

IX. CORPORATE GOVERNANCE REPORT

The Company is committed to high standards of corporate governance and considers corporate governance as a core cornerstone for sustainable development. Not only has it strictly complied with the requirements of the Listing Rules and relevant regulations on corporate governance, it also established a relevant governance regime. It has put in place a three-dimensional governance structure encompassing special committees of the Board, risk management framework and internal control system through implementing the governance mechanism of “regulated operation, scientific decision-making, transparent disclosure and efficient execution”.

The Company continuously optimises its corporate governance through constant practices to ensure it remains in line with the Company’s development progress and industry best practices through annual governance assessments, director’s training programmes and stakeholder communication mechanisms.

(I) CORPORATE GOVERNANCE CODE

The Directors believe that, save as disclosed below, the Company complied with the code provisions of the “Corporate Governance Code” (the “Code Provision”) as set out in Appendix C1 to the Listing Rules for the year ended 31 December 2024.

Code Provision C.2.7 requires that the chairman should at least hold one meeting annually with the independent non-executive directors without the presence of other directors. However, no meeting was held between Mr. YANG Zhichang, the chairman of the Board, and the independent non-executive directors of the Company without the presence of other Directors due to business engagements. Therefore, the Company deviates from Code Provision C.2.7. Nevertheless, the Directors are of the view that, at the board meetings of the Company, the independent non-executive directors of the Company may also communicate directly and effectively with each of the executive directors of the Company, including the chairman, through other channels to express their personal views, opinions and suggestions.

Therefore, the Board is of the view that the deviation from this code provision does not have material impact on the operation of the Board.

(II) CORPORATE STRATEGY AND CULTURE

The corporate governance strategy of the Company is embodied in three aspects. Firstly, a sound governance structure is the fundamental assurance for protecting Shareholders’ rights and interests, and ensures the long-term growth of the Company’s value through a decision-making mechanism with clearly defined authorities and responsibilities. Secondly, it provides the Board with scientific management tools, enabling the Directors to effectively implement their strategic guidance and supervisory duties; and most importantly, premier corporate governance achieves a three-dimensional unity among corporate strategy, board supervision and management execution. Such unity is reflected both in the linking up between the Articles of Association and the Rules of Procedures of the Board Meeting in daily operations as well as the simultaneous achievement of ESG objectives and financial indicators.

IX. CORPORATE GOVERNANCE REPORT

(II) CORPORATE STRATEGY AND CULTURE *(Continued)*

The Company's vision is to position itself in “serving the national strategy of “carbon peak and carbon neutrality”, facilitating sustainable urban development, and making cities better” by focusing on the principal businesses of gas, water, environment and brewery, as it steps up with low-carbon green transformation and upgrade in persistent adherence to the principle of sustainable development to achieve the mission of facilitating better urban living through energy conservation, emission reduction, pollution reduction, and carbon reduction. For details of the Company's strategic initiatives and key measures for implementing its objectives and vision, please refer to the “Chairman's Statement” and “Management Discussion and Analysis on Results for the Year” in this Report.

The Company has always been greatly invested in cultivating its corporate culture and team spirit and also encouraging staff growth. It strives to nurture a corporate value with “trust, innovative, steadfast and understanding” as its core and build a humanistic, motivated corporate culture with easy and harmonious human contacts integrating the characteristic corporate culture between Beijing and Hong Kong.

(III) THE BOARD

As the highest decision-making and supervisory body, the Board of the Company assumes the core responsibilities of leading the direction of corporate development, supervising the management operation and protecting the interests of Shareholders. Through the collective decision-making mechanism, the Board exercises professional judgement and prudence in discharging its entrusted duties to achieve efficient governance and sustainable development of the Group in key areas such as strategic planning, risk management and daily operations.

The efficient operation of the Board plays a key role in the success of the Company. On the one hand, the Board ensures that the Company's strategies are highly aligned with the interests of Shareholders, market environment and regulatory requirements through a scientific decision-making mechanism, and provides clear direction to the management. On the other hand, the Board effectively identifies and prevents various types of business risks through its stringent supervisory functions, thereby enhancing corporate risk resistance and market competitiveness. Furthermore, the Board strikes a balance between short-term performance objectives with long-term development strategies to lay the foundation in creating sustainable value for the Company while safeguarding Shareholders' current returns.

To ensure that the Board can fully perform its functions, it continued to optimise its governance mechanisms, including introducing independent directors with diversified professional backgrounds to enhance decision-making independence, carrying out the board effectiveness evaluation to improve governance standards, and organising special training programmes to ensure that the Directors are up-to-date with the latest regulatory requirements and industry best practices. All these measures ensure that the Board can effectively respond to the complicated and volatile market environment and lead the Group to achieve high quality growth.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

1. **Composition of the Board**

As of the date of this annual report, the Board comprises eight directors, including four executive directors and four independent non-executive directors. The names and biographical details of the Directors are set out on pages 21 to 23. The list of Directors and their duties and functions are also available on the Company's website as well as the website of the Stock Exchange. The composition of the Board is set out below:

(1) Executive Directors

YANG Zhichang

JIANG Xinhao (resigned on 1 January 2025)

XIONG Bin

GENG Chao

TAM Chun Fai (resigned on 1 January 2025)

TUNG Woon Cheung Eric (appointed on 1 January 2025)

(2) Independent Non-executive Directors

WU Jiesi

LAM Hoi Ham

YU Sun Say

CHAN Man Ki Maggie

2. **Role and Responsibility of the Board**

As the highest decision-making organisation of the Company, the Board is accountable to the shareholders of the Company and is responsible for leading the Company and overseeing the business, strategic decisions and performance of the Group. It mainly performs the following core duties:

- (1) Considering and determining the Group's overall development strategy and medium- and long-term development plans, approving annual operating plan and major business matters, and ensuring that the allocation of resources is highly aligned with strategic objectives. The Board regularly evaluates changes in the market environment and the development of the industry to perform timely adjustments to the strategic direction and provide strategic guidance for the Group's sustainable development.
- (2) Establishing a sound and comprehensive risk management regime, regularly attending special reports from the management on major risk issues, and considering the risk management regime and major risk response plans. The Audit Committee under the Board is responsible for overseeing the Group's risk management work to ensure that all business operations are in compliance with the laws, regulations and regulatory requirements.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

2. Role and Responsibility of the Board *(Continued)*

- (3) Approving annual financial budget proposals, major investment and financing projects and capital operation matters, and supervising the preparation of financial reports and information disclosure. The Board conducts independent review of the financial reports through the Audit Committee to ensure the truthfulness, accuracy and completeness of the financial information.
- (4) Formulating performance appraisal standards for Senior Management, reviewing remuneration incentive schemes and overseeing the building of the talent echelon. The Board regularly evaluates the performance of the management to ensure the management team matches the development strategy of the Company.
- (5) Continuously promoting the optimisation of its governance system and improving various governance systems and working mechanisms. The Board attaches great importance to ESG management and regularly reviews the sustainability strategy to facilitate the continuous improvement of environmental, social and governance performance.

By effectively performing the above functions and responsibilities, the Board ensures that the Company achieves scientific decision-making and effective control in key areas such as strategic decision-making, risk control, financial supervision and human resources development, so as to create long-term value for Shareholders and promote the Company's sustainable development.

3. Board Diversity Policy

The Board of the Company has adopted and continued to implement a Board Diversity Policy, which is subject to annual review and evaluation by the Nomination Committee. The Board believes that achieving board diversity is a significant approach to enhance the effectiveness of decision-making, improve corporate governance structure and promote the sustainable development of the Group's business. In establishing the board composition, the Company takes into account various factors, including gender ratio, age distribution, cultural and educational background, professional experience, skills expertise and length of service, and also other relevant considerations as deemed necessary by the Board in a timely manner. All Director appointments are conducted in strict accordance with the basic principle of meritocracy. Positive impact of a diverse background on the Board operation is fully evaluated while ensuring the professional qualifications of the candidates.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

3. **Board Diversity Policy** *(Continued)*

The Company successfully appointed a female director on 1 September 2022, achieving the objective of including at least one female member on the Board as scheduled. During the reporting period, the Board demonstrated good diversity, with members not only possessing different educational backgrounds and professional knowledge structures, but also having extensive practical experience in their respective expertise areas. These diversified perspectives and professional competencies are complementary, providing a more comprehensive perspective for the Board's decision-making and effectively promoting the Company's business innovation and sustainable development.

The Company will continue to improve the mechanism for board diversity, and constantly enhance the quality of the Board's decision-making and the effectiveness of its governance through regular evaluations and policy optimisation. The Board believes that adhering to the development direction of board diversity will provide a solid governance foundation for the long-term sustainable development of the Company. In the future, the Company will make timely adjustment to the specific implementation strategies of the Board Diversity Policy according to the needs of its business development and changes in market environment to ensure that it remains highly synergistic with the development strategy of the Company.

4. **Members of the Board**

The Company provides the Board with an independent decision-making support mechanism and reviews its implementation and effectiveness annually to ensure that the Board can obtain independent views and opinions, including but not limited to: the Directors can obtain professional assistance from various departments of the Company at any time; the Board may engage independent third-party professional organisations to provide advisory opinions when considering major issues, with the relevant costs to be borne by the Company.

After careful verification, the Board confirmed that there is no relationship, including but not limited to financial dealings, business operation, family relationship or other material relationship, among the current Board members that may affect their independent judgement. In the event of transactions or arrangements involving material interests of the Directors or their related parties, the relevant Directors are required to declare interests and abstain themselves from voting, and Directors with conflicts of interest are not counted in the quorum for the relevant resolutions. All Directors are able to exercise their voting rights independently based on their professional judgement to ensure the objectivity and impartiality of the Board's decisions.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

4. **Members of the Board** *(Continued)*

The Company attaches great importance to the development of corporate integrity culture. As the core organisation of corporate governance, the Board has always upheld the highest ethical standards and professional conduct, requiring all Directors and management to strictly comply with the relevant standards in the course of performing their duties, and strengthening the compliance awareness of Directors and management through continuous education and training. The Company believes that a sound integrity culture and a comprehensive mechanism to safeguard the independence of Directors are important foundations for maintaining the effectiveness of corporate governance and the science of decision-making.

5. **Independent Non-executive Directors/Non-executive Directors**

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three Independent Non-executive Directors. It has also complied with Rule 3.10(2) of the Listing Rules in that at least one Independent Non-executive Director possesses appropriate professional accounting qualifications or financial management expertise.

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

The Board considers that all Independent Non-executive Directors meet the specific independence criteria as required by the Listing Rules.

During 2024, the Company has no Non-executive Director and all four Non-executive Directors are Independent Non-executive Directors with the same relevant skills and responsibilities as the Executive Directors to fulfil their roles prudently focusing on the interests of Shareholders. All of them have signed letters of appointment as Directors for a term of three years. Their term of appointment is as follows:

Name	Term of appointment
WU Jiesi	3 years from 1 April 2024
LAM Hoi Ham	3 years from 1 April 2024
YU Sun Say	3 years from 1 March 2023
CHAN Man Ki Maggie	3 years from 1 September 2022

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

6. Appointment and Re-election of Directors

In accordance with article 98 of the Articles of Association, all Directors (including Executive Directors, Non-executive Directors and Independent Non-executive Directors) appointed to fill a casual vacancy or as a new member to the Board shall retire and be re-elected at the next annual general meeting of the Company after their appointment. In accordance with article 107 of the Articles of Association, at each AGM, one-third of the Directors (or, if their number is not three or a multiple of three, then the number nearest to one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years.

7. Board Meetings and General Meetings

During the year, the attendance of board meetings and general meetings is set out below:

Name	Attendance ¹					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Investment Committee Meeting	Annual General Meeting
<i>Executive Directors</i>						
YANG Zhichang	5/5		1/1	1/1	0/0	1/1
JIANG Xinhao ²	4/5				0/0	1/1
XIONG Bin	5/5					1/1
GENG Chao	5/5					1/1
TAM Chun Fai ²	5/5					1/1
<i>Independent Non-executive Directors</i>						
WU Jiesi	4/5	3/3	1/1			1/1
LAM Hoi Ham	5/5	3/3	1/1			1/1
YU Sun Say	5/5	3/3		1/1	0/0	1/1
CHAN Man Ki Maggie	5/5			1/1	0/0	1/1

Notes: ¹ During the year, no meeting was attended by any Director's alternate.

² Resigned on 1 January 2025.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

8. Board Committee

(1) Audit Committee

1) Members of the Audit Committee

Mr. LAM Hoi Ham – Committee Chairman

Mr. WU Jiesi

Dr. YU Sun Say

All members of the Audit Committee are Independent Non-executive Directors. The Board is of the view that each member possesses rich business experience and professional expertise in areas such as business operations, accounting, and financial management, enabling them to work together effectively. The composition of the committee complies with the requirements under Rule 3.21 of the Listing Rules.

2) Major Duties of the Audit Committee

- Supervising the completeness of the Company's financial reporting system;
- Reviewing the effectiveness of risk management and internal control systems;
- Regularly assessing financial and other disclosures to Shareholders;
- Evaluating audit process efficacy and auditor independence.

The Company has established the Terms of Reference for the Audit Committee in accordance with Code Provision D.3.3, which have been published on the Company's website. The Committee holds regular meetings to discharge its oversight duties and serves as a key communication channel between the Board and external auditor, thereby ensuring the ongoing objectivity and independence of the audit process.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

8. Board Committee *(Continued)*

(1) Audit Committee *(Continued)*

3) Work performed by the Audit Committee

During the year, the Audit Committee diligently performed its supervisory duties and focused on the following key tasks:

- **Financial Reporting Review:** Reviewed and approved the Company's annual results and interim results; held in-depth discussions with the management on accounting policies and practices adopted.
- **Audit Oversight:** Evaluated the scope of services provided by external auditor (covering both audit and non-audit services); continuously monitored the independence of auditor; reviewed and approved the 2024 audit plan; considered the continuing connected transactions for 2024; provided professional recommendations to the Board on the change of the Company's auditor.
- **Risk Management and Internal Controls:** Reviewed with the management regarding the effectiveness of the risk management and internal control systems.
- **Governance Enhancements:** Reviewed the amendments to the Terms of Reference of the Audit Committee.

(2) Remuneration Committee

1) Members of the Remuneration Committee

Mr. WU Jiesi – Committee Chairman
Mr. YANG Zhichang
Mr. LAM Hoi Ham

The Remuneration Committee is primarily composed of Independent Non-executive Directors and operates in strict compliance with the relevant provisions of the Listing Rules and the Corporate Governance Code. In accordance with Code Provision E.1.2, the Company has established written terms of reference for the Remuneration Committee, which have been published on the Company's website.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

8. Board Committee *(Continued)*

(2) Remuneration Committee *(Continued)*

2) Major Duties of the Remuneration Committee

- Formulating and recommending to the Board the overall remuneration policy and framework for Directors and Senior Management;
- Reviewing and recommending to the Board the remuneration packages for Directors and Senior Management;
- Ensuring independence and fairness in remuneration decision-making, strictly enforcing the conflict-of-interest avoidance policy (i.e. relevant Directors and their associates shall abstain from determining their own remuneration);
- Conducting regular assessments on remuneration policies to align with the Company's performance and long-term strategic objectives.

The Remuneration Committee is committed to establishing a scientific, rational, and market-competitive remuneration system through the performance of the aforementioned functions, thereby fostering the Company's sustainable development and safeguarding Shareholders' interests.

Adhering to the remuneration philosophy of "balancing rationality and competitiveness", the Company attracts, motivates, and retains top talent through a market-competitive remuneration system to support strategic business development. Our remuneration structure is designed as follows:

- **Basic Salary:** Determined through a comprehensive assessment of market benchmarks, individual qualifications, and professional competencies to ensure its fairness and competitiveness.
- **Equity Incentives:** Long-term incentives are provided to staff through share options scheme (subject to approval at the general meeting and compliance with laws and regulations of the relevant jurisdictions). The granting criteria are based on role requirements, individual performance and contributions to the Company's overall development.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

8. Board Committee *(Continued)*

(2) Remuneration Committee *(Continued)*

2) Major Duties of the Remuneration Committee *(Continued)*

- **Benefits Assurance:** In compliance with the statutory requirements and industry practices in each operating region, the Company offers comprehensive benefits to its employees, including but not limited to statutory and supplementary retirement schemes, extensive insurance coverage and paid leave policies.

Furthermore, the remuneration of the Company's Independent Non-executive Directors does not include any equity-linked or performance-based incentive components (such as share options or stock subsidies) to safeguard the independence and objectivity of their duty performance.

3) Work performed by the Remuneration Committee

In discharging its duties regarding the review of remuneration for Directors and Senior Management, the Remuneration Committee adheres to the principles of prudence and comprehensive assessment, with primary consideration given to the following key factors:

- **Remuneration Assessment Benchmarks:** Remuneration of comparable industry peers; time commitment and workload requirements; scope of responsibilities and risk exposure; remuneration standards for other positions within the Group.

During the year, the Remuneration Committee provided professional recommendations to the Board on the overall remuneration policy and framework for Directors and senior management; reviewed and approved the remuneration package for newly appointed Executive Director and submitted to the Board for approval.

The Remuneration Committee has established a scientific compensation assessment framework to ensure the Company's remuneration policies are aligned with market practices while effectively incentivizing management to create long-term value for Shareholders. All remuneration decisions strictly adhere to the relevant provisions of the Listing Rules and the Corporate Governance Code.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

8. Board Committee *(Continued)*

(3) Nomination Committee

1) Members of the Nomination Committee

Mr. YANG Zhichang – Committee Chairman

Dr. YU Sun Say

Ms. CHAN Man Ki Maggie

The Nomination Committee is mainly composed of Independent Non-executive Directors, and its operation strictly follows the relevant provisions of the Listing Rules and the Corporate Governance Code. The Company has established the written terms of reference of the Nomination Committee in accordance with Code Provision B.3.1, and the relevant documents have been published on the Company's website.

2) Major core responsibilities of the Nomination Committee

- reviewing the structure, size and diversity of the Board regularly;
- formulating and continuously improving the Director Nomination Policy;
- formulating and maintaining the Board Diversity Policy;
- providing professional advice to the Board on the nomination of director candidates;
- assessing the independence of Independent Non-executive Directors;
- making recommendations to the Board on the appointment or re-appointment of Directors;
- formulating and improving the succession planning for the Board, in particular the Chairman and the CEO.

Through the performance of the above-mentioned functions, the Nomination Committee is committed to building a professional, diverse and efficient Board to enhance the standard of corporate governance and promote the sustainable development of the Company.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

8. Board Committee *(Continued)*

(3) Nomination Committee *(Continued)*

3) Work performed by the Nomination Committee

During the year, the Nomination Committee strictly performed its duties and primarily accomplished the following tasks:

- comprehensively reviewed the structure, size and composition of the Board;
- deeply assessed the independence of the Independent Non-executive Directors;
- considered and approved the proposal for the re-appointment of the retiring Directors;
- considered and made recommendation for the appointment of an Executive Director.

4) Director Nomination Policy

Nomination Criteria:

In assessing the qualifications of director candidates, the Nomination Committee will comprehensively consider the following elements:

- **Requirements for Professional Qualification:** The candidate shall possess professional knowledge, skills and industry experience which are relevant to the business of the Group; be able to devote sufficient time in fulfilling the duties as a director; and have good professional ethics and personal character;
- **Diversity Considerations:** Age, cultural background, gender and other diversity factors; and the complementarity with the existing members of the Board in terms of professional background, skills and others;
- **Requirements for Independence:** The candidates for Independent Non-executive Directors must strictly satisfy the independence criteria set out in Rule 3.13 of the Listing Rules.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

8. Board Committee *(Continued)*

(3) Nomination Committee *(Continued)*

4) Director Nomination Policy *(Continued)*

Nomination Procedures:

- **Candidate Selection:** Commence the selection process as required by the Board; and consider the candidates recommended by Shareholders;
- **Assessment and Decision-making:** Review the qualifications of candidates through meetings or written resolutions; and submit the detailed resume of the candidate to the Board;
- **Appointment Procedures:** The Board may appoint the candidate as Director to fill a casual vacancy or as an addition to the Board or recommend such candidate to Shareholders for election or re-election (where appropriate) at the general meeting.

The Nomination Committee will continue to optimise the director nomination mechanism to ensure that the composition of the Board is both professional and diverse, providing strategic guidance for the development of the Company.

(4) Investment Committee

1) Members of the Investment Committee

Mr. YANG Zhichang – Committee Chairman

Mr. JIANG Xinhao (resigned on 1 January 2025)

Mr. LAM Hoi Ham

Ms. CHAN Man Ki Maggie

2) Major core responsibilities of the Investment Committee

By considering major development plans and transactions, it enhanced the professionalism and prudence of the investment decisions of the Group.

3) Work performed by the Investment Committee

During the year, the Group did not have any major investment projects that required the consideration by the Investment Committee. Therefore, the Investment Committee did not hold any formal meeting.

The Investment Committee will maintain preparations in regular operation to ensure that it can fulfill its duties of consideration in a timely manner when major investment arise and provide professional support for the decision-making of the Board.

IX. CORPORATE GOVERNANCE REPORT

(III) THE BOARD *(Continued)*

9. Directors' Training

The Board has always adhered to the following policy: Every newly appointed Director must, upon assuming office, receive a systematic induction training tailored for them in accordance with Code Provision C.1.1. Simultaneously, the Board regularly organises briefings and capability-building activities for all Directors to ensure that they can continuously deepen their understanding of the Company's operations and business, and are fully aware of the duties as Directors under laws and regulations, the Listing Rules and other regulatory requirements.

During the year, the Company organised an in-house seminar and provided reading materials for the Directors to ensure that they have participated in continuous professional development to develop and refresh their knowledge and skills. A summary of training received by Directors during the year according to the records provided by the Directors is as follows:

Name		Attend seminars/ Read training materials
<i>Executive Directors</i>		
YANG Zhichang		✓
JIANG Xinhao	(resigned on 1 January 2025)	✓
XIONG Bin		✓
GENG Chao		✓
TAM Chun Fai	(resigned on 1 January 2025)	✓
<i>Independent Non-executive Directors</i>		
WU Jiesi		✓
LAM Hoi Ham		✓
YU Sun Say		✓
CHAN Man Ki Maggie		✓

Mr. TUNG Woon Cheung Eric was appointed as an Executive Director on 1 January 2025 and has obtained the legal advice referred to in Rule 3.09D of the Listing Rules on 23 December 2024, and confirmed that he understood his obligations as a Director.

Pursuant to Code Provision D.1.2, Directors are provided with monthly reports updates which give a balanced and understandable assessment of the Company's performance and financial position to enable the Directors to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

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(III) THE BOARD *(Continued)*

10. Model Code for Securities Transactions by Directors

The Company has adopted the Model Code to govern securities transactions by the Directors. After having made specific enquiry to all Directors by the Company, all Directors confirm that they complied with the Model Code.

(IV) RISK MANAGEMENT AND INTERNAL CONTROL

The Board declares that, as the core body for corporate governance, it has established a comprehensive internal control and risk management system within the Group and assume ultimate responsibility for maintaining the effectiveness of such system. Such system is designed to safeguard Shareholders' rights and interests and the security of the Group's assets, encompassing all key areas such as financial, operational and compliance controls. The Board undertakes to conduct a comprehensive assessment at least annually to ensure that resources allocation, staff qualifications and training budgets for the accounting, internal audit and financial reporting functions are all in line with business requirements.

1. Risk Management Framework

(1) Management principles

The Group adopts a "bottom-up" comprehensive risk management approach to identify, assess and minimise potential risks in each business unit and functional area through systematic procedures. The Group have established a dynamic risk management mechanism to continuously monitor the key risk factors that affect the realisation of strategic goals.

(2) Three-level defense system

- Front line of defence: Each business department and subsidiary takes up the responsibility of prevention and control at front line by integrating the risk management into daily business operations.
- Middle line of defence: Composing of the management team, risk management leading group and professional departments, responsible for the implementation of the risk management system.
- Back line of defence: The Board, the Audit Committee and Internal Audit Department implement independent supervision to ensure the effectiveness of the system.

IX. CORPORATE GOVERNANCE REPORT

(IV) RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

2. Risk Management Process

(1) Risk identification and assessment

- 1) Establish a dynamically updated risk database
- 2) Adopt a risk assessment method that combines quantitative and qualitative approaches
- 3) Implement risk grading and classification management
- 4) Track the trend of risk changes regularly

(2) Control measures

- 1) Clarify the risk prevention and control responsibilities at all levels
- 2) Formulate targeted risk management plans
- 3) Establish a risk response plan database

3. 2024 Annual Assessment Report

(1) Assessment scope

- 1) The effectiveness of design for the risk management system
- 2) The implementation of internal controls
- 3) Key financial, operational and compliance processes
- 4) The appropriateness of resources allocation for relevant functions

(2) Assessment method

- 1) Special inspection by Internal Audit Department
- 2) Test at critical control points
- 3) Walk-through tests for business process
- 4) Analysis of the rationality of resources allocation

IX. CORPORATE GOVERNANCE REPORT

(IV) RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

3. 2024 Annual Assessment Report *(Continued)*

(3) Assessment results

After a comprehensive assessment, the Board is of the view that the risk management and internal control systems of the Group in 2024 operate effectively and can provide reasonable assurance regarding the reliability of financial reporting and compliant operation.

4. Continuous Improvement Plan

The Board will continue to optimise the risk management system, with a focus on enhancing:

- 1) Construction of risk alert capability
- 2) Automation control standard
- 3) Cultivation of professional quality of employees
- 4) Synergistic efficiency among systems

5. Internal Controls for the Handling of Inside Information

The Board has already established a policy on the procedures and internal controls for the handling and dissemination of inside information.

(1) Management and control measures

Every Senior Management must take all reasonable measures to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Company from time to time, including:

- 1) Establishing an information classification management system
- 2) Standardising the process of sharing non-public information
- 3) Formulaing a selective prevention mechanism for disclosure
- 4) Improving the emergency procedures for information disclosure

IX. CORPORATE GOVERNANCE REPORT

(IV) RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

5. Internal Controls for the Handling of Inside Information *(Continued)*

(2) *Handling of violations*

For any violation of relevant policy on inside information, the Board will decide, or designate appropriate persons to decide the course of actions for rectifying the problem and avoiding recurrence, including:

- 1) Establishing a rapid response mechanism for violations
- 2) Implementing a hierarchical accountability system
- 3) Conducting regular compliance inspections

(V) ANALYSIS OF THE PRINCIPAL RISKS AND UNCERTAIN FACTORS ENCOUNTERED

As an integrated public utilities service company wholly-owned by Beijing Municipal Government, BEHL operates across the gas supply, water services, environmental protection, and infrastructural facilities sectors. While its operations enjoy a high degree of policy-backed protection and stability, it is still exposed to various risks and uncertainties.

1. Analysis of Principle Risks

(1) *Policy and Regulatory Risks*

1) *Pricing Controls of Public Utility*

Subjected to government-mandated pricing mechanisms, price adjustments of core businesses including gas supply and water services require prior regulatory approval, which may result in delays or lags in their implementation.

In the event of rising upstream costs (e.g. purchase cost of natural gas, cost of electricity) without corresponding adjustments of retail prices, profit margins would be affected directly.

2) *Tightening Environmental Policies*

Environmental protection operations (e.g., wastewater treatment, waste incineration) partially rely on operation concession and are subject to government-subsidized phases. Subsidy reductions or higher emission standards may increase operating costs.

With the implementation of “Dual Carbon” policy, gas operations may face pressures on transformation in the long run, including replacement by renewable energy sources.

IX. CORPORATE GOVERNANCE REPORT

(V) ANALYSIS OF THE PRINCIPAL RISKS AND UNCERTAIN FACTORS ENCOUNTERED

(Continued)

1. Analysis of Principle Risks *(Continued)*

(1) Policy and Regulatory Risks *(Continued)*

3) Risks of Government Payment Capability

Certain projects on environmental protection and water services rely on service fee payments from local governments. In the event of local government financial constraints (e.g. declines in land finance), it may result in prolonged payment cycles or increased bad debts.

(2) Market and Operation Risks

1) Fluctuation on the Cost of Gas Operation

The purchase prices of LNG are exposed to influences of international energy market (e.g., Russia-Ukraine conflict, LNG price fluctuations). In the event that such costs cannot be fully passed through to end-users, our profit margins will be eroded.

2) Intensifying Regional Competition

The water services and environmental protection sectors encounter fierce competition. Central state-owned enterprises (SOEs) (e.g., China Energy Conservation, Everbright Environment) and local SOEs are expanding market share through mergers and acquisitions (M&A), which may erode the market share of BEHL.

Certain private environmental protection enterprises are securing projects via low-price bidding, which exerts influence on the entire industry's profit margins.

3) Slowing Demand Growth

The saturated urbanization momentum of Beijing and surrounding regions has led the demand of traditional water services and gas to a plateau stage. Business growth is depended on exogenous M&A, but cross-regional expansion faces challenges from local protectionism.

(3) Risks from Finance and Debt

1) Pressure from High Leverage

BEHL merges and acquires certain projects through debt financing, which has resulted in substantial debt and heavy interest burden, exerting pressure on gearing ratio.

Should interest rates go up or financing conditions tighten, we may face elevated debt pressures.

IX. CORPORATE GOVERNANCE REPORT

(V) ANALYSIS OF THE PRINCIPAL RISKS AND UNCERTAIN FACTORS ENCOUNTERED

(Continued)

1. Analysis of Principle Risks *(Continued)*

(3) Risks from Finance and Debt *(Continued)*

2) Risks from Exchange Rate Fluctuation

Parts of the revenues from foreign operations are denominated in Eurodollar. While our debt obligations include US dollar-denominated liabilities, fluctuate in RMB exchange rate may impact our financial performance.

(4) Risks from Strategic Transformation

1) Uncertainties of New Energy Business Expansion

Future expansion into the new energy sector may encounter challenges including insufficient experience, intense market competition, and government policy. Uncertainties exist regarding the achievement of projected targets.

2) Impacts on Efficiency from Reform to SOEs

As a local state-owned enterprise, BEHL is subject to long decision-making processes. Further enhancements to decision-making and operational efficiency are expected upon the reforms to state-owned enterprises.

2. Uncertain Factors Encountered by the Company

(1) Uncertainties from Policy

- 1) Mechanism Reform to Natural Gas Pricing: The pricing of domestic natural gas remains not full market-oriented. Should future price adjustment mechanisms demonstrate more flexibility, profits may improve; however, if policy implementation are lagged, it could sustain cost pressures.
- 2) Adjustments of Environmental Subsidy Policy: Adjustments of subsidy policies on waste incineration, wastewater treatment and other operations would directly affect the rate of return of projects.
- 3) Financial Conditions of Local Government: Should the financial conditions of local government remain under sustained pressure, cash collection of projects on environmental protection and water services could be adversely affected.

IX. CORPORATE GOVERNANCE REPORT

(V) ANALYSIS OF THE PRINCIPAL RISKS AND UNCERTAIN FACTORS ENCOUNTERED

(Continued)

2. Uncertain Factors Encountered by the Company *(Continued)*

(2) Volatility in Energy Market Price

- 1) Trends on International Natural Gas: Should geopolitical conflicts (e.g., the Russia-Ukraine conflict) cause significant price volatility, gas business may experience cost fluctuations.
- 2) Restructuring Domestic Energy Mix: Should the government accelerate the substitution of natural gas with renewable energy, the long-term demand for gas operations could be affected.

(3) Evolution in Industry Competitive Landscape

- 1) Consolidation Trends on the Industry: Accelerated M&A activities by SOEs and local government-owned enterprises may reshape the industry structure. Our adaptive strategies to align with these challenges does not any show obvious effects.
- 2) Impacts Brought by New Technology: Emerging innovations including AI-driven operations in gas, water and solid waste management, as well as the distributed integrated energy systems, could fundamentally alter the operating models of conventional utility.

(4) Impact from Macroeconomic and Financial Market

- 1) Trends on Interest Rate: Should central banks globally and the People's Bank of China raise interest rates, we may face higher financial costs.
- 2) Fluctuations on RMB Exchange Rate: Revenue from foreign operations and the debt denominated in US\$ are subject to exchange rates, which could result in additional gains or losses.

(5) Extreme Climate Events and Contingencies

- 1) Impact from Natural Disaster: Temperature variations may alter gas demand; extreme weather events such as floods and droughts could disrupt water supply and environmental facilities operations, incurring additional maintenance costs.
- 2) Incidents of Safety production: The occurrence of incidents of safety in workplace would not only affect production operations and increase expenditure on repairs and asset replacements, but also adversely affect the reputation and public image of the Company.

IX. CORPORATE GOVERNANCE REPORT

(VI) OPERATION AND MANAGEMENT OF THE COMPANY

1. Constitutional Documents

During the year ended 31 December 2024, no changes have been made to the constitutional documents of the Company.

2. Chairman and CEO

Mr. YANG Zhichang is the Chairman of the Board, and Mr. XIONG Bin is the CEO. During the year, the Company has complied with Code Provision C.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

3. Company Secretary

Mr. TAM Chun Fai, has been the Company Secretary of the Company since 1997. During the year 2024, Mr. Tam took no less than 15 hours of relevant professional training as required by Rule 3.29 of the Listing Rules. Mr. TAM resigned as the Company Secretary of the Company on 1 January 2025.

Mr. TUNG Woon Cheung Eric served as the Company Secretary of the Company since 1 January 2025.

4. Diversity Among All Employees

With a strong emphasis on staff diversity at workplace, the Company strictly prohibits discrimination or harassment in relation to factors such as gender, religion, age or disability in the management process of recruitment, remuneration, training and promotion and ensures the absence of any gender-based differentiated treatment, as it seeks to enhance its management standard in staff diversity and foster an equal and friendly workplace. As at 31 December 2024, the proportion of female employees in the Group was 27.53%.

5. Dividend Policy

The Company aims at providing stable and sustainable returns to Shareholders and is committed to gradually improving Shareholders returns to the industry average. The Board adopted the Dividend Policy in 2019. In deciding whether to propose a dividend and in determining an appropriate basis and method for dividend distribution, the Board will take into account, inter alia, the reasonable return in investment of the investors and the Shareholders, the actual and expected financial conditions, business plans, future operations and earnings, capital requirements and expenditure plans of the Company, any restrictions on payment of dividends that may be imposed by the Company's lenders, the general market sentiment and circumstances and any other factors the Board deems appropriate. Any dividend declared by the Company shall not exceed the amount proposed by the Board.

IX. CORPORATE GOVERNANCE REPORT

(VI) OPERATION AND MANAGEMENT OF THE COMPANY *(Continued)*

5. **Dividend Policy** *(Continued)*

The Board always recognises the close relationship between Shareholders' returns and the high quality and sustainable development of the Company. In order to proactively reward investors and build a long-term, stable, mutual trust and mutually beneficial relationship with Shareholders, the Company has formulated a dividend distribution plan for the years 2024-2026 in April 2024. Having fully considered the Company's current development stage, future capital expenditure plans, cash flow position, and based on adequate communication with the subsidiaries and subject to the provisions of the Articles of Association and dividend policy, it is expected that the dividend per share of the Company for the years 2024-2026 will be not less than 35% of the recurring earnings per share and the dividend per share for the years 2024-2026 will be not less than HK\$1.6. The Company may propose a further optimised dividend distribution plan from time to time based on the growth of the financial results of the Company.

6. **Directors' Responsibility for the Consolidated Financial Statements**

The Directors acknowledge their responsibility for preparing the financial statements of the Company for each financial period. The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

7. **Directors' and Auditor's Responsibility Statements**

The Directors acknowledged responsibility for reviewing the accounts of the Company prepared by the Finance Department of the Company for the year ended 31 December 2024 and ensuring the accounts are prepared in accordance with the HKFRSs. A statement by the auditor about their reporting responsibilities is contained in the Independent Auditor's Report.

The Board confirmed that it has taken the same view from that of the Audit Committee regarding the appointment of the external auditor.

IX. CORPORATE GOVERNANCE REPORT

(VI) OPERATION AND MANAGEMENT OF THE COMPANY *(Continued)*

8. Auditor's Remuneration

During the year ended 31 December 2024, fees paid and payable by the Company to the external auditor of the Company are analysed as follows:

	<i>RMB'000</i>
Annual audit service fees paid and payable to auditor of the Company	9,173
Non-audit service fees paid and payable to auditor of the Company*	5,480
	14,653

* Such non-audit services include an agreed-upon procedures engagement in connection with the Group's interim financial report, procedures relating to offering circular for bond issuance and tax compliance services, etc.

9. Anti-Bribery and Anti-Corruption Policy

The Group has in place an anti-bribery and anti-corruption policies and systems for all its employees to eliminate bribery, extortion, and other frauds. Employees are required to act with integrity and to report any suspected bribery and corruptions cases to Discipline Inspection Commission Office of the Company.

10. Whistle-Blowing Policy

The Group attaches great importance to integrity and compliance work, pays close attention to anti-bribery, anti-corruption, and anti-unfair competition. The Group has established a whistleblowing policy and system to allow our employees and stakeholders to raise concerns on any potential business misconduct and malpractice confidentially.

The Discipline Inspection Commission Office was also set up to handle matters arising from whistleblower reports in an effective manner. The whistle-blowers are able to raise concern to the Audit Committee. The Group is also committed to ensuring the protection of the whistle-blower against detrimental or unfair treatment.

IX. CORPORATE GOVERNANCE REPORT

(VII) SHAREHOLDERS' RIGHTS

1. To Convene an Extraordinary General Meeting ("EGM") by Shareholders

Pursuant to Section 566 of the Companies Ordinance, Shareholder(s) holding at least 5% of the total voting rights of all the Shareholders having a right to vote at EGMs can submit a written requisition to convene an EGM.

The written requisition:

- (1) must state the general nature of the business to be dealt with at the meeting;
- (2) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
- (3) may consist of several documents in like form;
- (4) may be sent to the Company in hard copy form or in electronic form; and
- (5) must be authenticated by the person or persons making it.

If Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of 3 months from the said date.

2. To Make Enquiries to the Board

- (1) Shareholders should direct their questions about their shareholdings to the Company's share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or call its customers service hotline at (852) 2980 1333.
- (2) Enquiries made to the Board may be deposited at the Company's registered office at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the attention of the company secretary.

IX. CORPORATE GOVERNANCE REPORT

(VII) SHAREHOLDERS' RIGHTS *(Continued)*

3. To Put forward Proposals at an AGM

Shareholder(s) can submit a written requisition to move a resolution at an AGM pursuant to Section 615 of the Companies Ordinance if they:

- (1) represent at least 2.5% of the total voting rights of all the Shareholders who have a right to vote on the resolution at the AGM to which the requests relate; or
- (2) represent at least 50 Shareholders who have a right to vote on the resolution at the AGM to which the requests relate.

The written requisition:

- (1) may be sent to the Company in hard copy form or in electronic form;
- (2) must identify the resolution of which notice is to be given;
- (3) must be authenticated by the person or persons making it; and
- (4) must be received by the Company not later than:
 - 1) 6 weeks before the AGM to which the requests relate; or
 - 2) if later, the time at which notice is given of that meeting.

4. Circulating a Statement at an AGM or at a General Meeting

Shareholder(s) can pursuant to Section 580 of the Companies Ordinance request the Company to circulate to Shareholders entitled to receive notice of a general meeting, a statement of not more than 1,000 words with respect to a matter mentioned in a proposed resolution to be dealt with at that meeting or other business to be dealt with at that meeting, if such Shareholder(s):

- (1) represent at least 2.5% of the total voting rights of all Shareholders who have a relevant right to vote; or
- (2) at least 50 Shareholders who have a relevant right to vote.

IX. CORPORATE GOVERNANCE REPORT

(VII) SHAREHOLDERS' RIGHTS *(Continued)*

4. Circulating a Statement at an AGM or at a General Meeting *(Continued)*

The request:

- (1) may be sent in hard copy form or in electronic form to the Company's registered office;
- (2) must identify the statement to be circulated;
- (3) must be authenticated by the person or persons making it; and
- (4) must be received by the Company at least 7 days before the meeting to which it relates.

5. To Propose a Person other than a Director for Election as a Director at any General Meeting

Pursuant to article 111 of the Articles of Association, if a Shareholder wishes to propose a person, other than a retiring Director or a person recommended by the Directors, for election as a Director at a general meeting, such Shareholder, who is duly qualified to attend and vote at such general meeting, should lodge a written and signed notice of nomination and a notice signed by the person to be proposed of his willingness to be elected at the Company's registered office or at the Company's share registrar. The notices should be given within the period commencing on the day after dispatch of the notice of the general meeting appointed for such election and ending no later than 7 days prior to the date of such general meeting and such period shall be at least 7 days.

6. Communication with Shareholders and Investors

The Board places a strong emphasis on effective and appropriate communication with Shareholders and investors and is of the view that the timely disclosure of corporate information is very important for Shareholders and investors when they make investment decisions. The Company has adopted a shareholder communication policy that aims to ensure all Shareholders to obtain in a timely manner Company information that is comprehensive, identical and easily comprehensible, such that Shareholders are able to exercise their rights in an informed manner and communication between Shareholders and investors and the Company could be enhanced. The Company has conducted review on the implementation and effectiveness of its shareholder communication policy and, taking into account its existing multiple channels for shareholder communication and participation, is of the view that the policy has been implemented in an appropriate and effective manner during the year.

The Company disseminates information on the Group to Shareholders via numerous official channels, including the interim and annual reports, announcements and circulars published in accordance with the Listing Rules. Such published documents as well as latest corporate information are also available for inspection on the Company's website (www.behl.com.hk).

During the year, the Company also responded to the requests and enquiries of members of the investing community such as Shareholders, analysts and the media via results presentations, briefings, roadshows, emails and phone calls.