28,246
Trade and bills payables	*19*	7,631	4,607	62,667	73,102
Accrued expenses and other payables	*20*	135,887	116,582	152,774	188,750
Income tax payable	*21(a)*	1,007	2,690	118	2,676
		242,582	266,633	357,820	369,174
Net current assets		65,988	93,852	84,417	139,614
Total assets less current liabilities		418,660	491,176	479,059	533,130

The accompanying notes form part of the Historical Financial Information.

		At 31 December			
		2016	**2017**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Bank and other loans	*17(b)*	–	9,000	27,400	19,000
Lease liabilities	*18*	110,882	108,360	76,434	49,967
Deferred tax liabilities	*21(b)*	743	723	703	683
		111,625	118,083	104,537	69,650
NET ASSETS		307,035	373,093	374,522	463,480
CAPITAL AND RESERVES	*22*				
Parent's net investment		203,021	246,449	250,682	313,612
Non-controlling interests		104,014	126,644	123,840	149,868
TOTAL EQUITY		307,035	373,093	374,522	463,480

The accompanying notes form part of the Historical Financial Information.

4. Statements of financial position of the Target Company
(Expressed in RMB)

		At 31 December	
		2018	**2019**
	Note	*RMB'000*	*RMB'000*
Non-current assets			
Investment in a subsidiary		–	1
Current assets			
Amounts due from a subsidiary		–	10,421
Amounts due from equity shareholders of the Target Company	*15*	1	70
Cash at bank and on hand	*16*	–	4
		1	10,495
Current liabilities			
Amounts due to related parties		–	10,430
Net current assets		1	65
NET ASSETS		1	66
CAPITAL AND RESERVES	*22*		
Share capital		1	70
Reserves		–	(4)
TOTAL EQUITY		1	66

The accompanying notes form part of the Historical Financial Information.

5. Combined statements of changes in equity

(Expressed in RMB)

	Parent's net investment *RMB'000* *(Note 22(d))*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2016	176,394	89,299	265,693
Changes in equity for the year ended 31 December 2016:			
Profit and total comprehensive income for the year	28,662	17,680	46,342
Distributions *(Note 22(c))*	(2,035)	(2,965)	(5,000)
At 31 December 2016 and 1 January 2017	203,021	104,014	307,035
Changes in equity for the year ended 31 December 2017:			
Profit and total comprehensive income for the year	45,463	25,595	71,058
Distributions *(Note 22(c))*	(2,035)	(2,965)	(5,000)
At 31 December 2017 and 1 January 2018	246,449	126,644	373,093
Changes in equity for the year ended 31 December 2018:			
Profit and total comprehensive income for the year	59,110	21,188	80,298
Distributions *(Note 22(c))*	(13,911)	(21,219)	(35,130)
Issuance of shares *(Note 22(b))*	1	–	1
Capital contributions	7,178	2,822	10,000
Effect on equity arising from a reorganisation of the Target Business *(Notes (i) and 22(d))*	(48,145)	(5,595)	(53,740)
At 31 December 2018	250,682	123,840	374,522

	Parent's net investment *RMB'000* *(Note 22(d))*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2019	250,682	123,840	374,522
Changes in equity for the year ended 31 December 2019:			
Profit for the year	73,106	29,341	102,447
Other comprehensive income for the year	(369)	(49)	(418)
	72,737	29,292	102,029
Issuance of shares *(Note 22(b))*	49	20	69
Effect on equity arising from acquisitions of the subsidiaries of the Target Group (as defined on page I-13) *(Notes (ii) and 25(d))*	(9,856)	(3,284)	(13,140)
	(9,807)	(3,264)	(13,071)
At 31 December 2019	313,612	149,868	463,480

Notes:

(i) New United Strength (as defined on page I-13) became the holding company of the Operating Companies (as defined on page I-13) on 20 November 2018. The aggregate amount of RMB53,740,000 represented the consideration paid to the former equity owners of the Operating Companies, which was deemed as distributions to the former equity owners.

(ii) The considerations of RMB10,000,000 and RMB3,140,000 were paid to (1) the former equity owners of New United Strength (as defined on page I-13) for the acquisition of its 100% equity interests by Jingqiao Industrial (as defined on page I-13); and (2) the former equity owner of Shenyang United Strength (as defined on page I-13) for the acquisition of its 26.7% equity interests by New United Strength, respectively. These amounts were deemed as distributions to the above former equity owners.

The accompanying notes form part of the Historical Financial Information.

6. Combined cash flow statements

(Expressed in RMB)

		Years ended 31 December			
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities					
Profit before taxation		62,092	96,011	108,592	137,876
Adjustments for:					
Depreciation expenses	*6(c)*	45,803	47,591	48,483	46,726
Net (gain)/loss on disposal of property, plant and equipment and investment properties	5	(947)	169	219	(2,897)
Finance costs	*6(a)*	12,333	14,555	13,517	17,028
Interest income	5	(183)	(256)	(459)	(502)
Changes in working capital:					
Decrease/(increase) in inventories		37,234	(112,381)	17,826	64,138
Increase in trade and bills receivables		(529)	(16,605)	(4,246)	(826)
(Increase)/decrease in prepayments, deposits and other receivables		(22,039)	65,577	(83,939)	28,861
Increase/(decrease) in trade and bills payables		5,302	(3,024)	58,060	10,435
Increase/(decrease) in accrued expenses and other payables		4,134	(26,382)	36,058	35,497
Cash generated from operations		143,200	65,255	194,111	336,336
Income tax paid	*21(a)*	(13,682)	(23,857)	(35,152)	(31,526)
Net cash generated from operating activities		129,518	41,398	158,959	304,810
Investing activities					
Payments for purchase of property, plant and equipment		(38,654)	(53,787)	(65,605)	(56,753)
Proceeds from disposal of property, plant and equipment and investment properties		2,518	2,817	3,424	2,220
Interest received		183	256	459	502
Net cash used in investing activities		(35,953)	(50,714)	(61,722)	(54,031)

The accompanying notes form part of the Historical Financial Information.

		Years ended 31 December			
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financing activities					
Proceeds from bank and other loans	*16(b)*	70,000	120,000	130,000	38,920
Repayments of bank and other loans	*16(b)*	(30,000)	(70,000)	(111,200)	(82,320)
Capital element of lease rentals paid	*16(b)*	(18,601)	(32,639)	(13,815)	(17,169)
Interest element of lease rentals paid	*16(b)*	(8,628)	(11,090)	(9,829)	(6,696)
Distributions paid	*16(b)*	(5,000)	(5,000)	(35,130)	–
Proceeds from capital contributions		–	–	10,000	–
Payments for acquisitions of the subsidiaries of the Target Business under a reorganisation		–	–	(53,740)	(13,140)
Net (increase)/decrease in the amounts due from related parties	*16(b), 25(b)*	(70,313)	33,782	(21,282)	(180,612)
(Increase)/decrease in pledged and restricted bank deposits		(17,500)	(12,500)	–	10,000
Interest paid	*16(b)*	(3,705)	(3,465)	(3,688)	(10,332)
Net cash (used in)/generated from financing activities		(83,747)	19,088	(108,684)	(261,349)
Net increase/(decrease) in cash and cash equivalents		9,818	9,772	(11,447)	(10,570)
Cash and cash equivalents at the beginning of the year	*16(a)*	10,642	20,460	30,232	18,785
Cash and cash equivalents at the end of the year	*16(a)*	20,460	30,232	18,785	8,215

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

United Strength Power Holdings Limited (the "**Company**") proposed to acquire the petroleum refuelling business, comprising the operation of 67 petroleum stations and 3 petroleum storage facilities upon completion of the Reorganisation (as defined below), and the provision of transportation of petroleum service business (the "**Target Business**") through the acquisition of the entire issued share capital of Eternal Global Investment Limited (the "**Target Company**") (the "**Proposed Acquisition**"). The Target Company was incorporated in the British Virgin Islands (the "**BVI**") on 8 November 2018 under the laws of BVI with limited liability and is indirectly owned as to approximately 71.78%, 14.55%, 9.70%, 0.97% and 3.00% by Mr Zhao Jinmin, Ms Xu Hang, Mr Liu Yingwu, Mr Wang Qingguo and an individual investor, respectively.

During the Track Record Period, the Target Business was carried out by Liaoning Oilfield Resource Products Distribution Company Limited ("**Liaoning Oilfield**"), Shenyang United Strength Investment Management Company Limited ("**Shenyang United Strength**"), Dandong Kuandian Petroleum Company Limited ("**Dandong Kuandian**"), Baishan United Strength Taixing Power Company Limited ("**Baishan United Strength**"), Dandong United Strength Vessel Petroleum Company Limited ("**Dandong United Strength**"), Wuchang United Strength Chengxi Petroleum Company Limited ("**Wuchang United Strength**"), Shenyang Xinxin Transportation Company Limited ("**Shenyang Xinxin**"), Jilin Province Haotuo Petroleum Development and Usage Company Limited ("**Jilin Haotuo**") (collectively the "**Operating Companies**"), and by Changchun Yitonghe Petroleum Distribution Company Limited ("**Changchun Yitonghe**") as its branches or divisions manage and operate separately from the other economic activities of Changchun Yitonghe (the "**Petroleum Segment of Changchun Yitonghe**"). All of the Operating Companies and Changchun Yitonghe were directly or indirectly controlled by Mr Zhao Jinmin. As detailed in the section headed "HISTORY AND REORGANISATION OF THE TARGET GROUP" in the circular of the Company dated 30 June 2020 (the "**Circular**"), to rationalise the corporate structure for the Proposed Acquisition, a reorganisation (the "**Reorganisation**") was underwent. Upon completion of the Reorganisation, the Target Company and its subsidiaries (hereinafter collectively as the "**Target Group**") will take over the Target Business as below:

(a) On 6 November 2018, Changchun United Strength Power Company Limited ("**New United Strength**") was established in Mainland China with limited liability and paid-up capital of RMB10,000,000, which was directly owned as to approximately 74%, 15%, 10% and 1% by Mr Zhao Jinmin, Ms Xu Hang, Mr Liu Yingwu and Mr Wang Qingguo, respectively.

(b) On 8 November 2018, the Target Company was incorporated in the BVI, and issued 100 shares to an individual investor upon incorporation.

(c) On 20 November 2018, the Operating Companies were acquired by New United Strength at an aggregate consideration of RMB53,740,000.

(d) On 7 December 2018, Jingqiao Industrial Company Limited ("**Jingqiao Industrial**") was incorporated in Hong Kong and is wholly owned by the Target Company.

(e) On 17 December 2018 and 18 February 2019, Jingqiao Industrial acquired 3% and 97% of the equity interests of New United Strength, respectively, from Mr Zhao Jinmin, Ms Xu Hang, Mr Liu Yingwu and Mr Wang Qingguo, at an aggregate consideration of United States Dollar ("**US$**") 1,436,000 (equivalent to approximately RMB10,000,000).

(f) On 18 January 2019, New United Strength acquired additional 26.7% of the equity interests of Shenyang United Strength (one of the Operating Companies) from Changchun United Strength Investment Development Company Limited ("**United Strength Investment**"), a company controlled by Mr Zhao Jinmin, at a consideration of RMB3,140,000.

(g) On 1 February 2019, the Target Company allotted and issued 7,178 shares, 1,455 shares, 970 shares, 97 shares and 200 shares, representing 71.78%, 14.55%, 9.70%, 0.97% and 2.00% of the entire issued share capital of the Target Company, to Propitious Peak Limited, Immense Ocean Ventures Limited, Amber Heyday Limited, Triumphal Diligent Limited and Harvest Day Global Limited, which are indirectly wholly owned by Mr Zhao Jinmin, Ms Xu Hang, Mr Liu Yingwu, Mr Wang Qingguo and an individual investor, respectively.

(h) New United Strength, as operating party and a condition precedent to the completion of the Proposed Acquisition, entered into agreements ("**Entrusted Management Agreement**") with Changchun Yitonghe as entrusting party to be granted the rights to operate and manage the petroleum refuelling stations and petroleum storage facility owned by Changchun Yitonghe and to use all assets, property, land and equipment necessary for such operation and management.

Upon completion of the Reorganisation, the Target Business will be transferred to and conducted by the Target Group. Assets and liabilities associated with the Target Business will be controlled by the Target Group except for certain assets and liabilities of the Petroleum Segment of Changchun Yitonghe will be retained by Changchun Yitonghe upon completion of the Reorganisation.

Mr Zhao Jinmin controlled the Target Business before and after the Reorganisation and continues to control the Target Business through the Target Company after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to Mr Zhao Jinmin. Accordingly, the Reorganisation is treated as a combination of businesses under common control. The Historical Financial Information has been prepared using the merger basis of accounting as if the Reorganisation were completed and the Target Business had been combined at the beginning of the Track Record Period.

Assets and liabilities included in the Historical Financial Information have been stated at the existing book values from the perspective of Mr Zhao Jinmin. Parent's net investment is shown in lieu of shareholders' equity in the Historical Financial Information to represent the cumulative interest of Mr Zhao Jinmin in the Target Business. The proportionate interest in the operating results and net assets not attributable to Mr Zhao Jinmin is presented as attributable to the non-controlling interests in the Historical Financial Information.

The Historical Financial Information of the Target Business for the Track Record Period was prepared in the following manner:

- The Historical Financial Information has been prepared to reflect the assets, liabilities, revenues, expenses and cash flows associated with the Target Business by combining the historical financial information of the Operating Companies and the assets, liabilities, revenues, expenses and cash flows that have been specifically identified based on the historical accounting records of the Petroleum Segment of Changchun Yitonghe;

- Cash and cash equivalents generated from and used by the daily operation of the Petroleum Segment of Changchun Yitonghe and other economic activities of Changchun Yitonghe were centrally managed in the bank accounts of Changchun Yitonghe. The Petroleum Segment of Changchun Yitonghe did not exercise operational control over the cash and cash equivalents in the bank accounts of Changchun Yitonghe. The balances of cash and cash equivalents from the daily operation of the Petroleum Segment of Changchun Yitonghe were therefore not considered as cash and cash equivalents of the Target Business and were not included as such in the Historical Financial Information. For the purposes of the Historical Financial Information of the Target Business, net changes of amounts in the bank accounts attributable to cash transactions of the Petroleum Segment of Changchun Yitonghe for the Track Record Period were included in the amounts due from related parties;

- Certain staff costs were allocated based on the headcounts of the respective operation units relevant to the Petroleum Segment of Changchun Yitonghe. Other expenses incurred which were not specifically identified as relating to the Petroleum Segment of Changchun Yitonghe were allocated as appropriate and the portion of expenses relating to the Petroleum Segment of Changchun Yitonghe was combined into the Historical Financial Information; and

- Income tax expenses in the combined statements of profit or loss represented income tax incurred for the Operating Companies and the Petroleum Segment of Changchun Yitonghe, which included income tax incurred by each of the individual entities comprising the Target Group as well as the portion of income tax attributable to the Petroleum Segment of Changchun Yitonghe. Income tax attributable to the Petroleum Segment of Changchun Yitonghe was calculated based on the profits attributable to the Petroleum Segment of Changchun Yitonghe and the relevant tax rate of Changchun Yitonghe during the Track Record Period.

The directors of the Company consider the basis of preparation described above properly reflects the assets and liabilities associated with the Target Business and revenues and expenses associated with the functions that would be necessary to conduct the Target Business independently. However, as the Target Business was not conducted by a separate group of legal entities during the Track Record Period, the Historical Financial Information may not be indicative of the Target Business' future performance and do not necessarily reflect the results of operations, financial position, and cash flows that would have been had the Target Business was conducted by a separate group of legal entities during the Track Record Period.

As at the date of this report, no audited statutory financial statements have been prepared for the Target Company, Jingqiao Industrial, New United Strength, Shenyang United Strength, Baishan United Strength, Dandong Kuandian, Dandong United Strength, Wuchang United Strength, Shenyang Xinxin and Jilin Haotuo, as they either have not carried on any business since their respective dates of incorporation/establishment or are investment holding companies or the statutory financial statements for the Track Record Period have not been issued up to the date of the Historical Financial Information or are not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation/establishment. The financial statements of the companies comprising the Target Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

Up to date of this report, the companies comprising the Target Group are set out as follows.

Company name	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities	Name of statutory auditor
Dandong Kuandian (丹東市寬甸石油有限公司) *(Note (ii))*	The PRC 17 August 1981	RMB30,000,000	–	55%	Sale of refined oil by operating petroleum refuelling stations and petroleum storage facility	N/A
Liaoning Oilfield (遼寧油田物資產品經銷有限公司) *(Note (ii))*	The PRC 8 December 1998	RMB30,000,000	–	55%	Sale of refined oil by operating petroleum refuelling stations and petroleum storage facility	Jilin Renhe Certified Public Accountants Co., Ltd. (吉林仁和會計師事務有限公司)
Shenyang United Strength (瀋陽眾誠投資管理有限公司) *(Note (ii))*	The PRC 19 July 2004	RMB10,300,000	–	78%	Sale of refined oil by operating petroleum refuelling stations	N/A
Baishan United Strength (白山眾誠泰興能源有限公司) *(Note (ii))*	The PRC 26 May 2010	RMB500,000	–	100%	Sale of refined oil by operating petroleum refuelling stations	N/A
Dandong United Strength (丹東眾誠船舶燃油有限公司) *(Note (ii))*	The PRC 8 June 2010	RMB15,000,000	–	55%	Sale of refined oil by operating petroleum refuelling stations	N/A
Jilin Haotuo (吉林省昊拓石油開發利用有限公司) *(Note (ii))*	The PRC 1 December 2010	RMB5,000,000	–	100%	Sale of refined oil by operating petroleum refuelling stations	N/A
Wuchang United Strength (五常眾誠城西石油有限公司) *(Note (ii))*	The PRC 28 July 2011	RMB500,000	–	100%	Sale of refined oil by operating petroleum refuelling stations	N/A
Shenyang Xinxin (瀋陽欣鑫運輸有限公司) *(Note (ii))*	The PRC 12 June 2014	RMB2,000,000	–	100%	Provision of transportation services	N/A

Company name	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Percentage of ownership interest Direct	Indirect	Principal activities	Name of statutory auditor
New United Strength (長春眾誠能源有限公司) *(Note (i))*	The PRC 6 November 2018	RMB10,000,000	–	100%	Investment holding	N/A
Jingqiao Industrial	Hong Kong 7 December 2018	100 shares	100%	–	Investment holding	N/A

(i) The official name of this entity is in Chinese. The English translation is for identification purpose only. This company is registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC.

(ii) The official names of these entities are in Chinese. The English translated names are for identification purpose only. These companies are limited liability companies established in the PRC.

All companies now comprising the Target Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "**IASB**"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Business has adopted all applicable new and revised IFRSs throughout the Track Record Period which are effective for the accounting period beginning on 1 January 2019. The Target Business has not adopted any other new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2019. The new and revised accounting standards and interpretations issued but neither effective for the accounting period beginning on 1 January 2019 nor adopted by the Target Business are set out in Note 26.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information is presented in Renminbi ("**RMB**"). The measurement basis used in the preparation of the financial statements is the historical cost basis.

(b) Use of estimates and judgements

The preparation of the Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities or businesses controlled by the Target Business. The Target Business controls an entity or a business when it is exposed, or has rights, to variable returns from its involvement with the entity or business and has the ability to affect these returns through its power over the entity or business. When assessing whether the Target Business has power, only substantive rights (held by the Target Business and other parties) are considered.

An investment in a subsidiary is included in the Historical Financial Information from the date the control commences until the date that the control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity interests in the Target Business not attributable directly or indirectly to Mr Zhao Jinmin, and in respect of which Mr Zhao Jinmin has not agreed any additional terms with the holders of those equity interests which would result in Mr Zhao Jinmin as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. For each business combination, the Target Business can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined statement of financial position within equity, separately from the parent's net investment. Non-controlling interests in the results of the Target Business are presented on the face of the combined statement of profit or loss and the combined statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the parent's net investment.

In the Target Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(g)(ii)).

(d) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(g)(ii)):

– right-of-use assets arising from leases over leasehold properties where the Target Business is not the registered owner of the property interest;

– buildings situated on leasehold properties; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see Note 2(f)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
– Buildings and properties	Over the shorter of the term of lease and their estimated useful lives
– Refuelling equipment, storage facilities and related equipment	3-15 years
– Motor vehicles and other equipment	3-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(f)) to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(g)(ii)). The depreciation policy is the same as that of property, plant and equipment (see Note 2(d)). Rental income from investment properties is accounted for as described in Note 2(q)(iii).

When the Target Business holds a property interest under a lease as a right-of-use asset to earn rental income and/or for capital appreciation, the right-of-use asset is classified and accounted for as an investment property on a property-by-property basis. Lease payments are accounted for as described in Note 2(f).

(f) Leased assets

At inception of a contract, the Target Business assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Target Business has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a leasee

Where the contract contains lease component(s) and non-lease component(s), the Target Business has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Business recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Business enters into a lease in respect of a low-value asset, the Target Business decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(d), 2(e) and 2(g)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Business' estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Business will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Target Business presents right-of-use assets that do not meet the definition of investment properties in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(ii) As a lessor

When the Target Business acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Target Business allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(q)(iii).

When the Target Business is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Target Business applies the exemption described in Note 2(f)(i), the Target Business classifies the sub-lease as an operating lease.

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Target Business recognises a loss allowance for expected credit losses ("**ECLs**") on the following items:

– financial assets measured at amortised cost (including cash at bank and on hand, trade and other receivables and amounts due from related parties); and

– lease receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Business in accordance with the contract and the cash flows that the Target Business expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– trade and other receivables, contract assets and amounts due from related parties: effective interest rate determined at initial recognition or an approximation thereof; and

– lease receivables: discount rate used in the measurement of the lease receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Business is exposed to credit risk.

In measuring ECLs, the Target Business takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables, contract assets and amounts due from related parties are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Business' historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Business recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Business compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Business considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Target Business in full, without recourse by the Target Business to actions such as realising security (if any is held). The Target Business considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Business.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(q)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Business assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Business determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired, or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment properties; and

– investment in a subsidiary in the Target Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(h) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(h)(i)).

Incremental costs of obtaining a contract are those costs that the Target Business incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include costs that are explicitly chargeable to the customer and other costs that are incurred only because the Target Business entered into the contracts. Other costs of fulfilling a contract, which are not capitalised as inventories are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Target Business expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(q).

(i) Contract assets and contract liabilities

A contract asset is recognised when the Target Business recognises revenue (see Note 2(q)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(g)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(j)).

A contract liability is recognised when the customer pays non-refundable consideration before the Target Business recognises the related revenue (see Note 2(q)). A contract liability would also be recognised if the Target Business has an unconditional right to receive non-refundable consideration before the Target Business recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(j)).

(j) Trade and other receivables

A receivable is recognised when the Target Business has unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of the consideration is due. If revenue has been recognised before the Target Business has an unconditional right to receive consideration, that amount is presented as contract assets (see Note 2(i)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(g)(i)).

(k) Interest-bearing borrowings

Interest-bearing borrowings are measures initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Business' accounting policy for borrowing costs (see Note 2(s)).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value, subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the accounting policy set out in Note 2(g)(i).

(n) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Target Business can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(o) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Business controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Business has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Target Business intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised when the Target Business has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue and other income

Income is classified by the Target Business as revenue when it arises from the sale of goods, the provision of services or the use by others of assets of the Target Business under leases in the ordinary course of the business of the Target Business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target Business is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Target Business' revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and control over the goods is transferred to the customer.

(ii) Render of services

Revenue from the render of services is recognised progressively based on percentage of completion.

(iii) Rental income

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(g)(i)).

(r) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Business initially recognises such non-monetary assets or liabilities.

The results of foreign operations which have a functional currency other than RMB, the Target Business' presentation currency, are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Target Business if that person:

  (i) has control or joint control over the Target Business;

  (ii) has significant influence over the Target Business; or

  (iii) is a member of the key management personnel of the Target Business or the Target Business' parent.

(b) An entity is related to the Target Business if any of the following conditions applies:

  (i) The entity and the Target Business are members of the same group.

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Business or an entity related to the Target Business.

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Business or to the Target Business' parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Target Business' most senior executive management of the Target Business for the purposes of allocating resources to, and assessing the performance of, the Target Business' various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 23 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(g)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Target Business uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(b) Depreciation

Property, plant and equipment and investment properties are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Target Business reviews the estimated useful lives and residual values, if any, of the property, plant and equipment and investment properties regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The determination of useful lives and residual values, if any, are based on the historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Determining the lease term

As explained in Note 2(f), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Target Business, the Target Business evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Target Business to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Target Business' operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Target Business' control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future periods.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Target Business are the operation and management of petroleum refuelling stations and petroleum storage facilities, and the provision of transportation of petroleum services. Further details regarding the Target Business' principal activities are disclosed in Note 4(b).

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines are as follows:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Disaggregation by major products or service lines:				
– Sales of refined oil	3,413,578	3,615,188	3,813,246	3,586,520
– Provision of transportation services	14,871	17,988	14,328	16,456
	3,428,449	3,633,176	3,827,574	3,602,976

Disaggregation of revenue from contracts with customers by timing and revenue recognition is disclosed in Note 4(b).

The Target Business has applied the practical expedient in paragraph 121 of IFRS 15 to its contracts for the provision of transportation of petroleum services such that the above information does not include information about revenue that the Target Business will be entitled to when it satisfies the remaining performance obligations under the contracts for the provision of transportation of petroleum services that had an original expected duration of one year or less.

The Target Business' customer base is diversified, where there was no customer with whom transactions have exceeded 10% of the Target Business' revenue for each of the respective years during the Track Record Period. Details of concentration of credit risks of the Target Business are set out in Note 23(a).

(b) Segment reporting

The Target Business manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Target Business' most senior executive management for the purposes of resource allocation and performance assessment, the Target Business has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Sales of refined oil: this segment sells refined oil to vehicular end-users by operating petroleum refuelling stations and to other petroleum refuelling stations, construction sites and other industrial users by operating petroleum storage facilities; and

- Provision of transportation services: this segment provides petroleum transportation services by managing dangerous goods transportation vehicles.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Target Business' most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue are allocated to the reportable segments with reference to sales and revenue generated by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment is gross profit. The Target Business' other income, staff costs, depreciation expenses, operating lease charges and other operation expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Target Business' reportable segments as provided to the Target Business' most senior executive management for the purpose of resource allocation and assessment of segment performance is set out below.

	Year ended 31 December 2016		
	Sales of refined oil	**Provision of transportation services**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue recognition:			
– Point in time	3,413,578	–	3,413,578
– Over time	–	14,871	14,871
Revenue from external customers	3,413,578	14,871	3,428,449
Inter-segment revenue	2,405	12,263	14,668
Reportable segment revenue	3,415,983	27,134	3,443,117
Reportable segment profit (gross profit)	206,500	12,349	218,849

	Year ended 31 December 2017		
	Sales of refined oil	Provision of transportation services	Total
	RMB'000	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue recognition:			
– Point in time	3,615,188	–	3,615,188
– Over time	–	17,988	17,988
Revenue from external customers	3,615,188	17,988	3,633,176
Inter-segment revenue	2,520	9,962	12,482
Reportable segment revenue	3,617,708	27,950	3,645,658
Reportable segment profit (gross profit)	277,785	12,958	290,743

	Year ended 31 December 2018		
	Sales of refined oil	Provision of transportation services	Total
	RMB'000	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue recognition:			
– Point in time	3,813,246	–	3,813,246
– Over time	–	14,328	14,328
Revenue from external customers	3,813,246	14,328	3,827,574
Inter-segment revenue	2,348	11,031	13,379
Reportable segment revenue	3,815,594	25,359	3,840,953
Reportable segment profit (gross profit)	296,001	11,057	307,058

	Year ended 31 December 2019		
	Sales of refined oil	Provision of transportation services	Total
	RMB'000	*RMB'000*	*RMB'000*
Disaggregated by timing of revenue recognition:			
– Point in time	3,586,520	–	3,586,520
– Over time	–	16,456	16,456
Revenue from external customers	3,586,520	16,456	3,602,976
Inter-segment revenue	2,610	8,461	11,071
Reportable segment revenue	3,589,130	24,917	3,614,047
Reportable segment profit (gross profit)	309,295	10,148	319,443

(ii) Reconciliations of reportable segment revenues and profit or loss

	Years ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue				
Reportable segment revenue	3,443,117	3,645,658	3,840,953	3,614,047
Elimination of inter-segment revenue	(14,668)	(12,482)	(13,379)	(11,071)
Combined revenue *(Note 4(a))*	3,428,449	3,633,176	3,827,574	3,602,976
Profit				
Total reportable segment profit (gross profit)	218,849	290,743	307,058	319,443
Other income	19,866	10,252	7,877	12,860
Staff costs	(68,399)	(81,043)	(91,166)	(97,310)
Depreciation expenses	(45,803)	(47,591)	(48,483)	(46,726)
Other operating expenses	(50,088)	(61,795)	(53,177)	(33,363)
Finance costs	(12,333)	(14,555)	(13,517)	(17,028)
Combined profit before taxation	62,092	96,011	108,592	137,876

(iii) Geographic information

All of the Target Business' customers patronised at the Target Business' operations carried out in the PRC. The Target Business' non-current assets, including property, plant and equipment and investment properties, are all located in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

5 OTHER INCOME

	Years ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Rental income:				
– from operating leases	16,142	8,033	4,870	4,552
– from entrustment arrangements with related parties *(Note 25(b))*	1,310	1,310	1,751	2,663
Net gain/(loss) on disposal of property, plant and equipment and investment properties	947	(169)	(219)	2,897
Interest income	183	256	459	502
Others	1,284	822	1,016	2,246
	19,866	10,252	7,877	12,860

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	Years ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest expenses on:				
– bank and other loans	3,705	3,465	3,688	10,332
– lease liabilities	8,628	11,090	9,829	6,696
	12,333	14,555	13,517	17,028

No borrowing costs have been capitalised during the Track Record Period.

(b) Staff costs:

	Years ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	59,055	69,519	78,402	86,630
Contributions to defined contribution retirement plans	9,344	11,524	12,764	10,680
	68,399	81,043	91,166	97,310

The employees of the Target Business established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby the Target Business is required to contribute to the schemes at a rate ranged from 16% to 20% of the employees' basic salaries. Employees of the Target Business are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Target Business has no further material obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation expenses:				
– owned property, plant and equipment *(Note 11)*	25,093	20,181	20,935	22,938
– right-of-use assets *(Note 11)*	19,146	26,031	26,467	22,697
– investment properties *(Note 12)*	1,564	1,379	1,081	1,091
Impairment (gain)/losses on trade receivables *(Note 23(a))*	(384)	2,488	2,662	844
Operating lease charges relating to short-term leases and leases of low-value-assets	111	112	99	94
Cost of inventories *(Note 13(b))*	3,197,220	3,329,995	3,513,864	3,271,378

7 INCOME TAX IN THE COMBINED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the combined statements of profit or loss represent:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current taxation *(Note 21(a))*				
Provision for the year	14,400	25,524	31,023	35,471
Deferred taxation *(Note 21(b))*				
Origination and reversal of temporary differences	1,350	(571)	(2,729)	(42)
	15,750	24,953	28,294	35,429

(b) Reconciliations between tax expenses and accounting profits at applicable tax rates:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Profit before taxation	62,092	96,011	108,592	137,876
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	15,523	24,003	27,148	34,469
Tax effect of non-deductible expenses	115	239	201	179
Tax effect of tax losses and temporary differences not recognised	112	711	945	781
Actual tax expenses	15,750	24,953	28,294	35,429

Notes:

(i) Pursuant to the rules and regulations of the BVI, the Target Company is not subject to any income tax in the BVI.

(ii) No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Target Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the Track Record Period.

(iii) The Target Business established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% during the Track Record Period.

8 DIRECTORS' EMOLUMENTS

The directors of the Company consider the presentation of such information is not meaningful for the purpose of this report.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The directors of the Company consider the presentation of such information is not meaningful for the purpose of this report.

10 EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Track Record Period using the basis of preparation as disclosed in Note 1 above.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliations of carrying amounts

	Buildings and properties	Refuelling equipment, storage facilities and related equipment	Motor vehicles and other equipment	Construction in progress	Right-of-use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2016	52,270	73,015	83,736	9,233	210,337	428,591
Additions	2,607	10,677	17,215	6,303	76,579	113,381
Transfer in/(out)	2,811	5,766	2	(8,579)	–	–
Disposals	(547)	(3,310)	(8,537)	–	–	(12,394)
At 31 December 2016	57,141	86,148	92,416	6,957	286,916	529,578
Accumulated depreciation:						
At 1 January 2016	28,227	48,073	59,928	–	37,712	173,940
Charge for the year	3,548	11,043	10,502	–	19,146	44,239
Written back on disposals	(420)	(2,720)	(7,683)	–	–	(10,823)
At 31 December 2016	31,355	56,396	62,747	–	56,858	207,356
Carrying amount:						
At 31 December 2016	25,786	29,752	29,669	6,957	230,058	322,222
Cost:						
At 1 January 2017	57,141	86,148	92,416	6,957	286,916	529,578
Additions	7,865	19,314	12,238	11,189	44,072	94,678
Transfer in/(out)	6,741	1,560	–	(8,301)	(2,105)	(2,105)
Disposals	(139)	(4,332)	(7,197)	–	(2,098)	(13,766)
At 31 December 2017	71,608	102,690	97,457	9,845	326,785	608,385
Accumulated depreciation:						
At 1 January 2017	31,355	56,396	62,747	–	56,858	207,356
Charge for the year	3,928	5,954	10,299	–	26,031	46,212
Written back on disposals	(118)	(1,951)	(6,613)	–	(2,098)	(10,780)
At 31 December 2017	35,165	60,399	66,433	–	80,791	242,788
Carrying amount:						
At 31 December 2017	36,443	42,291	31,024	9,845	245,994	365,597

	Buildings and properties	Refuelling equipment, storage facilities and related equipment	Motor vehicles and other equipment	Construction in progress	Right-of-use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2018	71,608	102,690	97,457	9,845	326,785	608,385
Additions	9,487	29,957	10,757	8,414	11,503	70,118
Transfer in/(out)	11,394	1,282	–	(12,676)	(761)	(761)
Disposals	(722)	(10,687)	(8,213)	–	(31,397)	(51,019)
At 31 December 2018	91,767	123,242	100,001	5,583	306,130	626,723
Accumulated depreciation:						
At 1 January 2018	35,165	60,399	66,433	–	80,791	242,788
Charge for the year	3,944	7,531	9,460	–	26,467	47,402
Written back on disposals	(606)	(7,817)	(7,205)	–	(8,489)	(24,117)
At 31 December 2018	38,503	60,113	68,688	–	98,769	266,073
Carrying amount:						
At 31 December 2018	53,264	63,129	31,313	5,583	207,361	360,650
Cost:						
At 1 January 2019	91,767	123,242	100,001	5,583	306,130	626,723
Additions	6,173	9,801	3,887	36,953	17,144	73,958
Transfer in/(out)	7,805	9,232	–	(18,434)	(16,190)	(17,587)
Disposals	(1,094)	(2,202)	(4,682)	–	(40,209)	(48,187)
At 31 December 2019	104,651	140,073	99,206	24,102	266,875	634,907
Accumulated depreciation:						
At 1 January 2019	38,503	60,113	68,688	–	98,769	266,073
Charge for the year	4,509	9,482	8,947	–	22,697	45,635
Transfer out	(517)	–	–	–	(1,175)	(1,692)
Written back on disposals	(1,022)	(1,011)	(4,282)	–	(15,280)	(21,595)
At 31 December 2019	41,473	68,584	73,353	–	105,011	288,421
Carrying amount:						
At 31 December 2019	63,178	71,489	25,853	24,102	161,864	346,486

At 31 December 2016, 2017, 2018 and 2019, the Target Business' property, plant and equipment of carrying amounts of RMB5,542,000, RMB6,763,000, RMB17,260,000 and RMB15,801,000, respectively, were pledged for bank and other loans of and bills issued by the Target Business (Note 17(d)).

(b) Right-of-use assets

(i) The analyses of the carrying amounts of right-of-use assets by class of underlying assets are as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties leased for own use, carried at depreciated cost:				
– Land use rights *(Note 11(b)(iii))*	92,601	98,191	101,598	83,784
– Refuelling equipment, storage facilities and related equipment *(Note 11(b)(iv))*	129,270	141,405	101,082	75,188
– Buildings and properties *(Note 11(b)(iv))*	8,187	6,398	4,681	2,892
	230,058	245,994	207,361	161,864

(ii) The analyses of depreciation expenses in relation to leases recognised in profit or loss are as follows:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation charge of right-of-use assets by class of underlying assets *(Note 6(c))*:				
– Land use rights	1,894	2,563	2,956	2,798
– Refuelling equipment, storage facilities and related equipment	16,566	21,679	21,722	18,110
– Buildings and properties	686	1,789	1,789	1,789
	19,146	26,031	26,467	22,697

(iii) Land use rights represent premiums paid by the Target Business for land located in the PRC. These land use rights are with lease terms of 40 to 50 years.

(iv) These leases mainly expiring from 3 to 15 years, and some of them include an option to renew when all terms are renegotiated. None of the leases includes variable lease payments.

(v) Details of total cash outflow for leases and the maturity analyses of lease liabilities are set out in Notes 16(c) and 18.

(c) Assets leased out under operating leases

The analyses of the carrying amounts of the Target Business' property, plant and equipment leased out under operating leases are as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Refuelling equipment, storage facilities and related equipment	8,294	5,203	2,391	2,337
Motor vehicles and other equipment	1,891	8,404	5,207	3,940
	10,185	13,607	7,598	6,277

The Target Business leases out a number of dangerous goods transportation vehicles, and refuelling equipment, storage facilities and related equipment under operating leases. The leases typically run for an initial period of 3 months to 1 year, with options to renew the leases after that date at which time all terms are renegotiated. None of the leases includes variable lease payments. The undiscounted lease payments receivable by the Target Business of RMB1,890,000, RMBNil, RMBNil and RMBNil at the end of each reporting period were non-cancellable, respectively.

12 INVESTMENT PROPERTIES

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January	35,606	35,606	37,711	37,711
Transfer from property, plant and equipment *(Note 11)*	–	2,105	761	17,587
Disposals	–	–	(761)	(2,630)
At 31 December	35,606	37,711	37,711	52,668
Accumulated depreciation:				
At 1 January	4,106	5,670	7,049	7,493
Charge for the year	1,564	1,379	1,081	1,091
Transfer from property, plant and equipment *(Note 11)*	–	–	–	1,692
Written back on disposals	–	–	(637)	(842)
At 31 December	5,670	7,049	7,493	9,434
Carrying amount:				
At 31 December	29,936	30,662	30,218	43,234

All of the investment properties owned by the Target Business are located in the PRC.

At 31 December 2016, 2017, 2018 and 2019, the Target Business leases out land-use-rights and buildings and properties under operating leases. The leases typically run for an initial period of 1 to 15 years, with options to renew the leases after that date at which time all terms are re-negotiated. Lease payments are usually adjusted upon the expiry of lease terms to reflect market rentals. None of the leases includes contingent rentals.

The total future undiscounted minimum lease payments receivable by the Target Business under non-cancellable operating leases at the end of each reporting period are as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	2,978	3,293	4,308	4,856
After 1 year but within 2 years	1,751	2,750	2,400	2,007
After 2 years but within 5 years	6,300	4,700	3,450	5,766
After 5 years	7,550	6,400	5,250	7,224
	18,579	17,143	15,408	19,853

13 INVENTORIES

(a) Inventories in the combined statements of financial position comprise:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Refined oil	69,707	181,937	163,919	99,372
Spare parts	1,940	2,091	2,283	2,692
	71,647	184,028	166,202	102,064

All of the inventories are expected to be recovered within one year.

(b) The analyses of the amounts of inventories recognised as expenses and included in the combined statements of profit or loss are as follows:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	3,197,220	3,329,995	3,508,562	3,271,378
Write down of inventories	–	–	5,302	–
	3,197,220	3,329,995	3,513,864	3,271,378

14 TRADE AND BILLS RECEIVABLES

	At 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables, net of loss allowance, due from:				
– third parties	13,695	24,850	34,295	35,534
– related parties *(Note 25(c))*	–	5,516	413	–
	13,695	30,366	34,708	35,534
Bills receivables due from third parties	162	96	–	–
	13,857	30,462	34,708	35,534

All of the trade receivables, net of loss allowance, are expected to be recovered within one year.

(a) Ageing analyses

At the end of each reporting period, the ageing analyses of trade and bills receivables, based on the invoice date and net of loss allowance, are as follows:

	At 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	12,543	24,734	20,931	18,552
2 to 3 months	696	3,785	9,390	7,485
3 to 6 months	618	1,943	4,387	9,497
	13,857	30,462	34,708	35,534

Further details on the Target Business' credit policy and credit risk are set out in Note 23(a).

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Target Business

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for purchase of inventories and services to:				
– third parties	28,964	4,490	115,251	81,530
– related parties *(Note 25(c))*	67,707	22,204	–	–
	96,671	26,694	115,251	81,530
Deposits	5,412	6,879	3,024	2,724
Receivables of entrustment fee from related parties *(Note 25(c))*	–	160	565	700
Receivables from issuance of shares of the Target Company *(Note 25(c))*	–	–	1	70
Advances to staff	666	960	398	736
VAT recoverable	448	3,057	3,191	7,091
Others	1,471	1,341	601	1,388
	104,668	39,091	123,031	94,239

The Target Company

	At 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
Receivables from issuance of shares of the Target Company *(Note 25(c))*	1	70

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

16 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash at bank and on hand comprise:

The Target Business

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	20,460	30,232	18,785	8,215
Pledged and restricted bank deposits *(Note (i))*	17,500	30,000	30,000	20,000
Cash at bank and on hand in the combined statements of financial position	37,960	60,232	48,785	28,215
Less: pledged and restricted bank deposits	(17,500)	(30,000)	(30,000)	(20,000)
Cash and cash equivalents in the combined cash flow statements	20,460	30,232	18,785	8,215

The Target Company

	At 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
Cash at bank and on hand	–	4

Notes:

(i) The balances were pledged for bank and other loans of and bills issued by the Target Business (see Note 17(d)).

(ii) The Target Business' operations in the PRC (excluding Hong Kong) conducted its businesses in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

(b) Reconciliation of liabilities arising from financing activities:

The tables below detail changes in the Target Business' assets and liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the combined cash flow statements as cash flows from financing activities.

	Liabilities				Assets	
	Bank and other loans	**Distributions payable**	**Interest payable**	**Lease liabilities**	**Amounts due from related parties**	**Net**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 17)			*(Note 18)*	*(Note 25(c))*	
At 1 January 2016	30,000	–	–	81,561	10,125	101,436
Changes from financing cash flows:						
Proceeds from bank and other loans	70,000	–	–	–	–	70,000
Repayments of bank and other loans	(30,000)	–	–	–	–	(30,000)
Capital element of lease rentals paid	–	–	–	(18,601)	–	(18,601)
Interest element of lease rentals paid	–	–	–	(8,628)	–	(8,628)
Distributions paid	–	(5,000)	–	–	–	(5,000)
Net increase in amounts due from related parties *(Note 25(b))*	–	–	–	–	70,313	(70,313)
Interest paid	–	–	(3,705)	–	–	(3,705)
Total changes from financing cash flows	40,000	(5,000)	(3,705)	(27,229)	70,313	(66,247)
Other changes:						
Interest expenses on bank and other loans *(Note 6(a))*	–	–	3,705	–	–	3,705
Interest expenses on lease liabilities *(Note 6(a))*	–	–	–	8,628	–	8,628
Increase in lease liabilities from entering new lease during the year	–	–	–	75,979	–	75,979
Distributions declared *(Note 22(c))*	–	5,000	–	–	–	5,000
Total other changes	–	5,000	3,705	84,607	–	93,312
At 31 December 2016	70,000	–	–	138,939	80,438	128,501

	Liabilities				Assets	
	Bank and other loans	Distributions payable	Interest payable	Lease liabilities	Amounts due from related parties	Net
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 17)			*(Note 18)*	*(Note 25(c))*	
At 1 January 2017	70,000	–	–	138,939	80,438	128,501
Changes from financing cash flows:						
Proceeds from bank and other loans	120,000	–	–	–	–	120,000
Repayments of bank and other loans	(70,000)	–	–	–	–	(70,000)
Capital element of lease rentals paid	–	–	–	(32,639)	–	(32,639)
Interest element of lease rentals paid	–	–	–	(11,090)	–	(11,090)
Distributions paid	–	(5,000)	–	–	–	(5,000)
Net decrease in amounts due from related parties *(Note 25(b))*	–	–	–	–	(33,782)	33,782
Interest paid	–	–	(3,465)	–	–	(3,465)
Total changes from financing cash flows	50,000	(5,000)	(3,465)	(43,729)	(33,782)	31,588
Other changes:						
Interest expenses on bank and other loans *(Note 6(a))*	–	–	3,465	–	–	3,465
Interest expenses on lease liabilities *(Note 6(a))*	–	–	–	11,090	–	11,090
Increase in lease liabilities from entering into new leases during the year	–	–	–	33,814	–	33,814
Distributions declared *(Note 22(c))*	–	5,000	–	–	–	5,000
Total other changes	–	5,000	3,465	44,904	–	53,369
At 31 December 2017	120,000	–	–	140,114	46,656	213,458

	Liabilities				Assets	
	Bank and other loans	Distributions payable	Interest payable	Lease liabilities	Amounts due from related parties	Net
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 17)			*(Note 18)*	*(Note 25(c))*	
At 1 January 2018	120,000	–	–	140,114	46,656	213,458
Changes from financing cash flows:						
Proceeds from bank and other loans	130,000	–	–	–	–	130,000
Repayments of bank and other loans	(111,200)	–	–	–	–	(111,200)
Capital element of lease rentals paid	–	–	–	(13,815)	–	(13,815)
Interest element of lease rentals paid	–	–	–	(9,829)	–	(9,829)
Distributions paid	–	(35,130)	–	–	–	(35,130)
Net increase in amounts due from related parties *(Note 25(b))*	–	–	–	–	21,282	(21,282)
Interest paid	–	–	(3,688)	–	–	(3,688)
Total changes from financing cash flows	18,800	(35,130)	(3,688)	(23,644)	21,282	(64,944)
Other changes:						
Interest expenses on bank and other loans *(Note 6(a))*	–	–	3,688	–	–	3,688
Interest expenses on lease liabilities *(Note 6(a))*	–	–	–	9,829	–	9,829
Increase in lease liabilities from entering into new leases during the year	–	–	–	4,379	–	4,379
Decrease in lease liabilities from termination of leases during the year	–	–	–	(23,383)	–	(23,383)
Distribution declared *(Note 22(c))*	–	35,130	–	–	–	35,130
Total other changes	–	35,130	3,688	(9,175)	–	29,643
At 31 December 2018	138,800	–	–	107,295	67,938	178,157

	Liabilities				Assets	
	Bank and other loans	Distributions payable	Interest payable	Lease liabilities	Amounts due from related parties	Net
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 17)			*(Note 18)*	*(Note 25(c))*	
At 1 January 2019	138,800	–	–	107,295	67,938	178,157
Changes from financing cash flows:						
Proceeds from bank and other loans	38,920	–	–	–	–	38,920
Repayments of bank and other loans	(82,320)	–	–	–	–	(82,320)
Capital element of lease rentals paid	–	–	–	(17,169)	–	(17,169)
Interest element of lease rentals paid	–	–	–	(6,696)	–	(6,696)
Net increase in amounts due from related parties *(Note 25(b))*	–	–	–	–	180,612	(180,612)
Interest paid	–	–	(10,332)	–	–	(10,332)
Total changes from financing cash flows	(43,400)	–	(10,332)	(23,865)	180,612	(258,209)
Other changes:						
Interest expenses on bank and other loans *(Note 6(a))*	–	–	10,332	–	–	10,332
Interest expenses on lease liabilities *(Note 6(a))*	–	–	–	6,696	–	6,696
Increase in lease liabilities from entering into new leases during the year	–	–	–	17,144	–	17,144
Decrease in lease liabilities from termination of leases during the year	–	–	–	(29,057)	–	(29,057)
Total other changes	–	–	10,332	(5,217)	–	5,115
At 31 December 2019	95,400	–	–	78,213	248,550	(74,937)

(c) Total cash outflows for leases

Amounts included in the combined cash flow statements for leases comprise the following:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within investing cash flows:				
– Purchase of right-of-use assets	600	10,258	7,124	–
Within financing cash flows:				
– Lease rentals paid	27,229	43,729	23,644	23,865
	27,829	53,987	30,768	23,865

17 BANK AND OTHER LOANS

(a) The Target Business' short-term bank and other loans are analysed as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:				
Secured by property, plant and equipment and restricted bank deposits of the Target Business and guaranteed by related parties	–	60,000	20,000	38,000
Other loans:				
Unsecured and unguaranteed loans from related parties of the Target Business *(Note 25(c))*	70,000	50,000	90,000	30,000
	70,000	110,000	110,000	68,000
Add: current portion of long-term bank and other loans *(Note 17(b))*	–	1,000	1,400	8,400
	70,000	111,000	111,400	76,400

(b) The Target Business' long-term bank and other loans are analysed as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:				
Secured by property, plant and equipment of the Target Business and guaranteed by related parties *(Notes 17(d) and 25(b))*	–	10,000	28,800	27,400
Less: current portion of long-term bank and other loans *(Note 17(a))*	–	(1,000)	(1,400)	(8,400)
	–	9,000	27,400	19,000

(c) The Target Business' long-term bank and other loans are repayable as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	–	1,000	1,400	8,400
After 1 year but within 2 years	–	1,000	8,400	19,000
After 2 years but within 5 years	–	8,000	19,000	–
	–	10,000	28,800	27,400

(d) Certain of the Target Business' bank and other loans and banking facilities are secured by the following assets of the Target Business:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment *(Note 11(a))*				
– pledged for bank loans *(Note (i))*	–	1,474	12,224	10,846
– pledged for bank loans and bank acceptance bills facilities *(Note (ii))*	5,542	5,289	5,036	4,955
	5,542	6,763	17,260	15,801
Restricted bank deposits pledged for bank loans and bank acceptance bills facilities *(Note 16(a))*	17,500	30,000	30,000	20,000
	23,042	36,763	47,260	35,801

(i) At 31 December 2016, 2017 and 2018 and 2019, bank loans of the Target Business of RMBNil, RMB10,000,000, RMB28,800,000 and RMB27,400,000, respectively, are secured by the Target Business' property, plant and equipment and guaranteed by Mr Sun Zhicheng and United Strength Investment (Note 25(b)).

(ii) At 31 December 2016, 2017, 2018 and 2019, bank loans and bank acceptance bills facilities of the Target Business of RMB35,000,000, RMB60,000,000, RMB60,000,000 and RMB50,000,000, respectively, are secured by property, plant and equipment and restricted bank deposits of the Target Business and guaranteed by Mr Zhao Jinmin, Mr Liu Yingwu, Mr Sun Zhicheng, Ms Cui Yueshun, Ms Ma Dan, Ms Ji Yuanyuan and Changchun Yitonghe (Note 25(b)).

At 31 December 2016, 2017, 2018 and 2019, the above bank loans and bank acceptance bills facilities were utilised to the extent of RMB5,000,000, RMB60,000,000, RMB20,000,000 and RMB40,000,000, respectively.

(e) Certain of the Target Business' banking facilities are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Target Business was to breach the covenants, the loans would become payable on demand. The Target Business regularly monitors its compliance with these covenants. Further details of the Target Business' management of liquidity risk are set out in Note 23(b). At 31 December 2016, 2017, 2018 and 2019, none of the covenants relating to the bank and other loans had been breached.

18 LEASE LIABILITIES

The following tables show the remaining contractual maturities of the Target Business' lease liabilities as at the end of each reporting period:

	At 31 December							
	2016		2017		2018		2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*		
Within 1 year	28,057	29,592	31,754	33,567	30,861	32,706	28,246	28,766
After 1 year but within 2 years	28,589	32,249	26,936	30,269	22,128	24,527	9,515	10,720
After 2 years but within 5 years	50,214	64,355	48,461	63,119	34,373	45,376	24,447	31,678
After 5 years	32,079	58,303	32,963	57,699	19,933	34,231	16,005	27,998
	110,882	154,907	108,360	151,087	76,434	104,134	49,967	70,396
	138,939	184,499	140,114	184,654	107,295	136,840	78,213	99,162
Less: total future interest expenses		(45,560)		(44,540)		(29,545)		(20,949)
Present value of lease liabilities		138,939		140,114		107,295		78,213

19 TRADE AND BILLS PAYABLES

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables due to:				
– third parties	2,403	3,700	18,852	29,352
– related parties *(Note 25(c))*	228	907	3,815	41,750
	2,631	4,607	22,667	71,102
Bills payables due to:				
– related parties *(Notes 17(d) and 25(c))*	5,000	–	40,000	2,000
	7,631	4,607	62,667	73,102

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

(a) At the end of each reporting period, the ageing analyses of the trade and bills payables, based on the invoice date, are as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	2,617	3,204	22,480	71,690
1 to 3 months	14	26	1	1,412
4 to 6 months	5,000	–	40,186	–
Over 6 months	–	1,377	–	–
	7,631	4,607	62,667	73,102

20 ACCRUED EXPENSES AND OTHER PAYABLES

	At 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payables for acquisition of property, plant and equipment	217	7,294	7,428	7,489
Payables for staff related costs	520	695	1,705	1,734
Payables for other taxes	2,227	1,728	435	220
Others	2,301	4,653	5,376	6,003
Financial liabilities measured at amortised cost	5,265	14,370	14,944	15,446
Receipts in advance due to:				
– third parties	123,531	102,209	136,304	156,878
– related parties *(Note 25(c))*	7,091	3	1,526	16,426
	130,622	102,212	137,830	173,304
	135,887	116,582	152,774	188,750

All of the accrued expenses and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

21 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

(a) Movements of current taxation in the combined statements of financial position are as follows:

	Years ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Income tax payable/(recoverable) at 1 January, net	289	1,007	2,674	(1,455)
Provision for the year *(Note 7(a))*	14,400	25,524	31,023	35,471
Income tax paid	(13,682)	(23,857)	(35,152)	(31,526)
Income tax payable/(recoverable) at 31 December, net	1,007	2,674	(1,455)	2,490
Representing:				
Income tax recoverable	–	(16)	(1,573)	(186)
Income tax payable	1,007	2,690	118	2,676
	1,007	2,674	(1,455)	2,490

(b) Deferred tax assets and liabilities recognised

(i) Movements of each component of deferred tax assets and liabilities

The deferred tax assets/(liabilities) recognised in the combined statements of financial position and the movements during the Track Record Period are as follows:

	Assets				Liabilities	
Deferred tax arising from:	**Credit loss allowance**	**Unused tax losses**	**Depreciation charge of right-of-use assets**	**Write-down of inventories**	**Differences on depreciation expenses between financial reporting purpose and tax bases**	**Net**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	173	2,211	(500)	–	(763)	1,121
(Charged)/credited to the combined statement of profit or loss *(Note 7(a))*	(97)	(1,393)	120	–	20	(1,350)
At 31 December 2016 and 1 January 2017	76	818	(380)	–	(743)	(229)
Credited/(charged) to the combined statement of profit or loss *(Note 7(a))*	622	(818)	747	–	20	571
At 31 December 2017 and 1 January 2018	698	–	367	–	(723)	342
Credited to the combined statement of profit or loss *(Note 7(a))*	666	480	238	1,325	20	2,729
At 31 December 2018 and 1 January 2019	1,364	480	605	1,325	(703)	3,071
Credited/(charged) to the combined statement of profit or loss *(Note 7(a))*	211	1,248	(112)	(1,325)	20	42
At 31 December 2019	1,575	1,728	493	–	(683)	3,113

(ii) Reconciliations to the combined statements of financial position

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets recognised in the combined statements of financial position	514	1,065	3,774	3,796
Deferred tax liabilities recognised in the combined statements of financial position	(743)	(723)	(703)	(683)
	(229)	342	3,071	3,113

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(o), the Target Business has not recognised deferred tax assets in respect of cumulative tax losses of RMB6,354,000, RMB9,201,000, RMB12,982,000 and RMB16,103,000 at 31 December 2016, 2017, 2018 and 2019, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entities. The cumulative tax losses comprised tax losses arose from various years, and each year's tax loss can only be carried forward for five years.

22 CAPITAL, RESERVES AND DISTRIBUTIONS

(a) Movements in components of equity

The reconciliations between the opening and closing balances of each component of the Target Business' combined equity during the Track Record Period are set out in the combined statements of changes in equity.

Details of the changes of the Target Company's individual component of equity are set out below.

	Share capital	**Accumulated losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Note 22(b))		
At 8 November 2018 (date of incorporation)	–	–	–
Changes in equity for the period from 8 November 2018 to 31 December 2018:			
Issuance of shares *(Note 22(b))*	1	–	1
At 31 December 2018 and 1 January 2019	1	–	1
Changes in equity for the year ended 31 December 2019:			
Loss and other comprehensive income for the year	–	(4)	(4)
Issuance of shares *(Note 22(b))*	69	–	69
At 31 December 2019	70	(4)	66

(b) Share capital of the Target Company

The Target Company was incorporated as an exempted company under the laws of the BVI with limited liability on 8 November 2018 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. On 8 November 2018, the Target Company allotted and issued 100 shares at par value of US$1 each, fully paid.

On 1 February 2019, 9,900 shares of US$1 each were allotted and issued by the Target Company for an aggregate subscription price of US$9,900 (equivalent to approximately RMB69,000) credited as fully paid.

(c) Distributions

During the Track Record Period, the Target Business made the following distributions to their then equity owners:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Distributions	5,000	5,000	35,130	–

(d) Parent's net investment

For the purpose of this Historical Financial Information, parent's net investment at 31 December 2016, 2017, 2018 and 2019 represent the aggregate amount of the net assets of the Target Business attributable to Mr Zhao Jinmin.

Pursuant to the Reorganisation, New United Strength became the PRC holding company of the PRC subsidiaries of the Target Group on 20 November 2018 and accordingly, an amount equaling to the paid-in capital of these PRC subsidiaries attributable to Mr Zhao Jinmin were eliminated against the consideration of RMB53,740,000 paid in preparation of the Historical Financial Information.

On 17 December 2018 and 18 February 2019, Jingqiao Industrial acquired 3% and 97% of the equity interests of New United Strength, respectively, from Mr Zhao Jinmin, Ms Xu Hang, Mr Liu Yingwu and Mr Wang Qingguo, at an aggregate consideration of US$1,436,000 (equivalent to approximately RMB10,000,000). On 18 January 2019, New United Strength acquired additional 26.7% of the equity interests of Shenyang United Strength (one of the Operating Companies) from United Strength Investment, a company controlled by Mr Zhao Jinmin, at a consideration of RMB3,140,000. The amounts equaling to the paid-in capital of New United Strength and additional paid-in capital of Shenyang United Strength attributable to Mr Zhao Jinmin were eliminated against the consideration paid in preparation of the Historical Financial Information.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Target Business' business.

The Target Business' exposure to these risks and the financial risk management policies and practices used by the Target Business to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Business. The Target Business' credit risk is primarily attributable to trade receivables. The directors of the Target Company consider the Target Business' exposure to credit risk arising from bills receivables and cash at bank and on hand is limited because the counterparties are banks with high credit standing. The Target Business does not provide any guarantees which would expose the Target Business to credit risk.

Trade receivables

The Target Business' exposure to credit risk is influenced mainly by the individual characteristics of the customer or debtor rather than the industry in which the customers or debtors operate and therefore significant concentrations of credit risk primarily arise when the Target Business has significant exposure to individual customers or debtors. At 31 December 2016, 2017, 2018 and 2019, 19%, 18%, 31% and 15% of the trade receivables, respectively, were due from the Target Business' largest trade debtor, 58%, 58%, 60% and 35% of the trade receivables, respectively, were due from the Target Business' five largest trade debtors.

Individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customer and debtor as well as pertaining to the economic environment in which the customer and debtor operates. The Target Business' customers include individual and corporate customers, and cash before delivery is generally required for all individual customers, where credit terms of one month are granted to corporate customers. Normally, the Target Business does not obtain collateral from customers.

The Target Business measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Business' historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Business' different customer bases.

The following tables provide information about the Target Business' exposure to credit risk and ECLs for trade receivables at 31 December 2016, 2017, 2018 and 2019:

		At 31 December							
		2016		2017		2018		2019	
	Expected loss rate	Gross carrying amount	Loss allowance provision	Gross carrying amount	Loss allowance provision	Gross carrying amount	Loss allowance provision	Gross carrying amount	Loss allowance provision
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*		
Trade receivables:									
Current (not past due)	0.8%	12,481	100	24,837	199	21,100	169	18,702	150
1 - 30 days past due	3%	718	22	3,902	117	9,680	290	7,717	232
31 - 60 days past due	10%	428	43	1,398	140	3,906	391	6,557	655
61 - 90 days past due	30%	262	78	512	153	733	220	3,269	981
91 - 120 days past due	50%	74	37	302	151	455	227	2,179	1,090
121 - 150 days past due	70%	38	26	584	409	436	305	724	506
More than 150 days past due	100%	–	–	1,625	1,625	3,854	3,854	2,686	2,686
		14,001	306	33,160	2,794	40,164	5,456	41,834	6,300

Expected loss rates are based on actual loss experience over the past four years. These rates are adjusted to reflect the economic conditions over which the historic data has been collected, current conditions and the Target Business' view of economic conditions over the expected lives of the receivables.

The Target Business's customers of Petroleum Wholesale Business are mainly petroleum refuelling stations and other industrial users. The directors of the Target Company assessed that there was no change in the expected credit loss rate during the Track Record Period because (1) the customer base remained stable during the Track Record Period; (2) there was no significant change in the payment pattern of these customers during the Track Record Period; (3) the directors of the Target Company were not aware of any indicator that credit risk profile of these customers changed/will change.

Movements in the loss allowance account in respect of trade receivables during the Track Record Period are as follows:

	Years ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balances at 1 January	690	306	2,794	5,456
(Reversal of impairment losses)/impairment losses recognised during the year	(384)	2,488	2,662	844
Balances at 31 December	306	2,794	5,456	6,300

(b) Liquidity risk

The Target Business' policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at 31 December 2016, 2017, 2018 and 2019 of the Target Business' non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at 31 December 2016, 2017, 2018 and 2019) and the earliest dates the Target Business can be required to pay:

	At 31 December 2016					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank and other loans	70,878	–	–	–	70,878	70,000
Trade and bills payables	7,631	–	–	–	7,631	7,631
Accrued expenses and other payables measured at amortised cost	5,265	–	–	–	5,265	5,265
Lease liabilities	29,592	32,249	64,355	58,303	184,499	138,939
	113,366	32,249	64,355	58,303	268,273	221,835

	At 31 December 2017					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	*More than 1 year but less than 2 years*	*More than 2 years but less than 5 years*	*More than 5 years*	*Total*	*Carrying amount*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	114,373	1,556	8,192	–	124,121	120,000
Trade and bills payables	4,607	–	–	–	4,607	4,607
Accrued expenses and other payables measured at amortised cost	14,370	–	–	–	14,370	14,370
Lease liabilities	33,567	30,269	63,119	57,699	184,654	140,114
	166,917	31,825	71,311	57,699	327,752	279,091

	At 31 December 2018					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	*More than 1 year but less than 2 years*	*More than 2 years but less than 5 years*	*More than 5 years*	*Total*	*Carrying amount*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	119,884	9,910	19,428	–	149,222	138,800
Trade and bills payables	62,667	–	–	–	62,667	62,667
Accrued expenses and other payables measured at amortised cost	14,944	–	–	–	14,944	14,944
Lease liabilities	32,706	24,527	45,376	34,231	136,840	107,295
	230,201	34,437	64,804	34,231	363,673	323,706

	At 31 December 2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	*More than 1 year but less than 2 years*	*More than 2 years but less than 5 years*	*More than 5 years*	*Total*	*Carrying amount*
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	79,955	19,428	–	–	99,383	95,400
Trade and bills payables	73,102	–	–	–	73,102	73,102
Accrued expenses and other payables measured at amortised cost	15,446	–	–	–	15,446	15,446
Lease liabilities	28,766	10,720	31,678	27,998	99,162	78,213
	197,269	30,148	31,678	27,998	287,093	262,161

(c) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Business' interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Target Business to cash flow interest rate risk and fair value interest rate risk, respectively.

The following tables detail the interest rate profile of the Target Business' borrowings at 31 December 2016, 2017, 2018 and 2019:

	At 31 December							
	2016		2017		2018		2019	
	Effective interest rate %	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*	*Effective interest rate %*	*RMB'000*
Fixed rate borrowings								
Bank loans	–	–	4.8% ~ 6.2%	70,000	4.25% ~ 6.8%	48,800	4.25% ~ 6.8%	65,400
Other loans	7.0%	70,000	8.0%	50,000	8.0%	90,000	8.0%	30,000
		70,000		120,000		138,800		95,400

The Target Business was not exposed to significant cashflow interest rate risk at 31 December 2016, 2017, 2018 and 2019.

(d) **Fair value measurement**

Fair value of financial instruments carried at other than fair value

The carrying amounts of the Target Business' financial instruments carried at cost or amortised cost were not materially different from their fair values at 31 December 2016, 2017, 2018 and 2019.

24 COMMITMENTS

Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information were as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commitments in respect of property, plant and equipment and land use rights:				
– Contracted for	2,874	1,514	6,187	1,515

25 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

The material related party transactions entered into by the Target Business during the Track Record Period and the balances with related parties at the end of each reporting period are set out below.

(a) Names and relationships of the related parties that had material transactions with the Target Business during the Track Record Period

Name of related party	Relationship
Mr Zhao Jinmin (趙金岷)	The controlling shareholder of the Target Business
Ms Ji Yuanyuan (姬媛媛)	Spouse of Mr Zhao Jinmin
Mr Sun Zhicheng (孫志成)	Non-controlling equity owner of certain subsidiaries of the Target Business
Ms Cui Yueshun (崔月順)	Non-controlling equity owner of certain subsidiaries of the Target Business
Ms Ma Dan (馬丹)	Key management personnel of the Target Business
The Company and its subsidiaries (also, the "Group")	A group of companies controlled by the controlling shareholder of the Target Business
Changchun Yitonghe and its subsidiaries	A group of companies controlled by the controlling shareholder of the Target Business
Jilin Province United Strength Vehicle Services Chain Company Limited (吉林省眾誠汽車服務連鎖有限公司)*	A joint venture of Changchun Yitonghe
Jilin Yitonghe Petroleum Distribution Company Limited (吉林中油伊通河石油銷售有限責任公司)*	An associate of Changchun Yitonghe
United Strength Investment and its subsidiaries (長春眾誠投資發展集團有限公司)*	A group of companies controlled by the controlling shareholder of the Target Business

* The official names of these entities are in Chinese. The English translation of the names are for identification purpose only.

(b) Transactions with related parties during the Track Record Period

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Group				
– Sales of goods	9,679	8,438	10,496	14,983
– Rental income from operating leases	6,953	4,220	4,307	3,512
– Rental income from entrustment arrangements in connection with gas refuelling stations entrusted out *(Note 5)*	1,310	1,310	1,751	2,663
– Service fee paid for transportation and other services received	21,300	35,300	37,659	37,948
– Entrustment fee paid in connection with petroleum refuelling stations entrusted	1,100	1,100	1,100	1,100
– Management fee in connection with receiving of management service over petroleum transportation vehicles	4,000	4,000	4,000	4,000
Changchun Yitonghe and its subsidiaries, an associate and a joint venture				
– Sales of goods *(Note (i))*	312,278	227,994	56,633	29,439
– Purchases of goods *(Note (i))*	2,620,248	1,996,068	1,535,871	744,545
– Revenue from provision of transportation services	–	–	776	42
– Rental income from operating leases	8,016	2,005	103	31
– Service fee paid for other services received	2,037	2,287	2,173	1,610
United Strength Investment and its subsidiaries				
– Rental income from operating leases	7	–	–	439
– Purchases of equipment	–	486	–	–

	Years ended 31 December			
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-controlling equity owner of certain subsidiaries of the Target Business and United Strength Investment and its subsidiaries				
– Guarantees received at the end of each reporting period for the Target Business' bank and other loans *(Note 17(b))*	–	10,000	28,800	27,400
The controlling shareholder of the Target Business				
– Loans received *(Notes 17(a) and 25(c))*	–	–	60,000	–
– Loans repayments *(Notes 17(a) and 25(c))*	–	–	–	(30,000)
– Net increase/(decrease) in amounts due from related parties	70,313	(33,782)	21,282	180,612
Non-controlling equity owner of certain subsidiaries of the Target Business				
– Loans received *(Notes 17(a) and 25(c))*	70,000	50,000	30,000	–
– Loans repayments *(Notes 17(a) and 25(c))*	(30,000)	(70,000)	(50,000)	(30,000)
The controlling shareholder of the Target Business and his spouse, non-controlling equity owner of certain subsidiaries of the Target Business, Changchun Yitonghe and key management personnel				
– Guarantees received at the end of each reporting period for bank loans and bank acceptance bills facilities of the Target Business *(Note 17(d)(ii))*	35,000	60,000	60,000	50,000

Note:

(i) The directors of the Company expect the above transactions in the form of (i) sales of goods; and (ii) purchases of goods, to be continued after the completion of the Proposed Acquisition.

(c) Balances with related parties

The Target Business's balances with related parties as at the end of each reporting period are as follows:

	At 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade in nature:				
Trade receivables due from *(Note 14)*:				
– Changchun Yitonghe and its subsidiaries, an associate and a joint venture	–	5,516	413	–
Prepayments, deposits and other receivables due from *(Note 15)*:				
– Changchun Yitonghe and its subsidiaries, an associate and a joint venture	67,707	22,204	–	–
– The Group	–	160	565	700
	67,707	22,364	565	700
Trade and bills payables due to *(Note 19)*:				
– The Group	228	907	1,578	1,856
– Changchun Yitonghe and its subsidiaries, an associate and a joint venture	5,000	–	41,751	41,894
– United Strength Investment and its subsidiaries	–	–	486	–
	5,228	907	43,815	43,750
Accrued expense and other payables due to *(Note 20)*:				
– Changchun Yitonghe and its subsidiaries, an associate and a joint venture	7,091	3	1,526	16,426
Non-trade in nature:				
Prepayments, deposits and other receivables due from *(Note 15)*:				
– The controlling shareholder of the Target Business	–	–	1	50
– Non-controlling shareholder of the Target Business	–	–	–	20
	–	–	1	70
Amounts due from related parties:				
– The controlling shareholder of the Target Business	80,438	46,656	67,938	248,550
Bank and other loans *(Note 17(a))*:				
– The controlling shareholder of the Target Business	–	–	60,000	30,000
– Non-controlling shareholder of the Target Business	70,000	50,000	30,000	–
	70,000	50,000	90,000	30,000

The non-trade in nature amounts due from related parties, are unsecured, non-interest bearing and have no fixed terms of repayment. Mr Zhao Jinmin has undertaken to settle these amounts and the balance of other receivable with the Target Business, and the Target Business has undertaken to settle the balance of other loan to Mr. Zhao Jinmin, prior to the completion of the Proposed Acquisition.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Target Business is as follows:

	Years ended 31 December			
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	
Short-term employee benefits	992	1,046	1,017	1,013
Contributions to defined contribution retirement scheme	141	157	163	154
	1,133	1,203	1,180	1,167

Total remuneration is included in "staff costs" in Note 6(b).

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON 1 JANUARY 2019

Up to the date of issue of the Historical Financial Information, the IASB has issued a new standard and a number of amendments which are not yet effective for the accounting period beginning on 1 January 2019 and which have not been adopted in the Historical Financial Information.

	Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting	1 January 2020
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of a material*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*	1 January 2020
IFRS 17, *Insurance contracts*	1 January 2022
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Target Business is in the process of making an assessment of what the impact of the standard and these amendments are expected to be in the period of initial application. So far it has concluded that the adoption of the standard and these amendments are unlikely to have a significant impact on the combined financial information of the Target Business.

27 SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The Covid-19 Pandemic

The Covid-19 Pandemic since early 2020 has brought about additional uncertainties in the Target Business' operating environment and may impact the Target Business' operations and financial position.

The directors of the Target Company have been closely monitoring the impact from the Covid-19 Pandemic on the Target Business and has commenced to put in place various contingency measures. The directors of the Target Company confirm that these contingency measures include but not limited to reassessing the market's demand of refined oil in determining the appropriate inventory level, reassessing the flexibility of the current mechanisms in determining the selling price of refined oil in light of the fluctuation in the price of crude oil, expanding the supplier base of crude oil in ensuring the adequate supply of crude oil at prices that align with market quotations, and improving the Target Business' cash management by expediting debtor settlements and negotiating with suppliers on extension of payment terms. The Target Business will keep the contingency measures under review as the Covid-19 Pandemic situation evolves.

As far as the Target Business' businesses are concerned, the Covid-19 Pandemic may cause decrease in sales volume and selling price of refined oil, but the directors of the Target Business considers that such impact to be temporary and likely to reverse upon the cessation of the Covid-19 Pandemic, while such impact would also be reduced due to the lower purchase price of refined oil and the Target Business avoidance in purchasing excess refined oil. In addition, the Covid-19 Pandemic and fluctuation of prices of crude oil may also significantly impact the operations of the Target Business' suppliers and customers, hence impacting the repayment abilities of the Target Business' trade debtors, the timely supply of refined oil in connection with prepayments made to suppliers, which in turn may result in additional impairment losses on trade and other receivables in future periods. These possible impacts have not been reflected in the Historical Financial Information, and the actual impacts may differ from estimates adopted in the Historical Financial Information as the Covid-19 Pandemic situation continues to evolve and when further information may become available.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company, the Target Group or the Target Business in respect of any period subsequent to 31 December 2019.

Financial information of the Group for each of the year ended 31 December 2016, 2017, 2018 and 2019 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.united-strength.com):

- annual report of the Company for the year ended 31 December 2017 published on 27 April 2018;

- annual report of the Company for the year ended 31 December 2018 published on 16 April 2019;

- annual report of the Company for the year ended 31 December 2019 published on 17 April 2020.

Below is extracted from these published documents.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019 *(Expressed in Renminbi ("RMB"))*

	Note	2019 RMB'000	2018 RMB'000 (Note)
Revenue	4	**403,248**	348,166
Cost of sales		**(226,746)**	(199,320)
Gross profit	4(b)	**176,502**	148,846
Other income	5	**8,361**	7,556
Staff costs	6(b)	**(50,517)**	(44,234)
Depreciation expenses	6(c)	**(29,685)**	(16,989)
Operating lease charges	6(c)	**(232)**	(8,115)
Other operating expenses		**(45,505)**	(27,952)
Profit from operations		**58,924**	59,112
Share of profits of a joint venture	13	**1,023**	–
Finance costs	6(a)	**(6,685)**	(619)
Profit before taxation	6	**53,262**	58,493
Income tax	7	**(17,569)**	(14,946)
Profit for the year		**35,693**	43,547
Attributable to:			
Equity shareholders of the Company		**35,642**	42,971
Non-controlling interests		**51**	576
Profit for the year		**35,693**	43,547
Earnings per share			
– Basic and diluted (RMB)	10	**0.15**	0.18

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 81 to 143 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 23(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 *(Expressed in RMB)*

	2019 RMB'000	2018 RMB'000 *(Note)*
Profit for the year	**35,693**	43,547
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	**1,352**	7,079
Total comprehensive income for the year	**37,045**	50,626
Attributable to:		
Equity shareholders of the Company	**36,994**	50,050
Non-controlling interests	**51**	576
Total comprehensive income for the year	**37,045**	50,626

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 81 to 143 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 *(Expressed in RMB)*

	Note	31 December 2019 RMB'000	31 December 2018 RMB'000 *(Note)*
Non-current assets			
Property, plant and equipment	*11*	**157,487**	73,791
Lease prepayments	*2(c)&11*	**–**	44,937
Interest in a joint venture	*13*	**77,556**	–
Deferred tax assets	*22(b)*	**1,742**	1,601
		236,785	120,329
Current assets			
Inventories	*14*	**1,615**	2,336
Trade receivables	*15*	**9,198**	3,724
Prepayments, deposits and other receivables	*16*	**122,260**	68,690
Income tax recoverable	*22(a)*	**338**	325
Cash and cash equivalents	*17*	**57,474**	127,918
		190,885	202,993
Current liabilities			
Bank loans	*18*	**25,000**	25,000
Trade payables	*19*	**4,576**	4,922
Accrued expenses and other payables	*20*	**23,159**	23,297
Lease liabilities	*21*	**14,512**	–
Income tax payable	*22(a)*	**9,172**	6,974
		76,419	60,193
Net current assets		**114,466**	142,800
Total assets less current liabilities		**351,251**	263,129
Non-current liabilities			
Bank loans	*18*	**43,925**	–
Lease liabilities	*21*	**26,790**	–
Deferred tax liabilities	*22(b)*	**5,774**	7,661
		76,489	7,661
NET ASSETS		**274,762**	255,468

Note: The Group has applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 81 to 143 form part of these financial statements.

	Note	**31 December 2019 RMB'000**	31 December 2018 RMB'000 *(Note)*
CAPITAL AND RESERVES	*23*		
Share capital		**19,794**	19,794
Reserves		**248,555**	229,026
Total equity attributable to equity shareholders of the Company		**268,349**	248,820
Non-controlling interests		**6,413**	6,648
TOTAL EQUITY		**274,762**	255,468

Note: *The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).*

Approved and authorised for issue by the board of directors on 25 March 2020.

Zhao Jinmin
Chairman

Xu Huilin
Director

The notes on pages 81 to 143 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 *(Expressed in RMB)*

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 *(Note 23(c))*	Share premium RMB'000 *(Note 23(d)(i))*	Other reserve RMB'000 *(Note 23(d)(ii))*	Statutory reserve RMB'000 *(Note 23(d)(iii))*	Exchange reserve RMB'000 *(Note 23(d)(iv))*	Retained profits RMB'000 *(Note)*	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018	19,794	120,037	(4,717)	3,825	(290)	85,172	223,821	6,537	230,358
Changes in equity for 2018:									
Profit for the year	–	–	–	–	–	42,971	42,971	576	43,547
Other comprehensive income for the year	–	–	–	–	7,079	–	7,079	–	7,079
Total comprehensive income	–	–	–	–	7,079	42,971	50,050	576	50,626
Dividends approved in respect of the previous year *(Note 23(b)(ii))*	–	–	–	–	–	(9,801)	(9,801)	–	(9,801)
Distributions paid by a subsidiary to non-controlling equity owners	–	–	–	–	–	–	–	(465)	(465)
Effect on equity arising from the acquisition of a subsidiary under common control	–	–	(15,250)	–	–	–	(15,250)	–	(15,250)
	–	–	(15,250)	–	–	(9,801)	(25,051)	(465)	(25,516)
Balance at 31 December 2018	19,794	120,037	(19,967)	3,825	6,789	118,342	248,820	6,648	255,468

Note: *The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).*

The notes on pages 81 to 143 form part of these financial statements.

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 *(Note 23(c))*	Share premium RMB'000 *(Note 23(d)(i))*	Other reserve RMB'000 *(Note 23(d)(ii))*	Statutory reserve RMB'000 *(Note 23(d)(iii))*	Exchange reserve RMB'000 *(Note 23(d)(iv))*	Retained profits RMB'000 *(Note)*	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019	19,794	120,037	(19,967)	3,825	6,789	118,342	248,820	6,648	255,468
Changes in equity for 2019:									
Profit for the year	–	–	–	–	–	35,642	35,642	51	35,693
Other comprehensive income for the year	–	–	–	–	1,352	–	1,352	–	1,352
Total comprehensive income	–	–	–	–	1,352	35,642	36,994	51	37,045
Dividends approved in respect of the previous year *(Note 23(b)(ii))*	–	(17,465)	–	–	–	–	(17,465)	–	(17,465)
Distributions paid by a subsidiary to non-controlling equity owners	–	–	–	–	–	–	–	(286)	(286)
Appropriation to reserves	–	–	–	1,699	–	(1,699)	–	–	–
	–	(17,465)	–	1,699	–	(1,699)	(17,465)	(286)	(17,751)
Balance at 31 December 2019	19,794	102,572	(19,967)	5,524	8,141	152,285	268,349	6,413	274,762

Note: *The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).*

The notes on pages 81 to 143 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

At 31 December 2019 *(Expressed in RMB)*

	Note	**2019 RMB'000**	2018 RMB'000 *(Note)*
Operating activities			
Profit before taxation		**53,262**	58,493
Adjustments for:			
Depreciation expenses	*6(c)*	**29,685**	16,989
Net loss/(gain) on disposal of property, plant and equipment	*5*	**316**	(13)
Net gain on disposal of a subsidiary	*5&27*	**(944)**	–
Finance costs	*6(a)*	**6,685**	619
Interest income	*5*	**(492)**	(288)
Net foreign exchange losses	*5*	**330**	2,768
Impairment losses on property, plant and equipment		**–**	600
Share of profits of a joint venture		**(1,023)**	–
Changes in working capital:			
Decrease/(increase) in inventories		**707**	(671)
(Increase)/decrease in trade receivables		**(5,474)**	4,055
Increase in prepayments, deposits and other receivables		**(62,592)**	(47,535)
Decrease in trade payables		**(256)**	(17,029)
Increase in accrued expenses and other payables		**12,770**	2,176
Cash generated from operations		**32,974**	20,164
Income tax paid	*22(a)*	**(17,412)**	(8,964)
Net cash generated from operating activities		**15,562**	11,200
Investing activities			
Payments for purchase of property, plant and equipment		**(24,121)**	(18,141)
Proceeds from disposal of property, plant and equipment		**168**	59
Payment for acquisition of a subsidiary		**–**	(15,250)
Payments for acquisition of a joint venture		**(71,617)**	(3,505)
Disposal of a subsidiary, net of cash disposed of	*27*	**(784)**	–
Interest received		**492**	288
Net cash used in investing activities		**(95,862)**	(36,549)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 81 to 143 form part of these financial statements.

	Note	2019 RMB'000	2018 RMB'000 *(Note)*
Financing activities			
Proceeds from new bank loans	*17(b)*	**73,925**	25,000
Repayment of bank loans	*17(b)*	**(30,000)**	(15,000)
Capital element of lease rentals paid	*17(b)*	**(10,037)**	–
Interest element of lease rentals paid	*17(b)*	**(2,264)**	–
Dividends paid to equity shareholders of the Company	*17(b)*	**(17,465)**	(9,801)
Distributions paid to non-controlling equity owners of a subsidiary	*17(b)*	**(286)**	(465)
Interest paid	*17(b)*	**(4,421)**	(619)
Net cash generated from/(used in) financing activities		**9,452**	(885)
Net decrease in cash and cash equivalents		**(70,848)**	(26,234)
Cash and cash equivalents at 1 January	*17(a)*	**127,918**	151,265
Effect of foreign exchange rate changes		**404**	2,887
Cash and cash equivalents at 31 December	*17(a)*	**57,474**	127,918

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

The notes on pages 81 to 143 form part of these financial statements.

1 CORPORATE INFORMATION

United Strength Power Holdings Limited (the "Company") was incorporated in the Cayman Islands on 19 December 2016 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 October 2017. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the sale of natural gas to vehicular end-users by operating refuelling stations and provision of petroleum and gas transportation services.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and the Group's interest in a joint venture.

The measurement basis used on the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

A. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

B. Lessee accounting and transition impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempted. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in Note 25(b). For an explanation of how the Group applied lessee accounting, see Note 2(h)(i).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.0%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(a) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(b) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(c) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

B. Lessee accounting and transition impact (continued)

The following table reconciles the operating lease commitments as disclosed in Note 25(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018 *(Note 25(b))*	22,629
Less: commitments relating to short-term leases and leases of low-value assets exempted from capitalisation	(238)
Add:lease payments for the remaining contractual maturities for the Group's lease liabilities as at 1 January 2019 other than those short-term leases or the additional periods where the Group considers it reasonably certain that it will exercise the extension options	40,083
	62,474
Less: total future interest expenses	(12,022)
Present value of remaining lease payments, discounted using the incremental borrowing rates at 1 January 2019 *(Note 21)*	50,452

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

B. Lessee accounting and transition impact (continued)

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation and reclassification of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment *(Note 11)*	73,791	100,354	174,145
Lease prepayments *(Note 11)*	44,937	(44,937)	–
Total non-current assets	**120,329**	**55,417**	**175,746**
Prepayments, deposits and other receivables *(Note 16)*	68,690	(4,965)	63,725
Total current assets	**202,993**	**(4,965)**	**198,028**
Lease liabilities (current) *(Note 21)*	–	7,508	7,508
Total current liabilities	**60,193**	**7,508**	**67,701**
Total assets less current liabilities	**263,129**	**42,944**	**306,073**
Lease liabilities (non-current) *(Note 21)*	–	42,944	42,944
Total non-current liabilities	**7,661**	**42,944**	**50,605**
Net assets	**255,468**	**–**	**255,468**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

C. Impact on the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expenses accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease terms. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 17(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see Note 17(c)).

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 *(Note 1)* (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial results impacted by the adoption of IFRS 16:					
Profit from operations	58,924	14,922	(12,301)	61,545	**59,112**
Finance costs	(6,685)	2,264	–	(4,421)	(619)
Profit before taxation	53,262	17,186	(12,301)	58,147	**58,493**
Profit for the year	35,693	17,186	(12,301)	40,578	**43,547**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases (continued)*

C. *Impact on the financial results and cash flows of the Group (continued)*

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Line items in the consolidated cash flow statement impacted by the adoption of IFRS 16:				
Cash generated from/(used in) operations	32,974	(12,301)	20,673	20,164
Net cash generated from/(used in) operating activities	15,562	(12,301)	3,261	11,200
Capital element of lease rentals paid	(10,037)	10,037	–	–
Interest element of lease rentals paid	(2,264)	2,264	–	–
Net cash generated from/(used in) financing activities	9,452	12,301	21,753	(885)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table, these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

D. *Lessor accounting*

The Group leases out certain petroleum refuelling equipment as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interests in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any equity interests retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(ii)), unless the investment is classified as held-for-sale.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Business combination under common control

Business combinations arising from transfer of interests in entities that are under the control of the controlling shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the comparative period or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's perspective. The components of equity of the acquired entities are added to the same components within the Group's equity and any difference between the net assets acquired and the consideration paid is recognised directly in equity.

(f) Joint venture

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held-for-sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(i)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the joint venture, the Group's equity interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the joint venture (after applying the ECL (as defined in Note 2(i)) model to such other long-term interests where applicable (see Note 2(i)(i)).

Unrealised profits and losses resulting from transactions between the Group and its joint venture are eliminated to the extent of the Group's equity interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate, the retained equity interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire equity interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any equity interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

The items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
–Buildings	Over the shorter of the term of lease and their estimated useful lives
– Refuelling equipment	3–15 years
– Motor vehicles and other equipment	3–10 years
– Right-of-use assets	Over the term of lease

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(i)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(s)(iii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2(h)(i), then the Group classifies the sub-lease as an operating lease.

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for expected credit losses ("ECLs") on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables);

– contract assets; and

– lease receivables.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(s)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(ii) Impairment of non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment, including right-of-use assets; and

– investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*
An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(i)(i) and 2(i)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business or in the form of materials or supplies to be consumed in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(j)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract. Other costs of fulfilling a contract, which are not capitalised as inventories, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(s).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(l)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(l)).

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(k)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(u)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(i)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and control over the goods is transferred to the customer.

(ii) Render of services

Revenue from the render of services is recognised progressively based on percentage of completion.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or rate are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(i)(i)).

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss over the useful life of the related asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations which have a functional currency other than RMB, the Group's presentation currency, are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The significant sources of estimation uncertainty are as follows:

(a) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(i)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the asset and could result in additional impairment charge or reversal of impairment in future periods.

(b) Depreciation

Property, plant and equipment are depreciated over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of useful lives and residual values, if any, are based on the historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Deferred tax

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

(d) Determining the lease term

As explained in policy Note 2(h), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operations. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the sale of natural gas to vehicular end-users by operating refuelling stations and provision of petroleum and gas transportation services.

Further details regarding the Group's principal activities are disclosed in Note 4(b).

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2019 RMB'000	2018 RMB'000
Disaggregated by major products or service lines:		
– Sales of natural gas by operating refuelling stations	317,085	275,474
– Revenue from the provision of transportation services	75,026	60,025
– Revenue from the trading of liquefied petroleum gas ("LPG"), Liquefied natural gas ("LNG") and related chemical products	11,137	12,667
	403,248	348,166

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in Note 4(b).

The Group's customer base for the sale of natural gas by operating refuelling stations is diversified. For the Group's provision of transportation services, there was one customer (2018: one customer), which is a related party of the Group, with whom transactions have exceeded 10% of the Group's revenues. In 2019, revenues from the provision of transportation services to this customer amounted to RMB46,616,000 (2018: RMB50,327,000). Details of the Group's concentrations of credit risk are set out in Note 24(a).

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its contracts for the provision of transportation services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for the provision of transportation services that had an original expected duration of one year or less.

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Sale of natural gas: this segment sells compressed natural gas ("CNG"), LPG and LNG to vehicular end-users by operating refuelling stations, and trading of LPG, LNG and related chemical products.

- Provision of transportation services: this segment provides petroleum and gas transportation services by managing dangerous goods transportation vehicles.

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales and revenue generated by those segments and the expenses incurred by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment is gross profit. The Group's other income, staff costs, depreciation expenses, operating lease charges, other operating expenses and share of profits of a joint venture, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance is set out below.

	2019		
	Sale of natural gas RMB'000	Provision of transportation services RMB'000	Total RMB'000
Disaggregated by timing of revenue recognition:			
– Point in time	328,222	–	328,222
– Over time	–	75,026	75,026
Revenue from external customers	328,222	75,026	403,248
Inter-segment revenue	2,636	13,942	16,578
Reportable segment revenue	330,858	88,968	419,826
Reportable segment profit (gross profit)	114,373	62,129	176,502

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

	2018		
	Sale of natural gas RMB'000	Provision of transportation services RMB'000	Total RMB'000
Disaggregated by timing of revenue recognition:			
– Point in time	288,141	–	288,141
– Over time	–	60,025	60,025
Revenue from external customers	288,141	60,025	348,166
Inter-segment revenue	2,159	12,562	14,721
Reportable segment revenue	290,300	72,587	362,887
Reportable segment profit (gross profit)	99,560	49,286	148,846

(ii) Reconciliations of reportable segment revenues and profit or loss

	2019 RMB'000	2018 RMB'000 *(Note)*
Revenue		
Reportable segment revenue	**419,826**	362,887
Elimination of inter-segment revenue	**(16,578)**	(14,721)
Consolidated revenue *(Note 4(a))*	**403,248**	348,166
Profit		
Reportable segment profit (gross profit)	**176,502**	148,846
Other income	**8,361**	7,556
Staff costs	**(50,517)**	(44,234)
Depreciation expenses	**(29,685)**	(16,989)
Operating lease charges	**(232)**	(8,115)
Other operating expenses	**(45,505)**	(27,952)
Share of profits of a joint venture	**1,023**	–
Finance costs	**(6,685)**	(619)
Consolidated profit before taxation	**53,262**	58,493

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(iii) Geographic information

All of the Group's customers patronised at the Group's operations carried out in the People's Republic of China (the "PRC"). The Group's property, plant and equipment are all located and the location of operations of the Group's joint venture is in the PRC.

5 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Rental income:		
– from operating leases	**2,252**	3,466
– from entrustment fee in connection with petroleum refuelling stations entrusted to a related party (*Note 26(a)*)	**1,100**	1,100
Management fee in connection with provision of management service over petroleum transportation vehicles owned by a related party *(Note 26(a))*	**4,000**	4,000
Net gain on disposal of a subsidiary *(Note 27)*	**944**	–
Net (loss)/gain on disposal of property, plant and equipment	**(316)**	13
Net foreign exchange losses	**(330)**	(2,768)
Government grants	**82**	1,129
Interest income	**492**	288
Others	**137**	328
	8,361	7,556

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2019 RMB'000	2018 RMB'000 *(Note)*
Interest expenses on:		
– bank loans	**4,421**	619
– lease liabilities	**2,264**	–
	6,685	619

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

No borrowing costs have been capitalised during the year ended 31 December 2019 (2018: RMBNil).

6 PROFIT BEFORE TAXATION (continued)

(b) Staff costs:

	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits	46,548	39,835
Contributions to defined contribution retirement plans	3,969	4,399
	50,517	44,234

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at rates from 16% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollars ("HK$") 30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further material obligations for payment of other retirement benefits beyond the above contributions.

6 PROFIT BEFORE TAXATION (continued)

(c) Other items:

	2019 RMB'000	2018 RMB'000
Depreciation *(Note 11)*		
– owned property, plant and equipment *(Note)*	**14,763**	16,989
– right-of-use assets *(Note)*	**14,922**	–
Minimum lease payments for leases previously classified as operating leases under IAS 17 *(Note)*	**–**	8,115
Operating lease charges relating to short-term leases and leases of low-value assets	**232**	–
Impairment losses/(reversal of impairment losses) on trade receivables *(Note 24(a))*	**39**	(19)
Auditors' remuneration – audit services	**3,000**	3,000
Cost of inventories *(Note 14(b))*	**216,485**	191,997

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The Group's land-use-rights which were previously presented as lease prepayments are also identified as right-of-use assets. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term and the amortisation of lease prepayments as previously presented in 2018. Under this approach, the comparative information is not restated. See Note 2(c).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2019 RMB'000	2018 RMB'000
Current taxation *(Note 22(a))*		
Provision for the year	**19,597**	13,894
Deferred taxation *(Note 22(b))*		
Origination and reversal of temporary differences	**(378)**	1,052
Effect resulting from a change in applicable withholding tax rate *(Note 7(b)(v))*	**(1,650)**	–
	(2,028)	1,052
	17,569	14,946

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 RMB'000	2018 RMB'000
Profit before taxation	**53,262**	58,493
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**15,759**	15,676
Tax effect of non-deductible expenses	**5,102**	2,026
Tax concessions *(Note (iv))*	**(3,223)**	(3,092)
Tax effect of share of profits of a joint venture	**(169)**	–
Tax effect of unused tax losses and temporary differences not recognised	**–**	336
Effect resulting from a change in applicable withholding tax rate *(Note (v))*	**(1,650)**	–
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary *(Note (vi))*	**1,750**	–
Actual tax expense	**17,569**	14,946

Notes:

(i) *The Company, a subsidiary of the Group incorporated in the British Virgin Islands and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2019 (2018: 16.5%).*

(ii) *The Company and a subsidiary of the Group incorporated in countries other than the PRC (including Hong Kong) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.*

(iii) *The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% during the year ended 31 December 2019 (2018: 25%).*

(iv) *One of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an enterprise with tax incentive for development of the western region for the calendar years from 2011 to 2020 and therefore enjoyed a preferential PRC Corporate Income Tax rate of 15% for the year ended 31 December 2019 (2018: 15%).*

(v) *Pursuant to the Sino-Hong Kong Double Tax Arrangement, United Strength Power HK Limited ("United Strength HK") has obtained approval from the local tax authorities in 2019 and is eligible for preferential withholding tax rate of 5% instead of 10% for dividends received from the PRC subsidiaries of the Group. As a result of the change in the applicable withholding tax rate, the deferred tax liabilities balance at 1 January 2019 was adjusted accordingly.*

(vi) *At 31 December 2019, one of the subsidiaries of the Group established in the PRC intended to distribute RMB35,000,000 to its immediate holding company, United Strength HK. Accordingly, a deferred tax liability of RMB1,750,000 (Note 22(b)) calculated at the applicable withholding tax rate mentioned in Note 7(b)(v) above has been recognised at 31 December 2019.*

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Zhao Jinmin	–	–*	–	–	–
Mr Liu Yingwu	–	–*	–	–	–
Mr Xu Huilin	–	1,584	132	42	1,758
Mr Yuan Limin	–	506	22	3	531
Independent non-executive directors					
Ms Su Dan	264	–	–	–	264
Mr Lau Ying Kit	264	–	–	–	264
Mr Zhang Zhifeng	264	–	–	–	264
	792	2,090	154	45	3,081

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Zhao Jinmin	–	203	–	44	247
Mr Liu Yingwu	–	203	–	44	247
Mr Wang Qingguo (resigned on 27 November 2018)	–	203	–	44	247
Mr Xu Huilin	–	1,526	127	44	1,697
Mr Yuan Limin (appointed on 27 November 2018)	–	21	–	–	21
Independent non-executive directors					
Ms Su Dan	254	–	–	–	254
Mr Yu Chen (resigned on 27 November 2018)	233	–	–	–	233
Mr Lau Ying Kit	254	–	–	–	254
Mr Zhang Zhifeng (appointed on 27 November 2018)	21	–	–	–	21
	762	2,156	127	176	3,221

* *The salaries, allowances and benefits of Mr Zhao Jinmin and Mr Liu Yingwu are less than RMB1,000, respectively, for the year ended 31 December 2019.*

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: three) are directors of the Company whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2018: two) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, discretionary bonuses and other emoluments	**2,043**	1,212
Retirement scheme contributions	**32**	15
	2,075	1,227

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2019 Number of individuals	2018 Number of individuals
HK$Nil – HK$1,000,000	**3**	2

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2019 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB35,642,000 (2018: RMB42,971,000) and the weighted average of 234,502,000 (2018: 234,502,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the years ended 31 December 2019 and 2018.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts

	Buildings RMB'000	Refuelling equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Right-of-use assets RMB'000	Total RMB'000
Cost:						
At 1 January 2018	24,964	54,037	59,813	674	–	139,488
Additions	–	819	15,137	–	–	15,956
Disposals	–	–	(493)	–	–	(493)
At 31 December 2018	24,964	54,856	74,457	674	–	154,951
Accumulated depreciation and impairment losses:						
At 1 January 2018	7,055	30,568	27,772	–	–	65,395
Charge for the year	1,327	3,827	10,458	–	–	15,612
Written back on disposals	–	–	(447)	–	–	(447)
Impairment loss	–	600	–	–	–	600
At 31 December 2018	8,382	34,995	37,783	–	–	81,160
Carrying amount:						
At 31 December 2018	16,582	19,861	36,674	674	–	73,791
Cost:						
At 31 December 2018	24,964	54,856	74,457	674	–	154,951
Impact on initial application of IFRS 16 *(Note)*	–	–	–	–	100,354	100,354
At 1 January 2019	24,964	54,856	74,457	674	100,354	255,305
Additions	–	2,585	6,354	2,046	10,969	21,954
Disposal of a subsidiary *(Note 27)*	(2,093)	(1,955)	(33)	–	(6,723)	(10,804)
Disposals	(19)	(382)	(4,531)	–	–	(4,932)
At 31 December 2019	22,852	55,104	76,247	2,720	104,600	261,523
Accumulated depreciation and impairment losses:						
At 31 December 2018	8,382	34,995	37,783	–	–	81,160
Charge for the year	1,114	4,623	9,026	–	14,922	29,685
Written back on disposal of a subsidiary *(Note 27)*	(727)	(1,602)	(32)	–	–	(2,361)
Written back on disposals	(8)	(361)	(4,079)	–	–	(4,448)
At 31 December 2019	8,761	37,655	42,698	–	14,922	104,036
Carrying amount:						
At 31 December 2019	14,091	17,449	33,549	2,720	89,678	157,487

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. See Note 2(c).

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Reconciliation of carrying amounts (continued)

At 31 December 2019, property certificates of certain properties with carrying amounts of RMB190,000 (2018: RMB206,000), are yet to be obtained. At 31 December 2019, the Group is in the process of applying for the ownership certificates for these properties. Mr Zhao Jinmin has undertaken to procure the obtaining of the title documents for the abovementioned properties. If title documents could not be obtained, Mr Zhao Jinmin agreed to indemnify the Group for all the losses and damages arising therefrom.

(b) Right-of-use assets

(i) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Land use rights *(Note)*	**46,502**	44,937
Buildings and properties	**3,558**	7,316
Refuelling stations and related equipment	**35,315**	42,796
Motor vehicles and other equipment	**4,303**	5,305
	89,678	100,354

Note: Land use rights represent premiums paid by the Group for land located in the PRC. These land use rights are with lease terms of 30 to 50 years. Land use rights are presented as "lease prepayments" in 2018, and with the adoption of IFRS 16, they are presented as right-of-use assets under "property, plant and equipment" at 1 January 2019. The movements of lease prepayments in 2018 were as follows:

	RMB'000
Cost:	
At 1 January 2018	50,145
Additions	2,185
At 31 December 2018	52,330
Accumulated amortisation:	
At 1 January 2018	6,016
Charge for the year	1,377
At 31 December 2018	7,393
Carrying amount:	
At 31 December 2018	44,937

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Right-of-use assets (continued)

(ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000 *(Note)*
Depreciation charge of right-of-use assets by class of underlying asset *(Note 6(c))*:		
Land use rights	1,794	1,377
Buildings and properties	3,832	–
Refuelling stations and related equipment	6,107	–
Motor vehicles and other equipment	3,189	–
	14,922	1,377
Interest expenses on lease liabilities *(Note 6(a))*	2,264	–
Operating lease charges relating to short-term leases and leases of low-value assets *(Note 6(c))*	232	–
Minimum lease payments for leases previously classified as operating leases under IAS 17 *(Note 6(c))*	–	8,115

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The Group's land-use-rights which were previously presented as lease prepayments are identified as right-of-use assets. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term and the amortisation of lease prepayments as previously presented in 2018. Under this approach, the comparative information is not restated. See Note 2(c).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 17(c) and 21, respectively.

(c) Assets leased out under operating leases

The Group leases out a number of properties (buildings and land-use-rights), and motor vehicles and other equipment under operating leases. The leases typically run for an initial period of 1 to 20 years, with options to renew the leases at which time all terms are renegotiated. None of the leases includes contingent rentals.

At 31 December 2019, the aggregate carrying amounts of the properties (buildings and land-use-rights), and motor vehicles and other equipment leased out amounted to RMB4,328,000 (2018: RMB4,628,000).

The undiscounted total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 year	1,687	1,897
After 1 year but within 5 years	4,694	2,366
After 5 years	3,973	3,414
	10,354	7,677

(Expressed in RMB unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Percentage of ownership interest: The Group's effective interest	Percentage of ownership interest: Held by the Company	Percentage of ownership interest: Held by subsidiaries	Principal activities
Jilin Dongkun Gas Company Limited (吉林東昆燃氣有限公司)*	The PRC 30 September 1999	RMB18,728,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Jilin Chinese Petroleum Clean Energy Environmental Protection Company Limited ("Jilin Clean Energy") (吉林中油潔能環保有限責任公司)*	The PRC 19 September 2001	RMB8,000,000	51%	–	51%	Sale of natural gas to vehicular end-users by operating refuelling stations
Jilin Province Jieli Logistics Company Limited (吉林省捷利物流有限公司)*	The PRC 21 April 2005	RMB5,800,000	100%	–	100%	Provision of transportation services
Changchun Sinogas Company Ltd. (長春中油潔能燃氣有限公司)**	The PRC 18 July 2005	RMB20,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Wuchang City Qinglian Gas Company Limited (五常市慶聯燃氣有限公司)*	The PRC 18 April 2006	RMB3,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Longjing United Strength Energy Development Company Limited (龍井眾誠能源發展有限公司)*	The PRC 16 July 2007	RMB20,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Yanbian United Strength Energy Technology Development Company Limited ("Yanbian United Strength") (延邊眾誠能源技術開發有限公司)*	The PRC 14 July 2008	RMB500,000	60%	–	60%	Development of energy technology
Liaoyuan City Hengtai Clean Energy Company Limited (遼源市恒泰清潔能源有限公司)*	The PRC 12 August 2010	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Meihekou City Yujia Petrochemical Company Limited (梅河口市譽嘉石化有限公司)*	The PRC 27 December 2011	RMB10,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Yanbian Xinyuan Natural Gas Sales Company Limited (延邊鑫源天然氣銷售有限公司)*	The PRC 29 May 2013	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations

12 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Percentage of ownership interest: The Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Silver Spring Green Energy Limited*** ("Silver Spring Green") *(Note 13)*	Hong Kong 31 March 2015	1 share	100%	–	100%	Investment holding
Yanbian Jieli Logistics Company Limited (延邊捷利物流有限公司)*	The PRC 13 April 2018	RMB50,000,000	100%	–	100%	Provision of transportation services
Sino Regent International Limited*** ("Sino Regent")	Hong Kong 18 September 2018	1 share	51%	–	100%	Investment holding

Notes:

* *The official names of these entities are in Chinese. The English translation of the names are for identification purpose only. These companies are limited liability companies established in the PRC.*

** *The official name of this entity is in Chinese. The English translation of the name is for identification purpose only. This company is a wholly foreign owned enterprise established in the PRC.*

*** *These companies are limited liability companies incorporated outside of the PRC.*

The following table lists out the combined financial information relating to subsidiaries of the Group with material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000 *(Note)*
NCI percentage:		
– Jilin Clean Energy	**49%**	49%
– Yanbian United Strength	**40%**	40%
– Sino Regent	**49%**	49%
Non-current assets	**14,704**	11,413
Current assets	**14,614**	14,973
Current liabilities	**(16,370)**	(12,984)
Net assets	**12,948**	13,402
Net assets attributable to NCI	**6,413**	6,648

12 INVESTMENTS IN SUBSIDIARIES (continued)

	2019 RMB'000	2018 RMB'000
Revenue	83,727	70,238
Profit and total comprehensive income for the year	131	1,194
Profit and total comprehensive income attributable to NCI	51	576

Note: These subsidiaries have initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise additional right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated.

13 INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

			Proportion of ownership interest			
Name of joint venture	Place of establishment and business	Particulars of registered and paid-up capital	The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
China Travel Service International Financial Leasing Company Limited ("CTS Financial Leasing")* (港中旅國際融資租賃有限公司)	The PRC	RMB180,000,000	30%	–	30%	Provision of financial leasing services

* *The official name of this entity is in Chinese. The English translation of the name is for identification purpose only. This company is a limited liability company established in the PRC.*

On 31 January 2019, the Group, through a wholly-owned subsidiary, entered into a sale and purchase agreement with a third party to acquire the entire issued share capital of Silver Spring Green, of which operation is solely to hold 30% equity interests in CTS Financial Leasing, at a consideration of HK$84,500,000 (equivalent to approximately RMB74,259,000). The consideration comprised cash of HK$18,902,000 (equivalent to approximately RMB16,611,000) and the assumption of a shareholder's loan of HK$65,598,000 (equivalent to approximately RMB57,648,000). The acquisition related costs amounted to RMB864,000.

Upon completion of the acquisition, Silver Spring Green became a wholly-owned subsidiary of the Group, and CTS Financial Leasing became a joint venture of the Group. CTS Financial Leasing is an unlisted corporate entity whose quoted market price is not available.

13 INTEREST IN A JOINT VENTURE (continued)

Summarised financial information of CTS Financial Leasing, including fair value adjustments and any differences with the Group's accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, is disclosed below:

	At 31 December 2019 RMB'000
Gross amounts of CTS Financial Leasing's	
Non-current assets	283,019
Current assets	359,152
Current liabilities	(220,700)
Non-current liabilities	(162,951)
Equity	258,520
Included in the above assets and liabilities:	
Cash and cash equivalents	70,813
Bank and other loans	
– Current	113,250
– Non-current	146,791

	For the period from the date of the acquisition to 31 December 2019 RMB'000
Revenue (from the date of acquisition to 31 December 2019)	34,801
Net profit for the period from the date of acquisition to 31 December 2019	3,410

	For the period from the date of the acquisition to 31 December 2019 RMB'000
Carrying amount of interest in a joint venture	
At the date of acquisition	75,123
Share of profits of the joint venture for the period from the date of the acquisition to 31 December 2019	1,023
Effect of exchange differences	1,410
At 31 December 2019	77,556

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Gases	750	1,650
Spare parts	865	686
	1,615	2,336

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the year is as follows:

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	216,485	191,997

15 TRADE RECEIVABLES

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Trade receivables, net of loss allowance, due from:		
– related parties	2,791	3,446
– third parties	6,407	278
	9,198	3,724

All of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 month	9,198	3,638
1 to 3 months	–	86
	9,198	3,724

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 24(a).

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000	At 31 December 2018 RMB'000 *(Note (i))*
Prepayments for purchase of inventories and services from:			
– related parties	**1,208**	3,559	3,559
– third parties	**8,939**	14,036	14,036
	10,147	17,595	17,595
Deposits to suppliers *(Note (ii))*	**111,100**	39,304	39,304
Prepayments for entrustment fee in connection with gas refuelling stations entrusted from third parties *(Note (i))*	**–**	–	4,688
Advances to staff	**920**	142	142
Deposit in connection with an acquisition of an investment in a joint venture *(Note 13)*	**–**	3,505	3,505
Others *(Note (i))*	**93**	3,179	3,456
	122,260	63,725	68,690

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

Notes:

(i) *The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach, and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The right-of-use assets comprised the amount recognised for the remaining lease liabilities and any amount prepaid or accrued lease payments relating to the leases. Under this approach, the comparative information is not restated. See Note 2(c).*

(ii) *These deposits were made to LNG, LPG and related chemical products suppliers to secure the supply of the related products for irrevocable sales orders placed by customers with the Group arising from the Group's trading of LPG, LNG and related chemical products business.*

17 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Cash at bank and on hand	**57,474**	127,918

The Group's operations in the PRC (excluding Hong Kong) conducted their businesses in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

17 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities from financing activities are liabilities for which cash flow were, or future cash flow will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Liabilities				
	Bank loans RMB'000 *(Note 18)*	Interest payable RMB'000	Dividends payable RMB'000	Lease liabilities RMB'000 *(Note 21)*	Total RMB'000
At 31 December 2018	25,000	–	–	–	25,000
Impact on initial application of IFRS 16 (Note)	–	–	–	50,452	50,452
At 1 January 2019	25,000	–	–	50,452	75,452
Changes from financing cash flows:					
Proceeds from new bank loans	73,925	–	–	–	73,925
Repayment of bank loans	(30,000)	–	–	–	(30,000)
Capital element of lease rentals paid	–	–	–	(10,037)	(10,037)
Interest element of lease rentals paid	–	–	–	(2,264)	(2,264)
Dividends paid to equity shareholders of the Company	–	–	(17,465)	–	(17,465)
Distributions paid to non-controlling equity owners of a subsidiary	–	–	(286)	–	(286)
Interest paid	–	(4,421)	–	–	(4,421)
Total changes from financing cash flows	43,925	(4,421)	(17,751)	(12,301)	9,452
Other Changes:					
Increase in lease liabilities from entering into new leases during the year	–	–	–	7,610	7,610
Decrease in lease liabilities from disposal of a subsidiary *(Note 27)*	–	–	–	(6,723)	(6,723)
Dividends approved in respect of the previous year *(Note 23(b))*	–	–	17,465	–	17,465
Distributions declared by a subsidiary	–	–	286	–	286
Finance costs *(Note 6(a))*	–	4,421	–	2,264	6,685
Total other changes	–	4,421	17,751	3,151	25,323
At 31 December 2019	68,925	–	–	41,302	110,227

17 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See Notes 2(c) and 21.

	Liabilities				
	Bank loans RMB'000 *(Note 18)*	Interest payable RMB'000	Dividends payable RMB'000	Advances from a related party RMB'000	Total RMB'000
At 1 January 2018	15,000	–	–	–	15,000
Changes from financing cash flows:					
Proceeds from new bank loans	25,000	–	–	–	25,000
Repayment of bank loans	(15,000)	–	–	–	(15,000)
Dividends paid to equity shareholders of the Company *(Note 23(b))*	–	–	(9,801)	–	(9,801)
Distributions paid to non-controlling equity owners of a subsidiary	–	–	(465)	–	(465)
Advances from a related party	–	–	–	6,000	6,000
Repayment of advances from a related party	–	–	–	(6,000)	(6,000)
Interest paid	–	(619)	–	–	(619)
Total changes from financing cash flows	10,000	(619)	(10,266)	–	(885)
Other Changes:					
Dividends approved in respect of the previous year *(Note 23(b))*	–	–	9,801	–	9,801
Distributions declared by a subsidiary	–	–	465	–	465
Finance costs *(Note 6(a))*	–	619	–	–	619
Total other changes	–	619	10,266	–	10,885
At 31 December 2018	25,000	–	–	–	25,000

17 CASH AND CASH EQUIVALENTS (continued)

(c) Total cash outflows for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 RMB'000 *(Note)*
Within operating cash flows		
– Lease rentals paid	232	13,172
Within investing cash flows		
– Payments for purchase of land-use-rights	3,359	2,185
Within financing cash flows		
– Lease rentals paid	12,301	–
	15,892	15,357

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for payments for short-term leases and leases of low-value assets, all other rentals paid on leases are now split into capital element and interest element and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impacts of the transition to IFRS 16 are set out in Note 2(c).

18 BANK LOANS

(a) The Group's short-term bank loans are analysed as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Secured by property, plant and equipment and land use rights of the Group and guaranteed by a subsidiary	25,000	25,000

(b) The Group's long-term bank loans are analysed as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Secured by equity interests of a subsidiary, and guaranteed by the controlling shareholder of the Group and a related party	43,925	–

The bank loans are repayable between one to two years, and are guaranteed by Mr Zhao Jinmin and his spouse (Note 26(a)).

18 BANK LOANS (continued)

(c) At 31 December 2019, the aggregate carrying amount of the property, plant and equipment pledged for the Group's short-term bank loans is RMB15,862,000 (2018: RMB16,946,000).

(d) Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 24(b). At 31 December 2019, none of the covenants relating to the bank loans had been breached (2018: None).

19 TRADE PAYABLES

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Trade payables due to:		
– related parties	**–**	1,199
– third parties	**4,576**	3,723
	4,576	4,922

All of the trade payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Within 3 months	**4,576**	4,922

20 ACCRUED EXPENSES AND OTHER PAYABLES

	At 31 December 2019 RMB'000	At December 2018 RMB'000
Payables for staff related costs	**2,491**	2,083
Deposits from customers	**1,341**	1,446
Payables for acquisitions of property, plant and equipment	**–**	9,777
Other taxes payables	**946**	1,327
Others	**2,928**	3,473
Financial liabilities measured at amortised cost	**7,706**	18,106
Receipts in advance from customers	**15,453**	5,191
	23,159	23,297

All of the accrued expenses and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

21 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to IFRS 16:

	31 December 2019		1 January 2019 *(Note)*	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**14,512**	**15,144**	7,508	8,155
After 1 year but within 2 years	**4,310**	**4,692**	10,148	11,173
After 2 years but within 5 years	**11,833**	**14,244**	16,347	18,786
After 5 years	**10,647**	**15,814**	16,449	24,360
	26,790	**34,750**	42,944	54,319
	41,302	**49,894**	50,452	62,474
Less: total future interest expenses		**(8,592)**		(12,022)
Present value of lease liabilities		**41,302**		50,452

21 LEASE LIABILITIES (continued)

The balance of lease liabilities represents:

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000 *(Note)*
– Payable to related parties	**22,670**	18,611
– Payable to third parties	**18,632**	31,841
	41,302	50,452

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2019 RMB'000	2018 RMB'000
Income tax payable at 1 January, net	6,649	1,719
Provision for the year *(Note 7(a))*	19,597	13,894
Income tax paid	(17,412)	(8,964)
Income tax payable at 31 December, net	8,834	6,649
Representing:		
Income tax payable	9,172	6,974
Income tax recoverable	(338)	(325)
	8,834	6,649

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets					Liabilities		
	Unused tax losses RMB'000	Accruals RMB'000	Credit loss allowance RMB'000	Impairment loss on property, plant and equipment RMB'000	Depreciation and finance costs arising from capitalisation of leases RMB'000	Fair value adjustments on property, plant and equipment and subsequent depreciation RMB'000	Retained profits to be distributed RMB'000	Net RMB'000
At 1 January 2018	1,187	103	16	–	–	(3,014)	(3,300)	(5,008)
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	(1,183)	(51)	(4)	94	–	92	–	(1,052)
At 31 December 2018	4	52	12	94	–	(2,922)	(3,300)	(6,060)
At 1 January 2019	4	52	12	94	–	(2,922)	(3,300)	(6,060)
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	–	(52)	10	–	428	92	(100)	378
Effect resulting from a change in applicable withholding tax rate *(Note 7(a))*	–	–	–	–	–	–	1,650	1,650
At 31 December 2019	4	–	22	94	428	(2,830)	(1,750)	(4,032)

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised (continued)

Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	1,742	1,601
Deferred tax liabilities recognised in the consolidated statement of financial position	(5,774)	(7,661)
	(4,032)	(6,060)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses and certain deductible temporary differences of RMBNil (2018: RMB6,204,000) as it is not probable that future taxable profits against which the losses or the temporary differences can be utilised will be available in the relevant tax jurisdiction and entities. The cumulative tax losses comprised tax losses arose from various years, and each year's tax loss can only be carried forward for five years.

(d) Deferred tax liabilities not recognised

At 31 December 2019, taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMB166,869,000 (2018: RMB135,600,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits for the year ended 31 December 2019, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes of the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 *(Note 23(c))*	Share premium RMB'000 *(Note 23(d)(i))*	Exchange reserve RMB'000 *(Note 23(d)(iv))*	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	19,794	120,037	(101)	(22,480)	117,250
Changes in equity for 2018:					
Profit for the year	–	–	–	21,461	21,461
Other comprehensive income for the year	–	–	6,806	–	6,806
Total comprehensive income	–	–	6,806	21,461	28,267
Dividends approved in respect of the previous year *(Note 23(b)(ii))*	–	–	–	(9,801)	(9,801)
At 31 December 2018 and 1 January 2019	**19,794**	**120,037**	**6,705**	**(10,820)**	**135,716**
Changes in equity for 2019:					
Loss for the year	–	–	–	**(27,881)**	**(27,881)**
Other comprehensive income for the year	–	–	**1,900**	–	**1,900**
Total comprehensive income	–	–	**1,900**	**(27,881)**	**(25,981)**
Dividends approved in respect of the previous year *(Note 23(b)(ii))*	–	**(17,465)**	–	–	**(17,465)**
At 31 December 2019	**19,794**	**102,572**	**8,605**	**(38,701)**	**92,270**

Note: The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity at 1 January 2019. See Note 2(c).

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2019 RMB'000	2018 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.0853 per ordinary share (2018: HK$0.0852 per ordinary share)	17,855	17,465

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.0852 per ordinary share (2018: HK$0.05 per ordinary share)	17,465	9,801

(c) Share capital

	2019		2018	
	No. of shares '000	HK$'000	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	800,000	80,000	800,000	80,000

	2019		2018	
	No. of shares '000	RMB'000	No. of shares '000	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	234,502	19,794	234,502	19,794

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Other reserve

The balance of other reserve at 1 January 2018 represented the differences between the considerations paid and net assets acquired from business combinations under common control, acquisitions of non-controlling interests, and the reorganisation took place prior to the initial listing of the Company's shares on the Stock Exchange.

(iii) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established in the PRC (excluding Hong Kong) required to transfer 10% of their net profit to the statutory reserve until the reserve reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(t).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit standing, for which the Group considers to have low credit risk. The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of the customer or debtor rather than the industry in which the customers or debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers or debtors. At 31 December 2019, 40% (2018: 33%) and 95% (2018: 90%) of the trade receivables was due from the Group's largest debtor and the five largest debtors, respectively.

Individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customer and debtor as well as pertaining to the economic environment in which the customer and debtor operates. The Group's customers include individual and corporate customers, and cash before delivery is generally required for all individual customers, where credit terms of one month are granted to corporate customers. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Other receivables

The Group has assessed that the expected credit loss for other receivables is not material under the 12 months expected credit losses method. Thus no loss allowance provision was recognised for the year ended 31 December 2019 (2018: RMBNil).

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Other receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at 31 December 2019:

	At 31 December 2019		
	Expected loss rate RMB'000	Gross carrying amount RMB'000	Loss allowance
Current (not past due)	**0.92%**	**9,284**	**(86)**

	At 31 December 2018		
	Expected loss rate RMB'000	Gross carrying amount RMB'000	Loss allowance
Current (not past due)	0.80%	3,675	(29)
1–30 days past due	3%	–	–
31–60 days past due	10%	54	(5)
More than 60 days past due	30%	42	(13)
		3,771	(47)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movements in the loss allowance account in respect of trade receivables during the year are as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**47**	66
Impairment losses/(reversal of impairment loss) during the year *(Note 6(c))*	**39**	(19)
Balance at 31 December	**86**	47

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2019 Contractual undiscounted cash outflow						2018 Contractual undiscounted cash outflow	
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000	Within 1 year or on demand RMB'000	Carrying amount RMB'000
Bank loans	30,663	45,884	–	–	76,547	68,925	25,988	25,000
Trade payables	4,576	–	–	–	4,576	4,576	4,922	4,922
Accrued expenses and other payables measured at amortised cost	7,706	–	–	–	7,706	7,706	18,106	18,106
Lease liabilities *(Note)*	15,144	4,692	14,244	15,814	49,894	41,302	–	–
	58,089	50,576	14,244	15,814	138,723	122,509	49,016	48,028

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See Note 2(c).

(c) Interest rate risk

Interest rate profile

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest bearing bank borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2019		2018	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate borrowings:				
Bank loans	5.66%-10.00%	68,925	4.79%	25,000

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through receivables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily RMB.

The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2019	2018
	RMB	RMB
	RMB'000	RMB'000
Dividends receivable from a subsidiary	–	33,000

(e) Fair value measurement of financial instruments

Fair value of financial instruments carried at other than fair value

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2019 and 2018.

25 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the consolidated financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Commitments in respect of property, plant and equipment:		
– Authorised but not contracted for	**21,559**	11,090

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	RMB'000
Within 1 year	1,990
After 1 year but within 5 years	6,473
After 5 years	14,166
	22,629

The Group is the lessee in respect of a number of land, buildings, equipment and dangerous goods transportation vehicles held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see Note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 2(h), and the details regarding the Group's future lease payments are disclosed in Note 21.

26 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the material related party transactions entered into by the Group during the year are set out below.

(a) Transactions with the equity shareholders of the Company, companies controlled by the equity shareholders of the Company and their close family members

	2019 **RMB'000**	2018 RMB'000
Sales of goods	**198**	53
Provision of transportation services	**46,616**	50,327
Purchases of goods	**14,983**	10,496
Rental income:		
– from operating leases	**127**	124
– from entrustment fee in connection with petroleum refuelling stations entrusted to a related party *(Note 5)*	**1,100**	1,100
Management fee in connection with provision of management service over petroleum transportation vehicles owned by a related party *(Note 5)*	**4,000**	4,000
Operating lease charges (recognised as depreciation and interest expenses from right-of-use assets under IFRS 16)	**3,512**	4,307
Entrustment fee in connection with gas refuelling stations entrusted from a related party (recognised as depreciation and interest expenses from right-of-use assets under IFRS 16)	**2,663**	1,751
Advances from a related party	**–**	6,000
Repayment of advances from a related party	**–**	6,000
Guarantees provided for the Group's bank loans at the end of the reporting period *(Note 18(b))*	**43,925**	–

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees of the Group as disclosed in Note 9, is as follows:

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**4,647**	4,579
Contributions to defined contribution retirement scheme	**108**	260
	4,755	4,839

Total remuneration is included in "staff costs" in Note 6(b).

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions included in Note 26(a) constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section Connected Transactions of the Directors' Report or those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

27 DISPOSAL OF A SUBSIDIARY

On 1 January 2019, the Company, through a wholly-owned subsidiary, entered into a sale and purchase agreement with a third party to dispose of the Group's entire equity interests in Jixi United Strength Vehicle Energy Investment Company Limited ("Jixi Energy") at a consideration of RMBNil. Upon completion of the disposal, a gain of RMB944,000 was recognised in "other income" in the consolidated statement of profit or loss of the Group (see Note 5).

(i) The carrying amounts of assets and liabilities in the subsidiary at the date of disposal were as follow:

	RMB'000
Property, plant and equipment *(Note 11)*	8,443
Inventories	14
Prepayments, deposits and other receivables	552
Cash and cash equivalents	784
Trade payables	(90)
Accrued expenses and other payables	(3,924)
Lease liabilities	(6,723)
Net liabilities	(944)

(ii) Notes to the consolidated cash flow statement

Total consideration	–
Net liabilities of the subsidiary disposed of	(944)
Net gain on disposal of the subsidiary recognised in other income in the consolidated statement of profit or loss *(Note 5)*	944
Total consideration received from the disposal	–
Cash and cash equivalents disposed of	784
Net outflow of cash and cash equivalents in connection with the disposal	(784)

28 COMPANY – LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current assets			
Interests in a subsidiary	12	116,866	1
Right-of-use assets		3,128	–
		119,994	1
Current assets			
Amounts due from subsidiaries		–	40,677
Dividends receivable		–	33,000
Cash and cash equivalents		18,330	62,054
		18,330	135,731
Current liabilities			
Other payables		9	16
Lease liabilities		1,742	–
		1,751	16
Net current assets		16,579	135,715
Total assets less current liabilities		136,573	135,716
Non-current liabilities			
Bank loans		43,925	–
Lease liabilities		378	–
		44,303	–
NET ASSETS		92,270	135,716
CAPITAL AND RESERVES	23		
Share capital		19,794	19,794
Reserves		72,476	115,922
TOTAL EQUITY		92,270	135,716

Approved and authorised for issue by the board of directors on 25 March 2020.

Zhao Jinmin
Chairman

Xu Huilin
Director

29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Proposed final dividend

On 25 March 2020, the directors of the Company proposed a final dividend. Further details are disclosed in Note 23(b).

(b) Impact from the COVID-19 Pandemic

The COVID-19 Pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position.

The directors of the Company have been closely monitoring the impact from the COVID-19 Pandemic on the Group and has commenced to put in place various contingency measures. The directors of the Company confirm that these contingency measures include but not limited to reassessing the flexibility of the current mechanisms in determining the selling price of natural gas in light of its correlation to the price of crude oil, expanding the supplier base of natural gas in ensuring the adequate supply of natural gas at prices that align with market quotations, and improving the Group's cash management by expediting debtor settlements and negotiating with suppliers on extension of payment terms. The Group will keep the contingency measures under review as the COVID-19 Pandemic situation evolves.

As far as the Group's businesses are concerned, the COVID-19 Pandemic may cause decrease of sales volume and selling price of natural gas, but the Group considers that such impact could be temporarily and likely to reverse upon the cessation of the COVID-19 Pandemic, while such impact would also be reduced due to the lower purchase price of natural gas. In addition, the COVID-19 Pandemic may also significantly impact the operations of the Group's customers, hence impacting the repayment abilities of the Group's trade debtors, which in turn may result in additional impairment losses on trade and other receivables in future periods. These possible impacts have not been reflected in these financial statements, and the actual impacts may differ from estimates adopted in these financial statements as the COVID-19 Pandemic situation continues to evolve and when further information may become available.

30 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

31 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors of the Company consider the immediate holding company and ultimate controlling party of the Company at 31 December 2019 to be Golden Truth Holdings Limited, which is incorporated in the British Virgin Islands and Mr Zhao Jinmin, respectively. Golden Truth Holdings Limited does not produce financial statements available for public use.

(Expressed in RMB unless otherwise indicated)

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting	1 January 2020
Amendments to IFRS 3, Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8, Definition of material	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform	1 January 2020
IFRS 17, Insurance contracts	1 January 2022
Amendments to IFRS 10 and IAS 28, Sale or contribution of sales between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018 *(Expressed in Renminbi ("RMB"))*

	Note	2018 RMB'000	2017 RMB'000 Restated – *Note 26* *(Note)*
Revenue	*4*	**348,166**	256,147
Cost of sales		**(199,320)**	(144,805)
Gross profit	*4(b)*	**148,846**	111,342
Other income	*5*	**7,556**	9,481
Staff costs	*6(b)*	**(44,234)**	(34,583)
Depreciation and amortisation expenses	*6(c)*	**(16,989)**	(18,408)
Operating lease charges	*6(c)*	**(8,115)**	(7,062)
Other operating expenses		**(27,952)**	(15,651)
Profit from operations		**59,112**	45,119
Finance costs	*6(a)*	**(619)**	(426)
Costs incurred in connection with the initial listing of the Company's shares		**–**	(21,339)
Profit before taxation	*6*	**58,493**	23,354
Income tax	*7*	**(14,946)**	(12,739)
Profit for the year		**43,547**	10,615
Attributable to:			
Equity shareholders of the Company		**42,971**	9,525
Non-controlling interests		**576**	1,090
Profit for the year		**43,547**	10,615
Earnings per share			
– Basic and diluted (RMB)	*10*	**0.18**	0.05

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 129 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 22(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018 *(Expressed in RMB)*

	2018 **RMB'000**	2017 RMB'000 Restated – *Note 26* *(Note)*
Profit for the year	**43,547**	10,615
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	**7,079**	(241)
Total comprehensive income for the year	**50,626**	10,374
Attributable to:		
Equity shareholders of the Company	**50,050**	9,284
Non-controlling interests	**576**	1,090
Total comprehensive income for the year	**50,626**	10,374

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018 *(Expressed in RMB)*

	Note	**2018 RMB'000**	2017 RMB'000 Restated – *Note 26* *(Note)*
Non-current assets			
Property, plant and equipment	*11*	**73,791**	74,093
Lease prepayments	*12*	**44,937**	44,129
Deferred tax assets	*21(b)*	**1,601**	2,974
		120,329	121,196
Current assets			
Inventories	*14*	**2,336**	1,665
Trade receivables	*15*	**3,724**	7,845
Prepayments, deposits and other receivables	*16*	**68,690**	17,650
Income tax recoverable	*21(a)*	**325**	929
Cash and cash equivalents	*17*	**127,918**	151,265
		202,993	179,354
Current liabilities			
Bank loans	*18*	**25,000**	15,000
Trade and bills payables	*19*	**4,922**	21,951
Accrued expenses and other payables	*20*	**23,297**	22,545
Income tax payable	*21(a)*	**6,974**	2,648
		60,193	62,144
Net current assets		**142,800**	117,210
Total assets less current liabilities		**263,129**	238,406
Non-current liabilities			
Deferred tax liabilities	*21(b)*	**7,661**	7,998
NET ASSETS		**255,468**	230,408

Note: *The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).*

The notes on pages 70 to 129 form part of these financial statements.

	Note	**2018 RMB'000**	2017 RMB'000 Restated – *Note 26* *(Note)*
CAPITAL AND RESERVES	*22*		
Share capital		**19,794**	19,794
Reserves		**229,026**	204,077
Total equity attributable to equity shareholders of the Company		**248,820**	223,871
Non-controlling interests		**6,648**	6,537
TOTAL EQUITY		**255,468**	230,408

Approved and authorised for issue by the board of directors on 11 March 2019.

Zhao Jinmin
Chairman

Xu Huilin
Director

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 70 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018 *(Expressed in RMB)*

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 *(Note 22(c))*	Share premium RMB'000 *(Note 22(d)(i))*	Other reserve RMB'000 *(Note 22(d)(ii))*	Statutory reserve RMB'000 *(Note 22(d)(iii))*	Exchange reserve RMB'000 *(Note 22(d)(iv))*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017 (as previously reported)	–	–	65,291	2,819	(49)	69,343	137,404	5,249	142,653
Adjustments in connection with the acquisition of a subsidiary under common control *(Note 26)*	–	–	5,800	1,006	–	6,354	13,160	–	13,160
Balance at 1 January 2017 (as restated – *Note 26*)	–	–	71,091	3,825	(49)	75,697	150,564	5,249	155,813
Changes in equity for 2017:									
Profit for the year (restated – *Note 26*)	–	–	–	–	–	9,525	9,525	1,090	10,615
Other comprehensive income for the year (restated – *Note 26*)	–	–	–	–	(241)	–	(241)	–	(241)
Total comprehensive income (restated – *Note 26*)	–	–	–	–	(241)	9,525	9,284	1,090	10,374
Issuance of share (restated – *Note 26*)	–	20,000	–	–	–	–	20,000	–	20,000
Effect on equity arising from the completion of a group reorganisation (restated – *Note 26*)	–	–	(75,808)	–	–	–	(75,808)	198	(75,610)
Capitalisation issue (restated – *Note 26*)	14,849	(14,849)	–	–	–	–	–	–	–
Issuance of shares by initial public offering (restated – *Note 26*)	4,945	114,886	–	–	–	–	119,831	–	119,831
	19,794	120,037	(75,808)	–	–	–	64,023	198	64,221
Balance at 31 December 2017 (as restated – *Note 26*)	19,794	120,037	(4,717)	3,825	(290)	85,222	223,871	6,537	230,408

Note: *The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).*

The notes on pages 70 to 129 form part of these financial statements.

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 *(Note 22(c))*	Share premium RMB'000 *(Note 22(d)(i))*	Other reserve RMB'000 *(Note 22(d)(ii))*	Statutory reserve RMB'000 *(Note 22(d)(iii))*	Exchange reserve RMB'000 *(Note 22(d)(iv))*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018 (as previously reported)	19,794	120,037	(10,517)	2,819	(290)	76,778	208,621	6,537	215,158
Adjustments in connection with the acquisition of a subsidiary under common control *(Note 26)*	–	–	5,800	1,006	–	8,444	15,250	–	15,250
Impact on initial application of IFRS 15 and IFRS 9 *(Note 2(c))*	–	–	–	–	–	(50)	(50)	–	(50)
Balance at 1 January 2018 (as restated)	19,794	120,037	(4,717)	3,825	(290)	85,172	223,821	6,537	230,358
Changes in equity for 2018:									
Profit for the year	–	–	–	–	–	42,971	42,971	576	43,547
Other comprehensive income for the year	–	–	–	–	7,079	–	7,079	–	7,079
Total comprehensive income	–	–	–	–	7,079	42,971	50,050	576	50,626
Dividends approved in respect of the previous year *(Note 22(b))*	–	–	–	–	–	(9,801)	(9,801)	–	(9,801)
Distributions paid by a subsidiary to non-controlling equity owners	–	–	–	–	–	–	–	(465)	(465)
Effect on equity arising from the acquisition of a subsidiary under common control *(Note 26)*	–	–	(15,250)	–	–	–	(15,250)	–	(15,250)
	–	–	(15,250)	–	–	(9,801)	(25,051)	(465)	(25,516)
Balance at 31 December 2018	19,794	120,037	(19,967)	3,825	6,789	118,342	248,820	6,648	255,468

Note: *The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).*

The notes on pages 70 to 129 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018 *(Expressed in RMB)*

	Note	**2018 RMB'000**	2017 RMB'000 Restated – *Note 26* *(Note)*
Operating activities			
Profit before taxation		**58,493**	23,354
Adjustments for:			
Depreciation and amortisation	*6(c)*	**16,989**	18,408
Net gain on disposal of property, plant and equipment and land use rights	*5*	**(13)**	(132)
Finance costs	*6(a)*	**619**	426
Interest income	*5*	**(288)**	(469)
Net foreign exchange losses	*5*	**2,768**	–
Impairment losses on property, plant and equipment		**600**	–
Changes in working capital:			
(Increase)/decrease in inventories		**(671)**	236
Decrease/(increase) in trade receivables		**4,055**	(6,810)
(Increase)/decrease in prepayments, deposits and other receivables		**(47,535)**	320
(Decrease)/increase in trade and bills payables		**(17,029)**	16,964
Increase/(decrease) in accrued expenses and other payables		**2,176**	(2,769)
Cash generated from operations		**20,164**	49,528
Income tax paid	*21(a)*	**(8,964)**	(5,505)
Net cash generated from operating activities		**11,200**	44,023
Investing activities			
Payments for purchase of property, plant and equipment and land use rights		**(18,141)**	(14,701)
Proceeds from disposal of property, plant and equipment and land use rights		**59**	301
Payments for acquisitions of subsidiaries	*22(d) (ii)&26*	**(15,250)**	(75,808)
Deposit in connection with an acquisition of business		**(3,505)**	–
Interest received		**288**	469
Net cash used in investing activities		**(36,549)**	(89,739)

Note: *The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).*

The notes on pages 70 to 129 form part of these financial statements.

	Note	2018 RMB'000	2017 RMB'000 Restated – *Note 26* *(Note)*
Financing activities			
Proceeds from issuance of shares		–	20,000
Proceeds from issuance of shares by initial public offering, net of share issuance expenses		–	123,917
Proceeds from new bank loans	*17(b)*	**25,000**	30,000
Repayment of bank loans	*17(b)*	**(15,000)**	(30,000)
Net decrease in amounts due from related parties	*17(b)*	–	25,679
Dividends paid to equity shareholders of the Company	*17(b)*	**(9,801)**	–
Distributions paid to non-controlling equity owners of a subsidiary	*17(b)*	**(465)**	–
Interest paid	*17(b)*	**(619)**	(463)
Net cash (used in)/generated from financing activities		**(885)**	169,133
Net (decrease)/increase in cash and cash equivalents		**(26,234)**	123,417
Cash and cash equivalents at 1 January	*17(a)*	**151,265**	27,219
Effect of foreign exchange rate changes		**2,887**	629
Cash and cash equivalents at 31 December	*17(a)*	**127,918**	151,265

Note: *The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).*

The notes on pages 70 to 129 form part of these financial statements.

1 CORPORATE INFORMATION

United Strength Power Holdings Limited (the "Company") was incorporated in the Cayman Islands on 19 December 2016 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 October 2017. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the sale of natural gas to vehicular end-users by operating refuelling stations and provision of petroleum and gas transportation services.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

Prior to the incorporation of the Company, the Group's business were conducted through Changchun Sinogas Company, Ltd. ("Changchun Sinogas") and certain of the then subsidiaries of Changchun Yitonghe Petroleum Distribution Company Limited ("Changchun Yitonghe"), both of which were owned as to 74% by Mr Zhao Jinmin. Pursuant to a group reorganisation to rationalise the corporate structure in preparation of the listing of the Company's shares on the Stock Exchange which was completed on 15 March 2017 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group. All companies now comprising the Group that took part in the Reorganisation were controlled by Mr Zhao Jinmin and owned by Mr Zhao Jinmin and other equity shareholders in the same proportionate interest before and after the Reorganisation, there were no changes in the economic substance of the ownership and the business of the Group. The Reorganisation only involved inserting the newly formed entities with no substantive operations as the new holding companies of the companies now comprising the Group. Accordingly, the consolidated financial statements for the year ended 31 December 2017 have been prepared and presented as a continuation of the financial information of the companies now comprising the Group with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation.

The measurement basis used on the preparation of the financial statements is the historical cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as IFRS 9.

(i) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and the related tax impact at 1 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(i) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation (continued)*

Retained earnings	RMB'000
Recognition of additional expected credit losses on financial assets measured at amortised cost	(66)
Related tax	16
Net decrease in retained earnings at 1 January 2018	(50)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

`	IAS 39 carrying amount at 31 December 2017 RMB'000	Remeasurement RMB'000	IFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets carried at amortised cost			
Cash and cash equivalents	151,265	–	151,265
Trade receivables	7,845	(66)	7,779
Other receivables (included in Prepayments, deposits and other receivables)	2,346	–	2,346
	161,456	(66)	161,390

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(h)(i), 2(k) and 2(n).

The measurement categories for all financial liabilities remain the same, and the carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(i) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation (continued)*

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables); and

– lease receivables.

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(h)(i).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	–
Additional credit loss recognised at 1 January 2018 on trade receivables	(66)
Loss allowance at 1 January 2018 under IFRS 9	(66)

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The assessment on the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstance that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

There is no impact of transition to IFRS 15 on retained earnings and the related tax at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;

- When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

- When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sale of goods and rendering of services.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity interests in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative equity interests, but no adjustments are made to goodwill and no gain or loss is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interests in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any equity interests retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)), unless the investment is classified as held for sale.

(e) Business combination under common control

Business combinations arising from transfer of interests in entities that are under the control of the controlling shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the comparative period or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's prospective. The components of equity of the acquired entities are added to the same components within the Group's equity and any difference between the net assets acquired and the consideration paid is recognised directly in equity.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
– Buildings	Over the shorter of the term of lease and their estimated useful lives
– Refuelling equipment	3–15 years
– Motor vehicles and other equipment	3–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Payments made on the acquisition of land held under an operating lease are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the lease term.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables); and

– lease receivables.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– lease receivables: discount rate used in the measurement of the lease receivable.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(A) Policy applicable from 1 January 2018 (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognisation. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of trade and other receivables or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid interests in leasehold land classified as being held under an operating lease; and

– investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses
An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Credit losses and impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(h)(i) and (ii)).

(i) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(i)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract. Other costs of fulfilling a contract, which are not capitalised as inventories, are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories and other contract costs (continued)

(ii) Other contract costs (continued)

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(r).

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(h)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and control over the goods is transferred to the customer. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

(ii) Render of services

Revenue from the render of services is recognised progressively based on percentage of completion.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss over the useful life of the related asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

The results of foreign operations which have a functional currency other than RMB, the Group's presentation currency, are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

  (i) The entity and the Group are members of the same group.

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies: (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING ADJUSTMENTS AND ESTIMATES

Notes 11(b) and 23 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(h)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the asset and could result in additional impairment charge or reversal of impairment in future years.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of useful lives and residual values, if any, are based on the historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Deferred tax

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the sale of natural gas to vehicular end-users by operating refuelling stations and provision of petroleum and gas transportation services.

Further details regarding the Group's principal activities are disclosed in Note 4(b).

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26* *(Note)*
Disaggregated by major products or service lines:		
– Sales of natural gas by operating refuelling stations	**275,474**	213,634
– Revenue from the provision of transportation services	**60,025**	42,513
– Revenue from the trading of liquefied petroleum gas ("LPG") and liquefied natural gas ("LNG")	**12,667**	–
	348,166	256,147

Note: The Group has initially applied IFRS15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS18 and IAS11 (see Note 2(c)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in Note 4(b).

The Group's customer base is diversified for the sale of natural gas by operating refuelling stations, where there was one customer from the Group's provision of transportation services which is a related party of the Group, with whom transactions have exceeded 10% of the Group's revenues. In 2018, revenues from the provision of transportation services to this customer amounted to RMB50,327,000 (2017: RMB36,138,000 (restated – Note 26)). Details of the Group's concentrations of credit risk are set out in Note 23(a).

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Sale of natural gas: this segment sells compressed natural gas ("CNG"), LPG and LNG to vehicular end-users by operating refuelling stations and trading of LPG and LNG.

– Provision of transportation services: this segment provides petroleum and gas transportation services by managing dangerous goods transportation vehicles.

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, attributable to each reportable segment on the following bases:

Revenue are allocated to the reportable segments with reference to sales and revenue generated by those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment is gross profit. The Group's other income, staff costs, depreciation and amortisation expenses, operating lease charges and other operating expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance is set out below.

		2018	
	Sale of natural gas RMB'000	Provision of transportation services RMB'000	Total RMB'000
Disaggregated by timing of revenue recognition:			
– Point in time	288,141	–	288,141
– Over time	–	60,025	60,025
Revenue from external customers	288,141	60,025	348,166
Inter-segment revenue	2,159	12,562	14,721
Reportable segment revenue	290,300	72,587	362,887
Reportable segment profit (gross profit)	99,560	49,286	148,846

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

	2017		
	Sale of natural gas RMB'000 Restated – *Note 26* *(Note)*	Provision of transportation services RMB'000 Restated – *Note 26* *(Note)*	Total RMB'000 Restated – *Note 26* *(Note)*
Revenue from external customers	213,634	42,513	256,147
Inter-segment revenue	1,777	6,597	8,374
Reportable segment revenue	215,411	49,110	264,521
Reportable segment profit (gross profit)	80,107	31,235	111,342

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see Note 2(c)(ii)).

(ii) Reconciliations of reportable segment revenues and profit or loss

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Revenue		
Reportable segment revenue	**362,887**	264,521
Elimination of inter-segment revenue	**(14,721)**	(8,374)
Consolidated revenue (Note 4(a))	**348,166**	256,147

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Profit		
Reportable segment profit (gross profit)	**148,846**	111,342
Other income	**7,556**	9,481
Staff costs	**(44,234)**	(34,583)
Depreciation and amortisation expenses	**(16,989)**	(18,408)
Operating lease charges	**(8,115)**	(7,062)
Other operating expenses	**(27,952)**	(15,651)
Finance costs	**(619)**	(426)
Costs incurred in connection with the initial listing of the Company's shares	**–**	(21,339)
Consolidated profit before taxation	**58,493**	23,354

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(iii) Geographic information

All of the Group's customers patronised at the Group's operations carried out in the People's Republic of China (the "PRC"). The Group's non-current assets, including property, plant and equipment and lease prepayments are all located in the PRC.

5 OTHER INCOME

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Rental income from operating leases	**3,466**	3,031
Entrustment fee in connection with petroleum refuelling stations entrusted to a related party *(Note 25(a))*	**1,100**	1,100
Management fee in connection with provision of management service over petroleum transportation vehicles owned by a related party *(Note 25(a))*	**4,000**	4,000
Net gain on disposal of property, plant and equipment and land use rights	**13**	132
Net foreign exchange losses	**(2,768)**	–
Government grants	**1,129**	103
Interest income	**288**	469
Others	**328**	646
	7,556	9,481

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Interests on bank loans	**619**	426

No borrowing costs have been capitalised during the year ended 31 December 2018 (2017: RMBNil (restated – Note 26)).

6 PROFIT BEFORE TAXATION (continued)

(b) Staff costs:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Salaries, wages and other benefits	**39,835**	30,797
Contributions to defined contribution retirement plans	**4,399**	3,786
	44,234	34,583

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at a rate of 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollars ("HK$") 30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further material obligations for payment of other retirement benefits beyond the above contributions.

(c) Other items:

	2018 RMB'000	2017 RMB'000 Restated – *(Note)*
Depreciation and amortisation *(Notes 11 and 12)*	**16,989**	18,408
Operating lease charges in respect of property, plant and equipment and land use rights	**8,115**	7,062
Reversal of impairment losses on trade receivables *(Note 23(a))*	**(19)**	–
Auditors' remuneration – audit services	**3,000**	2,450
Cost of inventories *(Note 14(b))*	**191,997**	135,305

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2018 **RMB'000**	2017 RMB'000 Restated – *Note 26*
Current tax *(Note 21(a))*		
Provision for the year	**13,894**	7,413
Deferred tax *(Note 21(b))*		
– Origination and reversal of temporary differences	**1,052**	2,026
– Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	**–**	3,300
	1,052	5,326
	14,946	12,739

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 **RMB'000**	2017 RMB'000 Restated – *Note 26*
Profit before taxation	**58,493**	23,354
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**15,676**	7,426
Tax effect of non-deductible expenses	**2,026**	3,848
Tax concessions *(Note (iv))*	**(3,092)**	(2,125)
Tax effect of unused tax losses and temporary differences not recognised	**336**	290
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	**–**	3,300
Actual tax expense	**14,946**	12,739

Notes:

(i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2018 (2017: 16.5% (restated – Note 26)).

(ii) The Company and the subsidiaries of the Group incorporated in countries other than the PRC (including Hong Kong) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (continued)

Notes: (continued)

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% during the year ended 31 December 2018 (2017: 25% (restated – Note 26)).

(iv) One of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an enterprise with tax incentive for development of the western region for the calendar years from 2011 to 2020 and therefore enjoyed a preferential PRC Corporate Income Tax rate of 15% for the year ended 31 December 2018 (2017: 15% (restated – Note 26)).

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Zhao Jinmin	–	203	–	44	247
Mr Liu Yingwu	–	203	–	44	247
Mr Wang Qingguo (resigned on 27 November 2018)	–	203	–	44	247
Mr Xu Huilin	–	1,526	127	44	1,697
Mr Yuan Limin (appointed on 27 November 2018)	–	21	–	–	21
Independent non-executive directors					
Ms Su Dan	254	–	–	–	254
Mr Yu Chen (resigned on 27 November 2018)	233	–	–	–	233
Mr Lau Ying Kit	254	–	–	–	254
Mr Zhang Zhifeng (appointed on 27 November 2018)	21	–	–	–	21
	762	2,156	127	176	3,221

8 DIRECTORS' EMOLUMENTS (continued)

	2017				
	Directors' fees RMB'000 Restated – *Note 26*	Salaries, allowances and benefits in-kind RMB'000 Restated – *Note 26*	Discretionary bonuses RMB'000 Restated – *Note 26*	Retirement scheme contributions RMB'000 Restated – *Note 26*	Total RMB'000 Restated – *Note 26*
Executive directors					
Mr Zhao Jinmin	–	202	–	40	242
Mr Liu Yingwu	–	202	–	40	242
Mr Wang Qingguo	–	202	–	40	242
Mr Xu Huilin	–	1,172	121	40	1,333
Independent non-executive directors					
Ms Su Dan	61	–	–	–	61
Mr Yu Chen	61	–	–	–	61
Mr Lau Ying Kit	61	–	–	–	61
	183	1,778	121	160	2,242

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2017: two (restated – Note 26)) are directors of the Company whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other two (2017: three (restated – Note 26)) individuals are as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Salaries, discretionary bonuses and other emoluments	**1,212**	1,354
Retirement scheme contributions	**15**	51
	1,227	1,405

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2018 Number of individuals	2017 Number of individuals Restated – *Note 26*
HK$Nil – HK$1,000,000	**2**	3

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for year ended 31 December 2018 is calculated based on the profit attributable to ordinary equity shareholders of the Company of RMB42,971,000 and the weighted average of 234,502,000 ordinary shares in issue during the year.

The basic earnings per share for the year ended 31 December 2017 is calculated based on the profit attributable to equity shareholders of the Company of RMB9,525,000 and the weighted average of 188,244,000 ordinary shares, comprising:

(i) 1,000 ordinary shares in issue as at the date of the prospectus of the Company dated 29 September 2017 (the "Prospectus") and 175,875,000 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 175,876,000 ordinary shares were outstanding throughout the year ended 31 December 2017; and

(ii) 58,626,000 ordinary shares issued on 16 October 2017 by initial public offering.

The calculation of the weighted average number of ordinary shares are as follows:

	2018 **'000**	2017 '000 Restated – *Note 26*
Issued ordinary shares at 1 January	**234,502**	1
Effect of capitalisation issue on the completion of the initial public offering	**–**	175,875
Effect of shares issued by initial public offering on 16 October 2017	**–**	12,368
Weighted average number of ordinary shares at 31 December	**234,502**	188,244

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the years ended 31 December 2018 and 2017 (restated – Note 26).

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Refuelling equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost (as restated – *Note 26*):					
At 1 January 2017	24,964	51,452	57,318	674	134,408
Additions	–	2,585	4,145	–	6,730
Disposals	–	–	(1,650)	–	(1,650)
At 31 December 2017	24,964	54,037	59,813	674	139,488
Accumulated depreciation (as restated – *Note 26*):					
At 1 January 2017	5,815	24,649	19,381	–	49,845
Charge for the year	1,240	5,919	9,872	–	17,031
Written back on disposals	–	–	(1,481)	–	(1,481)
At 31 December 2017	7,055	30,568	27,772	–	65,395
Carrying amount (as restated – *Note 26*):					
At 31 December 2017	17,909	23,469	32,041	674	74,093
Cost:					
At 1 January 2018	**24,964**	**54,037**	**59,813**	**674**	**139,488**
Additions	**–**	**819**	**15,137**	**–**	**15,956**
Disposals	**–**	**–**	**(493)**	**–**	**(493)**
At 31 December 2018	**24,964**	**54,856**	**74,457**	**674**	**154,951**
Accumulated depreciation and impairment losses:					
At 1 January 2018	**7,055**	**30,568**	**27,772**	**–**	**65,395**
Charge for the year	**1,327**	**3,827**	**10,458**	**–**	**15,612**
Written back on disposals	**–**	**–**	**(447)**	**–**	**(447)**
Impairment loss *(Note 11(b))*	**–**	**600**	**–**	**–**	**600**
At 31 December 2018	**8,382**	**34,995**	**37,783**	**–**	**81,160**
Carrying amount:					
At 31 December 2018	**16,582**	**19,861**	**36,674**	**674**	**73,791**

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) At 31 December 2018, property certificates of certain properties with carrying amounts of RMB206,000 (2017: RMB225,000 (restated – Note 26), are yet to be obtained. At 31 December 2018, the Group is in the process of applying for the ownership certificates for these properties. Mr Zhao Jinmin has undertaken to procure the obtaining of the title documents for the abovementioned properties. If title documents could not be obtained, Mr Zhao Jinmin agreed to indemnify the Group for all the losses and damages arising therefrom.

(b) During the year ended 31 December 2018, in a view to satisfy the needs of its customers and traffic flow, the management of the Group have decided to redeploy certain LPG refuelling stations as CNG refuelling stations and ceased operation of a CNG refuelling station. The Group assessed the recoverable amounts of the related equipment and as a result the carrying amounts of these equipment were written down to their recoverable amounts of RMB661,000. The Group assessed the recoverable amounts of these refuelling equipment by using the value in use model. The inputs on which the recoverable amounts are based on are categorised as level 3 measurements. As a result, an impairment loss of RMB600,000 was recognised in "other operating expenses" in 2018.

(c) The Group leases out a number of properties (buildings and land use rights), and motor vehicles and other equipment under operating leases. The leases typically run for an initial period of 1 to 20 years, with options to renew the leases at which time all terms are renegotiated. None of the leases includes contingent rentals.

At 31 December 2018, the aggregate carrying amounts of the properties (buildings and land use rights), and motor vehicles and other equipment leased out amounted to RMB4,628,000 (2017: RMB5,247,000 (restated – Note 26)).

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018 **RMB'000**	2017 RMB'000 Restated – *Note 26*
Within 1 year	**1,897**	2,887
After 1 year but within 5 years	**2,366**	3,912
After 5 years	**3,414**	3,974
	7,677	10,773

12 LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Cost:		
At 1 January	**50,145**	50,145
Additions	**2,185**	–
At 31 December	**52,330**	50,145
Accumulated amortisation:		
At 1 January	**6,016**	4,639
Charge for the year	**1,377**	1,377
At 31 December	**7,393**	6,016
Carrying amount:		
At 31 December	**44,937**	44,129

Lease prepayments represent land use right premiums paid by the Group for land located in the PRC. These land use rights are with lease periods of 30 to 50 years.

At 31 December 2018, land use right certificates of certain land use rights with carrying amounts of RMB11,777,000 (2017: RMB9,592,000 (restated – Note 26)) are yet to be obtained. At 31 December 2018, the Group is in the process of applying for the ownership certificates for these land use rights. Mr Zhao Jinmin has undertaken to procure the obtaining of the title documents for the abovementioned land use rights. If title documents could not be obtained, Mr Zhao Jinmin agreed to indemnify the Group for all the losses and damages arising therefrom.

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Percentage of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by subsidiaries	
Jilin Dongkun Gas Company Limited (吉林東昆燃氣有限公司)*	The PRC 30 September 1999	RMB18,728,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Jilin Chinese Petroleum Clean Energy Environmental Protection Company Limited ("Jilin Clean Energy") (吉林中油潔能環保有限責任公司)*	The PRC 19 September 2001	RMB8,000,000	51%	–	51%	Sale of natural gas to vehicular end-users by operating refuelling stations
Jilin Province Jieli Logistics Company Limited ("Jieli Logistics") *(Note 26)* (吉林省捷利物流有限公司)*	The PRC 21 April 2005	RMB5,800,000	100%	–	100%	Provision of transportation services
Changchun Sinogas (長春中油潔能燃氣有限公司)**	The PRC 18 July 2005	RMB20,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Wuchang City Qinglian Gas Company Limited (五常市慶聯燃氣有限公司)*	The PRC 18 April 2006	RMB3,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Longjing United Strength Energy Development Company Limited (龍井眾誠能源發展有限公司)*	The PRC 16 July 2007	RMB20,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Yanbian United Strength Energy Technology Development Company Limited ("Yanbian United Strength") (延邊眾誠能源技術開發有限公司)*	The PRC 14 July 2008	RMB500,000	60%	–	60%	Development of energy technology
Liaoyuan City Hengtai Clean Energy Company Limited (遼源市恒泰清潔能源有限公司)*	The PRC 12 August 2010	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Meihekou City Yujia Petrochemical Company Limited (梅河口市譽嘉石化有限公司)*	The PRC 27 December 2011	RMB10,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Yanbian Xinyuan Natural Gas Sales Company Limited (延邊鑫源天然氣銷售有限公司)*	The PRC 29 May 2013	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Jixi United Strength Vehicle Energy Investment Company Limited ("Jixi Energy") *(Note 28(a))* (雞西眾誠汽車能源投資有限公司)*	The PRC 5 September 2013	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations

13 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Percentage of ownership interest: The Group's effective interest	Percentage of ownership interest: Held by the Company	Percentage of ownership interest: Held by subsidiaries	Principal activities
United Strength Power International Limited*** ("United Strength BVI")	The British Virgin Islands 4 January 2017	100 shares of United States dollar 'USD' 1 each	100%	100%	–	Investment holding
United Strength Power HK Limited***	Hong Kong 17 January 2017	1 share	100%	–	100%	Investment holding
Yanbian Jieli Logistics Company Limited *(Note 26)* (延邊捷利物流有限公司)*	The PRC 13 April 2018	RMB50,000,000	100%	–	100%	Provision of transportation services
United Strength Investment Limited***	The British Virgin Islands 6 July 2018	10,000 shares of USD 1 each	51%	–	51%	Investment holding
Sino Regent International Limited*** ("Sino Regent")	Hong Kong 18 September 2018	1 share	51%	–	100%	Investment holding

Notes:

* *The official names of these entities are in Chinese. The English translation of the names are for identification purpose only. These companies are limited liability companies established in the PRC.*

** *The official name of this entity is in Chinese. The English translation of the name is for identification purpose only. This company is a wholly foreign owned enterprise established in the PRC.*

*** *These companies are limited liability companies incorporated outside of the PRC.*

The following table lists out the information relating to subsidiaries of the Group with material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
NCI percentage:		
– Jilin Clean Energy	**49%**	49%
– Yanbian United Strength	**40%**	40%
– Sino Regent	**51%**	N/A
Non-current assets	**11,413**	5,376
Current assets	**14,973**	20,523
Current liabilities	**(12,984)**	(12,743)
Net assets	**13,402**	13,156
Net assets attributable to NCI	**6,648**	6,537

13 INVESTMENTS IN SUBSIDIARIES (continued)

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Revenue	**70,238**	48,132
Profit and total comprehensive income for the year	**1,194**	2,239
Profit and total comprehensive income attributable to NCI	**576**	1,090

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Gases	**1,650**	777
Spare parts	**686**	888
	2,336	1,665

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the year is as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Carrying amount of inventories sold	**191,997**	135,305

15 TRADE RECEIVABLES

	Note	**31 December 2018 RMB'000**	1 January 2018 RMB'000	At 31 December 2017 RMB'000 Restated – *Note 26*
Trade receivables, net of loss allowance, due from:	*(i)*			
– related parties		**3,446**	6,675	6,732
– third parties		**278**	1,104	1,113
		3,724	7,779	7,845

Note:

(i) Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see Note 2(c)(i)).

All of the trade receivables are expected to be recovered within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Within 1 month	**3,638**	7,823
1 to 3 months	**86**	22
	3,724	7,845

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 23(a).

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**2018 RMB'000**	2017 RMB'000 Restated – *Note 26*
Prepayments for purchase of inventories and services from:			
– related parties		**3,559**	4,217
– third parties		**14,036**	7,910
		17,595	12,127
Deposits for LPG and LNG related products supply contracts		**39,304**	–
Prepayments for entrustment fee in connection with gas refuelling stations entrusted from third parties		**4,688**	3,177
Advances to staff		**142**	387
Deposit in connection with an acquisition of a business	*(i)*	**3,505**	–
Others		**3,456**	1,959
		68,690	17,650

Note:

(i) The amount represents a deposit placed to a third party vendor in entering into a negotiation for the Group's contemplated acquisition of the entire equity interests in another company. Further details are set out in Note 28(b).

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

17 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Cash at bank and on hand	**127,918**	151,265

The Group's operations in the PRC (excluding Hong Kong) conducted their businesses in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

17 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities from financing activities are liabilities for which cash flow were, or future cash flow will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Liabilities				
	Bank loans RMB'000 *(Note 18)*	Interest payable RMB'000	Dividends payable RMB'000	Advances from a related party RMB'000	Total RMB'000
At 1 January 2018 (as restated – *Note 26*)	15,000	–	–	–	15,000
Changes from financing cash flows:					
Proceeds from new bank loans	25,000	–	–	–	25,000
Repayment of bank loans	(15,000)	–	–	–	(15,000)
Dividends paid to equity shareholders of the Company	–	–	(9,801)	–	(9,801)
Distributions paid to non-controlled equity owners of a subsidiary	–	–	(465)	–	(465)
Advances from a related party	–	–	–	6,000	6,000
Repayments of advances from a related party	–	–	–	(6,000)	(6,000)
Interest paid	–	(619)	–	–	(619)
Total changes from financing cash flows	10,000	(619)	(10,266)	–	(885)
Other Changes					
Dividends approved in respect of the previous year	–	–	9,801	–	9,801
Distributions declared by a subsidiary	–	–	465	–	465
Finance costs *(Note 6(a))*	–	619	–	–	619
Total other changes	–	619	10,266	–	10,885
	–	–	–	–	–
At 31 December 2018	25,000	–	–	–	25,000

17 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Liabilities		Assets	
	Bank loans RMB'000 *(Note 18)*	Interest payable RMB'000	Net amount due from related parties RMB'000	Net RMB'000
At 1 January 2017 (as restated – *Note 26*)	15,000	37	25,679	(10,642)
Changes from financing cash flows (restated – *Note 26*):				
Proceeds from new bank loans (restated – *Note 26*)	30,000	–	–	30,000
Repayment of bank loans (restated – *Note 26*)	(30,000)	–	–	(30,000)
Net decrease in amounts due from related parties (restated – *Note 26*)	–	–	(25,679)	25,679
Interest paid (restated – *Note 26*)	–	(463)	–	(463)
Total changes from financing cash flows (restated – *Note 26*)	–	(463)	(25,679)	25,216
Other changes (restated – *Note 26*)				
Finance costs (*Note 6(a)*, restated – *Note 26*)	–	426	–	426
At 31 December 2017 (as restated – *Note 26*)	15,000	–	–	15,000

18 BANK LOANS

The Group's short-term bank loans are analysed as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Secured by property, plant and equipment and land use rights of the Group	**25,000**	15,000

At 31 December 2018, the aggregate carrying amount of the property, plant and equipment and land use rights pledged for the Group's short-term bank loans is RMB14,593,000 (2017: RMB7,442,000 (restated – Note 26)).

Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 23(b). At 31 December 2018, none of the covenants relating to the bank loans had been breached (2017: none (restated – Note 26)).

19 TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Trade payables due to:		
– related parties	**1,199**	–
– third parties	**3,723**	1,951
	4,922	1,951
Bills payables	**–**	20,000
	4,922	21,951

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of the Group's trade and bills payables, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Within 3 months	**4,922**	1,951
3 to 6 months	**–**	20,000
	4,922	21,951

20 ACCRUED EXPENSES AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Payables for staff related costs	**2,083**	1,868
Deposits from customers	**1,446**	1,260
Payables for entrustment fee in connection with gas refuelling stations entrusted to a related party	**565**	160
Payables for acquisitions of property, plant and equipment and land use rights	**9,777**	9,777
Other taxes payables	**1,327**	1,241
Others	**2,908**	3,081
Financial liabilities measured at amortised cost	**18,106**	17,387
Receipts in advance from customers	**5,191**	5,158
	23,297	22,545

All of the accrued expenses and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Income tax payable at 1 January, net	**1,719**	(189)
Provision for the year *(Note 7(a))*	**13,894**	7,413
Income tax paid	**(8,964)**	(5,505)
Income tax payable at 31 December, net	**6,649**	1,719
Representing:		
Income tax payable	**6,974**	2,648
Income tax recoverable	**(325)**	(929)
	6,649	1,719

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets				Liabilities		
	Unused tax losses RMB'000	Accruals RMB'000	Credit loss allowance RMB'000 *Note 2(c)(i)*	Impairment loss on property, plant and equipment RMB'000	Fair value adjustments on property, plant and equipment and lease prepayments and subsequent depreciation and amortisation RMB'000	Retained profits to be distributed RMB'000	Net RMB'000
At 1 January 2017 (as restated – *Note 26*)	2,992	415	–	–	(3,105)	–	302
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))* (as restated – *Note 26*)	(1,805)	(312)	–	–	91	(3,300)	(5,326)
At 31 December 2017 (as restated – *Note 26*)	1,187	103	–	–	(3,014)	(3,300)	(5,024)
Impact on initial application of IFRS 9 *(Note 2(c)(i))*	–	–	16	–	–	–	16
At 1 January 2018	**1,187**	**103**	**16**	**–**	**(3,014)**	**(3,300)**	**(5,008)**
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	**(1,183)**	**(51)**	**(4)**	**94**	**92**	**–**	**(1,052)**
At 31 December 2018	**4**	**52**	**12**	**94**	**(2,922)**	**(3,300)**	**(6,060)**

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised (continued)

Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Deferred tax assets recognised in the consolidated statement of financial position	**1,601**	2,974
Deferred tax liabilities recognised in the consolidated statement of financial position	**(7,661)**	(7,998)
	(6,060)	(5,024)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses and certain deductible temporary differences of RMB6,204,000 (2017: RMB5,097,000 (restated – Note 26)) as it is not probable that future taxable profits against which the losses or the temporary differences can be utilised will be available in the relevant tax jurisdiction and entities. The cumulative tax losses comprised tax losses arose from various years, and each year's tax loss can only be carried forward for five years.

(d) Deferred tax liabilities not recognised

At 31 December 2018 taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMB135,600,000 at 31 December 2018 (2017: RMB82,510,000 (restated – Note 26)), where deferred tax liabilities in respect of the 10% PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes of the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 *(Note 22(c))*	Share premium RMB'000 *(Note 22(d)(i))*	Exchange reserve RMB'000 *(Note 22(d)(iv))*	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	–	–	(49)	(1,078)	(1,127)
Changes in equity for 2017:					
Loss for the year	–	–	–	(21,402)	(21,402)
Other comprehensive income for the year	–	–	(52)	–	(52)
Total comprehensive income	–	–	(52)	(21,402)	(21,454)
Issuance of shares	–	20,000	–	–	20,000
Capitalisation issue	14,849	(14,849)	–	–	–
Issuance of shares by initial public offering	4,945	114,886	–	–	119,831
	19,794	120,037	–	–	139,831
At 31 December 2017	19,794	120,037	(101)	(22,480)	117,250
At 1 January 2018	**19,794**	**120,037**	**(101)**	**(22,480)**	**117,250**
Changes in equity for 2018:					
Profit for the year	**–**	**–**	**–**	**21,461**	**21,461**
Other comprehensive income for the year	**–**	**–**	**6,806**	**–**	**6,806**
Total comprehensive income	**–**	**–**	**6,806**	**21,461**	**28,267**
Dividends approved in respect of the previous year *(Note 22(b))*	**–**	**–**	**–**	**(9,801)**	**(9,801)**
At 31 December 2018	**19,794**	**120,037**	**6,705**	**(10,820)**	**135,716**

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Final dividend proposed after the end of the reporting period of HK$0.0852 per ordinary share (2017: HK$0.05 per ordinary share (restated – *Note 26*))	**17,465**	9,801

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.05 per ordinary share (2017: HK$Nil per ordinary share (restated – *Note 26*))	**9,801**	–

(c) Share capital

	2018		2017	
	No. of shares '000	HK$'000	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**800,000**	**80,000**	800,000	80,000

	2018		2017	
	No. of shares '000	RMB'000	No. of shares '000 Restated – *Note 26*	RMB'000 Restated – *Note 26*
Ordinary shares, issued and fully paid:				
At 1 January	**234,502**	**19,794**	–	–
Issuance of shares	–	–	1	–
Capitalisation issue	–	–	175,875	14,849
Issuance of shares by initial public offering	–	–	58,626	4,945
At 31 December	**234,502**	**19,794**	234,502	19,794

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Other reserve

The balance of other reserve at 31 December 2017 (as restated – Note 26) represented by (i) the differences between the considerations paid and net assets acquired from business combinations under common control, acquisitions of non-controlling interests, and the Reorganisation took place prior to the initial listing of the Company's shares on the Stock Exchange; and (ii) the paid-in capital of Jieli Logistics, a company under common control, which was acquired by the Group in 2018 (see Note 26). Upon completion of the acquisition of Jieli Logistics in March 2018, the paid-in capital of Jieli Logistics were eliminated against the consideration of RMB15,250,000 paid when preparing the consolidated financial statements.

(iii) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established in the PRC (excluding Hong Kong) required to transfer 10% of their net profit to the statutory reserve until the reserve reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(s).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit standing, for which the Group considers to have low credit risk. The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of the customer or debtor rather than the industry in which the customers or debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers or debtors. At 31 December 2018, 33% (2017: 52% (restated – Note 26)) and 90% (2017: 92% (restated – Note 26)) of the trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

Individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customer and debtor as well as pertaining to the economic environment in which the customer and debtor operates. The Group's customers include individual and corporate customers, and cash before delivery is generally required for all individual customers, where credit terms of one month are granted to corporate customers. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Other receivables

The Group has assessed that the expected credit loss for other receivables is not material under the 12 months expected credit losses method. Thus no loss allowance provision was recognised for the year ended 31 December 2018.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Other receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

	Expected loss rate	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.8%	3,675	(29)
1–30 days past due	3%	–	–
31–60 days past due	10%	54	(5)
More than 60 days past due	30%	42	(13)
		3,771	(47)

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(h)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMBNil were determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

	2017 RMB'000 Restated – Note 26
Current (not past due)	7,823
1–30 days past due	5
31–60 days past due	9
More than 60 days past due	8
	7,845

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

Comparative information under IAS 39 (continued)

Movements in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Balance at 31 December 2017 under IAS 39	–	–
Impact on initial application of IFRS 9 *(Note 2(c)(i))*	66	–
Adjusted balance at 1 January	66	–
Reversal of impairment losses reversed during the year	(19)	–
Balance at 31 December	47	–

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2018		2017	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000 Restated – *Note 26*	Carrying amount RMB'000 Restated – *Note 26*
Bank loans	25,988	25,000	15,567	15,000
Trade and bills payables	4,922	4,922	21,951	21,951
Accrued expenses and other payables measured at amortised cost	18,106	18,106	17,387	17,387
	49,016	48,028	54,905	54,338

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk, respectively.

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2018		2017	
	Effective interest rate %	**RMB'000**	Effective interest rate % Restated – *Note 26*	RMB'000 Restated – *Note 26*
Fixed rate borrowings	**4.79%**	**25,000**	4.79%	15,000

(d) Currency risk

The Group is exposed to currency risk primarily through receivables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily RMB.

The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Dividends receivable from a subsidiary	**33,000**	–

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates RMB'000	Increase/ (decrease) in profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates RMB'000 Restated – *Note 26*	Increase/ (decrease) in profit after tax and retained profits RMB'000 Restated – *Note 26*
RMB	**5%**	**(1,650)**	N/A	N/A
	(5%)	**1,650**	N/A	N/A

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in their respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency, which depends on the foreign currencies the Group is exposed to, may or may not have an effect on the Group's net assets.

(e) Fair value measurement of financial instruments

Fair value of financial instruments carried at other than fair value

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2018 and 2017.

24 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Commitments in respect of property, plant and equipment and land use rights:		
– Authorised but not contracted for	**11,090**	5,082

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Within 1 year	**1,990**	1,850
After 1 year but within 5 years	**6,473**	4,544
After 5 years	**14,166**	10,260
	22,629	16,654

The Group leases certain land, buildings and equipment under operating leases. The leases typically run for an initial period of 1 to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent lease rentals.

25 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the material related party transactions entered into by the Group during the year are set out below.

(a) Transactions with the equity shareholders of the Company and companies controlled by the equity shareholders of the Company

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Sales of goods	**53**	101
Provision of transportation services	**50,327**	36,138
Purchases of goods	**10,496**	8,438
Rental income from operating leases	**124**	359
Entrustment fee in connection with petroleum refuelling stations entrusted to a related party *(Note 5)*	**1,100**	1,100
Management fee in connection with provision of management service over petroleum transportation vehicles owned by a related party *(Note 5)*	**4,000**	4,000
Operating lease charges	**4,307**	4,220
Entrustment fee in connection with gas refuelling stations entrusted from a related party	**1,751**	1,310
Carrying amount of property, plant and equipment purchased from a related party	**–**	2,069
Advances from a related party	**6,000**	–
Repayment of advances from a related party	**6,000**	–
Decrease in net amounts due from related parties	**–**	(23,679)

(b) Transactions with key management personnel of the Group

	2018 RMB'000	2017 RMB'000 Restated – *Note 26*
Decrease in an amount due from a related party	**–**	(2,000)

25 MATERIAL RELATED PARTY TRANSACTIONS(continued)

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Years ended 31 December	
	2018	2017
	RMB'000	RMB'000
		Restated – *Note 26*
Short-term employee benefits	**4,579**	3,553
Contributions to defined contribution retirement scheme	**260**	236
	4,839	3,789

Total remuneration is included in "staff costs" in Note 6(b).

(d) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions included in Notes 25(a), 25(b) and 26 constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section Connected Transaction of the Directors' Report or those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

26 ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL

On 19 January 2018, Changchun Sinogas, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Changchun Yitonghe, pursuant to which Changchun Sinogas was to acquire the entire equity interests in Jieli Logistics, a company under common control, with a cash consideration of RMB15,250,000. The acquisition was completed on 6 March 2018, and Jieli Logistics became a wholly-owned subsidiary of the Group.

26 ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL (continued)

(i) The following is a reconciliation of the effect arising from the common control combination in connection with the acquisition of Jieli Logistics.

	The Group (as previously reported) RMB'000	Jieli Logistics RMB'000	Elimination RMB'000	The Group (as restated) RMB'000
Results of operations for the year ended 31 December 2017:				
Revenue	215,411	49,110	(8,374)	256,147
Cost of sales	(135,305)	(17,874)	8,374	(144,805)
Gross profit	80,106	31,236	–	111,342
Other income	5,875	4,196	(590)	9,481
Staff costs	(20,673)	(13,910)	–	(34,583)
Depreciation and amortisation expenses	(11,510)	(6,898)	–	(18,408)
Operating lease charges	(2,941)	(4,711)	590	(7,062)
Other operating expenses	(8,563)	(7,088)	–	(15,651)
Profit from operations	42,294	2,825	–	45,119
Finance costs	(426)	–	–	(426)
Costs incurred in connection with the initial listing of the Company's shares	(21,339)	–	–	(21,339)
Profit before taxation	20,529	2,825	–	23,354
Income tax	(12,004)	(735)	–	(12,739)
Profit for the year	8,525	2,090	–	10,615
Attributable to:				
– Equity shareholders of the Company	7,435	2,090	–	9,525
– Non-controlling interests	1,090	–	–	1,090
Profit for the year	8,525	2,090	–	10,615
Consolidated statement of financial position as at 31 December 2017:				
Non-current assets				
Property, plant and equipment	51,230	22,863	–	74,093
Lease prepayments	44,129	–	–	44,129
Deferred tax assets	2,974	–	–	2,974
	98,333	22,863	–	121,196

26 ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL (continued)

(i) The following is a reconciliation of the effect arising from the common control combination in connection with the acquisition of Jieli Logistics. (continued)

	The Group (as previously reported) RMB'000	Jieli Logistics RMB'000	Elimination RMB'000	The Group (as restated) RMB'000
Current assets				
Inventories	1,311	354	–	1,665
Trade receivables	1,113	6,732	–	7,845
Prepayments, deposits and other receivables	14,161	3,705	(216)	17,650
Income tax recoverable	929	–	–	929
Cash and cash equivalents	145,524	5,741	–	151,265
	163,038	16,532	(216)	179,354
Current liabilities				
Bank loans	15,000	–	–	15,000
Trade and bills payables	1,391	20,560	–	21,951
Accrued expenses and other payables	19,830	2,931	(216)	22,545
Income tax payable	1,994	654	–	2,648
	38,215	24,145	(216)	62,144
Net current assets/(liabilities)	124,823	(7,613)	–	117,210
Total assets less current liabilities	223,156	15,250	–	238,406
Non-current liabilities				
Deferred tax liabilities	7,998	–	–	7,998
NET ASSETS	215,158	15,250	–	230,408
Consolidated cash flow statement for the year ended 31 December 2017:				
Net cash generated from operating activities	22,581	21,442	–	44,023
Net cash used in investing activities	(87,733)	(2,006)	–	(89,739)
Net cash generated from/(used in) financing activities	184,233	(15,100)	–	169,133

26 ACQUISITION OF A SUBSIDIARY UNDER COMMON CONTROL (continued)

(ii) The carrying amounts of assets and liabilities at the date of combination are as follows:

	RMB'000
Property, plant and equipment	21,660
Inventories	194
Trade receivables	1,453
Prepayments, deposits and other receivables	5,250
Cash and cash equivalents	832
Trade payables	(2,401)
Accrued expenses and other payables	(10,987)
Income tax payable	(171)
Net assets	15,830

27 COMPANY – LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2018 RMB'000**	2017 RMB'000 Restated – *Note 26*
Non-current asset			
Investment in a subsidiary	*13*	**1**	1
Current assets			
Amounts due from subsidiaries		**40,677**	33,657
Dividends receivable		**33,000**	–
Cash and cash equivalents		**62,054**	83,592
		135,731	117,249
Current liabilities			
Other payables		**16**	–
		16	–
Net current assets		**135,715**	117,249
NET ASSETS		**135,716**	117,250
CAPITAL AND RESERVES	*22*		
Share capital		**19,794**	19,794
Reserves		**115,922**	97,456
TOTAL EQUITY		**135,716**	117,250

Approved and authorised for issue by the board of directors on 11 March 2019.

Zhao Jinmin
Chairman

Xu Huilin
Director

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Disposal of a subsidiary

On 1 January 2019, the Company, through a wholly-owned subsidiary, entered into a sale and purchase agreement with a third party to dispose of the Group's entire equity interests in Jixi Energy at a consideration of RMBNil. The disposal has been completed in January 2019.

(b) Acquisition of the entire entity interests in a company

On 31 January 2019, the Company, through a wholly-owned subsidiary, entered into a sale and purchase agreement with a third party to acquire the entire issued share capital of Silver Spring Green Energy Limited, a company incorporated in Hong Kong, which in turn holds 30% equity interests in China Travel Service International Financial Leasing Company Limited, a company established in the PRC, with a total consideration of HK$84,500,000, representing cash consideration of HK$18,902,000 and the assumption of a shareholder's loan of HK$65,598,000. Up to the date of issue of these consolidated financial statements, the above acquisition has yet to be completed.

(c) Proposed final dividends

On 11 March 2019, the directors of the Company proposed a final dividend. Further details are disclosed in Note 22(b).

29 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

As a result of acquisition of a subsidiary under common control, comparative information has been restated. Further details of the restatements are disclosed in Note 26.

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors of the Company consider the immediate holding company and ultimate controlling party of the Company at 31 December 2018 to be Golden Truth Holdings Limited, which is incorporated in the British Virgin Islands and Mr Zhao Jinmin, respectively. Golden Truth Holdings Limited does not produce financial statements available for public use.

(Expressed in RMB unless otherwise indicated)

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015–2017 cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16, Leases

As disclosed in Note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for property, plant and equipment and land use rights which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 24(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB22,629,000 for property, plant and equipment and land use rights, the majority of which is payable either between one and five years after the reporting date or in more than five years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detail analysis to determine the amounts of new assets and liabilities arising from operating lease commitment on adoption of IFRS 16, after taking into account of the applicability of the practical expedient.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017 *(Expressed in Renminbi ("RMB"))*

	Note	**2017 RMB'000**	2016 RMB'000
Revenue	*4*	**215,411**	274,605
Cost of sales	*6(c)*	**(135,305)**	(187,607)
Gross profit		**80,106**	86,998
Other income	*5*	**5,875**	6,264
Staff costs	*6(b)*	**(20,673)**	(14,057)
Depreciation and amortisation expenses	*6(c)*	**(11,510)**	(10,080)
Operating lease charges	*6(c)*	**(2,941)**	(4,519)
Other operating expenses		**(8,563)**	(15,515)
Profit from operations		**42,294**	49,091
Finance costs	*6(a)*	**(426)**	(583)
Costs incurred in connection with the initial listing of the Company's shares		**(21,339)**	(3,229)
Profit before taxation	*6*	**20,529**	45,279
Income tax	*7*	**(12,004)**	(10,653)
Profit for the year		**8,525**	34,626
Attributable to:			
Equity shareholders of the Company		**7,435**	34,186
Non-controlling interests		**1,090**	440
Profit for the year		**8,525**	34,626
Earnings per share			
– Basic and diluted (RMB cents)	*10*	**3.95**	19.44

The notes on pages 62 to 99 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017 *(Expressed in RMB)*

	2017 **RMB'000**	2016 RMB'000
Profit for the year	**8,525**	34,626
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	**(241)**	(49)
Total comprehensive income for the year	**8,284**	34,577
Attributable to:		
Equity shareholders of the Company	**7,194**	34,137
Non-controlling interests	**1,090**	440
Total comprehensive income for the year	**8,284**	34,577

The notes on pages 62 to 99 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017 *(Expressed in RMB)*

	Note	**2017 RMB'000**	2016 RMB'000
Non-current assets			
Property, plant and equipment	*11*	**51,230**	57,193
Lease prepayments	*12*	**44,129**	45,506
Deferred tax assets	*22(b)*	**2,974**	5,336
		98,333	108,035
Current assets			
Inventories	*14*	**1,311**	1,648
Trade receivables	*15*	**1,113**	700
Prepayments, deposits and other receivables	*16*	**14,161**	20,182
Amounts due from related parties	*17*	**–**	49,098
Income tax recoverable	*22(a)*	**929**	130
Cash and cash equivalents	*18*	**145,524**	25,616
		163,038	97,374
Current liabilities			
Bank loans	*19*	**15,000**	15,000
Trade payables	*20*	**1,391**	1,990
Accrued expenses and other payables	*21*	**19,830**	31,111
Amounts due to related parties	*17*	**–**	8,319
Income tax payable	*22(a)*	**1,994**	1,302
		38,215	57,722
Net current assets		**124,823**	39,652
Total assets less current liabilities		**223,156**	147,687
Non-current liabilities			
Deferred tax liabilities	*22(b)*	**7,998**	5,034
NET ASSETS		**215,158**	142,653

The notes on pages 62 to 99 form part of these financial statements.

	Note	**2017 RMB'000**	2016 RMB'000
CAPITAL AND RESERVES	*23*		
Share capital		**19,794**	–
Reserves		**188,827**	137,404
Total equity attributable to equity shareholders of the Company		**208,621**	137,404
Non-controlling interests		**6,537**	5,249
TOTAL EQUITY		**215,158**	142,653

Approved and authorised for issue by the board of directors on 26 March 2018.

Zhao Jinmin
Chairman

Xu Huilin
Director

The notes on pages 62 to 99 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017 *(Expressed in RMB)*

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 *(Note 23(c))*	Other reserve RMB'000 *(Note 23(d)(ii))*	Statutory reserve RMB'000 *(Note 23(d)(iii))*	Exchange reserve RMB'000 *(Note 23(d)(iv))*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2016	–	65,291	2,819	–	35,157	103,267	4,809	108,076
Changes in equity for 2016:								
Profit for the year	–	–	–	–	34,186	34,186	440	34,626
Other comprehensive income for the year	–	–	–	(49)	–	(49)	–	(49)
Total comprehensive income	–	–	–	(49)	34,186	34,137	440	34,577
Issuance of share *(Note 23(c)(ii))*	–	–	–	–	–	–	–	–
Balance at 31 December 2016	–	65,291	2,819	(49)	69,343	137,404	5,249	142,653

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 *(Note 23(c))*	Share premium RMB'000 *(Note 23(d)(i))*	Other reserve RMB'000 *(Note 23(d)(ii))*	Statutory reserve RMB'000 *(Note 23(d)(iii))*	Exchange reserve RMB'000 *(Note 23(d)(iv))*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2017	–	–	65,291	2,819	(49)	69,343	137,404	5,249	142,653
Changes in equity for 2017:									
Profit for the year	–	–	–	–	–	7,435	7,435	1,090	8,525
Other comprehensive income for the year	–	–	–	–	(241)	–	(241)	–	(241)
Total comprehensive income	–	–	–	–	(241)	7,435	7,194	1,090	8,284
Issuance of share *(Note 23(c)(ii))*	–	20,000	–	–	–	–	20,000	–	20,000
Effect on equity arising from the completion of a group reorganisation *(Note 23(d)(ii))*	–	–	(75,808)	–	–	–	(75,808)	198	(75,610)
Capitalisation issue *(Note 23(c)(iii))*	14,849	(14,849)	–	–	–	–	–	–	–
Issuance of shares by initial public offering *(Note 23(c)(iv))*	4,945	114,886	–	–	–	–	119,831	–	119,831
	19,794	120,037	(75,808)	–	–	–	64,023	198	64,221
Balance at 31 December 2017	19,794	120,037	(10,517)	2,819	(290)	76,778	208,621	6,537	215,158

The notes on pages 62 to 99 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017 *(Expressed in RMB)*

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**20,529**	45,279
Adjustments for:			
Depreciation and amortisation	*6(c)*	**11,510**	10,080
Net (gain)/loss on disposal of property, plant and equipment	*5*	**(132)**	161
Finance costs	*6(a)*	**426**	583
Interest income	*5*	**(282)**	(38)
Changes in working capital:			
Decrease/(increase) in inventories		**337**	(313)
(Increase)/decrease in trade receivables		**(413)**	561
Decrease/(increase) in prepayments, deposits and other receivables		**1,935**	(1,144)
Decrease in trade payables		**(599)**	(785)
(Decrease)/increase in accrued expenses and other payables		**(3,945)**	3,180
Cash generated from operations		**29,366**	57,564
Income tax paid	*22(a)*	**(6,785)**	(11,216)
Net cash generated from operating activities		**22,581**	46,348
Investing activities			
Payments for purchase of property, plant and equipment and land use rights		**(12,374)**	(6,975)
Proceeds from disposal of property, plant and equipment		**167**	1,077
Payments for the purchase of available-for-sale investments		**(605,670)**	–
Proceeds from disposal of available-for sale investments		**605,836**	–
Payments for acquisition of subsidiaries in connection with the Reorganisation (as defined in Note 2(b))	*23(d)(ii)*	**(75,808)**	–
Interest received		**116**	38
Net cash used in investing activities		**(87,733)**	(5,860)

The notes on pages 62 to 99 form part of these financial statements.

	Note	2017 RMB'000	2016 RMB'000
Financing activities			
Proceeds from issuance of shares	*23(c)(ii)*	**20,000**	–
Proceeds from issuance of shares by initial public offering, net of share issuance expenses	*23(c)(iv)*	**123,917**	(4,086)
Proceeds from new bank loans		**30,000**	15,000
Repayment of bank loans		**(30,000)**	(20,000)
Distributions paid		**–**	(1,000)
Net decrease/(increase) in amounts due from related parties		**40,779**	(26,660)
Interest paid		**(463)**	(597)
Net cash generated from/(used in) financing activities		**184,233**	(37,343)
Net increase in cash and cash equivalents		**119,279**	3,145
Cash and cash equivalents at 1 January	*18(a)*	**25,616**	22,471
Effect of foreign exchange rate changes		**629**	–
Cash and cash equivalents at 31 December	*18(a)*	**145,524**	25,616

The notes on pages 62 to 99 form part of these financial statements.

1 CORPORATE INFORMATION

United Strength Power Holdings Limited (the "Company") was incorporated in the Cayman Islands on 19 December 2016 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 October 2017. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the sale of natural gas to vehicular end-users by operating refuelling stations.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

Prior to the incorporation of the Company, the Group's business were conducted through Changchun Sinogas Company, Ltd. ("Changchun Sinogas") and certain of the then subsidiaries of Changchun Yitonghe Petroleum Distribution Company Limited ("Changchun Yitonghe"), both of which were owned as to 74% by Mr Zhao Jinmin. Pursuant to a group reorganisation to rationalise the corporate structure in preparation of the listing of the Company's shares on the Stock Exchange which was completed on 15 March 2017 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group. All companies now comprising the Group that took part in the Reorganisation were controlled by Mr Zhao Jinmin and owned by Mr Zhao Jinmin and other equity shareholders in the same proportionate interest before and after the Reorganisation, there were no changes in the economic substance of the ownership and the business of the Group. The Reorganisation only involved inserting the newly formed entities with no substantive operations as the new holding companies of the companies now comprising the Group. Accordingly, the consolidated financial statements for the years ended 31 December 2017 and 2016 have been prepared and presented as a continuation of the financial information of the companies now comprising the Group with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganisation.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for available-for-sale investments which are stated at their fair values (see Note 2(e)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 18(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity interests in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative equity interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire equity interests in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any equity interests retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)), unless the investment is classified as held for sale.

(e) Other investments in debt securities

Investments in debt securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Investments in debt securities which do not fall into the categories of investments in securities held for trading and held-to-maturity are classified as available-for-sale investments. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Interest income from debt securities calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in Note 2(q)(iv).

When the investments are derecognised or impaired (see Note 2(h)(i)), the cumulative gain or loss is reclassified from equity to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (see Note 2(s)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

		Estimated useful lives
–	Buildings	Over the shorter of the term of lease and their estimated useful lives
–	Refuelling equipment	3–15 years
–	Motor vehicles and other equipment	3–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Payments made on the acquisition of land held under an operating lease are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets

(i) Impairment of investments in debt securities and receivables

Investments in debt securities and receivables that are stated at cost or amortised cost or are classified as available-for-sale financial assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– for trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– for available-for-sale debt securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the respective receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid interests in leasehold land classified as being held under an operating lease; and

– Investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 2(h)(i)).

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

(ii) Render of services

Revenue from the render of services is recognised when the related services are rendered.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition (continued)

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss over the useful life of the related asset.

(r) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations which have a functional currency other than RMB, the Group's presentation currency, are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 24 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(h)(ii). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the asset and could result in additional impairment charge or reversal of impairment in future years.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of useful lives and residual values, if any, are based on the historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Deferred tax

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the sale of natural gas to vehicular end-users by operating refuelling stations. Given the retail nature of the Group's business, the directors of the Company consider that the Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentration of credit risk arising from the customers are set out in Note 24(a).

(b) Segment reporting

The Group manages its business mainly in a single segment, namely the sale of natural gas to vehicular end-users by operating refuelling stations business. Accordingly, no operating segment information is presented.

All of the Group's customers patronised at the Group's operations carried out in the People's Republic of China (the "PRC"). The Group's non-current assets, including property, plant and equipment and lease prepayments are all located in the PRC.

5 OTHER INCOME

	2017 RMB'000	2016 RMB'000
Rental income from operating leases	**3,263**	5,015
Entrustment fee in connection with petroleum refuelling stations entrusted to a related party	**1,100**	1,100
Net gain/(loss) on disposal of property, plant and equipment	**132**	(161)
Government grants	**103**	44
Interest income	**282**	38
Others	**995**	228
	5,875	6,264

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	2017 RMB'000	2016 RMB'000
Interests on bank loans	**426**	583

No borrowing costs have been capitalised during the year ended 31 December 2017 (2016: RMBNil).

(b) Staff costs:

	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	**18,788**	12,365
Contributions to defined contribution retirement plans	**1,885**	1,692
	20,673	14,057

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at a rate of 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollars ("HK$") 30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further material obligations for payment of other retirement benefits beyond the above contributions.

6 PROFIT BEFORE TAXATION (continued)

(c) Other items:

	2017 RMB'000	2016 RMB'000
Depreciation and amortisation *(Notes 11 and 12)*	**11,510**	10,080
Operating lease charges in respect of property, plant and equipment and land use rights	**2,941**	4,519
Auditors' remuneration – audit services	**2,450**	200
Cost of inventories *(Note 14(b))*	**135,305**	187,607

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2017 RMB'000	2016 RMB'000
Current tax *(Note 22(a))*		
Provision for the year	**6,678**	11,568
Deferred tax *(Note 22(b))*		
– Origination and reversal of temporary differences	**2,026**	(915)
– Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	**3,300**	–
	5,326	(915)
	12,004	10,653

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017 RMB'000	2016 RMB'000
Profit before taxation	**20,529**	45,279
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**6,719**	11,589
Tax effect of non-deductible expenses	**4,110**	585
Tax concessions *(Note (iv))*	**(2,125)**	(1,521)
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group *(Note (v))*	**3,300**	–
Actual tax expense	**12,004**	10,653

Notes:

(i) The Company and a subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2017 (2016: 16.5%).

(ii) The Company and the subsidiaries of the Group incorporated in countries other than the PRC (including Hong Kong) are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% during the year ended 31 December 2017 (2016: 25%).

(iv) One of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an enterprise with tax incentive for development of the western region for the calendar years from 2011 to 2020 and therefore enjoyed a preferential PRC Corporate Income Tax rate of 15% for the year ended 31 December 2017 (2016: 15%).

(v) One of the subsidiaries of the Group established in the PRC intended to distribute RMB33,000,000 to its immediate holding company, United Strength Power HK Limited. Pursuant to the Sino-Hong Kong Double Tax Arrangement, the above dividend is subject to a PRC Withholding Tax rate of 10%. Accordingly, a deferred tax liability of RMB3,300,000 has been recognised at 31 December 2017.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Zhao Jinmin	–	202	–	40	242
Mr Liu Yingwu	–	202	–	40	242
Mr Wang Qingguo	–	202	–	40	242
Mr Xu Huilin	–	1,172	121	40	1,333
Independent non-executive directors					
Ms Su Dan	61	–	–	–	61
Mr Yu Chen	61	–	–	–	61
Mr Lau Ying Kit	61	–	–	–	61
	183	1,778	121	160	2,242

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Zhao Jinmin	–	–	–	–	–

On 19 December 2016, Mr Zhao Jinmin was appointed as a director of the Company. On 16 March 2017, Mr Liu Yingwu, Mr Wang Qingguo and Mr Xu Huilin were appointed as directors of the Company.

On 21 March 2017, Mr Zhao Jinmin, Mr Liu Yingwu, Mr Wang Qingguo and Mr Xu Huilin were redesignated as executive directors of the Company.

On 21 September 2017, Ms Su Dan, Mr Yu Chen and Mr Lau Ying Kit were appointed as independent non-executive directors of the Company.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: none) are directors of the Company whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2016: five) individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, discretionary bonuses and other emoluments	**1,354**	643
Retirement scheme contributions	**51**	37
	1,405	680

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2017 Number of individuals	2016 Number of individuals
HK$Nil – HK$1,000,000	**3**	5

10 EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2017 is calculated based on the profit attributable to equity shareholders of the Company of RMB7,435,000 and the weighted average of 188,244,000 ordinary shares, comprising:

(i) 1,000 ordinary shares in issue as at the date of the prospectus of the Company dated 29 September 2017 (the "Prospectus") and 175,875,000 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 175,876,000 ordinary shares were outstanding throughout the year ended 31 December 2017; and

(ii) 58,626,000 ordinary shares issued on 16 October 2017 by initial public offering.

The basic earnings per share for the year ended 31 December 2016 is calculated based on the profit attributable to equity shareholders of the Company of RMB34,186,000 and the weighted average of 175,876,000 ordinary shares, comprising 1,000 ordinary shares in issue as at the date of the Prospectus and 175,875,000 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 175,876,000 ordinary shares were outstanding throughout the year ended 31 December 2016.

The calculation of the weighted average number of ordinary shares for the years ended 31 December 2017 and 2016 are as follows:

	2017 '000	2016 '000
Issued ordinary shares at 1 January	**1**	–
Effect of shares issued as at the date of the Prospectus *(Note 23(c)(ii))*	**–**	1
Effect of capitalisation issue on the completion of the initial public offering *(Note 23(c)(iii))*	**175,875**	175,875
Effect of shares issued by initial public offering on 16 October 2017 *(Note 23(c)(iv))*	**12,368**	–
Weighted average number of ordinary shares at 31 December	**188,244**	175,876

10 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the years ended 31 December 2017 and 2016.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Refuelling equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2016	23,735	50,951	15,714	674	91,074
Additions	1,229	2,965	2,560	–	6,754
Disposals	–	(2,464)	(1,014)	–	(3,478)
At 31 December 2016	24,964	51,452	17,260	674	94,350
Accumulated depreciation:					
At 1 January 2016	4,620	20,546	5,272	–	30,438
Charge for the year	1,195	5,697	2,067	–	8,959
Written back on disposals	–	(1,594)	(646)	–	(2,240)
At 31 December 2016	5,815	24,649	6,693	–	37,157
Carrying amount:					
At 31 December 2016	19,149	26,803	10,567	674	57,193
Cost:					
At 1 January 2017	**24,964**	**51,452**	**17,260**	**674**	**94,350**
Additions	**–**	**2,585**	**1,620**	**–**	**4,205**
Disposals	**–**	**–**	**(648)**	**–**	**(648)**
At 31 December 2017	**24,964**	**54,037**	**18,232**	**674**	**97,907**
Accumulated depreciation:					
At 1 January 2017	**5,815**	**24,649**	**6,693**	**–**	**37,157**
Charge for the year	**1,240**	**5,919**	**2,974**	**–**	**10,133**
Written back on disposals	**–**	**–**	**(613)**	**–**	**(613)**
At 31 December 2017	**7,055**	**30,568**	**9,054**	**–**	**46,677**
Carrying amount:					
At 31 December 2017	**17,909**	**23,469**	**9,178**	**674**	**51,230**

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) At 31 December 2017, property certificates of certain properties with carrying amounts of RMB125,000 (2016: RMB436,000) are yet to be obtained. At 31 December 2017, the Group is in the process of applying for the ownership certificates for these properties. The ultimate controlling party of the Company, Mr Zhao Jinmin has undertaken to procure the obtaining of the title documents for the above mentioned properties. If these title documents could not be obtained, Mr Zhao Jinmin agreed to indemnify the Group for all the losses and damages arising therefrom.

(b) The Group leases out a number of properties (buildings and land use rights) and equipment under operating leases. The leases typically run for an initial period of 1 to 20 years, with options to renew the leases at which time all terms are renegotiated. None of the leases includes contingent rentals.

At 31 December 2017, the aggregate carrying amounts of the properties (buildings and land use rights) and equipment leased out amounted to RMB5,247,000 (2016: RMB7,275,000).

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**2,887**	2,884
After 1 year but within 5 years	**3,912**	6,239
After 5 years	**3,974**	4,534
	10,773	13,657

12 LEASE PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		
At 1 January	**50,145**	38,634
Additions	**–**	11,511
At 31 December	**50,145**	50,145
Accumulated amortisation:		
At 1 January	**4,639**	3,518
Charge for the year	**1,377**	1,121
At 31 December	**6,016**	4,639
Carrying amount:		
At 31 December	**44,129**	45,506

Lease prepayments represent land use right premiums paid by the Group for land located in the PRC. These land use rights are with lease periods of 30 to 50 years.

At 31 December 2017, land use right certificates of certain land use rights with carrying amounts of RMB9,592,000 (2016: RMB11,164,000) are yet to be obtained. At 31 December 2017, the Group is in the process of applying for the ownership certificates for these land use rights. Mr Zhao Jinmin has undertaken to procure the obtaining of the title documents for the abovementioned land use rights. If title documents could not be obtained, Mr Zhao Jinmin agreed to indemnify the Group for all the losses and damages arising therefrom.

(Expressed in RMB unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of company	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Percentage of ownership interest: The Group's effective interest	Percentage of ownership interest: Held by the Company	Percentage of ownership interest: Held by subsidiaries	Principal activities
Jilin Dongkun Gas Company Limited (吉林東昆燃氣有限公司)*	The PRC 30 September 1999	RMB18,728,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Jilin Chinese Petroleum Clean Energy Environmental Protection Company Limited ("Jilin Clean Energy") (吉林中油潔能環保有限責任公司)*	The PRC 19 September 2001	RMB8,000,000	51%	–	51%	Sale of natural gas to vehicular end-users by operating refuelling stations
Changchun Sinogas (長春中油潔能燃氣有限公司)**	The PRC 18 July 2005	RMB20,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Wuchang City Qinglian Gas Company Limited (五常市慶聯燃氣有限公司)*	The PRC 18 April 2006	RMB3,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Longjing United Strength Energy Development Company Limited (龍井眾誠能源發展有限公司)*	The PRC 16 July 2007	RMB20,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Yanbian United Strength Energy Technology Development Company Limited ("Yanbian United Strength") (延邊眾誠能源技術開發有限公司)*	The PRC 14 July 2008	RMB500,000	60%	–	60%	Development of energy technology
Liaoyuan City Hengtai Clean Energy Company Limited (遼源市恒泰清潔能源有限公司)*	The PRC 12 August 2010	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Meihekou City Yujia Petrochemical Company Limited (梅河口市譽嘉石化有限公司)*	The PRC 27 December 2011	RMB10,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Yanbian Xinyuan Natural Gas Sales Company Limited (延邊鑫源天然氣銷售有限公司)*	The PRC 29 May 2013	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
Jixi United Strength Vehicle Energy Investment Company Limited (雞西眾誠汽車能源投資有限公司)*	The PRC 5 September 2013	RMB5,000,000	100%	–	100%	Sale of natural gas to vehicular end-users by operating refuelling stations
United Strength Power International Limited***	The British Virgin Islands 4 January 2017	100 shares of United States dollar 1 each	100%	100%	–	Investment holding
United Strength Power HK Limited***	Hong Kong 17 January 2017	1 share	100%	–	100%	Investment holding

13 INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

* The official names of these entities are in Chinese. The English translation of the names are for identification purpose only. These companies are limited liability companies established in the PRC.

** The official name of this entity is in Chinese. The English translation of the name is for identification purpose only. This company is a wholly foreign owned enterprise established in the PRC.

*** These companies are limited liability companies incorporated outside of the PRC.

The following table lists out the information relating to subsidiaries of the Group with material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2017 RMB'000	2016 RMB'000
NCI percentage:		
– Jilin Clean Energy	**49%**	49%
– Shenyang United Strength Investment Management Company Limited ("Shenyang United Strength") *(Note (i))*	**0%**	45%
– Yanbian United Strength	**40%**	40%
Non-current assets	**5,376**	6,178
Current assets	**20,523**	20,378
Current liabilities	**(12,743)**	(16,080)
Net assets	**13,156**	10,476
Net assets attributable to NCI	**6,537**	5,249

	2017 RMB'000	2016 RMB'000
Revenue	**48,132**	77,402
Profit and total comprehensive income for the year	**2,239**	716
Profit and total comprehensive income attributable to NCI	**1,090**	440

Note:

(i) In November 2016, Shenyang United Strength ceased operation as a result of the expiration of its entrustment agreements for two gas refuelling stations. Upon completion of the Reorganisation on 15 March 2017, Shenyang United Strength is no longer a subsidiary of the Group.

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2017 RMB'000	2016 RMB'000
Gases	777	654
Spare parts	534	994
	1,311	1,648

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the year is as follows:

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	135,305	187,607

15 TRADE RECEIVABLES

All of the trade receivables, net of allowance for doubtful debts (if any), are due from third parties and are expected to be recovered within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts (if any), is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 month	1,113	700

Further details on the Group's credit policy are set out in Note 24(a).

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	1,113	700

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments for purchase of inventories and services from:		
– related parties	**3,112**	5,994
– third parties	**6,343**	5,989
	9,455	11,983
Prepayments for entrustment fee in connection with gas refuelling stations entrusted from third parties	**3,177**	–
Advances to staff	**65**	79
Prepayments for costs incurred in connection with the initial listing of the Company's shares *(Note (i))*	**–**	4,086
Others	**1,464**	4,034
	14,161	20,182

All of the prepayments, deposits and other receivables are expected to be recovered, recognised as expenses or transferred to equity within one year.

Note:

(i) The balance at 31 December 2016 was transferred to the share premium account within equity upon the listing of the Company's shares on the Stock Exchange on 16 October 2017.

17 AMOUNTS DUE FROM/TO RELATED PARTIES

The non-trade in nature amounts due from/to related parties at 31 December 2016 had been settled on a net-basis prior to the listing of the Company's shares on the Stock Exchange.

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2017 RMB'000	2016 RMB'000
Cash at bank and on hand	**145,524**	25,616

The Group's operations in the PRC (excluding Hong Kong) conducted their businesses in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

18 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of assets and liabilities arising from financing activities

The table below details changes in the Group's assets and liabilities from financing activities, including both cash and non-cash changes. Liabilities from financing activities are liabilities for which cash flow were, or future cash flow will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Liabilities		Assets	
	Bank loans RMB'000 *(Note 19)*	**Interest payables** RMB'000	**Net amount due from related parties** RMB'000 *(Note 17)*	**Total** RMB'000
At 1 January 2017	15,000	37	40,779	(25,742)
Changes from financing cash flows:				
Proceeds from new bank loans	30,000	–	–	30,000
Repayment of bank loans	(30,000)	–	–	(30,000)
Net decrease in amounts due from related parties	–	–	(40,779)	40,779
Interest paid	–	(463)	–	(463)
Total changes from financing cash flows	–	(463)	(40,779)	40,316
Other changes:				
Finance costs *(Note 6(a))*	–	426	–	426
At 31 December 2017	**15,000**	**–**	**–**	**15,000**

19 BANK LOANS

The Group's short-term bank loans are analysed as follows:

	2017 **RMB'000**	2016 RMB'000
Secured by property, plant and equipment and land use rights of the Group	**15,000**	–
Guaranteed by related parties *(Note 26(b))*	**–**	15,000
	15,000	15,000

At 31 December 2017, the aggregate carrying amounts of the property, plant and equipment and land use rights pledged for the Group's short-term bank loans are RMB7,442,000 (2016: RMBNil).

Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 24(b). At 31 December 2017, none of the covenants relating to the bank loans had been breached (2016: none).

20 TRADE PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables due to:		
– related parties	–	289
– third parties	1,391	1,701
	1,391	1,990

All of the trade payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	1,391	1,990

21 ACCRUED EXPENSES AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Payables for staff related costs	495	2,209
Deposits from customers	998	1,032
Payables for entrustment fee in connection with petroleum refuelling stations entrusted to a related party	160	–
Payables for acquisitions of property, plant and equipment and land use rights	9,777	17,946
Others	3,026	5,390
Financial liabilities measured at amortised cost	14,456	26,577
Receipts in advance from customers	5,374	4,534
	19,830	31,111

All of the accrued expenses and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2017 RMB'000	2016 RMB'000
Income tax payable at 1 January, net	1,172	820
Provision for the year *(Note 7(a))*	6,678	11,568
Income tax paid	(6,785)	(11,216)
Income tax payable at 31 December, net	1,065	1,172
Representing:		
Income tax payable	1,994	1,302
Income tax recoverable	929	130

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets		Liabilities		
	Unused tax losses RMB'000	Accruals RMB'000	Fair value adjustments on property, plant and equipment and lease prepayments and subsequent depreciation and amortisation RMB'000	Retained profits to be distributed RMB'000	Net RMB'000
At 1 January 2016	2,527	58	(3,198)	–	(613)
Credited to the consolidated statement of profit or loss *(Note 7(a))*	465	357	93	–	915
At 31 December 2016 and 1 January 2017	**2,992**	**415**	**(3,105)**	**–**	**302**
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	**(1,805)**	**(312)**	**91**	**(3,300)**	**(5,326)**
At 31 December 2017	**1,187**	**103**	**(3,014)**	**(3,300)**	**(5,024)**

Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	2017 RMB'000	2016 RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	**2,974**	5,336
Deferred tax liabilities recognised in the consolidated statement of financial position	**(7,998)**	(5,034)
	(5,024)	302

(c) Deferred tax liabilities not recognised

At 31 December 2017 taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMB74,066,000 at 31 December 2017 (2016: RMB70,421,000), where deferred tax liabilities in respect of the 10% PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes of the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 *(Note 23(c))*	Share Premium RMB'000 *(Note 23(d)(i))*	Exchange reserve RMB'000 *(Note 23(d)(iv))*	Accumulated losses RMB'000	Total RMB'000
At 19 December 2016 (date of incorporation)	–	–	–	–	–
Changes in equity for 2016:					
Loss for the period	–	–	–	(1,078)	(1,078)
Other comprehensive income for the period	–	–	(49)	–	(49)
Total comprehensive income	–	–	(49)	(1,078)	(1,127)
Issuance of share *(Note 23(c)(ii))*	–	–	–	–	–
At 31 December 2016	–	–	(49)	(1,078)	(1,127)
At 1 January 2017	–	–	(49)	(1,078)	(1,127)
Changes in equity for 2017:					
Loss for the year	–	–	–	(21,402)	(21,402)
Other comprehensive income for the year	–	–	(52)	–	(52)
Total comprehensive income	–	–	(52)	(21,402)	(21,454)
Issuance of shares *(Note 23(c)(ii))*	–	20,000	–	–	20,000
Capitalisation issue *(Note 23(c)(iii))*	14,849	(14,849)	–	–	–
Issuance of shares by initial public offering *(Note 23(c)(iv))*	4,945	114,886	–	–	119,831
	19,794	120,037	–	–	139,831
At 31 December 2017	19,794	120,037	(101)	(22,480)	117,250

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2017 RMB'000	2016 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.05 per ordinary share (2016: HK$Nil per ordinary share)	**9,801**	–

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

The directors of the Company did not recommend the payment of a final dividend for the period ended 31 December 2016.

(c) Share capital

	2017 No. of shares '000	**2017 HK$'000**	2016 No. of shares '000	2016 HK$'000
Authorised:				
Ordinary shares of HK$0.1 each *(Note 23(c)(i))*	**800,000**	**80,000**	3,800	380

	2017 No. of shares '000	**2017 RMB'000**	2016 No. of shares '000	2016 RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**–**	**–**	–	–
Issuance of shares *(Note 23(c)(ii))*	**1**	**–**	–	–
Capitalisation issue *(Note 23(c)(iii))*	**175,875**	**14,849**	–	–
Issuance of shares by initial public offering *(Note 23(c)(iv))*	**58,626**	**4,945**	–	–
At 31 December	**234,502**	**19,794**	–	–

(i) Authorised share capital

On 19 December 2016, the Company's date of incorporation, the Company's authorised share capital was HK$380,000, comprising 3,800,000 ordinary shares of HK$0.1 each.

On 21 September 2017, all of the then shareholders of the Company passed resolutions to increase the authorised share capital of the Company from HK$380,000 divided into 3,800,000 shares of HK$0.1 each to HK$80,000,000 divided into 800,000,000 shares of HK$0.1 each.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(ii) Issuance of shares

On 19 December 2016, one share in the Company was allotted and issued, credited as fully paid up.

On 16 March 2017, 999 shares of HK$0.1 each were allotted and issued by the Company for an aggregate subscription price of HK$22,800,000 (equivalent to approximately RMB20,000,000), credited as fully paid.

(iii) Capitalisation issue

Pursuant to the resolutions of the equity shareholders of the Company passed on 21 September 2017, the Company allotted and issued a total of 175,875,000 shares credited as fully paid at par to the equity shareholders whose names appeared on the register of members of the Company on the completion of the initial public offering by way of capitalisation of the sum of HK$17,587,500 (equivalent to approximately RMB14,849,000) standing to the credit of the share premium account of the Company, and these shares rank pari passu in all respects with the shares in issue.

(iv) Issuance of shares by initial public offering

On 16 October 2017, 58,626,000 ordinary shares of HK$0.1 each were issued at a price of HK$2.68 each upon the listing of the shares of the Company on the Stock Exchange. The proceeds of HK$5,863,000 (equivalent to approximately RMB4,945,000), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of share issuance expenses of RMB12,683,000 of approximately HK$136,213,000 (equivalent to approximately RMB114,886,000) were credited to the share premium account.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Other reserve

The other reserve at 1 January 2016 represented the paid-in capital of the PRC subsidiaries of the Group, and the differences between the considerations paid and net assets acquired through business combinations and acquisitions of non-controlling interests.

Pursuant to the Reorganisation completed on 15 March 2017, the Company became the holding company of the companies now comprising the Group and accordingly, the paid-in capital of the PRC subsidiaries of the Group were eliminated against the consideration of RMB75,808,000 paid when preparing these financial statements since that date.

(iii) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established in the PRC (excluding Hong Kong) required to transfer 10% of their net profit to the statutory reserve until the reserve reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves (continued)

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(r).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to any externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customer and debtor as well as pertaining to the economic environment in which the customer and debtor operates. The Group's customers are mainly vehicular end-users which include individual and corporate customers. Cash before delivery is generally required for all individual customers, where credit terms of one month are granted to corporate customers. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of the customer or debtor rather than the industry in which the customers and debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers or debtors. At 31 December 2017, 100.0% (2016: 100.0%) of the trade receivables was due from the Group's largest debtor.

The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 15 and 16.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2017		2016	
	Contractual Undiscounted cash outflow within 1 year or on demand RMB'000	**Carrying amount RMB'000**	Contractual Undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000
Bank loans	**15,567**	**15,000**	15,707	15,000
Trade payables	**1,391**	**1,391**	1,990	1,990
Accrued expenses and other payables measured at amortised cost	**14,456**	**14,456**	26,577	26,577
Amounts due to related parties	**–**	**–**	8,319	8,319
	31,414	**30,847**	52,593	51,886

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2017		2016	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings	**4.79%**	**15,000**	4.87%	15,000

(d) Fair value measurement of financial instruments

Fair value of financial instruments carried at other than fair value

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2017 and 2016.

25 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2017 not provided for in the consolidated financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Commitments in respect of property, plant and equipment and land use rights:		
– Authorised but not contracted for	**5,082**	6,084

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**1,850**	2,695
After 1 year but within 5 years	**4,544**	5,473
After 5 years	**10,260**	12,056
	16,654	20,224

The Group leases certain land, buildings and equipment under operating leases. The leases typically run for an initial period of 1 to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent lease rentals.

26 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the material related party transactions entered into by the Group during the year are set out below.

(a) Transactions with the equity shareholders of the Company and companies controlled by the equity shareholders of the Company

	2017 RMB'000	2016 RMB'000
Sales of goods	**1,878**	2,369
Purchases of goods	**2,151**	23,809
Transportation and other services received	**5,903**	20,027
Rental income from operating leases	**591**	2,359
Entrustment fee in connection with petroleum refuelling stations entrusted to a related party *(Note 5)*	**1,100**	1,100
Operating lease charges	**99**	1,992
Entrustment fee in connection with gas refuelling stations entrusted from a related party	**1,310**	1,350
Carrying amount of property, plant and equipment purchased from a related party	**2,069**	–
(Decrease)/increase in net amounts due from related parties	**(38,779)**	27,074
Guarantees provided for the Group's bank loans at the end of the reporting period *(Note 19)*	**–**	15,000

(b) Transactions with key management personnel of the Group

	2017 RMB'000	2016 RMB'000
(Decrease)/increase in an amount due from a related party	**(2,000)**	2,000

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Years ended 31 December	
	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**3,553**	749
Contributions to defined contribution retirement scheme	**236**	47
	3,789	796

Total remuneration is included in "staff costs" in Note 6(b).

26 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(d) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of Notes 26(a) and 26(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Connected Transaction of the Directors' Report or those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

27 COMPANY–LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2017 RMB'000**	2016 RMB'000
Non-current asset			
Investment in a subsidiary	*13*	**1**	–
Current assets			
Amounts due from subsidiaries		**33,657**	–
Prepayments and other receivables		**–**	2,831
Cash and cash equivalents		**83,592**	–
		117,249	2,831
Current liabilities			
Amounts due to a related party		**–**	3,958
		–	3,958
Net current assets/(liabilities)		**117,249**	(1,127)
NET ASSETS/(LIABILITIES)		**117,250**	(1,127)
CAPITAL AND RESERVES	*23*		
Share capital		**19,794**	–
Reserves		**97,456**	(1,127)
TOTAL EQUITY/(TOTAL EQUITY – DEFICIT)		**117,250**	(1,127)

Approved and authorised for issue by the board of directors on 26 March 2018.

Zhao Jinmin
Chairman

Xu Huilin
Director

(Expressed in RMB unless otherwise indicated)

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of a subsidiary from a related party

On 19 January 2018, Changchun Sinogas, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Changchun Yitonghe, pursuant to which Changchun Sinogas will acquire the entire equity interests in Jilin Province Jieli Logistics Company Limited ("Jieli Logistics"), a related party, with a cash consideration of RMB15,250,000. The acquisition was completed on 6 March 2018, and Jieli Logistics became a wholly-owned subsidiary of the Group. Up to the date of issue of these consolidated financial statements, the directors of the Company are in the process of assessing the financial impact of the above acquisition.

(b) Proposed final dividends

On 26 March 2018, the directors of the Company proposed a final dividend. Further details are disclosed in Note 23(b).

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2014–2016 cycle	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment on the historical impairment experience, the Group expects the accumulated impairment loss provision, if any, will not materially change.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which is expected to be affected:

Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2(q). Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group expects that the adoption of IFRS 15 will not materially impact how it recognises revenue.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. The expected changes in accounting policies as described above will not have a material impact on the Group's financial results from 2018 onwards.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 16, Leases

As disclosed in Note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for property, plant and equipment and land use rights which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 25(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB16,654,000 for property, plant and equipment and land use rights, the majority of which is payable either between one and five years after the reporting date or in more than five years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The directors of the Company consider the immediate holding company and ultimate controlling party of the Company at 31 December 2017 to be Golden Truth Holdings Limited, which is incorporated in the British Virgin Islands and Mr. Zhao Jinmin, respectively. Golden Truth Holdings Limited does not produce financial statements available for public use.

The following information set out in this Appendix does not form part of the Accountants' Report of the Target Business received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I to this Circular, and is included herein for illustrative purpose only. The pro forma financial information should be read in conjunction with accountants' report set out in "Appendix I — Accountants' Report of the Target Business" and the published financial information of the Group set out in "Appendix II — Financial Information of the Group"

(A) PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Introduction to the pro forma financial information of the Enlarged Group

The accompanying pro forma financial information of the Enlarged Group has been prepared to provide information on the Enlarged Group reflecting the Acquisition Completion, on the basis of notes set out below.

Details of the Acquisition are set out in the section headed "Letter from the Board" contained in this Circular.

For preparation of the unaudited pro forma consolidated statement of financial position, it is assumed that the Acquisition had taken place on 31 December 2019. For preparation of the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement, it is assumed that the Acquisition had taken place on 1 January 2019, representing the beginning of the year ended 31 December 2019.

The pro forma financial information has been prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purpose only. Accordingly, as a result of the nature of the pro forma financial information, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Acquisition actually occurred on the dates indicated herein. Furthermore, the pro forma financial information does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

The unaudited pro forma consolidated statement of financial position has been prepared based on the consolidated statement of financial position of the Group at 31 December 2019, as extracted from the annual report of the Company for the year ended 31 December 2019 and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Acquisition had been completed on 31 December 2019.

The unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement have been prepared based on the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated cash flow statement of the Group for the year ended 31 December 2019, as extracted from the annual report of the Company for the year ended 31 December 2019 and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Acquisition had been completed on 1 January 2019, representing the beginning of the year ended 31 December 2019.

2. Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	The Group at 31 December 2019	The Target Business at 31 December 2019	Pro forma adjustments							Pro forma of the Enlarged Group at 31 December 2019
					Sub-total					
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*		
	a	*b*	*c*	*d*	*e=b+c+d*	*f*	*g*	*h*		*j=a+e+f+g+h*
Non-current assets										
Property, plant and equipment	157,487	346,486	(162,774)	329,404	513,116	–	–	–		670,603
Interest in a joint venture	77,556	–	–	–	–	–	–	–		77,556
Investment properties	–	43,234	(9,925)	–	33,309	–	–	–		33,309
Deferred tax assets	1,742	3,796	(955)	–	2,841	–	–	–		4,583
	236,785	393,516	(173,654)	329,404	549,266	–	–	–		786,051
Current assets										
Inventories	1,615	102,064	–	–	102,064	–	–	–		103,679
Trade and bills receivables	9,198	35,534	–	–	35,534	–	–	(1,856)		42,876
Prepayments, deposits and other receivables	122,260	94,239	(30)	–	94,209	–	–	–		216,469
Amounts due from related parties	–	248,550	(191,828)	–	56,722	–	–	–		56,722
Income tax recoverable	338	186	–	–	186	–	–	–		524
Cash at bank and on hand	57,474	28,215	–	–	28,215	(137,615)	163,526	–		111,600
	190,885	508,788	(191,858)	–	316,930	(137,615)	163,526	(1,856)		531,870

	The Group at 31 December 2019	The Target Business at 31 December 2019	Pro forma adjustments						Pro forma of the Enlarged Group at 31 December 2019
					Sub-total				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
	a	*b*	*c*	*d*	*e=b+c+d*	*f*	*g*	*h*	*j=a+e+f+g+h*
Current liabilities									
Bank and other loans	25,000	76,400	(38,000)	–	38,400	–	–	–	63,400
Trade and bills payables	4,576	73,102	–	–	73,102	–	–	(1,856)	75,822
Lease liabilities	14,512	28,246	(26,628)	45,455	47,073	–	–	–	61,585
Accrued expenses and other payables	23,159	188,750	(57)	–	188,693	–	(154)	–	211,698
Income tax payable	9,172	2,676	–	–	2,676	–	(640)	–	11,208
	76,419	369,174	(64,685)	45,455	349,944	–	(794)	(1,856)	423,713
Net current assets/(liabilities)	114,466	139,614	(127,173)	(45,455)	(33,014)	(137,615)	164,320	–	108,157
Total assets less current liabilities	351,251	533,130	(300,827)	283,949	516,252	(137,615)	164,320	–	894,208

	The Group at 31 December 2019	The Target Business at 31 December 2019	Pro forma adjustments		Sub-total				Pro forma of the Enlarged Group at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
	a	*b*	*c*	*d*	*e=b+c+d*	*f*	*g*	*h*	*j=a+e+f+g+h*
Non-current liabilities									
Bank and other loans	43,925	19,000	–	–	19,000	–	–	–	62,925
Lease liabilities	26,790	49,967	(24,088)	283,949	309,828	–	–	–	336,618
Deferred tax liabilities	5,774	683	–	–	683	–	–	–	6,457
	76,489	69,650	(24,088)	283,949	329,511	–	–	–	406,000
NET ASSETS	274,762	463,480	(276,739)	–	186,741	(137,615)	164,320	–	488,208
CAPITAL AND RESERVES									
Share capital	19,794	–	–	–	–	91,743	36,697	–	148,234
Reserves	248,555	–	–	–	–	(67,860)	127,623	–	308,318
Parent's net investment	–	313,612	(198,643)	–	114,969	(114,969)	–	–	–
Non-controlling interests	6,413	149,868	(78,096)	–	71,772	(46,529)	–	–	31,656
TOTAL EQUITY	274,762	463,480	(276,739)	–	186,741	(137,615)	164,320	–	488,208

3. Unaudited pro forma consolidated statement of profit or loss of the Enlarged Group

	The Group for the year ended 31 December 2019 RMB'000 (Note 1) a	The Target Business for the year ended 31 December 2019 RMB'000 (Note 2) b	Pro forma adjustments RMB'000 (Note 3) c	RMB'000 (Note 4) d	Sub-total RMB'000 e=b+c+d	RMB'000 (Note 5) f	RMB'000 (Note 6) g	RMB'000 (Note 7) h	Pro forma of the Enlarged Group for the year ended 31 December 2019 RMB'000 i=a+e+f+g+h
Revenue	403,248	3,602,976	–	–	3,602,976	–	–	(52,931)	3,953,293
Cost of sales	(226,746)	(3,283,533)	–	–	(3,283,533)	–	–	56,931	(3,453,348)
Gross profit	176,502	319,443	–	–	319,443	–	–	4,000	499,945
Other income	8,361	12,860	(7,754)	–	5,106	–	–	(4,000)	9,467
Staff costs	(50,517)	(97,310)	–	–	(97,310)	–	–	–	(147,827)
Depreciation expenses	(29,685)	(46,726)	28,665	(32,913)	(50,974)	–	–	–	(80,659)
Other operating expenses	(45,737)	(33,363)	11,374	–	(21,989)	–	(15,219)	–	(82,945)
Profit from operations	58,924	154,904	32,285	(32,913)	154,276	–	(15,219)	–	197,981
Finance costs	(6,685)	(17,028)	5,316	(22,716)	(34,428)	–	–	–	(41,113)
Share of profits of a joint venture	1,023	–	–	–	–	–	–	–	1,023
Profit before taxation	53,262	137,876	37,601	(55,629)	119,848	–	(15,219)	–	157,891
Income tax	(17,569)	(35,429)	(9,400)	13,907	(30,922)	–	640	–	(47,851)
Profit for the year	35,693	102,447	28,201	(41,722)	88,926	–	(14,579)	–	110,040
Attributable to:									
Equity shareholders of the Company	35,642	–	–	–	–	85,954	(14,579)	–	107,017
Parent's net investment	–	73,106	20,243	(29,948)	63,401	(63,401)	–	–	–
Non-controlling interests	51	29,341	7,958	(11,774)	25,525	(22,553)	–	–	3,023
Profit for the year	35,693	102,447	28,201	(41,722)	88,926	–	(14,579)	–	110,040

4. Unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group

	The Group for the year ended 31 December 2019	The Target Business for the year ended 31 December 2019	Pro forma adjustments						Pro forma of the Enlarged Group for the year ended 31 December 2019
					Sub-total				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
	a	*b*	*c*	*d*	*e=b+c+d*	*f*	*g*	*h*	*h=a+e+f+g+h*
Profit for the year	35,693	102,447	28,201	(41,722)	88,926	–	(14,579)		110,040
Other comprehensive income for the year (after tax):									
Items that may be reclassified subsequently to profit or loss:									
– Exchange differences on translation into presentation currency	1,352	(418)	–	–	(418)	–	–	–	934
Total comprehensive income for the year	37,045	102,029	28,201	(41,722)	88,508	–	(14,579)	–	110,974
Attributable to:									
Equity shareholders of the Company	36,994	–	–	–	–	85,585	(14,579)	–	108,000
Parent's net investment	–	72,737	20,243	(29,948)	63,032	(63,032)	–	–	–
Non-controlling interests	51	29,292	7,958	(11,774)	25,476	(22,553)	–	–	2,974
Total comprehensive income for the year	37,045	102,029	28,201	(41,722)	88,508	–	(14,579)	–	110,974

5. Unaudited pro forma consolidated cash flow statement of the Enlarged Group

	The Group for the year ended 31 December 2019	The Target Business for the year ended 31 December 2019	Pro forma adjustments						Pro forma of the Enlarged Group for the year ended 31 December 2019
					Sub-total				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
	a	*b*	*c*	*d*	*e=b+c+d*	*f*	*g*	*h*	*j=a+e+f+g+h*
Operating activities									
Profit before taxation	53,262	137,876	37,601	(55,629)	119,848	–	(15,219)	–	157,891
Adjustments for:									
Depreciation expenses	29,685	46,726	(28,665)	32,913	50,974	–	–	–	80,659
Net loss/(gain) on disposal of property, plant and equipment and investment properties	316	(2,897)	–	–	(2,897)	–	–	–	(2,581)
Net gain on disposal of a subsidiary	(944)	–	–	–	–	–	–	–	(944)
Finance costs	6,685	17,028	(5,316)	22,716	34,428	–	–	–	41,113
Interest income	(492)	(502)	–	–	(502)	–	–	–	(994)
Net foreign exchange losses	330	–	–	–	–	–	–	–	330
Share of profits of a joint venture	(1,023)	–	–	–	–	–	–	–	(1,023)
Changes in working capital:									
Decrease/(increase) in inventories	707	64,138	–	–	64,138	–	–	–	64,845
(Increase)/decrease in trade and bills receivables	(5,474)	(826)	–	–	(826)	–	–	1,856	(4,444)
(Increase)/decrease in prepayments, deposits and other receivables	(62,592)	28,861	1,598	–	30,459	–	–	–	(32,133)
(Decrease)/increase in trade and bills payables	(256)	10,435	–	–	10,435	–	–	(1,856)	8,323
Increase/(decrease) in accrued expenses and other payables	12,770	35,497	(948)	(4,545)	30,004	–	(154)	–	42,620
Cash generated from/(used in) operations	32,974	336,336	4,270	(4,545)	336,061	–	(15,373)	–	353,662
Income tax paid	(17,412)	(31,526)	(9,400)	13,907	(27,019)	–	–	–	(44,431)
Net cash generated from/(used in) operating activities	15,562	304,810	(5,130)	9,362	309,042	–	(15,373)	–	309,231

	The Group for the year ended 31 December 2019	The Target Business for the year ended 31 December 2019	Pro forma adjustments		Sub-total				Pro forma of the Enlarged Group for the year ended 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
	a	*b*	*c*	*d*	*e=b+c+d*	*f*	*g*	*h*	*j=a+e+f+g+h*
Investing activities									
Payments for purchase of property, plant and equipment	(24,121)	(56,753)	40,287	–	(16,466)	–	–	–	(40,587)
Proceeds from disposal of property, plant and equipment and investment properties	168	2,220	(1,347)	–	873	–	–	–	1,041
Payments for acquisition of a joint venture	(71,617)	–	–	–	–	–	–	–	(71,617)
Disposal of a subsidiary, net of cash disposed of	(784)	–	–	–	–	–	–	–	(784)
Payments for the Acquisition to the equity shareholders of the Target Company, net of cash acquired	–	–	–	–	–	(118,830)	–	–	(118,830)
Interest received	492	502	–	–	502	–	–	–	994
Net cash (used in)/generated from investing activities	(95,862)	(54,031)	38,940	–	(15,091)	(118,830)	–	–	(229,783)

	The Group for the year ended 31 December 2019	Pro forma adjustments							Pro forma of the Enlarged Group for the year ended 31 December 2019
		The Target Business for the year ended 31 December 2019			Sub-total				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
	a	*b*	*c*	*d*	*e=b+c+d*	*f*	*g*	*h*	*j=a+e+f+g+h*
Financing activities									
Proceeds from bank and other loans	73,925	38,920	(38,000)	–	920	–	–	–	74,845
Repayments of bank and other loans	(30,000)	(82,320)	20,000	–	(62,320)	–	–	–	(92,320)
Capital element of lease rentals paid	(10,037)	(17,169)	8,211	(22,739)	(31,697)	–	–	–	(41,734)
Interest element of lease rentals paid	(2,264)	(6,696)	4,142	(22,716)	(25,270)	–	–	–	(27,534)
Dividends paid to equity shareholders of the Company	(17,465)	–	–	–	–	–	–	–	(17,465)
Distributions paid to non-controlling equity owners of a subsidiary	(286)	–	–	–	–	–	–	–	(286)
Payments for acquisitions of the subsidiaries of the Target Business under a reorganisation	–	(13,140)	–	–	(13,140)	–	–	–	(13,140)
Proceeds from issuance of the Placing Shares	–	–	–	–	–		178,899	–	178,899
Net (increase)/decrease in the amounts due from related parties	–	(180,612)	126,044	–	(54,568)	–	–	–	(54,568)
Decrease in pledged bank deposits	–	10,000	–	–	10,000	–	–	–	10,000
Interest paid	(4,421)	(10,332)	–	–	(10,332)	–	–	–	(14,753)
Net cash generated from/(used in) financing activities	9,452	(261,349)	120,397	(45,455)	(186,407)	–	178,899	–	1,944
Net (decrease)/increase in cash and cash equivalents	(70,848)	(10,570)	154,207	(36,093)	107,544	(118,830)	163,526	–	81,392
Cash and cash equivalents at 1 January	127,918	18,785	–	–	18,785	(18,785)	–	–	127,918
Effect of foreign exchange rate changes	404	–	–	–	–	–	–	–	404
Cash and cash equivalents at 31 December	57,474	8,215	154,207	(36,093)	126,329	(137,615)	163,526	–	209,714

6. Notes to the Pro Forma Financial Information of the Enlarged Group

(1) For the preparation of the pro forma financial information of the Enlarged Group, the amounts related to the Group are extracted from the consolidated statement of financial position of the Group at 31 December 2019, as extracted from the annual report of the Company for the year ended 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income and the consolidated cash flow statement of the Group for the year ended 31 December 2019, as extracted from the audited consolidated financial statements of the Group set out in the annual report of the Company for the year ended 31 December 2019, where certain reclassification adjustments were made in order to conform with presentation of the accountants' report of the Target Business as set out in Appendix I to this Circular.

(2) For the preparation of the pro forma financial information of the Enlarged Group, the amounts related to the Target Business are extracted from the combined statement of financial position of the Target Business at 31 December 2019, and the combined statement of profit or loss, the combined statement of profit or loss and other comprehensive income and the combined cash flow statement of the Target Business for the year ended 31 December 2019, as extracted from the accountants' report of the Target Business as set out in Appendix I to this Circular.

(3) The adjustment represents the exclusion of certain assets and liabilities of the Target Business which will not be acquired by the Target Group under the terms of the SP Agreement as set out in the section headed "Letter from the Board" in the Circular, as well as the related income and expenses and cash flows impacts.

Upon Acquisition Completion, the Target Group will conduct the Target Business. The ownership or use rights of assets and liabilities associated with the Target Business will be owned by the Target Group except for the following assets and liabilities of Petroleum Segment of Changchun Yitonghe which will be retained by Changchun Yitonghe. The assets and liabilities that will be retained by Changchun Yitonghe are listed below:

	At 31 December 2019 *RMB'000*
Non-current assets	
Property, plant and equipment	162,774
Investment properties	9,925
Deferred tax assets	955
	173,654
Current assets	
Prepayments, deposits and other receivables	30
Amounts due from related parties	191,828
	191,858
Current liabilities	
Bank and other loans	(38,000)
Lease liabilities	(26,628)
Accrued expenses and other payables	(57)
	(64,685)
Non-current liabilities	
Lease liabilities	(24,088)
Net assets	276,739

Accordingly, the assets and liabilities that will be retained by Changchun Yitonghe are excluded when preparing the unaudited pro forma consolidated statement of financial position of the Enlarged Group and the impact of depreciation expenses, maintenance expenses, assets insurance expenditures and relevant income tax and related cash flows are excluded when preparing the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement.

(4) The Target Group, as a condition precedent to the Acquisition Completion, entered into the Entrusted Management Agreement with Changchun Yitonghe, pursuant to which Changchun Yitonghe as the entrusting party shall entrust the Target Group as the operating party with (i) an exclusive right to operate and manage the Petroleum Refuelling Business and the Petroleum Wholesale Business at the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility and (ii) authorised the Target Group to use all assets, property, land and equipment necessary for such operation and management.

The entrustment fee under the Entrusted Management Agreement is an annual fee of RMB50,000,000 per annum, with a period for ten years.

The Directors are of the opinion that the Entrusted Management Agreement, as set out in the section headed "Letter from the Board" of the Circular, fall into the definition of lease of IFRS 16, *Leases*. As such, the Target Group will recognise right-of-use assets representing its rights to use the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility.

Under IFRS 16, where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses. In the cash flow statement, the Target Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element.

The management of the Company determined the length of the remaining lease terms and measured the lease liabilities under the Entrusted Management Agreement at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates.

For preparation of the unaudited pro forma consolidated statement of financial position, the adjustment represents the financial impact of the Entrusted Management Agreement as if the Entrusted Petroleum Refuelling Stations and the Entrusted Petroleum Storage Facility of Changchun Yitonghe has been entrusted to the Target Group on 31 December 2019.

The following table summarises the impact of the initial recognition and accounting impacts relevant to the Entrusted Management Agreement.

	At 31 December 2019
	RMB'000
Right-of-use assets, included in property, plant and equipment	329,404
Lease liabilities	(329,404)
	–

The reconciliations between the entrustment fee under the Entrusted Management Agreement and the related lease liabilities at 31 December 2019 are as follows:

	At 2019
	RMB'000
Entrustment fee	500,000
Less: value-added tax	(45,453)
Total minimum lease payments	454,547
Less: total future interest expenses	(125,143)
Present value of lease liabilities	329,404
Representing:	
Current	45,455
Non-current	283,949
	329,404

For preparation of the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma statement of profit or loss and other comprehensive income and the unaudited cash flow statement, it is assumed that the Entrusted Management Agreement has been effective on 1 January 2019, representing the beginning of the year ended 31 December 2019.

The following table summarises the impact of the initial recognition and subsequent accounting impact relevant to the Entrusted Management Agreement.

	Year ended 31 December 2019
	RMB'000
Depreciation	32,913
Interest expenses on lease liabilities	22,716
	55,629
Capital element of lease rentals paid	22,739
Interest element of lease rentals paid	22,716
	45,455

(5) Pursuant to the accounting policies of the Company, business combination arising from transfer of interests in entities that are under the control of the controlling shareholder that controls the Group are accounted for as if the acquisition has occurred at the beginning of the comparative period or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously from the perspective of Mr Zhao. The components of equity of the acquired entities are added to the same components within the Group's equity and any difference between the net assets acquired and the consideration paid is recognised directly in equity.

As the Group and the Target Business are under common control of Mr Zhao, who will continue to be the Controlling Shareholder of the Enlarged Group upon Acquisition Completion. The control is not transitory and, consequently, there is a continuation of the risks and benefits to Mr Zhao. The Acquisition is expected to be accounted for under the merger basis of accounting as if the combination of the Group and the Target Business had occurred as of 31 December 2019 or at the beginning of the year ended 31 December 2019. The consolidated financial statements of the Enlarged Group will be prepared as a continuation of the financial statements of the combination of the Group and the Target Business with the assets and liabilities of the Group and the Target Business recognised and measured at their carrying amounts recognised previously from the perspective of Mr Zhao.

The pro forma adjustments present the followings:

	Notes	*RMB'000*
Cash consideration	*(a)*	137,615
Share consideration	*(a)*	458,715
		596,330
Carrying amounts of net assets of the Target Business as at 31 December 2019 after the adjustments set out in Notes 3 and 4	*(b)*	(186,741)
Less: attributable to the non-controlling interests of subsidiaries of the Target Company that are not attributable directly or indirectly to the Company	*(c)*	25,243
		(161,498)
Impact to the reserves		434,832

(a) The consideration payable by the Company to the Vendors pursuant to the SP Agreement shall be HK$650 million (equivalent to approximately RMB596.3 million), comprising (1) the allotment and issue of 100,000,000 Consideration Shares at HK$5.00 per Consideration Shares, and (2) cash consideration of HK$150 million (equivalent to approximately RMB137.6 million).

For the purposes of the pro forma financial information, the fair value of the 100,000,000 Consideration Shares to be issued by the Company amounted to HK$500 million (equivalent to approximately RMB458.7 million) is determined after arm's length negotiations between the parties to the SP Agreement.

The increase of equity is as follows:

	HK$'000	*RMB'000*
Issued capital	100,000	91,743
Reserves – share premium	400,000	366,972
	500,000	458,715

In the opinion of the Directors, the fair value of the Consideration Shares is subject to the changes upon Acquisition Completion because the fair value of the Consideration Shares shall be determined on the Completion Date.

Pro forma adjustments in the unaudited pro forma consolidated cash flow statement:

Cash consideration	137,615
Cash and cash equivalents of the Target Business at 1 January 2019	(18,785)
Payments for Acquisition to the equity shareholders of the Target Company, net of cash acquired	118,830

(b) Pro forma adjustments included in the unaudited pro forma consolidated statement of financial position of the Enlarged Group represent the combination of the carrying amounts of the equity interests of the Target Group and the assets and liabilities associated with the Target Business except for certain assets and liabilities of Petroleum Segment of Changchun Yitonghe which will be retained by Changchun Yitonghe (see Note 3).

	At 31 December 2019
	RMB'000
Non-current assets	549,266
Current assets	316,930
Current liabilities	(349,944)
Non-current liabilities	(329,511)
NET ASSETS	186,741

Since the pro forma financial information of the Enlarged Group is prepared solely for illustrative purposes, the Directors had assumed that the carrying amounts of all assets and liabilities of the Target Business included in the Accountants' Report to be their respective carrying amounts at the date of the Acquisition Completion. The possible changes to carrying amounts of the assets and liabilities being acquired were not reflected in the pro forma financial information of the Enlarged Group.

(c) Assets and liabilities of the Target Business included in the historical financial information in the Accountants' Report have been stated at the existing book values from the perspective of Mr Zhao and parent's net investment is shown in lieu of shareholders' equity in the historical financial information of the Target Business to present the cumulative interest of Mr Zhao in the Target Business. The proportionate interest in the operating results and net assets not attributable to Mr Zhao is presented as attributable to the non-controlling interests in the historical financial information of the Target Business.

For the preparation of the consolidated financial statements of the Group, non-controlling interests represent the equity interests in subsidiaries not attributable directly or indirectly to the Company.

	RMB'000
Non-controlling interests of the Target Business as at 31 December 2019 *(Note 2)*	149,868
Less: the net assets that will be retained by Changchun Yitonghe, which is attributable to the non-controlling interests of the Target Business *(Note 3)*	78,096
	71,772
Adjustments in the non-controlling interests in the combined statement of financial position of the Target Business as at 31 December 2019 *(Note 5(c))*	(46,529)
Net assets of the Target Business attributable to the non-controlling interests of subsidiaries of the Target Company that are not attributable directly or indirectly to the Company, which excluding the net assets that will be retained by Changchun Yitonghe	25,243

Adjustments in the non-controlling interests of RMB46,529,000 in the combined statement of financial position of the Target Business as at 31 December 2019, profit or loss attributable to non-controlling interests of RMB22,553,000 in the combined statement of profit or loss of the Target Business for the year ended 31 December 2019 have been made to reflect the non-controlling interests in subsidiaries of the Target Company that are not attributable directly or indirectly to the Company upon the Acquisition.

(6) The adjustment represents the impact on financial effect assuming that the 40,000,000 Placing Shares have been placed at the issue price of HK$5.00 per share and the expenditures incurred directly for the Acquisition. The Placing Completion and the Acquisition Completion are inter-conditional and it is expected that the Consideration Shares and the Placing Shares shall be allotted and issued simultaneously.

The commission payable to the Underwriters of HK$5,000,000 (equivalent to RMB4,587,000), which will be debited against share premium of the Company is estimated to be 2.5% of the fund.

The increase of equity is as follows:

	HK$'000	*RMB'000*
Issued capital	40,000	36,697
Reserves – share premium	160,000	146,789
Less: commission payable to the Underwriters	(5,000)	(4,587)
	195,000	178,899
Less: expenditures incurred directly to the Acquisition	16,910	15,373
effect on VAT payables	(169)	(154)
effect on income tax	(704)	(640)
	16,037	14,579
Impact on equity	211,037	164,320
Representing:		
Impact on share capital	40,000	36,697
Impact on reserves	171,037	127,623
	211,037	164,320

The expenditures incurred directly to the Acquisition include financial advisor fees, legal fees, printing costs, accountants fees, and other related expenses of approximately RMB36,020,000, of which RMB16.1 million (equivalent to HK$17.5 million) was incurred and reflected in the profit or loss and approximately RMB15.4 million (equivalent to approximately HK$16.8 million) will be reflected in the profit or loss, and approximately RMB4.5 million (equivalent to approximately HK$5.0 million) will be accounted as a deduction from equity in the consolidated financial statements of the Enlarged Group. The adjustment is not expected to have a continuing effect on the Enlarged Group.

(7) The adjustment represents the elimination of the balances, transactions, unrealised gains/losses on transactions and cash flows between the Group and the Target Group as of 31 December 2019 and for the year ended 31 December 2019.

(8) No adjustment has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2019.

(9) The Directors assume that the exchange rate of HK$ against RMB used in the unaudited pro forma financial information of the Enlarge Group was HK$1 to RMB0.91 and the exchange rate of RMB against HK$ was RMB1 to HK$1.09, which is the exchange rate as announced by The People's Bank of China on the date of the SP Agreement.

(10) Unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group

	Net tangible assets of the Group at 31 December 2019	**Net tangible assets of the Group per share at 31 December 2019**	**Unaudited pro forma adjusted net tangible assets of the Enlarged Group at 31 December 2019**	**Unaudited pro forma adjusted net tangible assets of the Enlarged Group per share at 31 December 2019**
	HKD'000	*HKD'000*	*HKD*	*HKD*
	(Note (i))	*(Note (ii))*	*(Note (iii))*	*(Note (iii))*
Net tangible assets attributable to equity shareholders of the Company	292,500	1.25	497,642	1.33

(i) The consolidated net tangible assets of the Group as at 31 December 2019 is based on the amount of net tangible assets attributable to the equity shareholders of the Company as at 31 December 2019, which is extracted from the annual report of the Company for the year ended 31 December 2019.

(ii) The number of shares used for the calculation of unaudited net tangible assets of the Group per share is 234,502,000, being the number of ordinary shares of the Company in issue as of 31 December 2019.

(iii) The unaudited pro forma adjusted net tangible assets of the Enlarged Group as at 31 December 2019 is based on the amount of the unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the Company as at 31 December 2019, which is extracted from the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

The number of shares used for the calculation of the unaudited pro forma adjusted net tangible assets of the Enlarged Group per share is 374,502,000, comprising 234,502,000 ordinary shares in issue as of 31 December 2019, 40,000,000 Placing Shares and 100,000,000 Consideration Shares to be issued upon the Acquisition Completion as described in Notes 5 and 6 above.

The Placing Completion and the Acquisition Completion are inter-conditional and it is expected that the Consideration Shares and the Placing Shares shall be allotted and issued simultaneously.

(B) REPORT ON PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received form the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this Circular.

KPMG

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

TO THE DIRECTORS OF UNITED STRENGTH POWER HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of United Strength Power Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2019, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated profit or loss and other comprehensive income and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2019, and related notes as set out in Part A of Appendix III to the circular dated 30 June 2020 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the entire issued share capital of Eternal Global Investment Limited (the "Proposed Acquisition") on the Group's financial position as at 31 December 2019 and the Group's financial performance and cash flows for the year ended 31 December 2019 as if the Proposed Acquisition had taken place at 31 December 2019 and 1 January 2019, respectively. As part of this process, information about the Group's financial position as at 31 December 2019 and the Group's financial performance and cash flows for the year ended 31 December 2019 have been extracted by the Directors from the consolidated financial statements of the Company for the year ended 31 December 2019, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Our Independence and Quality Control

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

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

Reporting Accountants' Responsibilities

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 31 December 2019 or 1 January 2019 would have been as presented.

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

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

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

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

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

KPMG
Certified Public Accountants
Hong Kong

30 June 2020

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in Appendix VI to this circular. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "Articles") were adopted with effect from the Listing Date. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase shares of the Company or its holdings company

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

(aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;

(bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;

(cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

(dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

(ff) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, close associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;

(gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his close associate(s) may benefit; and

(hh) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.

(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be less than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) Qualification shares

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) Indemnity to Directors

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

(i) increase its share capital;

(ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;

(iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;

(v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(vi) change the currency of denomination of its share capital; and

(vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions - majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice has been duly given in accordance with the Article 2(i) below for further details.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

At the annual general meeting in each year, the members shall appoint one or more firms of auditors to hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of the term of office and shall by ordinary resolution at that meeting appoint another auditor in its place for the remainder of his term. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited. If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 622) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock.

The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this circular shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together representing not less than 95 per cent. of the total voting rights at the meeting of all the members.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

(i) in paying distributions or dividends to members;

(ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(iii) in redeeming or purchasing its shares as provided in the Companies Law; or

(iv) in writing off

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (2011 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. However, a list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. An exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands. The register of members shall contain such particulars as required by Section 40 of the Companies Law. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

(m) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this circular. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. RESPONSIBILITY STATEMENTS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular (other than the information relating to the Vendors and the Target Group) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Target Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by the Target Group) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The Target Company Directors accepts full responsibility for the accuracy of the information contained in this circular relating to the Target Group and confirm, having made all reasonable enquiries, that to the best of its knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

The table below shows the closing price per Share as quoted by the Stock Exchange (i) on the last day on which trading took place in each of the calendar months during the period commencing six months immediately preceding the Latest Practicable Date; and (ii) as of the Latest Practicable Date:

Date	**Closing price per Share** *(HK$)*
31 December 2019	6.28
31 January 2020	5.70
28 February 2020	5.69
31 March 2020	5.51
29 April 2020	5.30
29 May 2020	5.44
22 June 2020	5.84

The highest and lowest closing price per Share as quoted on the Stock Exchange during the period between 23 December 2019 (being the date falling six months prior to the Latest Practicable Date) and ending on the Latest Practicable Date (both days inclusive) were HK$6.52 per Share on 27 December 2019, and HK$5.0 per Share on 17 March 2020 and 19 March 2020.

3. FURTHER INFORMATION ABOUT OUR GROUP

3.1 Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 19 December 2016 and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 5 April 2017, and our principal place of business in Hong Kong is at Room 4310, 43/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. Mr. Lo Wai Kit (our Chief Financial Officer and Company Secretary) is the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution comprises the Memorandum of Association and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix IV to this circular.

3.2 Changes in the share capital in our Company and the Group

(a) Changes in the authorised and issued share capital of the Company

As at the date of incorporation of our Company, our Company had an authorised share capital of HK$380,000 divided into 3,800,000 Shares of HK$0.10 each. On 19 December 2016 (i.e. the date of its incorporation), one subscriber Share was allotted and issued, credited as fully paid up, to an officer of the registered agent of our Company, and such share was transferred to Golden Truth on the same date. The following alterations in the share capital of our Company have taken place since the date of incorporation up to the date of this circular:

(i) on 16 March 2017, our Company allotted and issued 739 Shares, 150 Shares, 100 Shares and 10 Shares, for the aggregate subscription price of approximately HK$22.8 million and credited as fully paid, to Golden Truth, Dynamic Fame, Heroic Year and Noble Praise, respectively;

(ii) pursuant to the written resolutions passed by all our Shareholders on 21 September 2017, among others, the authorised share capital of our Company was increased from HK$380,000 divided into 3,800,000 Shares of HK$0.10 each to HK$80,000,000 divided into

800,000,000 Shares of HK$0.10 each by the creation of an additional of 796,200,000 Shares of HK$0.10 each, each ranking pari passu with the Shares then in issue in all respects;

(iii) on 21 September 2017, our Shareholders resolved that conditional on the share premium account of our Company being credited as a result of the issue of new Shares under the global offering of the Company (the "**Global Offering**"), our Directors were authorised to capitalise an amount of HK$17,587,500 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 130,147,500 Shares, 26,381,250 Shares, 17,587,500 Shares and 1,758,750 Shares for allotment and issue to Golden Truth, Dynamic Fame, Heroic Year and Noble Praise, respectively, whose names appeared in the register of members of our Company at close of business on 21 September 2017; and

(iv) immediately following completion of the Global Offering, 234,502,000 Shares have issued fully paid or credited as fully paid, and 565,498,000 Shares will remain unissued.

(b) There has been no alteration in the share capital of members of the Group within two years immediately preceding the Latest Practicable Date.

3.3 Financial Information of the Group

Details of the financial information of the Group for the years ended 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019 respectively have been set out in the following documents which have been published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.united-strength.com: (i) the Prospectus; (ii) annual report of the Company for the year ended 31 December 2017 published on 27 April 2018; (iii) annual report of the Company for the year ended 31 December 2018 published on 16 April 2019; and (iv) annual report of the Company for the year ended 31 December 2019 published on 17 April 2020.

4. FURTHER INFORMATION ABOUT THE TARGET GROUP

4.1. Changes in share capital of the members of the Target Group

For alterations in the share capital or the registered capital of the members of the Target Group took place within two years immediately preceding the Latest Practicable Date, please refer to the section headed "History and Reorganisation of the Target Group" in this circular.

4.2. Intellectual property of the Target Group

(a) Trademark

As at the Latest Practicable Date, the Target Group had not registered nor applied for registration of any trademark.

(b) Domain name

As at the Latest Practicable Date, the Target Group had not registered nor applied for any domain name which is material in relation to the business of the Target Group.

5. INTELLECTUAL PROPERTY OF THE ENLARGED GROUP

5.1 Trademarks

As of the Latest Practicable Date, our Group was the registered owner of the following trademarks:

Trademark	Place of registration	Registration number	Class	Validity period	Registered Owner
眾誠能源控股有限公司 United Strength Power Holdings Limited 眾誠能源控股有限公司 United Strength Power Holdings Limited	Hong Kong	304106600	4, 39	11 April 2017 - 10 April 2027	Our Company
眾誠能源 United Strength Power 眾誠能源 United Strength Power	Hong Kong	304106592	4, 39	11 April 2017 - 10 April 2027	Our Company
眾誠 眾誠	Hong Kong	304106583	4, 39	11 April 2017 - 10 April 2027	Our Company
眾誠能源 眾誠能源	Hong Kong	304106574	4, 39	11 April 2017 - 10 April 2027	Our Company
眾誠連鎖 眾誠連鎖	Hong Kong	304106619	4, 39	11 April 2017 - 10 April 2027	Our Company

As at the Latest Practicable Date, the Company has entered into the Trademark Licence Agreement with United Strength Vehicle Service on 23 January 2017, pursuant to which United Strength Vehicle Service agreed to grant to Changchun Sinogas and its subsidiaries, whether directly or indirectly owned, and their respective subsidiaries the non-exclusive right to use in the PRC the following trademark with retrospective effect from 21 November 2013 to 20 November 2023 for nil consideration:

Trademark	Place of registration	Registration number	Class	Validity period	Registered Owner
	PRC	3139984	37	21 November 2003 – 20 November 2023	United Strength Vehicle Service

WFOE, as a condition precedent to the Acquisition Completion, entered into the Trademark License Agreement with United Strength Vehicle Service on 26 June 2020 pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trademark “ ” in the PRC. For details, please refer to the section headed “Connected Transactions — Continuing Connected Transactions — The Business Agreements — B. Exempt Continuing Connected Transactions — 1. Trademark License Agreement” in this circular.

5.2 Trade name

We have entered into the Trade Name License Agreement with United Strength Vehicle Service on 16 March 2017, pursuant to which United Strength Vehicle Service agreed to grant to Changchun Sinogas and its subsidiaries, whether directly or indirectly owned, and their respective subsidiaries the non-exclusive right to use in the PRC the trade name of “眾誠連鎖” with retrospective effect from 21 November 2013 to 20 November 2023 for nil consideration.

WFOE, as a condition precedent to the Acquisition Completion, entered into the Trade Name License Agreement with United Strength Vehicle Service on 26 June 2020 pursuant to which United Strength Vehicle Service agreed to grant the WFOE Group the non-exclusive right to use the trade name “眾誠連鎖” in the PRC. For details, please refer to the section headed “Connected Transactions — Continuing Connected Transactions — The Business Agreements — B. Exempt Continuing Connected Transactions — 2. Trade Name License Agreement” in this circular.

5.3 Patent

As at the Latest Practicable Date, our Group (together with a senior management member of some of our subsidiaries) were registered proprietors of the following patent (whose place of registration is in the PRC) which is material to our business:

Patent	Registered Owner	Type	Registration number	Duration of validity
Liquefied petroleum gases (with low propane content and high olefin content) for automobiles, production equipment and relevant process (一種低含丙烷、高含烯烴的車用液化石油氣及其制備設備和工藝)	Longjing United Strength, Mr. Yin Naixun	Invention patent	ZL200810050653.5	25 April 2008 – 24 April 2028

5.4 Domain Name

As at the Latest Practicable Date, Changchun Sinogas had registered the following domain name:

No.	Domain name	Registrant	Registration date	Expiration date	Place of registration
1	united-strength.com	Changchun Sinogas	12 January 2017	12 January 2027	PRC

5.5. Copyright

Pursuant to the Software Copyright Agreement, Jilin Yafei Technology assigned the transaction recording software copyright to Changchun Sinogas. Accordingly, as at the Latest Practicable Date, we have registered the transaction recording software copyright as follows:

Copyright	Type	Registration number	Assignee	First development date	Right acquisition date	Assignment date	Scope of right	Place of assignment
Card-machine interlocking management system in oil (gas) refuelling station V1.02 (加油(氣)站卡機聯動管理系統V1.02)	Software copyright	2017SR432380	Changchun Sinogas	23 June 2017	Assignment	8 August 2017	Full rights	PRC

6. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and chief executives of the Company in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares

Name	Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital
Mr. Zhao *(Note 1)*	Interest of controlled corporation	130,148,240	55.50%
Mr. Liu *(Note 2)*	Interest of controlled corporation	17,587,600	7.50%

Notes:

1. The said Shares were held in the name of Golden Truth. Golden Truth is wholly owned by Mr. Zhao, the chairman of the Company and an executive Director. By virtue of the SFO, Mr. Zhao is deemed to be interested in the Shares in which Golden Truth is interested.

2. The said Shares were held in the name of Heroic Year. Heroic Year is wholly owned by Mr. Liu, an executive Director. By virtue of the SFO, Mr. Liu is deemed to be interested in the Shares in which Heroic Year is interested.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or deemed to have any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) Interests and short positions of persons (other than the Directors and chief executives of the Company) in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of persons (other than the Directors and chief executives of the Company) in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), were as follows:

Long Position in the Shares

Name	Capacity and nature of interest	Number of Shares held	Percentage of beneficial interests in the Company's share capital
Golden Truth *(Note 1)*	Beneficial owner	130,148,240	55.50%
Ji Yuanyuan *(Note 2)*	Interest of spouse	130,148,240	55.50%
Dynamic Fame *(Note 3)*	Beneficial owner	26,381,400	11.25%
Ms. Xu *(Note 3)*	Interest of controlled corporation	26,381,400	11.25%
Heroic Year *(Note 4)*	Beneficial owner	17,587,600	7.50%
Ma Dan *(Note 5)*	Interest of spouse	17,587,600	7.50%

Notes:

1. Golden Truth is wholly owned by Mr. Zhao, the chairman of the Company and an executive Director.

2. Ji Yuanyuan is the spouse of Mr. Zhao. By virtue of the SFO, Ji Yuanyuan is deemed to be interested in the Shares in which Mr. Zhao is interested.

3. The said Shares were held in the name of Dynamic Fame. Dynamic Fame is wholly owned by Ms. Xu. By virtue of the SFO, Ms. Xu is deemed to be interested in the Shares in which Dynamic Fame is interested.

4. Heroic Year is wholly owned by Mr. Liu, an executive Director.

5. Ma Dan is the spouse of Mr. Liu. By virtue of the SFO, Ma Dan is deemed to be interested in the Shares in which Mr. Liu is interested.

In addition to the above and so far as our Directors are aware, as at the Latest Practicable Date, the following person is directly interested in 10% or more of the nominal value of any class of equity capital carrying rights to vote in all circumstances at general meetings of our subsidiaries:

Name of our subsidiary	Substantial shareholder of such subsidiary	Approximate percentage of shareholding
Jilin Chinese Petroleum Clean Energy Environmental Protection Company Limited (吉林中油潔能環保有限責任公 司)	Jilin Province Petroleum Company (吉林省石油總公司)	49%
Yanbian United Strength Energy Technology Development Company Limited (延邊眾誠能源技術開發有限公司)	Mr. Shao Wenyan	40%

Save as disclosed in this circular, so far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, no other person (other than the Directors and chief executives of the Company) had or deemed to have any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO).

(c) Interests of the Directors in assets, contracts or arrangements of the Group

As at the Latest Practicable Date, save for the Acquisition, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Group were made up.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the businesses of the Group taken as a whole, save as disclosed below:

1. the Former Gas Business Entrustment Agreement;

2. the Former Petroleum Business Entrustment Agreement;

3. the Former Petroleum Transportation Services Agreement;

4. the Cooperation Agreement;

5. the Former Petroleum Transportation Vehicle Management Agreement;

6. the SP Agreement;

7. the Supplemental SP Agreements;

8. the Entrusted Management Agreement;

9. the Petroleum Supply Agreement;

10. the Transportation Vehicles Lease Agreement; and

11. the Placing Agreement.

(d) Competing businesses

As at the Latest Practicable Date, save as disclosed in the section "Relationship with Controlling Shareholders" in this circular, none of the Directors or their respective close associates (as if each of them was treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

(e) Common directors

As at the Latest Practicable Date, the following Directors are also directors of certain companies which have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (the "**Relevant Companies**"):

Name of the Director	Relevant Companies in which the Director is also a director
Zhao Jinmin	Golden Truth
Liu Yingwu	Heroic Year

7. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation)).

7.1. Directors' service contracts and letters of appointment

Executive Directors

Each of our executive Directors (namely, Mr. Zhao, Mr. Liu, Mr. Xu and Mr. Yuan) has entered into a service contract with our Company pursuant to which he agreed to act as an executive Director for an initial term of three years with effect from 1 April 2017 (in respect of Mr. Zhao, Mr. Liu and Mr. Xu and from 27 November 2018 (in respect of Mr. Yuan) respectively.

Each of our executive Directors is entitled to a basic salary set out below. In addition, our executive Directors are also entitled to a discretionary management bonus taking into consideration the financial performance of our Group and the relevant Director's individual contribution to our Group for the financial year concerned, provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 10% of the audited consolidated net profit of our Group (after taxation, minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of our executive Directors is as follows:

Name	**Annual salary** *(HK$)*
Mr. Zhao	12
Mr. Liu	12
Mr. Xu	1,950,000
Mr. Yuan	360,000

INEDs

Each of the INEDs has entered into a letter of appointment with our Company pursuant to which he/she has been appointed for an initial term of three years commencing from 1 September 2017 (in respect of Ms. Su Dan and Mr. Lau Ying Kit) and 27 November 2018 (in respect of Mr. Zhang Zhifeng) respectively. Each of our INEDs is entitled to a director's fee of HK$300,000 per annum. Save for Directors' fees, none of our INEDs is expected to receive any other remuneration for holding their office as an INED.

Subject to approval by Shareholders at the EGM, Mr. Ma Haidong, a member of senior management team of the Target Group, will be appointed as an executive Director, with effect from the Acquisition Completion. The remuneration of Mr. Ma Haidong will be recommended by the remuneration committee of the Board for the Board's approval upon the Acquisition Completion.

7.2 Directors' remuneration

(a) The aggregate emoluments paid to our Directors by our Group in respect of the Track Record Period were nil, RMB2.2 million, RMB3.2 million and RMB3.1 million respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including the INEDs in their respective capacity as Directors) for the year ending 31 December 2020 will be approximately RMB3.2 million.

(c) None of our Directors or any past directors of any member of our Group has been paid any sum of money for the Track Record Period (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the Track Record Period.

8. EXPERTS

(a) Qualification of expert

The following is the name and qualification of the expert who has given its opinion or advice which are contained in this circular:

Name	Qualification
Zhongtai International Capital Limited	A licensed corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO
First Capital International Finance Limited	A licensed corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO

Name	Qualification
Chanceton Capital Partners Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity as defined under the SFO
KPMG	Certified Public Accountants Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Beijing Zhongxin Law Office	Qualified PRC lawyers
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law

Each of the abovementioned experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they appear in this circular.

(b) Interests of expert

As at the Latest Practicable Date, each of the expert was not interested in any securities of any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, nor did it has any direct or indirect interest in any assets which had been, since 31 December 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by, or leased to, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

9. NO MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, save as disclosed in this circular, they are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

10. FURTHER INFORMATION ABOUT OUR BUSINESS

10.1 Summary of material contracts

Save as disclosed below, no contracts (not being contracts in the ordinary course of business of the Group) have been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date which are or may be material:

1. the sale and purchase agreement dated 19 January 2018 entered into between Changchun Sinogas Company, Ltd.* (長春中油潔能燃氣有限公司) as purchaser and Changchun Yitonghe as vendor for the acquisition of the entire equity interest in Jilin Province Jieli Logistics Company Limited* (吉林省捷利物流有限公司) at a consideration of RMB15,250,549;

2. the sale and purchase agreement dated 31 January 2019 entered into among Wang Jiawei (王嘉偉) as the vendor, United Strength Power International Limited (眾誠能源國際有限公司) as the purchaser and Wang Jiantao (王健濤) as guarantor of the vendor for among others, the acquisition of the entire issued share capital of Silver Spring Green Energy Limited (銀泉綠能有限公司) at a consideration of HK$84,500,000;

3. the SP Agreement;

4. the Supplemental SP Agreements;

5. the Placing Agreement; and

6. the Deed of Non-competition.

11. SHARE OPTION SCHEME

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme adopted by a resolution in writing of our Shareholders passed on 21 September 2017:

(i) Purpose of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

Our Directors may at any time within a period of ten years commencing from the date of adoption of the Share Option Scheme, at its absolute discretion, in accordance with the provisions of the Share Option Scheme and the Listing Rules make an offer to any person belonging to any of the following classes of participants ("**Eligible Participant**"), to take up options to subscribe for Shares:

(aa) any employee ("**Eligible Employee**") (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("**Invested Entity**") in which any member of our Group holds an equity interest;

(bb) any non-executive directors (including INEDs) of our Company, any of our subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of our Group or any Invested Entity;

(dd) any customer of any member of our Group or any Invested Entity;

(ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of the Shares available for subscription

(aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.

(bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date ("**General Scheme Limit**") (such 10% being 23,450,200 Shares).

(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and, for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised and outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. Our Company must send a circular to the Shareholders, containing the information required under the Listing Rules. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to our Directors, chief executive or Substantial Shareholders of our Company or their respective associates

(aa) Any offer for the grant of options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates must be approved by INEDs (excluding INED who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a Substantial Shareholder or an INED or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders, containing such information are required under the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

Any change in the terms of options granted to a Substantial Shareholder or an INED or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer for the grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period ("**Option Period**") may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of the offer for the grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant of the option, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant of the option; and (iii) the nominal value of a Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(ix) Ranking of the Shares

(aa) The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association of our Company for the time being in force and will rank pari passu in all respects with the then fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in the context of the Share Option Scheme include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reconstruction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement (covering any period of delay in publishing the results announcement), no offer for the grant of options may be made.

Our Directors may not make any offer for the grant of options to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years ("**Termination Date**") commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of the Share Option Scheme within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of the Share Option Scheme within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If in respect of a grantee other than an Eligible Employee, our Directors shall at their absolute discretion determine that (aa) (1) the grantee or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which our Directors have so determined.

(xvi) Rights on a general offer or a scheme of arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to Shareholders of our Company, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option in accordance with the provisions of the Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the Option Period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by Eligible Participants

If the grantee is a company wholly owned by one or more Eligible Participants:

(aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options granted to such grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant Eligible Participant; and

(bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding adjustment (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares comprised in an option or which remains comprised in an Option or to which the Share Option Scheme or any option(s) relates (so far as unexercised) and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital of our Company to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iv) notwithstanding (i) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalisation issue, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures and any such adjustment shall comply with the supplementary guidance on Rule 17.03(13) of the Listing Rules as set out in the letter issued by the Stock Exchange dated 5 September 2005; and (v) any adjustment must be made in compliance with the Listing Rules and such applicable rules, codes, guidance notes and/or interpretation of the Listing Rules from time to time promulgated by the Stock Exchange. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Subject to the provisions of the Share Options Scheme and Chapter 17 of the Listing Rules, any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant subparagraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreements so to do.

(xxiii) Lapse of option

The Option Period in respect of any option shall terminate automatically and that an option (to the extent not already exercised) shall lapse automatically on the earliest of:

(aa) the expiry of the Option Period in respect of such option;

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and (cc) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) ***Miscellaneous***

(aa) The Share Option Scheme has been approved by the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares representing the General Scheme Limit to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(bb) Provisions of the Share Option Scheme as to the definitions of "Eligible Participants", "grantee", "Option Period" and "Termination Date" and the terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the prior approval of the Shareholders in general meeting.

(cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(dd) The terms of the Share Option Scheme and any amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval

Approval has been sought from the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(ii) Grant of options

As at the date of this circular, no options have been granted or agreed to be granted under the Share Option Scheme.

(iii) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(iv) Compliance with Listing Rules

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

12. OTHER INFORMATION

1. Estate duty, tax and other indemnities

The Vendors (the "**Indemnifiers**") will enter into the Deed of Indemnity with and in favour of the Enlarged Group (for itself and as trustee for each of its present subsidiaries) upon the Acquisition Completion (being the material contract (v) referred to in paragraph 2.1 under this appendix) to provide indemnities on a joint and several basis, in respect of, among other matters:

(a) any liability for Hong Kong estate duty which might be incurred by any member of the Target Group by reason of any relevant transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of the Target Group at any time on or before the Acquisition Completion; and

(b) tax liabilities (including all actual fines, penalties, liabilities, costs, charges, expenses and interests relating to taxation) which might be payable by any member of the Target Group in respect of any income, profits, gains earned, accrued, received on or before the date of Acquisition Completion, or any transactions, events, matters or things entered into or occurring on or before the Acquisition Completion, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

(a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of the Target Group for any accounting period up to 31 December 2019 ("**Accounts Date**"); or

(b) to the extent that such taxation or liability for such taxation falling on any of the members of the Target Group in respect of their accounting periods commencing on the calendar day immediately after the Accounts Date and ending on the Acquisition Completion, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of Target Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction carried out, made or entered into pursuant to a legally binding commitment created on or before the Accounts Date or pursuant to any statement of intention made in this circular; or

(c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of PRC, or any other relevant authority (whether in Hong Kong or PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or the extent such a claim or liability arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or

(d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of the Target Group up to the Accounts Date which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, the Indemnifiers have also undertaken to jointly and severally indemnify each member of the Target Group against any costs and expenses arising from any depletion in or reduction in value of assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which such member of the Target Group may incur or suffer arising form or in connection with the implementation of the reorganisation of the Target Group.

The Indemnifiers further acknowledge that the deed of indemnity dated 21 September 2017 and made by Mr. Zhao and Golden Truth in favour of our Company and its subsidiaries in respect of taxation and other indemnities referred to in paragraph 4.1 under Appendix IV to the Prospectus (the "**2017 Deed of Indemnity**") shall remain in full force and effect. The Deed of Indemnity is without prejudice and in addition to the 2017 Deed of Indemnity, save for no same claims or actions shall be allowed for the same breach under the Deed of Indemnity and 2017 Deed of Indemnity. In case of any inconsistency between the terms of the Deed of Indemnity and the 2017 Deed of Indemnity, the Deed of Indemnity shall prevail.

13. JOINT SPONSORS AND INDEPENDENT FINANCIAL ADVISER

A listing application on behalf of the Company has been submitted to the Stock Exchange by the Joint Sponsors on 25 September 2019. Zhongtai International Capital Limited, one of the joint sponsors, satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules. First Capital International Finance Limited, the other joint sponsor, save and except the Company's engagement of it as the Company's financial adviser in respect of the Acquisition, satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules. The aggregate fee of the joint sponsors is HK$7.5 million, payable by the Company.

Chanceton Capital Partners Limited is the independent financial adviser of the Company in connection with (i) the SP Agreement; (ii) the Entrusted Management Agreement; (iii) the Petroleum Supply Agreement; (iv) the Placing Agreement and the Specific Placing Mandate; and (v) the Specific CS Mandate under this circular.

14. TOTAL EXPENSES

The aggregate fees, together with the Stock Exchange listing fee, SFC transaction levy, legal and other professional fees, printing and other expenses relating to, among other things, the Acquisition and the Placing are estimated to be approximately HK$39.3 million in aggregate, all of which is payable by the Company through proceeds from the Placing.

15. ESTATE DUTY

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands, BVI, Hong Kong, the PRC and other jurisdiction in which the companies comprising the Group are incorporated.

16. MISCELLANEOUS

(a) Save as disclosed in this circular,

(i) within the two years preceding the date of this circular, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) within the two years preceding the date of this circular, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of the Enlarged Group;

(iii) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this circular to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the introduction or related transaction as mentioned in this circular;

(iv) no share or loan capital of any member of the Enlarged Group is under option or is agreed conditionally or unconditionally to be put under option;

(v) no company within the Enlarged Group is listed on any stock exchange or traded on any trading system and at present, the Enlarged Group is not seeking or proposing to seek any listing of, or permission to deal in, the share or loan capital of the Company on any other stock exchange;

(vi) the Group has no outstanding convertible debt securities or debentures;

(vii) none of the Directors or proposed Directors nor any of the persons whose names are listed in the paragraph headed "8. Experts" in this appendix is interested in the promotion of or in any assets which have within the two years immediately preceding the issue of this circular been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group;

(viii) within the two years preceding the date of this circular, no commission has been paid or payable (except commission to sub-underwriter) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of the Company or any of its subsidiaries; and

(ix) none of the Directors or proposed Directors nor any of the persons whose names are listed in the paragraph headed "8. Experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Enlarged Group.

(b) The Company has no founder shares, management shares or deferred shares.

(c) All necessary arrangements will be made to enable the Consideration Shares, and the Placing Shares to be admitted into CCASS for clearing and settlement.

(d) The English text of this circular shall prevail over the Chinese text.

(e) There is no arrangement under which future dividends are waived or agreed to be waived.

(f) There has not been any interruption in the business of the Enlarged Group which may have or has had a significant effect on the financial position of the Enlarged Group in the 12 months preceding the date of this circular.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at Room 4310, 43/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up from the date of this circular up and including the date of the EGM, and the website of the Company (http://www.united-strength.com):

(a) the Memorandum and the Articles of Association of the Company;

(b) the Memorandum and the Articles of Association of the Target Company;

(c) the Directors' service contracts referred to in the paragraph headed ''Directors' service contracts'' in Appendix V to this circular;

(d) the letter from the Board, the text of which is set out in the section headed ''Letter from the Board'' in this circular;

(e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed ''Letter from the Independent Board Committee'' in this circular;

(f) the letter of advice from Chanceton Capital Partners Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed ''Letter from the Independent Financial Adviser'' in this circular;

(g) the annual reports of the Company for each of the two years ended 31 December 2018 and 2019, which include amongst others, the financial information of the Group during the Track Record Period;

(h) the accountants' report received from KPMG on the historical financial information of the Target Business for the Track Record Period prepared by KPMG, the text of which is set out in Appendix I to this circular;

(i) the audited combined financial statement of the Target Business for the Track Record Period;

(j) the report on unaudited pro forma financial information of the Enlarged Group received from KPMG, the text of which is set out in Appendix III to this circular;

(k) the letter of advice from Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this circular;

(l) the Companies Law;

(m) the legal opinions prepared by the PRC Legal Advisers in respect of certain aspects of the Target Group in the PRC;

(n) the material contracts referred to in the paragraph headed ''10.1 Summary of material contracts'' in Appendix V to this circular;

(o) the written consents referred to in paragraph 8 under Appendix V to this circular;

(p) a copy of this circular;

(q) a copy of the F&S Report; and

(r) a copy of the Share Option Scheme.

UNITED STRENGTH POWER HOLDINGS LIMITED
眾誠能源控股有限公司
(Incorporated in the Cayman Islands with members' limited liability)
(Stock Code: 2337)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of United Strength Power Holdings Limited (the "**Company**") will be held at Room C, theDesk, 5/F, United Centre, 95 Queensway, Admiralty, Hong Kong on Friday, 24 July 2020 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions. Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular dated 30 June 2020 issued by the Company (the "**Circular**"):

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the SP Agreement (a copy of which marked "A" together with a copy of the Circular marked "B" have been tabled before the Meeting and signed by the Chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) subject to the fulfilment of the conditions in the SP Agreement and conditional upon the Listing Committee approving the listing of, and granting permission to deal in the Consideration Shares, the Directors be and are hereby granted the Specific CS Mandate to allot, issue, credited as fully paid, the Consideration Shares to the Vendors or its nominees pursuant to the SP Agreement, provided that the Specific CS Mandate shall be in addition to and shall not prejudice nor revoke the Specific Placing Mandate or such other general or specific mandate(s) which has/have been granted prior to the passing of this resolution or may from time to time be granted to the Directors; and

(c) any one or more of the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such documents or agreements or deeds on behalf of the Company to approve, implement, complete and/or give effect to the SP Agreement and/or the issue of the Consideration Shares, and, for and on behalf of the Company, to take all steps necessary or expedient in his/their opinion to approve and implement and/or give effect to the SP Agreement and/or the issue of the Consideration Shares, including, among other things, to sign and deliver for and on behalf of the Company or its relevant subsidiary any and all documents necessary or desirable for giving effect to the SP Agreement and/or the issue of the Consideration Shares and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith."

2. "**THAT**:

(a) the Entrusted Management Agreement (a copy of which marked "C" has been tabled before the Meeting and signed by the Chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one of the Directors be and is hereby authorised to take all steps and to do all acts and things as may be necessary or desirable to give effect to and/or to complete the Entrusted Management Agreement, to sign and execute any other documents or to do any other matters incidental thereto and/or contemplated thereunder and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith."

3. "**THAT**:

(a) the Petroleum Supply Agreement (a copy of which marked "D" has been tabled before the Meeting and signed by the Chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one of the Directors be and is hereby authorised to take all steps and to do all acts and things as may be necessary or desirable to give effect to and/or to complete the Petroleum Supply Agreement, to sign and execute any other documents or to do any other matters incidental thereto and/or contemplated thereunder and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith."

4. "**THAT**:

(a) the Placing Agreement (a copy of which marked "E" has been tabled before the Meeting and signed by the Chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) subject to the fulfilment of the conditions in the Placing Agreement and conditional upon the Listing Committee approving the listing of, and granting permission to deal in the Placing Shares, the grant of the Specific Placing Mandate for the allotment and issue of the Placing Shares pursuant to the Placing Agreement be and is hereby approved and the Directors be and are hereby granted a Specific Placing Mandate to exercise the powers of the Company and authorised to allot and issue the Placing Shares on the terms of the Placing Agreement. The Specific Placing Mandate is in addition to, and shall not prejudice nor revoke the Specific CS Mandate or any general or specific mandate(s) which has/have been granted prior to the passing of this resolution or may from time to time be granted to the Directors; and

(c) any one or more of the Directors be and are hereby authorised to do all such acts and things, to sign and execute all such documents or agreements or deeds on behalf of the Company to approve, implement, complete and/or give effect to the Placing Agreement and/or the issue of the Placing Shares, and, for and on behalf of the Company, to take all steps necessary or expedient in his/their opinion to approve and implement and/or give effect to the Placing Agreement and/or the issue of the Placing Shares, including, among other things, to sign and deliver for and on behalf of the Company or its relevant subsidiary any and all documents necessary or desirable for giving effect to the Placing Agreement and/or the issue of the Placing Shares and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith."

5. “**THAT** subject to completion of the SP Agreement, the appointment of Mr. Ma Haidong as an executive Director with effect from the date of completion of the SP Agreement be approved.”

By Order of the Board
United Strength Power Holdings Limited
Mr. Zhao Jinmin
Chairman

Hong Kong, 30 June 2020

Principal Place of Business in Hong Kong
Room 4310, 43/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

As at the date of this notice, the Board comprises four executive Directors, being Mr. Zhao Jinmin, Mr. Liu Yingwu, Mr. Xu Huilin and Mr. Yuan Limin, and three independent non-executive Directors, being Ms. Su Dan, Mr. Lau Ying Kit and Mr. Zhang Zhifeng.

Notes:

1. Any shareholder (the “**Shareholder(s)**”) of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Meeting. A proxy need not be a Shareholder.

2. In order to be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time for holding the Meeting or any adjournment thereof.

3. In order to be entitled to attend and vote at the Meeting, all share certificates with completed transfer forms must be lodged with the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Monday, 20 July 2020 in order to be registered as a Shareholder.

4. Where there are joint registered holders of any share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

5. If a black rainstorm warning signal or a tropical cyclone warning signal no. 8 or above is in force in Hong Kong at 9:00 a.m. on Friday, 24 July 2020, the Meeting will be automatically postponed. The Company will post an announcement on the websites of the Company at www.united-strength.com and the Stock Exchange at www.hkexnews.hk to notify Shareholders of the date, time and place of the rescheduled meeting.

6. Considering the outbreak of the novel coronavirus (COVID-19), certain measures will be implemented at the EGM with a view to addressing the risk to attendees of infection, including the following: a) all attendees will be required to undergo body temperature check; b) any attendees who are subject to health quarantine prescribed by the Government of Hong Kong will not be admitted to the venue of the EGM; c) all attendees will be required to wear surgical face masks throughout the EGM; d) each attendee will be assigned a designated seat at the time of registration to ensure social distancing; e) any person who does not comply with the measures above may be denied entry into, or be required to leave, the venue of the EGM; f) no refreshments or beverages will be provided, and there will be no corporate gifts.

7. The Company reminds Shareholders that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. The Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and **strongly recommends that Shareholders appoint the Chairman of the EGM as their proxy and submit their form of proxy as early as possible**. In light of the risks posed by the COVID-19 Pandemic, the Company **strongly encourages Shareholders NOT to attend the EGM in person**.

8. The Company will keep the evolving COVID-19 situation under review and may implement additional measures (which it will announce closer to the date of the EGM.)