THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Jilin Province Chuncheng Heating Company Limited*, you should at once hand this circular to the purchaser, the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Jilin Province Chuncheng Heating Company Limited*

吉林省春城熱力股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

(Stock code: 1853)

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN CHANGCHUN YATAI HEATING COMPANY LIMITED*
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS
(3) PROPOSED CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING
(4) PROPOSED CHANGE IN COMPOSITION OF SUPERVISORY COMMITTEE
(5) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

BOCI ASIA LIMITED

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Giraffe 智富

Giraffe Capital Limited

Capitalised terms used in this cover have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 1 to 18 of this circular. A letter from the Independent Board Committee is set out on pages 19 to 20 of this circular.

A letter from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 21 to 46 of this circular.

The proxy form for the EGM has been posted to you on 25 November 2020. Whether or not you are able to attend the EGM in person, you are requested to complete and return the proxy form in accordance with the instructions printed thereon. In case of H Shareholders, the proxy form must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible; in case of holders of Domestic Shares, the proxy form must be lodged with the office of the Board at the head office of the Company at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC as soon as possible; but in any event, not less than 24 hours before the time scheduled for holding the EGM (or any adjournment thereof). Completion and delivery of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire.

* *For identification purpose only*

25 November 2020

CONTENTS

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

"2019 Annual Report"	the annual report of the Company for the year ended 31 December 2019
"2020 Interim Report"	the interim report of the Company for the six months ended 30 June 2020
"Acquisition"	the acquisition of the Equity Interests by the Company in accordance with the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the agreement (股權收購協議) dated 29 October 2020 and entered into between the Vendor as vendor and the Company as purchaser in relation to, among others, the transfer of the Equity Interests by the Vendor to the Company
"Articles" or "Articles of Association"	the articles of association adopted by the Company and as amended or supplemented from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board" or "Board of Directors"	the board of Directors
"Changchun Heating Group" or "Vendor"	Changchun Heating Power (Group) Company Limited* (長春市熱力(集團)有限責任公司), the controlling shareholder of the Company, and a state-owned company established in the PRC on 28 April 1998 which held 69.75% of the total share capital of the Company as at the Latest Practicable Date
"Changchun SASAC"	the State-owned Assets Supervision and Administration Commission of Changchun (長春市人民政府國有資產監督管理委員會)
"China" or "PRC"	the People's Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Company"	Jilin Province Chuncheng Heating Company Limited* (吉林省春城熱力股份有限公司), presently a joint stock company with limited liability which was incorporated in the PRC on 23 October 2017 and the H Shares of which are listed on the Main Board of the Stock Exchange

"Completion"	completion of the Acquisition in accordance with the terms of the Acquisition Agreement
"Completion Date"	the date of completion of the registration and/or filing procedure with the relevant industry and commerce administration authority relating to the change of the holder of the Equity Interests from the Vendor to the Company
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	RMB318,376,300 (equivalent to approximately HK$366.89 million)
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	domestic Share(s), which are subscribed for in RMB and held by PRC nationals or PRC incorporated entities, and are not listed or traded on any stock exchange
"EGM"	the extraordinary general meeting of the Company to be convened and held on Wednesday, 30 December 2020 at 9:00 a.m. at the Conference Room, 907, Chuncheng Heating, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC to consider, and if thought fit, approve, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, the proposed change in use of proceeds from the Global Offering as described in this circular and the Proposed Change in Composition of Supervisory Committee
"Equity Interests"	100% equity interests in Yatai Heating
"Enlarged Group"	the Group as enlarged by Yatai Heating upon Completion
"GJ"	Gigajoule, a unit used to measure the amount of heat
"Global Offering"	has the meaning as defined in the Prospectus
"Group"	the Company and its subsidiaries from time to time
"H Share(s)"	overseas listed foreign Share(s), which are subscribed for and traded in HK$ and listed on the Main Board of the Stock Exchange
"H Shareholder(s)"	holder(s) of H Share(s)

"Heat Procurement Framework Agreement"	the heat procurement framework agreement dated 29 October 2020 and entered into between Yatai Heating and Changchun Heating Group in relation to the procurement of heat by Yatai Heating from Changchun Heating Group
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Wang Yuguo, Mr. Fu Yachen and Mr. Poon Pok Man, and formed to advise the Independent Shareholders in relation to the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions thereunder
"Independent Financial Adviser"	Giraffe Capital Limited, a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who are not required under the Listing Rules to abstain from voting on the resolution(s) for approving, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder at the EGM
"Independent Third Party(ies)"	third party(ies) independent of the Company and its connected persons
"Latest Practicable Date"	18 November 2020, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
"Listing"	the listing of the H Shares of the Company on the Main Board of the Stock Exchange on 24 October 2019
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Net Proceeds"	the net proceeds from the Global Offering

"Non-competition Agreement"	the agreement of non-competition dated 17 September 2019 and entered into between Changchun Heating Group and the Company in respect of certain non-competition undertakings given by Changchun Heating Group in favour of the Group, particulars of which are set out in the paragraph headed "Relationship with our controlling shareholder – Non-competition Agreement" in the Prospectus
"Proposed Change in Composition of Supervisory Committee"	the proposed change in the composition of the Supervisory Committee as described in the paragraph headed "Letter from the Board – Proposed Change in Composition of Supervisory Committee" in this circular
"Prospectus"	the prospectus of the Company dated 27 September 2019 and issued in relation to the Listing
"Reorganisation"	a reorganisation involving the transfer of certain assets comprising land use rights, buildings, coal-fired boilers and ancillary equipment (together with related rights and liabilities and personnel) from Yatai Heating to Changchun Heating Group at nil consideration pursuant to an agreement (無償劃轉協議) dated 30 July 2020 and entered into between Yatai Heating as transferor and Changchun Heating Group as transferee
"RMB"	renminbi yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the capital of the Company with nominal value of RMB1.00 each
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Vendor Group"	the Vendor and its subsidiaries (excluding the Group) from time to time, which shall exclude Yatai Heating as from Completion
"Yatai Heating"	Changchun Yatai Heating Company Limited* (長春亞泰熱力有限責任公司), a limited liability company established in the PRC on 30 October 1998 and a wholly-owned subsidiary of the Vendor as at the Latest Practicable Date

"%"	per cent.

In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK$ and vice versa at the rate of RMB0.86778 to HK$1.00. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

* *For identification purpose only*

Jilin Province Chuncheng Heating Company Limited*
吉林省春城熱力股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

(Stock code: 1853)

Executive Directors:
Mr. Yang Zhongshi
Mr. Shi Mingjun
Mr. Xu Chungang
Mr. Li Yeji

Non-executive Director:
Mr. Liu Changchun *(Chairman)*

Independent non-executive Directors:
Mr. Wang Yuguo
Mr. Fu Yachen
Mr. Poon Pok Man

Registered office in the PRC:
No. 28, Block B Nanhu Road Community
No. 998 Nanhu Road, Nanguan District
Changchun City, Jilin Province
PRC

Head office/Principal place of business in the PRC:
No. 28, Block B Nanhu Road Community
No. 998 Nanhu Road, Nanguan District
Changchun City, Jilin Province
PRC

Principal place of business in Hong Kong:
46/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

25 November 2020

To the Shareholders

Dear Sir or Madam

**(1) MAJOR AND CONNECTED TRANSACTION:
PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN
CHANGCHUN YATAI HEATING COMPANY LIMITED*
(2) PROPOSED CONTINUING CONNECTED TRANSACTIONS
(3) PROPOSED CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING
(4) PROPOSED CHANGE IN COMPOSITION OF SUPERVISORY COMMITTEE**

INTRODUCTION

Reference is made to the announcement of the Company dated 29 October 2020 in relation to, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps), the transactions contemplated thereunder, the proposed change in use of proceeds from the Global Offering as described in this circular and the Proposed Change in Composition of Supervisory Committee.

The purpose of this circular is to provide you with, among others, (i) further details of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps), the transactions contemplated thereunder, the proposed change in use of proceeds from the Global Offering as described in this circular and the Proposed Change in Composition of Supervisory Committee; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder; (iv) financial information and other information of the Group; (v) financial information and other information of Yatai Heating; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the valuation report on the Equity Interests; and (viii) further information required to be disclosed under the Listing Rules.

PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN YATAI HEATING

On 29 October 2020, the Vendor and the Company entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, the Equity Interests in Yatai Heating for a consideration of RMB318,376,300 (equivalent to approximately HK$366.89 million) in accordance with the terms and conditions of the Acquisition Agreement.

(A) Acquisition Agreement

Date: 29 October 2020

Parties: (i) Changchun Heating Group, as vendor

(ii) the Company, as purchaser

Subject matter

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase the Equity Interests, representing 100% of the equity interests in Yatai Heating, free from all encumbrances and together with all rights attaching thereto as at the Completion Date.

Consideration

The Consideration for the Equity Interests is RMB318,376,300 (equivalent to approximately HK$366.89 million), which shall be satisfied by the Company in cash.

The Consideration has been arrived at after arm's length negotiations between the Vendor and the Company with reference to the valuation of the Equity Interests as at 31 May 2020 (being RMB318,376,300 (equivalent to approximately HK$366.89 million)) set out in the preliminary valuation report appraised in accordance with the requirements of the PRC by a qualified PRC valuer based on income approach. The above valuation was prepared, among others, on the basis that the Reorganisation took place on 31 May 2020. The above valuation is subject to the valuation to be filed with Changchun SASAC, which shall be final. The Consideration is intended to be financed partly by the internal resources of the Group and partly by the net proceeds from the Global Offering as to RMB100 million, subject to the approval by the Shareholders at the EGM of the proposed change in the use of proceeds from the Global Offering as described in this circular.

The original acquisition cost incurred by the Vendor for the acquisition of the entire equity interest of Yatai Heating in December 2019 was approximately RMB423.98 million (equivalent to approximately HK$488.58 million).

The major approaches that can be employed for the valuation of the Equity Interests are asset-based approach, income approach and market approach. Market approach is considered not appropriate as regards the Equity Interests mainly because there are insufficient comparable transactions in the market of similar enterprises to produce a reliable valuation given that Yatai Heating is an urban heating enterprise operating a single business with strong regional characteristics.

Having regard to the differences described below between asset-based approach and income approach and the characteristics of Yatai Heating's business operations, the Directors are of the view that income approach is more appropriate than asset-based approach to be employed for determining the market value of the Equity Interests as it is able to reflect more objectively, reasonably and fully the value of the shareholder's equity of Yati Heating than asset-based approach:

(i) asset-based approach only reflects the reconstructed value of Yatai Heating, which is the value obtained by deducting the liabilities from the value of the assets shown in the balance sheet. It does not take into account intangible assets which are not shown in the balance sheet, such as goodwill, clientele, preferential treatments enjoyed by Yatai Heating, knowhow of its staff and the management ability of its management. These intangible assets are key factors to generating income and if neglected, Yatai Heating's true value would not have been properly reflected;

(ii) on the premise of Yatai Heating's estimated returns, income approach reflects the size of its future operating income. When applying the discounted cashflow method to appraise the present value of Yatai Heating, it takes account of the value of its assets (whether on or off balance sheet); and

(iii) Yatai Heating is a major heat supply enterprise in Changchun, with relatively stable customer base in Changchun. The heating charges receivable from its customers and the unit price of heat source are mainly set by the government. Therefore, the revenue generated from, and the costs related to, the business operations of Yatai Heating are relatively stable and less influenced by market factors.

Furthermore, the Directors are of the opinion that since the assets of Yatai Heating involved in heat generation, which have been in use for many years, carry a comparatively low value, the market value of the Equity Interests as determined under income approach recording a 29.25% premium to that as determined under asset-based approach is basically reasonable.

Having considered the foregoing, the Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who are required under the Listing Rules to abstain from voting at the relevant Board meeting and the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) are of the view that the Consideration is fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Conditions precedent

The Acquisition Agreement shall take effect upon the satisfaction of the following conditions:

(i) the Vendor having completed the applicable internal decision-making procedure in respect of the Acquisition Agreement and the transactions contemplated thereunder in accordance with the requirements of its articles of association;

(ii) the Acquisition Agreement and the transactions contemplated thereunder having been approved by the board of directors of the Company and the Shareholders at general meeting of the Company in accordance the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and

(iii) (where applicable) as regards the entering into and performance of the Acquisition Agreement, each of the Vendor and the Company having obtained and completed all necessary consents, approvals and filings from or with any relevant governmental or regulatory authorities in the PRC, Hong Kong or other jurisdictions.

None of the conditions above may be waived (whether in whole or in part) by either party. As at the Latest Practicable Date, the condition set out in sub-paragraph (i) had been satisfied.

Completion

Within 15 days from the date of signing of the Acquisition Agreement (or such later date as the parties to the Acquisition Agreement may agree in writing), the Vendor shall, and/or shall procure Yatai Heating to, complete the government approval and filing procedures, registration procedure with the relevant industry and commerce administration authority and other necessary legal procedures relating to the transfer of the Equity Interests.

Within 40 business days after the Completion Date, the Company shall complete the payment of the Consideration in full to the Vendor in cash.

As from the Completion Date, Yatai Heating will become a wholly owned subsidiary of the Company.

Termination

The Acquisition Agreement shall terminate upon occurrence of any of the following:

(i) the conditions set out in the paragraph headed "Conditions precedent" above not having been fulfilled in full on or before 31 December 2020 (or such later date as the Vendor and the Company may agree in writing);

(ii) the Acquisition Agreement being terminated in writing by the Vendor and Company upon mutual agreement;

(iii) the happening of force majeure causing the transfer of the Equity Interests not being able to be effected; and

(iv) where a party commits a material breach of the Acquisition Agreement and the breach remains outstanding after 30 days of a written notice of the breach served by the non-defaulting party to the defaulting party, the non-defaulting party serving a further written notice on the defaulting party terminating the Acquisition Agreement without prejudice to its rights under the Acquisition Agreement to claim against the defaulting party under such breach.

(B) Reasons for and benefits of entering into the Acquisition Agreement

The Previous Acquisition

In December 2019, Changchun Heating Group acquired 100% equity interests of Yatai Heating from an Independent Third Party (the "**Previous Acquisition**"). Pursuant to the Non-competition Agreement, Changchun Heating Group has undertaken, among others, that, during the term of the Non-competition Agreement, if any member of the Vendor Group becomes aware of any new business opportunities which compete or are likely to compete, directly or indirectly, with the Group's business (a "**New Business Opportunity**"), Changchun Heating Group shall immediately notify the Company in writing of the New Business Opportunity (an "**Offer Notice**") and use its best efforts to procure the New Business Opportunity be made available to the Company or its subsidiaries on fair and reasonable terms and conditions.

As the Previous Acquisition was considered a New Business Opportunity, Changchun Heating Group promptly served on the Company an Offer Notice, setting out, among others, the background of the proposed acquisition and the latest financial information of Yatai Heating in compliance with the requirement under the Non-competition Agreement. The financial statements of Yatai Heating were also provided as an appendix to the Offer Notice. Upon receipt of the Offer Notice, a meeting of the independent non-executive Directors, who are delegated with the responsibility for reviewing, considering and deciding whether or not to take up any New Business Opportunity made available to the Company under the Non-competition Agreement, was called in respect of the Previous Acquisition. At the meeting, Mr. Liu Changchun, the Chairman of the Board, was also present to explain the financial positions of Yatai Heating to the independent non-executive Directors. After due and careful consideration of the relevant information presented, the independent non-executive Directors unanimously resolved that given, among others, the continuing loss position and the relatively high debt level of Yatai Heating, the Company should not take up such New Business Opportunity but allow Changchun Heating Group to conduct due diligence review against Yatai Heating. The independent non-executive Directors further concluded at the meeting that should Changchun Heating Group succeed with the Previous Acquisition, it would be in the interests of the Company to consider acquiring Yatai Heating from Changchun Heating Group in the future, in order to resolve the issue of competition with Changchun Heating Group arising from the Previous Acquisition, after Changchun Heating Group had reformed the assets of Yatai Heating and improved the standard of its operation. The decision of the Company was then notified to Changchun Heating Group.

Reasons for and benefits of the Acquisition

The Vendor Group is engaged in certain businesses relating to heat supply and heat services. Through the Acquisition, the business of heat supply and heat services of Yatai Heating (after the Reorganisation) will be incorporated into that of the Group. The Acquisition represents a step of the Vendor Group towards further integration of this part of its business into the Group and will then reduce the potential business competition between the Vendor Group and the Group in this business area. At the same time, the coverage of the Group's heat supply will be increased by the districts and areas covered by Yatai Heating, which is conducive to an increase in the Company's revenue and profitability, creating more value for the Shareholders.

The Company's decision to implement the Acquisition is also premised upon the improvement in the financial position and profitability of Yatai Heating which was brought about after the Previous Acquisition.

Yatai Heating's net assets increased from approximately RMB62,944,000 as at 31 December 2019 to approximately RMB120,236,000 as at 31 May 2020. The improvement in Yatai Heating's net assets was primarily due to (i) a decrease in interest-bearing bank and other borrowings from approximately RMB586,736,000 as at 31 December 2019 to nil as at 31 May 2020 as a result of Yatai Heating's early repayment of bonds during the five months ended 31 May 2020; and (ii) a decrease in total contract liabilities from approximately RMB297,582,000 as at 31 December 2019 to approximately RMB58,865,000 as at 31 May 2020 which was primarily due to realisation of Yatai Heating's performance obligation in the contract liabilities of provision and distribution of heat during the five months ended 31 May 2020.

Yatai Heating's profit increased from approximately RMB15,650,000 for the five months ended 31 May 2019 to approximately RMB57,652,000 for the five months ended 31 May 2020. Based on Yatai Heating's profit forecast for the year ending 31 December 2020, it is forecasted that Yatai Heating will reverse its loss position and record a profit for the year ending 31 December 2020 which is mainly due to the positive impacts brought by the large-scale professional reform undertaken by Yatai Heating after the Previous Acquisition in December 2019. Such professional reform mainly covers the operations and management of Yatai Heating, staff redeployment and asset allocation, which substantially reduced Yatai Heating's operating costs, staff costs and administrative expenses in 2020 and beyond. Furthermore, with the early repayment of bonds during the five months ended 31 May 2020 and the fact that there are no outstanding bank borrowings in 2020, Yatai Heating is expected to incur substantially less finance costs in 2020 and going forward. As such, after completion of the reform, Yatai Heating is expected to achieve sustainable and stable operating income in the future.

Considering (i) the improvement in the financial position and profitability of Yatai Heating as mentioned above and (ii) that the proposed change in use of proceeds from the Global Offering as mentioned in this circular would provide additional readily available funding to the Company for the Acquisition which helps to dispense with the need of the Company to consider obtaining external borrowings for the Acquisition, the Company is of the view that it is now an appropriate time to proceed with the Acquisition which will, among others, resolve the issue of competition with Changchun Heating Group arising from the Previous Acquisition.

Based on the above, the Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who abstained from voting at the relevant Board meeting as required by the Listing Rules and the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) consider that the terms of the Acquisition Agreement are fair and reasonable, the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

(C) Information on the Group

The Company is a China-based company mainly engaged in heating service business. The Company operates its business through two segments, namely heat supply segment and construction, maintenance and design services segment. Heat supply segment mainly provides heat supply services within Jilin Province. Construction, maintenance and design services segment mainly provides maintenance related services such as engineering construction, engineering maintenance, design, electrical appliances and instrument maintenance. The Company mainly conducts its business in the Chinese domestic market.

(D) Information on the Vendor

The Vendor is a state-owned company established on 28 April 1998 in Changchun City, the PRC, and is wholly-owned by Changchun SASAC.

The Vendor Group, is mainly engaged in property management, water supply, pipeline manufacturing, sale of industrial steam and financial investments, while also being engaged in certain businesses relating to heat supply and heat services.

(E) Information on Yatai Heating

Yatai Heating is a limited liability company established in the PRC on 30 October 1998 and as at the Latest Practicable Date was a wholly-owned subsidiary of the Vendor. As at the Latest Practicable Date, the registered capital of Yatai Heating was RMB239 million.

Yatai Heating is principally engaged in the heat services business with heat principally obtained from cogeneration plants and supplemented by district coal-fired boilers. Yatai Heating is a large-scale professional heat services enterprise integrating provision and distribution of heat and pipeline connection. It was recognised as a National High-Tech Enterprise* (國家高新技術企業) in 2019. It is a specialized heat supply company in Changchun and has obtained the urban heating business license. Yatai Heating is responsible for heat supply in winter for nearly 152,000 residents in Changchun city's institutions (groups), schools, enterprises and institutions. Currently, Yatai Heating's heat service area is approximately 16,200,000 square metres which covers Chaoyang district, Nanguan district, Erdao district, Luyuan district and automotive industry development zone in Changchun.

Yatai Heating underwent the Reorganisation for the purpose of disposing to Changchun Heating Group of certain assets of Yatai Heating which had title defects. The plots of land in respect of which the land use rights were transferred pursuant to the Reorganisation either (a) had its term of use already expired but not yet renewed; (b) had not completed the change of the land user from Changchun Heating Group to Yatai Heating; or (c) had not been issued with land use rights certificates. As for the buildings transferred under the Reorganisation, part of them were located on plots of land with their land use right certificates already expired while the remaining were not yet issued with building ownership certificates. As there are coal-fired boilers housed and securely installed in some of the buildings with title defects mentioned above, these coal-fired boilers (together with their ancillary equipment) were required to be transferred along with these buildings. The rights, liabilities and personnel related to the land use rights, buildings and coal-fired boilers transferred were also transferred.

To ensure the continuous supply of heat by Yatai Heating to its customers in the same manner before the Reorganisation, the coal-fired boilers transferred under the Reorganisation will continue to supply heat to the heat supply network of Yatai Heating through the procurement of heat from Changchun Heating Group under the Heat Procurement Framework Agreement.

After the Reorganisation, the business operations of Yatai Heating have become more akin to those of the Group, particularly in that Yatai Heating has progressed towards sourcing heat largely from cogeneration plants by the disposal of its coal-fired boilers under the Reorganisation.

(F) Financial information of Yatai Heating

Set out below is a summary of the audited financial information of Yatai Heating for the two years ended 31 December 2019 and the five months ended 31 May 2020 (before the Reorganisation):

	For the year ended 31 December 2018 (audited) *RMB'000 approximately*	For the year ended 31 December 2019 (audited) *RMB'000 approximately*	For the five months ended 31 May 2020 (before the Reorganisation) (audited) *RMB'000 approximately*
Revenue	418,908	411,562	240,588
Profit/(Loss) before taxation	(37,661)	(70,698)	66,930
Profit/(Loss) after taxation	(37,379)	(69,781)	57,652

	As at 31 December 2018 (audited) *RMB'000* approximately	As at 31 December 2019 (audited) *RMB'000* approximately	As at 31 May 2020 (before the Reorganisation) (audited) *RMB'000* approximately
Net assets	132,725	62,944	120,236

(G) Listing Rules implications

As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements thereunder.

Given that the Vendor is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company as at the date of the Acquisition Agreement, the Vendor is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25%, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PROPOSED CONTINUING CONNECTED TRANSACTIONS

(A) Introduction

Upon the transfer of the coal-fired boilers to Changchun Heating Group as part of the Reorganisation, Yatai Heating will begin to procure from Changchun Heating Group heat produced by certain of these coal-fired boilers to continue the supply of heat to its existing customers in its ordinary and usual course of business. For this purpose, Yatai Heating has entered into the Heat Procurement Framework Agreement with Changchun Heating Group, pursuant to which Yatai Heating has agreed to procure heat from Changchun Heating Group for an effective period of three years commencing on 1 January 2021 and ending on 31 December 2023.

According to its terms, the Heat Procurement Framework Agreement will come into effect subject to compliance with the relevant requirements of the Listing Rules and Completion.

(B) Principal terms and pricing policy

The principal terms and pricing policy under the Heat Procurement Framework Agreement are as follows:

(i) Changchun Heating Group shall be responsible to supply heat to Yatai Heating in accordance with the terms of the Heat Procurement Framework Agreement;

(ii) Yatai Heating shall compile, and provide to Changchun Heating Group, annual heat procurement plan for each year within the term of the Heat Procurement Framework Agreement;

(iii) Changchun Heating Group and Yatai Heating shall enter into separate contracts in respect of service term, rate of heat service fee and time and method of payment and calculation; and

(iv) the parties agree the intended unit price per GJ to be RMB56, and that the actual heat service fee payable by Yatai Heating to Changchun Heating Group shall be determined through fair negotiation between the parties as to be set out in the relevant separate contracts and on terms no less favourable than those offered to Yatai Heating by Independent Third Parties. The parties shall make references to the relevant historical prices for heat procurement and collect industry information on market price and profitability from various sources, such as state-prescribed price, state-recommended price and other similar heat service providers, and determine the rate of the service fee based on average market profit rate or on cost-plus basis in order to ensure the fairness and reasonableness of the rate.

The above terms were agreed by the parties on arm's length negotiation.

When implementing the pricing policy mentioned above (as well as for determining the intended unit price per GJ of RMB56), the parties to the Heat Procurement Framework Agreement mainly adopt the cost-plus basis to determine the unit price. The costs of Changchun Heat Group to be considered mainly comprise cost of raw materials (coal, water and electricity) and ancillary materials, staff cost, manufacture and maintenance fee and related tax. The planning and management department of the Group is responsible to monitor these costs. Staff from this department from time to time communicate with the government, other heat service providers and coal suppliers to collect the latest information regarding change in coal price which may arise from market fluctuation. In addition, the planning and management department also refers to Bohai-Rim Steam-Coal Price Index* (環渤海動力煤價格指數) as published from time to time by China National Coal Association* (中國煤炭工業協會) (http://www.coalchina.org.cn/index.php) for market price of coal. As water and electricity prices are set by the government, the planning and management department keeps track of the changes in these prices as from time to time announced by the government. In determining the amount of heat to be procured under the Heat Procurement Framework Agreement, Yatai Heating principally considers the relevant annual plan for heat supply, which makes reference to historical amount of heat produced by the subject coal-fired boilers. A margin at a rate of approximately 10% will be applied. The Group will gather inter-enterprise unit prices of heat service providers in the vicinity of the regions to which Yatai Heating supplies heat as reference. However, given that there are no state-prescribed or state-recommended prices for these inter-enterprise unit prices and that these unit prices vary depending on factors such as the quality of the providers' production process which affects their heat production efficiency, the Directors are of the view that although the unit prices of other heat service providers may be used as reference, they may not have sufficient level of reliance as direct comparable to the unit prices determined under the Heat Procurement Framework Agreement.

(C) Historical transaction amounts

As the subject coal-fired boilers were owned by Yatai Heating and included in its financial statements before the Reorganisation and these coal-fired boilers formed part of the heat production facilities of Yatai Heating before the Reorganisation, no such or other comparable heat procurement cost was recorded for the procurement of heat from Changchun Heating Group to Yatai Heating for the three years ended 31 December 2017, 2018 and 2019 and the five months ended 31 May 2020.

(D) Annual caps and basis

The maximum amount of heat service fee payable by Yatai Heating to Changchun Heating Group in respect of the transactions contemplated under the Heat Procurement Framework Agreement shall not exceed RMB83.80 million, RMB77.91 million and RMB77.91 million for each of the three years ending 31 December 2023, respectively.

In arriving at the annual caps, the Directors considered factors including the expected supply of heat generated from the subject coal-fired boilers to the customers of Yatai Heating for each of the three years ending 31 December 2023, the future decrease in heat supply volume to be supplied by the subject coal-fired boilers that is expected to arise from the future increase in heat supply volume to be supplied by cogeneration plants as a result of the expected further connection of Yatai Heating's heat service area to the network of cogeneration plants, the intended unit price per GJ of RMB56 and a buffer of 10% to cater for any possible unforeseeable circumstances such as fluctuation relating to the actual unit price and/or heat supply volume to be supplied by the subject coal-fired boilers. Based on the plan of connection of heat service area of Yatai Heating to the network of cogeneration plants, it is estimated that there will be an approximately 7% decrease in the expected heat supply volume to be supplied by the subject coal-fired boilers for the year ending 31 December 2022 compared with that for the year ending 31 December 2021, while the expected heat supply volume to be supplied by the subject coal-fired boilers will remain relatively stable for the years ending 31 December 2022 and 2023.

At the beginning of each heat supply period, Yatai Heating will estimate the total heat service fee to be paid to Changchun Heating Group under the Heat Procurement Framework Agreement for that period based mainly on the historical amount of heat produced by the subject coal-fired boilers and the unit price as determined in the manner described in the paragraph headed "(B) Principal terms and pricing policy" above, taking into account any expected change in the amount of heat required from the subject coal-fired boilers. For each heat supply period, Changchun Heating Group and the Group will enter into a heat procurement contract. The Group will produce the draft contract for discussion with Changchun Heating Group. Before the contract is finalised and signed, it will be reviewed by the planning and management department (for confirming the unit price) and the legal department of the Group, and then passed onto the manager-in-charge and the vice general manager for final approval. The heat service fee is calculated and settled on a monthly basis. Personnel of the Group will from time to time enter the premises of Changchun Heating Group where the subject coal-fired boilers are housed to inspect the data relating to the amount of heat supplied to Yatai Heating as shown in the measuring equipment installed in the premises. The data will be reported to the planning and management department of the Group. On a specified day of each month, the Group will confirm with Changchun Heating Group the accumulate amount of heat procured, and the amount will be reported to the planning and management department for verification. At the same time, staff from the planning and management department will conduct random checks on daily and weekly amounts to ensure that they are within reasonable parameters. The vice general manager is responsible for approving the records kept by the planning and management department.

In addition, the Group will adhere to the following internal control measures in respect of the transactions contemplated under the Heat Procurement Framework Agreement: (i) the designated staff from the planning and management department of the Group will closely monitor the total transaction amount to ensure that the proposed annual caps in respect of the transactions contemplated under the Heat Procurement Framework Agreement will not be exceeded; (ii) reports containing total transaction amount under Heat Procurement Framework Agreement will be submitted to the management of the Company on a quarterly basis; and (iii) the independent non-executive Directors and the auditors of the Company will conduct annual review of the transactions contemplated under the Heat Procurement Framework Agreement.

(E) Directors' view

The coal-fired boilers which will produce heat to be supplied to Yatai Heating pursuant to the Heat Procurement Framework Agreement are stationed in specific locations in Changchun. These coal-fired boilers formed part of the heat production facilities of Yatai Heating before the Reorganisation. The procurement of heat produced by these coal-fired boilers under the Heat Procurement Framework Agreement will allow Yatai Heating to continue to supply heat to its customers in the same manner as it did before the implementation of the Reorganisation without any need of reconstruction or alteration to its relevant heat supply network, which would otherwise attract time and costs to Yatai Heating for it to be able to resume the supply of heat through the relevant heat supply network.

The Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who abstained from voting at the relevant Board meeting as required by the Listing Rules and the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) are of the view that (i) continuing connected transactions to be constituted by the procurement of heat as contemplated under the Heat Procurement Framework Agreement will be entered into in the ordinary and usual course of business of the Enlarged Group, on normal commercial terms or better and on terms which are fair and reasonable and in the interests of the Enlarged Group and the Shareholders as a whole; and (ii) the proposed annual caps in respect of the transactions contemplated under the Heat Procurement Framework Agreement described above are fair and reasonable and in the interests of the Enlarged Group and the Shareholders as a whole.

(F) Listing Rules implications

Given that Changchun Heating Group is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company and thus a connected person of the Company, the transactions contemplated under the Heat Procurement Framework Agreement will, as from Completion, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Heat Procurement Framework Agreement exceed 5% and each of the annual caps exceeds HK$10,000,000 (equivalent to approximately RMB8,677,800), the transactions contemplated under the Heat Procurement Framework Agreement are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

PROPOSED CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

(A) Background

Reference is made to (i) the Prospectus; (ii) the 2019 Annual Report; and (iii) the 2020 Interim Report in relation to, among others, the utilization of the Net Proceeds, which amounts to approximately HK$220.5 million.

(B) Use of proceeds

As disclosed in the section headed "Future plans and use of proceeds" in the Prospectus and adjusted based on the offer price of HK$2.35 per H Share issued pursuant to the Global Offering, the Company intended to use the Net Proceeds as follows:

- approximately HK$90.4 million (equivalent to approximately RMB81.8 million), representing approximately 41.0% of the Net Proceeds, will be used for further increasing the level of automation in the Group's heat supply business in the three years following the Listing by enhancing the Group's smart heating network system to achieve a more stable, efficient and technologically advanced heat supply.

- approximately HK$90.4 million (equivalent to approximately RMB81.8 million), representing approximately 41.0% of the Net Proceeds, will be used for upgrading and replacement of existing primary distribution pipelines and heat supply facilities in the three years following the Listing to enhance operational efficiency of the Group's heat distribution network.

- approximately HK$28.7 million (equivalent to approximately RMB25.9 million), representing approximately 13.0% of the Net Proceeds, will be used in the Group's heat service area expansion to grow its heat supply business in the three years following the Listing, including necessary construction of primary distribution pipelines and heat supply facilities required thereunder.

- approximately HK$11.0 million (equivalent to approximately RMB10.0 million), representing approximately 5.0% of the Net Proceeds, will be used for potential acquisitions of heat service companies in the three years following the Listing to complement the Group's existing heat supply operations.

As at the Latest Practicable Date, the Group had utilized approximately RMB31.6 million, representing approximately 15.8% of the Net Proceeds as follows:

Use of Net Proceeds	**Planned use of Net Proceeds**	**Amount utilized up to the Latest Practicable Date**	**Unused amount up to the Latest Practicable Date**
	RMB million	*RMB million*	*RMB million*
Upgrade the smart heating network	81.8	–	81.8
Replace pipelines and facilities	81.8	–	81.8
Expand service area	25.9	21.6	4.3
Acquisitions	10.0	10.0	–
	199.5	31.6	167.9

(C) Change in use of proceeds

As at the Latest Practicable Date, the unused Net Proceeds amounted to approximately RMB167.9 million (the "**Unused Net Proceeds**"). The Directors, having considered the recent business environment and development of the Group (in particular the impact of the outbreak of the novel coronavirus pandemic (COVID-19) to the business environment in the Jilin Province), propose to change the use of the Unused Net Proceeds. Set out below is the utilization of the Net Proceeds up to the Latest Practicable Date and the proposed change of use of the Unused Net Proceeds:

Use of Net Proceeds	**Original planned use of Net Proceeds**		**Amount utilized up to the Latest Practicable Date**	**Unused amount up to the Latest Practicable Date**	**Revised allocation of the Unused Net Proceeds**	
	RMB million	*% of Net Proceeds*	*RMB million*	*RMB million*	*RMB million*	*% of Unused Net Proceeds*
Upgrade the smart heating network	81.8	41.0	–	81.8	31.8	18.9
Replace pipelines and facilities	81.8	41.0	–	81.8	31.8	18.9
Expand service area	25.9	13.0	21.6	4.3	4.3	2.6
Acquisitions	10.0	5.0	10.0	–	100.0	59.6
	199.5	100.0	31.6	167.9	167.9	100.0

(D) Reasons for and benefits of the proposed change in use of proceeds

As disclosed in the 2019 Annual Report and the 2020 Interim Report, most of the Net Proceeds earmarked for upgrading the smart heating network was intended to be used for upgrading of the Group's system, purchasing relevant equipment and sensors and installation of the equipment in the heat exchange stations and end-users' properties. Enhancement of the Group's smart heating network system will involve physically entering the communities where the relevant end-users are located. During the COVID-19 period, every community has employed different degrees of lockdown, which affects the progress of enhancement works. At the same time, the availability of foreign technicians and workers required to carry out the originally planned enhancement projects is affected.

The primary distribution pipelines and heat supply facilities of the Group are sourced both from all over the PRC and from overseas. Due to the outbreak of COVID-19, the supply of the materials and workers necessary to implement the upgrading and replacement of the Group's existing distribution pipelines and heat supply facilities is significantly slowed down and cannot keep up with the project timelines.

For the above reasons, the Directors propose to reallocate a total of approximately RMB100.0 million originally planned for upgrading the smart heating network and upgrading and replacing of the Group's existing distribution pipelines and heat supply facilities to acquisitions of suitable enterprises to expand the Group's business, which is intended to be used in full for satisfying an equivalent amount of the Consideration.

Having considered the impact of the aforesaid changes, the Directors are of the view that the revised allocation of the Unused Net Proceeds will enable the Group to better utilise the Net Proceeds during the COVID-19 period. Save for the aforesaid changes, there is no other change in the uses of the Net Proceeds. The Directors confirm that there is no material change in the nature of business of the Group as set out in the Prospectus. The Directors consider that the above changes in the uses of the Net Proceeds are fair and reasonable, as they would allow the Group to deploy its financial resources more effectively. The Directors believe that the above changes will not have any material adverse effect on the existing business and operation of the Group and is in the best interests of the Company and the Shareholders as a whole.

As required by Article 61 of the Articles of Association, the proposed change in use of proceeds from the Global Offering is subject to the approval by the Shareholders.

PROPOSED CHANGE IN COMPOSITION OF SUPERVISORY COMMITTEE

Upon the recommendation of Changchun State-owned Capital Investment and Operating Group Co., Ltd.* (長春市國有資本投資運營(集團)有限公司) ("**Changchun SCIO Group**") as a Shareholder and the nomination of the Supervisory Committee, the Company proposes to put forward a resolution at the EGM for the Shareholders to consider and, if thought fit, approve the proposed appointment of Ms. Zhang Wei ("**Ms. Zhang**") as a Supervisor (not being an employee representative Supervisor) with effect from the date of the EGM. Ms. Wang Xuejing ("**Ms. Wang**") will cease to be a Supervisor upon the Shareholders approving the proposed appointment of Ms. Zhang as a Supervisor at the EGM.

Ms. Wang has confirmed that she has no disagreement with the Board and the Supervisory Committee, and there is no other matter in respect of her proposed cessation to be a Supervisor that needs to be brought to the attention of the Shareholders.

The Company would like to express its gratitude to Ms. Wang for her contributions to the Company during her tenure of service.

The biographical details of Ms. Zhang are as follows:

Ms. Zhang, aged 40, qualified as an attorney-at-law of the PRC in 2016. Ms. Zhang worked at Golden Reason Law Firm (吉林正基律師事務所) from January 2008 to October 2017 and from September 2016 as a practicing attorney. Since January 2018 has been acting as the general counsel of Changchun SCIO Group. Ms. Zhang obtained her bachelor's degree in law from Northeast Normal University (東北師範大學), the PRC in 2003 and her master's degree in civil law and commercial law from Jilin University (吉林大學), the PRC in 2007.

If the proposed appointment of Ms. Zhang as a Supervisor is approved at the EGM, the term of office of Ms. Zhang will commence from the date of the EGM and will end on the expiry date of the first session of the Supervisory Committee. Ms. Zhang will not be entitled to any emolument for acting as a Supervisor.

Save as disclosed above, Ms. Zhang has confirmed that she does not hold any other positions in the Company or its subsidiaries, has not held any directorship in any listed companies in Hong Kong or overseas in the past three years, and does not have any relationship with any directors, senior management or substantial shareholders or controlling shareholders of the Company. Ms. Zhang does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other information in respect of Ms. Zhang that needs to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there is no other matter in respect of her proposed appointment that needs to be brought to the attention of the Shareholders.

GENERAL

A notice convening the EGM at which ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, approve, among others, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder and for the Shareholders to consider and, if thought fit, approve, among others, the proposed change in use of proceeds from the Global Offering as described in this circular and the Proposed Change in Composition of Supervisory Committee to be held on Wednesday, 30 December 2020 at 9:00 a.m. at the Conference Room, 907, Chuncheng Heating, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC is set out on pages EGM-1 to EGM-2 of this circular.

A form of proxy for the EGM have been despatched to the Shareholders in accordance with the Listing Rules on 25 November 2020. Whether or not you intend to attend and/or vote at the EGM, you are requested to complete and return the form of proxy in accordance with the instruction printed thereon. If you intend to appoint a proxy to attend the EGM, you are required to complete and return the form of proxy in accordance with the instructions printed thereon. For H Shareholders, the form of proxy should be returned to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, and for holders of Domestic Shares, the form of proxy should be returned to the office of the Board at the head office of the Company in the PRC in person or by post as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

The Independent Board Committee has been established to advise the Independent Shareholders as to the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder. Your attention is drawn to the letter from the Independent Board Committee containing its recommendation as set out on pages 19 to 20 of this circular.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder. Your attention is drawn to the letter from the Independent Financial Adviser containing its advice as set out on pages 21 to 46 of this circular.

Shareholders who have a material interest are required to abstain from voting in respect of the resolutions in respect of the Acquisition Agreement and the Heat Procurement Framework Agreement at the EGM. As at the Latest Practicable Date, the Vendor held 325,500,000 Domestic Shares, representing approximately 69.75% of the total share capital of the Company. The Vendor and its associates will abstain from voting on the resolution(s) to be proposed at the EGM in respect of the Acquisition Agreement and the Heat Procurement Framework Agreement.

RECOMMENDATIONS

The Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who are required under the Listing Rules to abstain from voting at the relevant Board meeting and the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) consider that the terms of each of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) are fair and reasonable, and the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (excluding Mr. Liu Changchun, Mr. Yang Zhongshi and Mr. Shi Mingjun who are required under the Listing Rules to abstain from voting at the relevant Board meeting and the independent non-executive Directors whose view is set out in the section headed "Letter from the Independent Board Committee" in this circular) recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

The Directors are of the view that each of the proposed change in use of proceeds from the Global Offering as described in this circular and the Proposed Change in Composition of Supervisory Committee is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the proposed change in use of proceeds from the Global Offering as described in this circular and the Proposed Change in Supervisors.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully
On behalf of the Board
Jilin Province Chuncheng Heating Company Limited*
Liu Changchun
Chairman

* *For identification purpose only*

Jilin Province Chuncheng Heating Company Limited*
吉林省春城熱力股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

(Stock code: 1853)

25 November 2020

To the Independent Shareholders

Dear Sir or Madam

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN CHANGCHUN YATAI HEATING COMPANY LIMITED* (2) PROPOSED CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to its Shareholders dated 25 November 2020 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned. Details of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder are set out in the letter from the Board contained in the Circular. Giraffe Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder. Details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the letter from the Independent Financial Adviser contained in the Circular.

Having considered the terms of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder and taking into account the information contained in the Circular and the advice of the Independent Financial Adviser, we are of the opinion that the Acquisition and the transactions contemplated under the Heat Procurement Framework Agreement are in the ordinary and usual course of business of the Group, and that the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be put forward at the EGM to approve the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of
the Independent Board Committee

Mr. Wang Yuguo	**Mr. Fu Yachen**	**Mr. Poon Pok Man**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

* *For identification purpose only*

The following is the full text of the letter received from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

Giraffe Capital Limited

25 November 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(1) MAJOR AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF 100% EQUITY INTERESTS IN CHANGCHUN YATAI HEATING COMPANY LIMITED* (2) PROPOSED CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") of the circular issued by the Company dated 25 November 2020 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 29 October 2020, the Vendor and the Company entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase, the Equity Interests in Yatai Heating for a consideration of RMB318,376,300 in accordance with the terms and conditions of the Acquisition Agreement. Upon Completion, Yatai Heating (after the Reorganisation) will become a wholly-owned subsidiary of the Company and accordingly, the assets, liabilities and financial results of Yatai Heating will be consolidated into the financial statements of the Company.

Upon the transfer of the coal-fired boilers to Changchun Heating Group as part of the Reorganisation, Yatai Heating will begin to procure from Changchun Heating Group heat produced by certain of these coal-fired boilers to continue the supply of heat to its existing customers in its ordinary and usual course of business. For this purpose, Yatai Heating has entered into the Heat Procurement Framework Agreement with Changchun Heating Group, pursuant to which Yatai Heating has agreed to procure heat from Changchun Heating Group for an effective period of three years commencing on 1 January 2021 and ending on 31 December 2023.

* *For identification purpose only*

As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements thereunder.

Given that the Vendor is a controlling shareholder of the Company holding approximately 69.75% of the total share capital of the Company as at the date of the Acquisition Agreement, the Vendor is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company under Rule 14A.25 of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 25%, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Given that Changchun Heating Group is a connected person of the Company, the transactions contemplated under the Heat Procurement Framework Agreement will, as from Completion, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As more than one of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the Heat Procurement Framework Agreement exceed 5% and each of the annual caps exceeds HK$10,000,000, the transactions contemplated under the Heat Procurement Framework Agreement are subject to the reporting, announcement and independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Yuguo, Mr. Fu Yachen, And Mr. Poon Pok Man, are formed to advise the Independent Shareholders in relation to the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, there was no engagement between the Group and us in the past two years.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, the announcement of the Company dated 29 October 2020 in relation to the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, the valuation report (the "**Valuation Report**") prepared by Beijing Huaya Zhengxin Assets Appraisal Co., Ltd.* (北京華亞正信資產評估有限公司), an independent professional valuer (the "**Valuer**"), the legal due diligence report on Yatai Heating prepared by Jia Yuan Law Offices, LLP (Beijing)* (北京嘉源律師事務所), the legal advisers of the Company as to the PRC law, the accountant's report on Yatai Heating for the years ended 31 December 2017, 2018 and 2019 and for the five months ended 31 May 2020 issued by Moore Stephens CPA Limited, the annual report of the Company for the year ended 31 December 2019 (the "**Annual Report 2019**"), the interim report of the Company for the six months ended 30 June 2020 (the "**Interim Report 2020**") and the prospectus of the Company dated 27 September 2019 (the "**Prospectus**"), and have enquired with and reviewed the information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company. We have also enquired with the Valuer in respect of the valuation of Yatai Heating (the "**Appraised Value**"). Save and except for the review of the Valuation Report, we have not made any independent evaluation or appraisal of the assets and liabilities of the Yatai Heating and we have not been furnished with any such evaluation or appraisal. Since we are not experts in the valuation of businesses or companies, we have relied solely on the Valuation Report for the Appraised Value.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management of the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management of the Company and/or the Directors were true and accurate at the time when they are made and continue to be true up to the Latest Practicable Date. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification and in-depth investigation into the information provided by the Company as well as the business and affairs of the Group, the Vendor, the Yatai Heating or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market, industry-specific and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information regarding the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the Circular 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

1.1 Business of the Group

As disclosed in the Letter from the Board, the Company is a China-based company mainly engaged in heating service business. The Company operates its business through two segments, namely heat supply segment and construction, maintenance and design services segment. Heat supply segment mainly provides heat supply services within Jilin Province. Construction, maintenance and design services segment mainly provides maintenance related services such as engineering construction, engineering maintenance, design, electrical appliances and instrument maintenance. The Company mainly conducts its business in the Chinese domestic market.

Accordingly to the Interim Report 2020, the heat service area of the Group (including its subsidiary, Jilin Province Xixing Energy Co., Ltd.* (吉林省西興能源有限公司), which was acquired in June 2020) has reached approximately 42.73 million square meters (“**sq.m.**”) as at 30 June 2020, representing an increase of approximately 11.4% from approximately 38.35 million sq.m. for the corresponding period in 2019. As at 30 June 2020, the Group had 348,570 heat supply users, representing an increase of approximately 13.6% from 306,966 users for the corresponding period in 2019.

1.2 Financial performance of the Group

Set out below is a summary of the Group's operating results as extracted from the Prospectus, the Annual Report 2019 and the Interim Report 2020:

	For the year ended 31 December			For the six months ended 30 June	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue					
Heat supply segment:					
– Provision and distribution of heat	792,381	875,399	894,540	500,763	515,555
– Pipeline connection fee	48,718	51,522	54,233	27,002	27,707
– Heat transmission	13,702	12,601	11,951	5,189	12,296
	854,801	939,522	960,724	532,954	555,558
Construction, maintenance and design services segment:					
– Engineering construction	208,547	310,928	366,412	84,549	23,169
– Engineering maintenance	36,942	173,063	220,774	38,140	46,642
– Design service	7,351	16,051	9,743	3,408	3,448
– Others *Note 1*	732	595	3,762	3,513	605
	253,572	500,637	600,691	129,610	73,864
	1,108,373	**1,440,159**	**1,561,415**	**662,564**	**629,422**
Gross profit	**188,008**	**224,674**	**287,169**	**147,507**	**151,453**
Gross profit margin	*17.0%*	*15.6%*	*18.4%*	*22.3%*	*24.1%*
Profit attributable to owners of the Company	85,832	102,677	133,971	84,003	89,575

Note 1: Others included rental services and sales of goods

For the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the Group generated revenue from two operating segments, being (i) heat supply services; and (ii) construction, maintenance and design services. Revenue generated from heat supply segment includes fees for provision and distribution of heat, entrance fees charged for connections to the Group's heat distribution network and heat transmission fees charged to other heat service providers. Revenue generated from construction, maintenance and design services includes engineering construction, engineering maintenance, design services and electrical, and instrument maintenance and repair.

Comparison of financial performance between the six months ended 30 June 2019 and 2020

Based on the Interim Report 2019, the Group's revenue decreased from approximately RMB662.6 million for the six months ended 30 June 2019 ("**1H2019**") to approximately RMB629.4 million for the six months ended 30 June 2020 ("**1H2020**"), primarily due to the decrease in revenue generated from the construction, maintenance and design business as no new large-scale projects were undertaken by the Group in 1H2020, resulting in a relatively lower volume of projects undertaken in 1H2020 as compared to 1H2019.

The Group's gross profit increased from approximately RMB147.5 million in 1H2019 to approximately RMB151.5 million in 1H2020 despite the decrease in the Group's overall revenue for the corresponding periods mainly due to the increase in gross profit from the Group's heating supply business along with the increase in its heat service area.

The Group's profit attributable to owners of the Company increased from approximately RMB84.0 million in 1H2019 to approximately RMB89.6 million in 1H2020, mainly due to (i) the increase in gross profit contributed by the Group's heating supply business; and (ii) the decrease in finance costs, in 1H2020.

Comparison of financial performance between the year ended 31 December 2018 and 2019

Based on the Annual Report 2019, the Group's revenue increased from approximately RMB1,440.2 million for the year ended 31 December 2018 ("**FY2018**") to approximately RMB1,561.4 million for the year ended 31 December 2019 ("**FY2019**"), primarily due to the increase in revenue generated from the heat supply business and the construction, maintenance and design business by approximately RMB21.2 million and RMB100.1 million, respectively, in FY2019. The increase in revenue generated from the heat supply business was mainly due to (i) the increase in the Group's heat service area from approximately 38.5 million sq.m. as at 31 December 2018 to approximately 39.5 million sq.m. as at 31 December 2019; and (ii) the reduction in value-added tax rate for the heat supply industry in FY2019. The increase in revenue generated from the construction, maintenance and design business was mainly due to the increase in the number of projects undertaken by the Group in FY2019.

The Group's gross profit increased from approximately RMB224.7 million in FY2018 to approximately RMB287.2 million in FY2019, which was in line with the increase in the Group's revenue. The Group's gross profit margin increased from approximately 15.6% in FY2018 to approximately 18.4% in FY2019, which was mainly due to the decrease in cost of sales for heat supply resulting from the Group's replacement of heat supply for areas originally produced by coal-fired boilers by heat procurement from cogeneration plants.

The Group's profit attributable to owners of the Company increased from approximately RMB102.7 million in FY2018 to approximately RMB134.0 million in FY2019, mainly due to (i) the increase in gross profit for heat supply business; and (ii) the decrease in finance costs, in FY2019.

Comparison of financial performance between the year ended 31 December 2017 and 2018

Based on the Prospectus, the Group's revenue increased from approximately RMB1,108.4 million for the year ended 31 December 2017 ("**FY2017**") to approximately RMB1,440.2 million in FY2018, primarily due to the increase in revenue generated from the heat supply business and the construction, maintenance and design business by approximately RMB84.7 million and RMB247.1 million, respectively, in FY2018. The increase in revenue generated from the heat supply business was mainly due to the increase in the Group's heat service area from approximately 35.8 million sq.m. as at 31 December 2017 to approximately 38.5 million sq.m. as at 31 December 2018. The increase in revenue generated from the construction, maintenance and design business was mainly due to (i) a significant increase in revenue generated from engineering maintenance services by approximately RMB136.2 million which was primarily in response to the demand from maintenance projects in connection with the three supplies and property management operations; (ii) a significant increase in revenue generated from engineering construction services by approximately RMB102.4 million in connection with the three supplies and property management operations and a municipal construction project bearing a higher contract value in FY2018; and (iii) the increase in revenue generated from design services by approximately RMB8.7 million primarily in response to the design service demand from projects in connection with the three supplies and property management operations.

The Group's gross profit increased from approximately RMB188.0 million in FY2017 to RMB224.7 million in FY2018, which was in line with the increase in the Group's revenue. The Group's gross profit margin decreased from approximately 17.0% in FY2017 to approximately 15.6% in FY2018, mainly due to the decrease in gross profit margin for the construction, maintenance and design business resulting from (i) certain major raw materials being provided by the customers for several service contracts in connection with the three supplies and property management operations, which allowed for less room for the Group's profit margin; and (ii) a new area entered by the Group to provide engineering maintenance services which they were more conservative in terms of cost estimate.

The Group's profit attributable to owners of the Company in FY2018 increased from approximately RMB85.8 million in FY2017 to approximately RMB102.7 million in FY2018, mainly due to (i) the increase in gross profit; and (ii) the decrease in other expenses such as loss from disposal of asset, in FY2018.

1.3 Business outlook

According to the National Bureau of Statistics of China (the "**NBS**") and the Statistic Bureau of Jilin*(吉林省統計局), the urbanization rates of the PRC and Jilin Province increased from approximately 54.8% and 54.8% in 2014 to approximately 60.6% and 58.3% in 2019, respectively. The rising urbanization rates in the PRC and Jilin Province lead to increasing demand for heating, which is the fundamental driver of the development of heat supply industry. The number of urban residents of Jilin Province increased from approximately 15.1 million in 2014 to approximately 15.7 million in 2019. According to the NBS, the length of heating pipelines and area of centralised heating of Jilin Province of the PRC has increased from approximately 17,309 km to 27,748 km and from approximately 450 million sq.m. to 626 million sq.m., respectively from 2014 to 2018.

According to the Three-year Action Plan for Winning the Blue Sky Defense War* (《打贏藍天保衛戰三年行動計劃》) issued in 2018 by the State Council of the PRC, the PRC government calls for, among others, green development, rectifying the energy structure to build a clean, efficient energy system and ensuring that the people in the northern regions have safe heating system for the winter, which also facilitate the speeding up of heating pipelines construction and improving the municipal heating infrastructure. In addition, the Clean Heating Plan for Winter in Northern China (2017–2021)* (《北方地區冬季清潔取暖規劃(2017–2021)》) issued by the PRC government targeted to raise the clean heating rate in Northern China to 70% by 2021. The PRC government emphasized on accelerating of the clean reform of coal-fired heating facilities, promoting the use of renewable energy for heating, eliminating the burning of bulk coal and speeding up the renovation of old heating pipelines.

Pursuant to the National 13th Five-Year Plan for Urban Municipal Infrastructure Construction* (《全國城市市政基礎設施規劃建設"十三五"規劃》) published in 2017 by National Development and Reform Commission * (國家發展和改革委員會) and Ministry of Housing and Urban-Rural Development* (住房和城鄉建設部), the PRC government proposed to improve the heating quality and the municipal infrastructure. These favorable policies are expected to stimulate the demand for the high-quality heating infrastructure and drive the growth of the heat supply industry.

In addition, according to the Administrative Measures for Cogeneration* (熱電聯產管理辦法) jointly announced by the National Development and Reform Commission* (國家發展和改革委員會), the National Energy Administration* (國家能源局), Ministry of Finance of the PRC* (中華人民共和國財政部), Ministry of Environmental Protection of the PRC* (中華人民共和國環境保護部) and Ministry of Housing and Urban-Rural Development* (住房和城鄉建設部) in March 2016, it is targeted to achieve (i) 60% of heat energy supplied by cogeneration, which is the simultaneous production of electricity and heat that makes power and heat supply systems more energy-efficient, among middle- to large- cities in Northern China; and (ii) a full coverage of heat energy supplied by cogeneration among all cities with population of above 200,000 in Northern China. For heat generation, especially in the Northern China, Cogeneration is expected to gradually replace coal-fired boiler and become the future trend in the heat supply industry.

2. Information on the Vendor

The Vendor is a state-owned company established on 28 April 1998 in Changchun City, the PRC, and is wholly-owned by Changchun SASAC. The Vendor Group is mainly engaged in property management, water supply, pipeline manufacturing, sale of industrial steam and financial investments, while also being engaged in certain businesses relating to heat supply and heat services.

3. Information on the Yatai Heating

3.1 Business of the Yatai Heating

As stated in the Letter from the Board, Yatai Heating is a limited liability company established in the PRC on 30 October 1998 and as at the Latest Practicable Date was a wholly-owned subsidiary of the Vendor. Yatai Heating is principally engaged in the heat services business with heat principally obtained from cogeneration plants and supplemented by district coal-fired boilers. Yatai Heating is a large-scale professional heat services enterprise integrating provision and distribution of heat and pipeline connection. It was recognised as a National High-Tech Enterprise* (國家高新技術企業) in 2019. It is a specialized heat supply company in Changchun and has obtained the urban heating business license. Yatai Heating is responsible for heat supply in winter for nearly 152,000 residents in Changchun city's institutions (groups), schools, enterprises and institutions. Currently, Yatai Heating's heat service area is approximately 16.2 million sq.m. which covers Chaoyang district, Nanguan district, Erdao district, Luyuan district and automotive industry development zone in Changchun City.

3.2 Highlights of the financial performance of the Yatai Heating

Set out below is a summary of the key financial information of Yatai Heating (before the Reorganisation) as extracted from the accountant's report on Yatai Heating set out in Appendix II to the Circular:

	For the year ended 31 December			For the five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020 (before Reorganisation)**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)	(unaudited)	(audited)
Revenue	**395,962**	**418,908**	**411,562**	**243,527**	**240,588**
Gross profit	**42,376**	**36,003**	**20,047**	**51,441**	**71,220**
Gross profit margin	*10.7%*	*8.6%*	*4.9%*	*21.1%*	*29.6%*
Administrative expenses	(25,611)	(16,166)	(14,102)	(4,043)	(3,740)
Profit/(loss) after tax	**(69,234)**	**(37,379)**	**(69,781)**	**15,650**	**57,652**

For the three years ended 31 December 2017, 2018 and 2019 and the five months ended 31 May 2020, Yatai Heating generated revenue mainly from its provision and distribution of heat, pipeline connection, engineering construction services and sales of goods.

Comparison of financial performance between the five months ended 31 May 2019 and 2020

As disclosed in the section headed "Management Discussion and Analysis of Yatai Heating" as set out in Appendix V to the Circular, Yatai Heating's revenue decreased from approximately RMB243.5 million for the five months ended 31 May 2019 to approximately RMB240.6 million for the five months ended 31 May 2020, which was mainly due to the decrease in revenue generated from the provision and distribution of heat as a result of reduction in heat service area during the period.

Yatai Heating's gross profit increased from approximately RMB51.4 million for the five months ended 31 May 2019 to approximately RMB71.2 million for the five months ended 31 May 2020, mainly due to the decrease in cost of sales resulting from the decrease in heat procurement cost and coal procurement cost during the period. The gross profit margin increased from approximately 21.1% to 29.6%. As discussed with the management of the

Company, the increase was mainly due to the decrease in actual consumption of coal and other utilities for heat production as a result of (i) three boilers have completed their maintenance and upgrade in the second half of 2019 whereby their efficiency was enhanced leading to a reduction in the consumption of coal; and (ii) a decrease in coal price during the period. Due to seasonality and the heat supply period, the gross profit margin for January to May is generally higher than that of annually. Hence, the gross profit margin for the five months ended 31 May 2019 and 2020 are higher than that for the year ended 31 December 2017, 2018 and 2019.

Yatai Heating's administrative expenses decreased from approximately RMB4.0 million for the five months ended 31 May 2019 to approximately RMB3.7 million for the five months ended 31 May 2020, which was mainly due to the decrease in staff costs and depreciation and amortisation.

Yatai Heating's profit after tax increased from approximately RMB15.7 million for the five months ended 31 May 2019 to approximately RMB57.7 million for the five months ended 31 May 2020, primarily due to the increase in gross profit and the decrease in administrative expenses and finance costs for the five months ended 31 May 2020.

Comparison of financial performance between the year ended 31 December 2018 and 2019

Yatai Heating's revenue decreased from approximately RMB418.9 million in FY2018 to approximately RMB411.6 million in FY2019. As inquired with the management of the Company, the decrease was primarily due to (i) the slight decrease in Yatai Heating's heat service area; and (ii) the decrease in number of days falling within the heating season in FY2019.

Yatai Heating's gross profit and gross profit margin decreased from approximately RMB36.0 million and 8.6% in FY2018 to approximately RMB20.0 million and 4.9% in FY2019, respectively. As inquired with the management of the Company, such decrease was primarily due to the increase in unit heat procurement cost from RMB27.5/GJ in FY2018 to RMB34/GJ in FY2019.

Yatai Heating's administrative expenses decreased from approximately RMB16.2 million in FY2018 to approximately RMB14.1 million in FY2019. As inquired with the management of the Company, the decrease was primarily due to the decrease in staff costs due to the decrease in the number of senior management personnel in FY2019.

Yatai Heating's loss after tax increased from approximately RMB37.4 million in FY2018 to approximately RMB69.8 million in FY2019, primarily due to the decrease in gross profit and the increase in finance costs, in FY2019.

Comparison of financial performance between the year ended 31 December 2017 and 2018

As shown from the above table, Yatai Heating's revenue increased from approximately RMB396.0 million in FY2017 to approximately RMB418.9 million in FY2018. As inquired with the management of the Company, the increase was primarily due to (i) a higher number of days falling within the heating season in FY2018; and (ii) the reduction in value-added tax rate for the heat supply industry in FY2018.

Yatai Heating's gross profit and gross profit margin decreased from approximately RMB42.4 million and 10.7% in FY2017 to approximately RMB36.0 million and 8.6% in FY2018, respectively. As inquired with the management of the Company, the decrease was primarily due to the increase in heat procurement cost due to the generally lower temperature in the first quarter of 2018 as compared to the same period in 2017.

Yatai Heating's administrative expenses decreased from approximately RMB25.6 million in FY2017 to approximately RMB16.2 million in FY2018. As inquired with the management of the Company, such decrease was primarily due to the decrease in staff costs and service fee paid to its former ultimate controlling party, Jilin Yatai Real Estate Development Co., Ltd. * (吉林亞泰房地產開發有限公司).

Yatai Heating's loss after tax decreased from approximately RMB69.2 million in FY2017 to approximately RMB37.4 million in FY2018, primarily due to (i) the decrease in administrative expenses; and (ii) the decrease in finance costs, in FY2018.

4. Principal terms of the Acquisition Agreement

Details of the Acquisition Agreement are set out in the Letter from the Board. The principal terms and conditions of the Acquisition Agreement are as follows:

4.1 Date

29 October 2020

4.2 Parties

(i) Changchun Heating Group, as vendor

(ii) the Company, as purchaser

4.3 Subject matter

Pursuant to the Acquisition Agreement, the Company has conditionally agreed to purchase the Equity Interests, representing 100% of the equity interests in Yatai Heating, free from all encumbrances and together with all rights attaching thereto as at the Completion Date.

4.4 Consideration

The Consideration for the Equity Interests is RMB318,376,300 (equivalent to approximately HK$366.89 million), which shall be satisfied by the Company in cash.

The Consideration has been arrived at after arm's length negotiations between the Vendor and the Company with reference to the valuation of the Equity Interests as at 31 May 2020 (being RMB318,376,300 (equivalent to approximately HK$366.89 million)) set out in the preliminary valuation report appraised in accordance with the requirements of the PRC by the Valuer based on income approach. The above valuation was prepared, among others, on the basis that the Reorganisation took place on 31 May 2020. The above valuation is subject to the valuation to be filed with Changchun SASAC, which shall be final. The Consideration is intended to be financed partly by the internal resources of the Group and partly by the net proceeds from the Global Offering as to RMB100 million, subject to the approval by the Shareholders at the EGM of the proposed change in the use of proceeds from the Global Offering as described in this circular.

As stated in the Letter from the Board, the original acquisition cost incurred by the Vendor for the acquisition of the entire equity interest of Yatai Heating (prior to the Reorganisation) in December 2019 (the "**Previous Acquisition**) was approximately RMB423.98 million (equivalent to approximately HK$488.58 million). We understood from the management of the Company that the Consideration was lower than the original acquisition cost incurred by the Vendor because certain assets comprising land use rights, buildings, coal-fired boilers and ancillary equipment (together with related rights and liabilities and personnel) (the "**Excluded Assets**") of Yatai Heating (prior to the Reorganisation) with carrying amount of approximately RMB110.4 million was transferred to Changchun Heating Group as part of the Reorganisation. The original acquisition cost net of the carrying amount of Excluded Assets would be approximately RMB313.6 million, which is comparable to the amount of Consideration.

4.5 Conditions Precedent

The Acquisition Agreement shall take effect upon the satisfaction of the following conditions:

(i) the Vendor having completed the applicable internal decision-making procedure in respect of the Acquisition Agreement and the transactions contemplated thereunder in accordance with the requirements of its articles of association;

(ii) the Acquisition Agreement and the transactions contemplated thereunder having been approved by the board of directors of the Company and the Shareholders at general meeting of the Company in accordance the requirements of the Listing Rules, the Articles of Association and applicable laws and regulations; and

(iii) (where applicable) as regards the entering into and performance of the Acquisition Agreement, each of the Vendor and the Company having obtained and completed all necessary consents, approvals and filings from or with any relevant governmental or regulatory authorities in the PRC, Hong Kong or other jurisdictions.

None of the conditions above may be waived (whether in whole or in part) by either party.

4.6 Completion

Within 15 days from the date of signing of the Acquisition Agreement (or such later date as the parties to the Acquisition Agreement may agree in writing), the Vendor shall, and/or shall procure Yatai Heating to, complete the government approval and filing procedures, registration procedure with the relevant industry and commerce administration authority and other necessary legal procedures relating to the transfer of the Equity Interests.

Within 40 business days after the Completion Date, the Company shall complete the payment of the Consideration in full to the Vendor in cash.

As from the Completion Date, Yatai Heating will become a wholly owned subsidiary of the Company.

5. Reasons for and benefits of entering into the Acquisition Agreement

Background of the Previous Acquisition

As disclosed in the Letter from the Board, pursuant to the Non-competition Agreement, if any member of the Vendor Group becomes aware of any new business opportunities which compete or are likely to compete, directly or indirectly, with the Group's business (a "**New Business Opportunity**"), Changchun Heating Group shall immediately notify the Company in writing of the New Business Opportunity and use its best efforts to procure the New Business Opportunity be made available to the Company or its subsidiaries on fair and reasonable terms and conditions. According to the Letter from the Board, the Company was notified of the New Business Opportunities and the Company did not take up such New Business Opportunities due to the then financial status of Yatai Heating, among others, the continuing loss position and relatively high debt level of Yatai Heating. The Company allowed Changchun Heating Group to conduct due diligence review against Yatai Heating and proceed with the Previous Acquisition, and concluded that it would be in the interests of the Company to consider acquiring Yatai Heating from Changchun Heating Group in the future, in order to resolve the issue of competition with Changchun Heating Group arising from the Previous Acquisition, after Changchun Heating Group had reformed the assets of Yatai Heating and improved the standard of its operation (the "**Initial Decision**").

According to the accountant's report on Yatai Heating for the year ended 31 December 2019 and for the five months ended 31 May 2020, we noted that the financial position and operating results of Yatai Heating had improved that (i) its net assets increased from approximately RMB62.9 million as at 31 December 2019 to approximately RMB120.2 million as at 31 May 2020; (ii) its interest-bearing bank and other borrowings decreased substantially from approximately RMB586.7 million as at 31 December 2019 to nil as at 31 May 2020 as a result of repayment of bonds during the five months ended 31 May 2020; (iii) its financial results improved from a loss of approximately RMB69.8 million for the year ended 31 December 2019 to a profit of approximately RMB57.7 million for the five months ended 31 May 2020. As stated in the Letter from the Board, Yatai Heating is expected to record a profit for the year ending 31 December 2020 due to the positive impacts brought by the large-scale professional reform undertaken by Yatai Heating after the Previous Acquisition in December 2019. Such professional reform mainly covers the operations and management of Yatai Heating, staff redeployment and asset allocation, which substantially reduced Yatai Heating's operating costs, staff costs and office expenses in 2020 and beyond. Furthermore, with the early repayment of bonds during the five months ended 31 May 2020 and the fact that there are no outstanding bank borrowings in 2020, Yatai Heating is expected to incur substantially less finance costs in 2020 and going forward. As such, after completion of the reform, Yatai Heating is expected to achieve sustainable and stable operating income in the future. Therefore, we concur with the management of the Company's view that conducting the Acquisition after the financial position and operating results of Yatai Heating had improved after the Previous Acquisition, is in line with the Company's Initial Decision and in the interest of the Company and its shareholders as a whole.

To avoid the potential business competition

As disclosed in the Letter from the Board, the Vendor is also engaged in certain businesses relating to heat supply and heat services. Through the Acquisition, the business of heat supply and heat services of Yatai Heating (after the Reorganisation) will be incorporated into that of the Group. The Acquisition represents a step of the Vendor Group towards further integration of this part of its business into the Group and will then reduce the potential business competition between the Vendor Group (excluding the Group) and the Group in this business area.

We concur with the management of the Company's view that the Acquisition would reduce business competition between the Company and the Vendor Group and is in the interests of the Company and its Shareholders.

To increase the heat supply coverage by the Group

Upon Completion, the coverage of the Group's heat supply will be increased by the districts and areas covered by Yatai Heating, which covers Chaoyang district, Nanguan district, Erdao district, Luyuan district and automotive industry development zone in Changchun City.

As discussed with the management of the Company, the provision of heat supply services relies heavily on the heating facilities and infrastructure such as heating pipeline network and boiler facilities, which is subject to the limitation of underground space necessary for pipelines and is subject to the overall development plan by local government. It is difficult for the Group to expand its heat supply service coverage into locations which are covered by other existing service providers unless by means of acquisition. In practice, the municipal authority typically allows only one heat supply service provider to operate within a planned heat supply service area.

We concur with the management of the Company's view that the Acquisition will allow the Group the exclusive right to use the extensive heat distribution network of Yatai Heating, enabling the Group to reach a larger base of existing and potential heat supply end-users thereby enabling the Group to remain competitive in the market.

To enhance the Group's revenue and profitability

As disclosed in the Letter from the Board, upon Completion, Yatai Heating (after the Reorganisation) will be accounted for as a wholly-owned subsidiary of the Company and its financial results will be consolidated in the financial statements of the Company. For the years ended 31 December 2017, 2018 and 2019 and the five months ended 31 May 2020, Yatai Heating recorded revenue of approximately RMB396.0 million, RMB418.9 million, RMB411.6 million and RMB240.6 million, respectively. Although Yatai Heating recorded loss of approximately RMB69.2 million, RMB37.4 million and RMB69.8 million for the years ended 31 December 2017, 2018 and 2019, respectively, its financial results improved to a profit of approximately RMB57.7 million for the five months ended 31 May 2020 due to (i) better control of cost of sales, in particular, heat procurement cost and coal procurement cost; (ii) lower administrative expenses due to reduced staff costs; and (iii) lower finance costs due to repayment of all interest-bearing borrowings for the five months ended 31 May 2020. Accordingly, we concur with the Directors' view that Yatai Heating is expected to contribute to the Group's revenue and profitability upon Completion and considered the Acquisition is in the interest of the Company and its shareholders as a whole.

The optimistic prospects of the heat supply industry in Changchun City

In order to assess the prospects of the heat supply industry in Changchun City, we have, among others, reviewed, the National Economic and Social Development Statistical Bulletins* (國民經濟和社會發展統計公報) published by the Changchun Bureau of Statistics* (長春市統計局) and noted there is continuous urbanization development in the Changchun City. The number of urban residents and the urbanization rate of Changchun City increased from approximately 3.7 million and 48.5% in 2014 to approximately 4.5 million and 59.0% in 2019. With the continuously increasing number of urban residents and the urbanization rate in Changchun City, we concur with the Directors' view that the demand for heat supply service in Changchun City will continue to grow.

Taking into consideration that (i) the favorable policies as set out under the paragraph headed "1.3 Business outlook" in this letter which are expected to stimulate the demand for the high-quality heating infrastructure and drive the heat supply industry; (ii) the Acquisition can reduce the potential business competition with the Vendor Group in heat supply and heat services; (iii) the Acquisition will further increase the coverage of the Group's heat supply in Changchun City; (iv) the Acquisition will enhance the Company's revenue and profitability; and (v) the optimistic prospects of the heat supply industry in Changchun City, we concur with the Directors' view that the Acquisition is in the interest of the Company and the Shareholders as a whole.

6. Assessment of the Consideration

6.1 Valuation Report

In assessing the fairness and reasonableness of the Consideration, we consider it is a common practice to determine a consideration for an acquisition by taking into account, among others factors, the appraised value of the subject of an acquisition estimated by a valuation report prepared by an independent professional valuer. We have obtained and reviewed the Valuation Report and the underlying calculation spreadsheet and enquired with the Valuer, among other things: (i) the terms of engagement and the scope of work of the Valuer; (ii) the qualification and independence of the Valuer; (iii) the procedures and major assumptions adopted by the Valuer; and (iv) the selection of valuation methodology taken by the Valuer for the valuation.

6.2 Scope of work

We have reviewed the terms of engagement of the Valuer and consider that the scope of work is appropriate to the valuation and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

6.3 The Valuer's qualification and independence

We have enquired the qualification, experience and independence of the Valuer in relation to the performance of the valuation. We were given to understand that the Valuer is a qualified asset appraisal firm authorised by the Ministry of Finance of the PRC to perform valuation works in the PRC. The Valuer has also confirmed that they are independent to the Group, the Target Group and their respective associates and all relevant material information provided by the Group had been incorporated in the valuation report. Based on the above, we are of the view that the Valuer is qualified to perform the valuation.

6.4 Procedures and major assumptions adopted by the Valuer

We have enquired with and were advised by the Valuer that they had performed necessary due diligence works for the preparation of the Valuation Report, which includes, among others, enquiries in relation to the financial information of the Target Group and examination of further information where necessary. We noted that the Valuer has made major assumptions, including but not limited to that (i) no significant changes in the relevant existing national laws, regulations and policies, the national macroeconomic situation and the political, economic and social environment of the regions in which Yatai Heating is located; (ii) there are no material changes in the tax base and rates and policy levies related to Yatai Heating after the appraisal benchmark date; (iii) the urban heating permits owned by Yatai Heating will be renewed upon expiration; (iv) the management of Yatai Heating after the benchmark date is accountable, stable and capable of performing its functions; and (v) all the information provided by the management of Yatai Heating is true, complete, legal and valid in relation to this valuation.

6.5 Selection of valuation methodology

We have further reviewed and enquired the Valuer on the methodology and the key assumptions adopted in the Valuation Report. In performing the valuation of Yatai Heating, the Valuer considered three valuation approaches, namely the asset-based approach, market approach and income approach. We concur with the Valuer's view that the market approach is inappropriate for the valuation of Yatai Heating because the transactions of companies with comparable characteristics are limited due to the uniqueness and regionality of Yatai Heating's business. We understood from the Valuer that the asset-based approach is an appropriate approach as Yatai Heating is an urban heating enterprise with stable operation, and the historical data of assets and liabilities in the audited balance sheet are complete and identifiable. We concur with the Valuer's view that income approach is also an appropriate approach for the valuation of Yatai Heating because financial projections can be reasonably derived by the management of the Company on the basis that (i) Yatai Heating is a major heat supplier in Changchun City which has stable customer base; (ii) the revenue and cost of Yatai Heating is relatively stable and less affected by the market; and (iii) the valuation results under income approach can more objectively and reasonably reflect the value of Yatai Heating in providing returns for shareholders' investments. Considering that (i) the asset-based approach only reflects the reconstructed value of Yatai Heating, which is the value obtained by deducting the liabilities from the value of the assets shown in the balance sheet. It does not take into account intangible assets which are not shown in the balance sheet, such as goodwill, clientele, preferential treatments enjoyed by Yatai Heating, knowhow of its staff and the management ability of its management; (ii) the income approach, in which the value is appraised based on the estimated returns of Yatai Heating, can better reflect the future operating income of and the economic benefits generated from Yatai Heating; and (iii) as discussed with the management of the Company and the Valuer, we understood that Yatai Heating is a major heat supply enterprise in Changchun, with relatively stable customer base in Changchun. The heating charges receivable from its customers and the unit price of heat source are mainly set by the government. Therefore, the revenue generated from, and the costs related to, the business operations of Yatai Heating can be relatively reliably estimated, we concur with the Valuer that the income approach is more appropriate than asset-based approach and is therefore selected as the final conclusion of the valuation of Yatai Heating.

Determination of discount rate

We understand from the Valuer that the discount rate applied to the projected income of Yatai Heating is a key factor which affects the determination of the Appraised Value. We note that the Valuer has used the WACC to derive the discount rate. In determining the WACC, the Valuer has taken into account a number of factors including (i) weight of equity in total capital; (ii) weight of debt in total capital; (iii) cost of equity; (iv) cost of debt; and (v) tax rate. We further note that the Valuer has used the Capital Assets Pricing Model to calculate the cost of equity. We understand that the Capital Assets Pricing Model technique is widely accepted in the investment and financial analysis communities for the purpose of calculating a company's cost of equity, which the Valuer has considered a number of factors including (i) risk free rate; (ii) beta; (iii) market risk premium; and (iv) company specific risk premium.

In determining the risk-free rate, we noted that the Valuer has adopted the 30-year China government bond of 3.92% for the applicable risk free rate of Yatai Heating. We further noted from the Valuer that, the duration of the bond being used as an indication of the risk-free rate should match with the horizon of the projected cash flows being discounted, ideally. As the projected cash flows are assumed to be perpetual for Yatai Heating, it is a common practice to adopt 30-year bond yield as the risk-free rate. We noted from the official website of the Ministry of Finance of the PRC that (i) the 30-year bond yield is the yield of the bond with the longest maturity available on the website; and (ii) the average 30-year bond yield in October 2020 is approximately 3.9%. As such, we concur with the Valuer that the adopted rate is reasonable.

The Valuer selected a group of comparable companies (the '**Comparable Companies**') to compute beta and determine cost of equity. We have discussed with the Valuer the selection criteria of such Comparable Companies and reviewed the scope of business of the Comparable Companies and noted that the Valuer has identified three Comparable Companies based on the following criteria: (i) the selected companies are engaged in heat supply business with a significant portion (i.e. over 50%) of revenue generated from such service; (ii) they are publicly listed on the securities market; (iii) they have listed for more than one year; (iv) they are not identified as a special treatment case by the Shanghai Stock Exchange or the Shenzhen Stock Exchange; and (v) the average daily turnover rate of their shares trading for the past six months is greater than 1%; and (vi) they recorded net profits in the latest financial year were selected as the Comparable Companies. We further understand from the Valuer that beta is a measure of systematic risk and is expressed as a function of the relationship between the excess return on an individual security and the return on the market as measured by a broad index. We have also performed our own search for the Comparable Companies based on the selection criteria adopted by the Valuer and obtained the same results of Comparable Companies as selected by the Valuer. As such, we are of the view that (i) the selection criteria are fair and reasonable; and (ii) the list of the Comparable Companies is exhaustive.

Given that the operation location of Yatai Heating is in the PRC, we concur with the Valuer's view that it is fair and reasonable to adopt the market risk premium of China market as the equity risk premium of Yatai Heating, which was determined with reference to 'Equity Risk Premiums (ERP): Determinants, Estimation and Implications – The 2020 Editions', published by Professor Aswath Damodaran, who is a well-known author of several widely used academic textbooks on valuation and related subjects. We have also reviewed circulars of transactions conducted by companies listed on the Stock Exchange over the past one year which (i) contained valuation reports prepared by independent valuers; and (ii) involved calculation of WACC and equity risk premium, and we noted that the reports published by Professor Aswath Damodaran is commonly adopted in the determination of equity risk premium.

As stated in the Valuation Report, the company specific risk premium is determined to be 2.932% with reference to, among others, size, market share, financial risk, internal control management and control mechanism, and the experience and qualifications of the management of Yatai Heating, based on the Valuer's professional judgement. We have reviewed circulars of transactions conducted by companies listed on the Stock Exchange over the past one year which (i) contained valuation reports prepared by independent valuers; and (ii) involved calculation of WACC and company specific risk premium, and we noted that a risk premium of 1% to 5% is commonly applied in business valuation. Therefore, we consider the company specific risk premium adopted in the Valuation Report is fair and reasonable.

Furthermore, we understand from the Valuer that the cost of debt of Yatai Heating was determined with reference to the historical interest rate of Yatai Heating. In order to assess the reasonableness of the rate of the cost of debt adopted by the Valuer, we have discussed with the Valuer to understand that (i) the historical interest rate can reflect the long-term expected borrowing rate that Yatai Heating would be able to receive for its debt financing on a company level; and (ii) the preferential tax rate of 15%, which is applicable to Yatai Heating as it was qualified as a National High-Tech Enterprise starting from 2019, was considered in determination of the cost of debt of Yatai Heating. Based on the above, we consider the cost of debt adopted by the Valuer in the determination of WACC is fair and reasonable.

Other major assumptions

We further enquired the Valuer in respect of the other major basis and assumptions which have been taken into account in the Valuation Report (including but not limited to historical information on pricing policies and operating expenses to maintain the heat supply operation, and forward-looking information on the expected business development in the future).

To assess the fairness and reasonableness of the assumption of the growth of service area, we have (i) reviewed the Urban Winter Public Services Protection Work Plan* (城區冬季公用服務保障工作方案) published by local government of Changchun City and noted that the heat supply service area of Changchun City is targeted to increase by approximately 9.3% per annum; (ii) noted from the Valuation report that the heat supply service area of Changchun City is expected to increase by approximately 17.0 million sq. m. per annum; (iii) reviewed the National Economic and Social Development Statistical Bulletin 2019* (2019年國民經濟和社會發展統計公報) published by the Changchun Bureau of Statistics and noted that the growth rate of population in Changchun was approximately 2.15% in 2019; and (iv) noted the number of urban residents and the urbanization rate of Changchun City increased from approximately 3.7 million and 48.5% in 2014 to approximately 4.5 million and 59.0% in 2019. Therefore, we concur with the Valuer that the demand for heating service in Changchun City will be sufficient to support the expected growth of heat supply service area.

In relation to the output tax rates adopted in the Valuation Report, we have reviewed the Circular Cai Shui 2019 No. 38*(《財稅 [2019] 38號》) and the announcement of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs No. 39 of 2019*(《財政部稅務總局海關總署公告2019年第39號文件》) published by the State Taxation Administration*(國家稅務總局)in 2019 and noted that the output tax rates of companies providing heat supply to residential areas and commercial areas are nil and 9.0% respectively.

We have also discussed with the management of the Company and the Valuer that the estimated cost of revenue and administrative expense in Valuation were determined with reference to historical financial data of Yatai Heating, taking into account (i) the heat procurement fee payable to Changchun Heating Group determined on arm's length negotiation; (ii) the direct labour cost determined based on the expected size of labour force and an annual growth rate of 1.5%; (iii) utilities cost such as water and electricity costs with an annual growth rate of 1.5%, which are in line with the revenue growth rate; and (iv) other manufacturing costs which are assumed to remain relatively stable.

As further enquired the Valuer and understood that the terminal value was based on a terminal value cash flow multiple. Such multiple was supposed to be calculated by subtracting a terminal growth rate from a cost of equity and taking the inverse, which equals the capitalization rate of Yatai Heating. Considering that the growth of heat supply service area of Yatai Heating is limited to its geographical location, the terminal growth rate was assumed to be nil based on prudence purpose.

We also obtained and reviewed (i) the projection schedules and the related breakdowns prepared by the Company; (ii) the calculation spreadsheet of the financial projections underlying the Valuation Report; and (iii) the Heat Procurement Framework Agreement, we concur with the Valuer that the aforesaid basis and assumptions are fair and reasonable.

During our inquiry with the Valuer and base on our work done as set out above, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the valuation. Having also considered (i) our due diligence work on the Valuer in respect of the Valuation Report; and (ii) the management of the Company confirmed that they have made the financial projections of Yatai Heating after due and careful enquiry, we consider that principal bases and assumptions adopted for the valuation to be reasonable.

6.6 Alternative analyses for the Consideration

To further assess the fairness and reasonableness of the Consideration, it is a general practice to apply commonly used benchmarks such as the price-to-earnings ratio for evaluating the value of companies. However, due to the loss-making financial performance of Yatai Heating, we consider that the price-to-earnings ratio analysis is not applicable. In view of the substantial amount of depreciation charges of Yatai Heating relating to its property, plant and equipment such as pipelines and machinery and equipment, which amounted to approximately RMB10.2 million for FY2019, we have adopted the enterprise value-to-earnings before interest, taxes, depreciation and amortisation (the "**EV/EBITDA**") ratio. Further, we consider that the EV/EBITDA ratio is less distorted by the differences in the capital structures of companies. Considering the EV/EBITDA ratio is commonly accepted benchmark in the comparison of valuation of companies against their industry peers and we are not aware of any specific circumstances that would make such analysis inappropriate, we have adopted it for the purpose of our analysis. In our analyses below, we have included Shenyang Huitian Thermal Power Co., Ltd (stock code: 000692.SZ), which was deselected by the Valuer due to its loss making position in FY2019, as it recorded positive EBITDA in FY2019. Set out below are our analyses on the Comparable Companies:

Stock code	Company name	Principal business		EV/EBITDA *(Note 1)*
002893.SZ	Beijing Huayuanyitong Thermal Technology Co. Ltd	Principally engaged in heat supply service and Energy saving technology service		12.8
600167.SH	Luenmei Quantum Co., Ltd	Principally engaged in heat and steam supply service		12.1
000692.SZ	Shenyang Huitian Thermal Power Co., Ltd	Principally engaged in heat supply service		13.7
600719.SH	Dalian Thermal Power Co., Ltd.	Principally engaged in heat supply service and power supply service		26.8
			Minimum:	12.1
			Maximum:	26.8
			Average:	16.3
	Yatai Heating	Principally engaged in heat supply services; and construction, maintenance and design services		10.4 *(Note 2)*

Notes:

1. The EV/EBITDA ratio is calculated by dividing the net of the sum of market capitalization as at 29 October 2020 (i.e. the date of the Acquisition Agreement), debt and minority interest of the Comparable Companies and cash and cash equivalent as at the latest financial year/period end by their earnings before interest, tax, depreciation and amortisation for the latest financial year.

2. The implied EV/EBITDA ratio of Yatai Heating is calculated by dividing the net of the Consideration and cash and cash equivalent as at 31 May 2020 by its earnings before interest, tax, depreciation and amortisation in FY2019.

As illustrated in the table above, the EV/EBITDA ratio of the Comparable Companies range from a minimum of approximately 12.1 times to a maximum of approximately 26.8 times with an average of approximately 16.3 times. The implied EV/EBITDA ratio of Yatai Heating is approximately 10.4 times, which is lower than the those of the Comparable Companies.

Based on the above, and having considered that (i) the Consideration was determined with reference to the Appraised Value determined by the Valuer; (ii) the principal bases and assumptions adopted for the valuation are considered to be reasonable based on our due diligence work on the Valuer in respect of the Valuation Report; (iii) the background of the Previous Acquisition and the Consideration was lower than the amount of the original acquisition cost of Yatai Heating (prior to the Reorganisation) incurred by the Vendor, and was comparable to the amount of such original acquisition cost net of the carrying amount of Excluded Assets pursuant to Reorganisation; and (iv) the Consideration represents a lower implied EV/EBITDA ratio than the range and the average of Comparable Companies, we concur with the Directors' view that the Consideration is fair and reasonable.

7. The continuing connected transactions of the Heat Procurement

The principal terms and pricing policy under the Heat Procurement Framework Agreement are as follows:

(i) Changchun Heating Group shall be responsible to supply heat to Yatai Heating in accordance with the terms of the Heat Procurement Framework Agreement;

(ii) Yatai Heating shall compile, and provide to Changchun Heating Group, annual heat procurement plan for each year within the term of the Heat Procurement Framework Agreement;

(iii) Changchun Heating Group and Yatai Heating shall enter into separate contracts in respect of service term, rate of heat service fee and time and method of payment and calculation; and

(iv) the parties agree the intended unit price per GJ to be RMB56, and that the actual heat service fee payable by Yatai Heating to Changchun Heating Group shall be determined through fair negotiation between the parties as to be set out in the relevant separate contracts and on terms no less favourable than those offered to Yatai Heating by Independent Third Parties. The parties shall make references to the relevant historical prices for heat procurement and collect industry information on market price and profitability from various sources, such as state prescribed price, state-recommended price and other similar heat service providers, and determine the rate of the service fee based on average market profit rate or on cost-plus basis in order to ensure the fairness and reasonableness of the rate.

7.1 Reasons for and benefits of entering into the Heat Procurement Framework Agreement

As disclosed in the Letter from the Board, Yatai Heating underwent the Reorganisation for the purpose of disposing to Changchun Heating Group of certain assets of Yatai Heating which had title defects. The plots of land to which the land use rights transferred pursuant to the Reorganisation either (a) had its term of use already expired but not yet renewed; (b) had not completed the change of the land user from Changchun Heating Group to Yatai Heating; or (c) had not been issued with land use rights certificates. As for the buildings transferred under the Reorganisation, part of them were located on plots of land with their land use right certificates already expired while the remaining were not yet issued with building ownership certificates. As there are coal-fired boilers housed and securely installed in some of the buildings with title defects mentioned above, these coal-fired boilers (together with their ancillary equipment) were required to be transferred along with these buildings. The rights, liabilities and personnel related to the land use rights, buildings and coal-fired boilers transferred were also transferred. To ensure the continuous supply of heat by Yatai Heating to its customers in the same manner before the Reorganisation, certain of the coal-fired boilers transferred under the Reorganisation will continue to supply heat to the heat supply network of Yatai Heating through the procurement of heat from Changchun Heating Group under the Heat Procurement Framework Agreement (the "**Coal-fired Boilers**").The procurement of heat produced by these Coal-fired Boilers under the Heat Procurement Framework Agreement will allow Yatai Heating to continue to supply heat to its customers in the same manner as it did before the implementation of the Reorganisation without any need of reconstruction or alteration to its relevant heat supply network, which would otherwise attract time and costs to Yatai Heating for it to be able to resume the supply of heat through the relevant heat supply network.

According to the Letter from the Board, when implementing the pricing policy mentioned above (as well as for determining the intended unit price per GJ of RMB56), the parties to the Heat Procurement Framework Agreement mainly adopt the cost-plus basis to determine the unit price. The pricing terms to be taken into account in determining the service fee payable for the heat supplied by the Vendor mainly comprise (i) cost of raw materials (coal, water and electricity) and ancillary materials; (ii) staff cost, (iii) depreciation expenses of machinery and equipment; (iv) related tax; and (v) a profit margin expected by the Vendor Group of approximately 10%. The planning and management department of the Group is responsible to monitor these costs. Staff from this department from time to time communicate with the government, other heat service providers and coal suppliers to collect the latest information regarding change in coal price which may arise from market fluctuation. As water and electricity prices are set by the government, the planning and management department keeps track of the changes in these prices as from time to time announced by the government. In determining the amount of heat to be procured under the Heat Procurement Framework Agreement, Yatai Heating principally considers the relevant annual plan for heat supply, which makes reference to historical amount of heat produced by the subject coal-fired boilers.

In assessing whether the pricing policy and the terms under the Heat Procurement Framework Agreement is fair and reasonable, we have, among others, (i) discussed with the management of the Company and noted that heat supply unit price is determined by reference to, among other things, the costs incurred by the heat suppliers (such as the price of natural gas, electricity, water, fixed asset depreciation, repairs, wages), the profitability required by the heat suppliers and the relevant tax; (ii) reviewed the Interim Measures for the Price Control of Urban Heat Supply* (城市供熱價格管理暫行辦法) published by National Development and Reform Commission* (國家發展和改革委員會) and noted the state-prescribed heating price is also determined by similar factors. Therefore, we concur with the Directors' view that such pricing principle is justifiable; and (iii) reviewed the calculation spreadsheet of unit price of heat produced by certain Coal-fired boilers to be supplied to Yatai Heating and noted that the resulting unit price is approximately RMB56/GJ; (iv) reviewed a sample of heat procurement framework agreement executed between Datang Changre Heating Co., Ltd.*("Datang") (大唐長熱吉林熱力有限公司), a member of the Vendor Group, and an third-party heat service provider, that the unit price per GJ of heat service fee payable by Datang is approximately RMB55/GJ during the peak season, and RMB35/GJ at the slack season (usually at the beginning and towards the end of heating season), respectively. As the average period of heating time in Changchun City is long, we consider the price during peak period should be taken as a reference market price; and (v) discussed with the management of the Company and noted that the planning and management department would monitor the costs of raw materials including but not limited to communicating with the government, other heat service suppliers and coal suppliers to collect the latest information regarding change in coal price which may arise from market fluctuation, and keeping track of the changes in the water and electricity prices as from time to time announced by the government so as to ensure the fairness and reasonableness of the heat supply unit price.

Based on the above, we concur with the Directors' view that (i) the principle of pricing policy in determining the service fee payable for the heat supplied by the Vendor is justifiable, fair and reasonable; and (ii) the terms of the Heat Procurement Framework Agreement are on normal commercial terms and are fair and reasonable.

7.2 Annual caps and basis

According to the Letter from the Board, the maximum amount of heat service fee payable by Yatai Heating to Changchun Heating Group in respect of the transactions contemplated under the Heat Procurement Framework Agreement shall not exceed RMB83.80 million, RMB77.91 million and RMB77.91 million for each of the three years ending 31 December 2023, respectively.

In arriving at the annual caps, the Directors considered factors including the expected supply of heat generated from the subject Coal-fired boilers to the customers of Yatai Heating for each of the three years ending 31 December 2023, the future decrease in heat supply volume to be supplied by the subject Coal-fired boilers that is expected to arise from the future increase in heat supply volume to be supplied by cogeneration plants as a result of the expected further connection of Yatai Heating's heat service area to the network of cogeneration plants, the intended unit price per GJ of RMB56 and a buffer of 10% to cater for any unforeseeable circumstances such as possible fluctuation relating to the actual unit price and/or heat supply volume to be supplied by the subject coal-fired boilers. Based on the plan of connection of heat service area of Yatai Heating to the network of cogeneration plants, it is estimated that there will be an approximately 7% decrease in the expected heat supply volume to be supplied by the subject Coal-fired Boilers for the year ending 31 December 2022 compared with that for the year ending 31 December 2021, while the expected heat supply volume to be supplied by the subject Coal-fired Boilers will remain relatively stable for the year ending 31 December 2022 and 2023.

According to the Letter form the Board, as the subject Coal-fired boilers were owned by Yatai Heating and included in its financial statements before the Reorganisation, and these Coal-fired boilers formed part of the heat production facilities of Yatai Heating before the Reorganisation, no such or other comparable heat procurement cost was recorded for the procurement of heat from Changchun Heating Group to Yatai Heating for the three years ended 31 December 2017, 2018 and 2019 and the five months ended 31 May 2020.

In order to assess whether the proposed annual caps (the "**Caps**") in respect of the transactions contemplated under the Heat Procurement Framework Agreement are fair and reasonable, we have reviewed the calculations regarding the Caps for each of the three years ending 31 December 2023 (the "**Calculations**") and noted the Caps for the three years ending 31 December 2023 were calculated by (i) estimated heat supply volume are expected to be approximately 1.4 million GJ, 1.3 million GJ and 1.3 million GJ for each of the three years ending 31 December 2023, respectively; and (ii) intended unit price per GJ of RMB56. Considering that (i) the estimated heat supply volume is expected to be stable; (ii) the intended unit price per GJ of RMB56 is fair and reasonable; (iii) the buffer would provide the Company with the flexibility to cope with unforeseeable circumstances including an unexpected increase in cost of major raw materials and staff costs, and/or unexpected increase in heat supply volume due to lengthened cold weather period, we concur with the Directors' view that the Caps in respect of the transactions contemplated under the Heat Procurement Framework Agreement are fair and reasonable.

7.3 Internal control measures

As stated in the Letter from the Board, the Group has prepared to adopt internal control measures to ensure the Heat Procurement Framework Agreement can be performed fairly and orderly by the enlarged Group. These measures include (i) the designated staff from the planning and management department of the Group will closely monitor the total transaction amount to ensure that the proposed annual caps in respect of the transactions contemplated under the Heat Procurement Framework Agreement will not be exceeded; (ii) the reports containing total transaction amount under Heat Procurement Framework Agreement will be submitted to the management of the Company on a quarterly basis; and (iii) the independent non-executive Directors and the auditors of the Company will conduct annual review of the transactions contemplated under the Heat Procurement Framework Agreement.

Having considered that (i) a monitoring system will be in place with the account department of the Group ensuring that the Caps are not exceeded from time to time; (ii) a monthly report reviewing the total transaction amount will be compiled and submitted to the management of the Company; and (iii) the transactions contemplated under the Heat Procurement Framework Agreement will be annually reviewed by the Independent non-executive Directors and the auditors of the Company, we are of the view that the internal control measures are adequate and effective in ensuring the transactions contemplated under the Heat Procurement Framework Agreement will be entered into on normal commercial terms and there is an effective system in place to monitor the Caps.

Given that (i) the pricing and payment terms of the Heat Procurement Framework Agreement are and shall be on normal commercial terms and are no less favourable than those offered to Yatai Heating by the Independent Third Parties; (ii) the procurement of heat produced by the coat-fired boiler under the Heat Procurement Framework Agreement will allow Yatai Heating to continue supply heat to its customers in the same manner as it did before the implementation of the Reorganisation without any need of reconstruction or alteration to its relevant heat supply network; and (iii) the internal control measures set out above have been put in place by the Group, we concur with the Directors' view that the pricing policy of the Heat Procurement Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

8. Possible financial effects of the Acquisition

Upon Completion, Yatai Heating (after the Reorganisation) will become a wholly-owned subsidiary of the Company and accordingly, the assets, liabilities and financial results of Yatai Heating will be consolidated into the financial statements of the Company. Independent Shareholders should note that the following discussion of the possible financial effects of the Acquisition is based on the illustrative scenario provided for the pro forma financial information of the Enlarged Group set out in Appendix III to the Circular.

8.1 Net assets

Upon Completion, as stated in the "Unaudited pro forma financial information of the Enlarged Group" set out in Appendix III to the Circular, the net assets of the Enlarged Group as at is expected to decrease to approximately RMB538.7 million.

8.2 Earnings

Based on the audited financial results as set out in accountant's report of Yatai Heating set out in Appendix II to the Circular, Yatai Heating recorded a profit of approximately RMB57.7 million for the five months ended 31 May 2020. In view of the improved financial results and the future prospect of Yatai Heating, the Directors expect that the earnings of the Enlarged Group will be enhanced by the Acquisition.

Based on the aforementioned potential financial impacts of the Acquisition on the Group, in particular, the positive impact to the Group future earnings, we concur with the management of the Company's view that the Acquisition is in the interests of the Company and its Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the terms of the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps), and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions for approving the Acquisition Agreement, the Heat Procurement Framework Agreement (together with the proposed annual caps), and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Giraffe Capital Limited
Johnson Chen
Managing Director

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 12 years of experience in the field of corporate finance advisory.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2019 and the six months ended 30 June 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.cc-tp.com.cn). Please refer to the hyperlinks as stated below:

- Prospectus of the Company published on 27 September 2019 (pages I-1 to I-94)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0927/2019092700159.pdf

- Annual report of the Company for the year ended 31 December 2019 published on 8 April 2020 (pages 64 to 152)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0408/2020040800637.pdf

- Interim report of the Company for the six months ended 30 June 2020 published on 22 September 2020 (pages 25 to 64)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0922/2020092200472.pdf

2. STATEMENT OF INDEBTEDNESS

As at the close of business of 30 September 2020, being the latest practicable date for the purpose of ascertaining the indebtedness of the Enlarged Group prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

(a) Interest-bearing bank borrowings

	As at 30 September 2020	
	Unsecured	**Total**
	RMB'000	*RMB'000*
Bank borrowings	69,057	69,057
Analyzed into:		
Within one year	69,057	69,057

(b) Lease liabilities

As at the close of business of 30 September 2020, the Enlarged Group had the following lease liabilities which are related to properties leased by the Enlarged Group for its operational needs:

	As at 30 September 2020
	RMB'000
Lease liabilities – current	565
Lease liabilities – non-current	941
Total lease liabilities	1,506

Save as aforesaid or otherwise mentioned herein and apart from intra-group liabilities, as at the close of business of 30 September 2020, the Enlarged Group did not have any outstanding or authorised to be issued but unissued debt securities, term loans, other borrowings or borrowings or indebtedness in nature of borrowing, acceptance credits, mortgages and charges, contingent liabilities or guarantees.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present internal resources and available credit facilities of the Enlarged Group and considering the effect of the Acquisition and in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

4. NO MATERIAL ADVERSE CHANGE

So far as is known to the Directors, as at the Latest Practicable Date, the Directors confirmed that they were 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.

5. EFFECT OF THE ACQUISITION ON THE EARNINGS, ASSETS AND LIABILITIES OF THE COMPANY

Upon Completion, Yatai Heating (after the Reorganisation) will become a wholly-owned subsidiary of the Company and accordingly, the assets, liabilities and financial results of Yatai Heating will be consolidated into the financial statements of the Company. The unaudited pro forma financial information of assets and liabilities of the Enlarged Group taking into account the Acquisition and completion of the Reorganisation is set out in Appendix III to this circular.

(a) Assets and liabilities

Upon Completion, Yatai Heating (after the Reorganisation) will become a wholly-owned subsidiary of the Company. Based on the audited financial information of Yatai Heating as set out in Appendix II to this circular and the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, assuming that completion of the Acquisition and the Reorganisation had taken place on 30 June 2020, the total assets, total liabilities and net assets of the Group and the Enlarged Group are as follows:

	The Group	**The Enlarged Group**
	RMB'000	*RMB'000*
Total assets	1,873,317	1,747,954
Total liabilities	1,022,631	1,209,287
Net assets	850,686	538,667

(b) Earnings

Upon Completion, Yatai Heating (after the Reorganisation) will be accounted for as a wholly-owned subsidiary of the Company and its financial results will be consolidated in the financial statements of the Company. The Company recorded an audited profit of approximately RMB133,971,000 for the year ended 31 December 2019. Based on the audited financial results as set out in accountant's report of Yatai Heating in Appendix II to this circular, Yatai Heating recorded revenue of approximately RMB395,962,000, RMB418,908,000, RMB411,562,000 and RMB240,588,000 for the three years ended 31 December 2019 and the five months ended 31 May 2020, respectively. Yatai Heating recorded loss of approximately RMB69,234,000, RMB37,379,000 and RMB69,781,000 for the three years ended 31 December 2019, respectively and profit of approximately RMB57,652,000 for the five months ended 31 May 2020. For the three years ended 31 December 2019, Yatai Heating recorded total comprehensive loss of approximately RMB68,204,000, RMB38,409,000 and RMB69,781,000, respectively, while Yatai Heating recorded a total comprehensive income of approximately RMB57,292,000 for the five months ended 31 May 2020.

6. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The Company is a China-based company mainly engaged in heating service business. It also engages in the construction, maintenance and design services businesses. Heat supply business mainly includes provision of heat supply services within Jilin Province. Construction, maintenance and design services businesses mainly include provision of maintenance related services such as engineering construction, engineering maintenance, design, electrical appliances and instrument maintenance. The Company mainly conducts its business in the Chinese domestic market.

In 2020, while implementing stringent anti-epidemic measures amid the COVID-19 pandemic, the Group will continue to develop its heat supply business, leverage its advantages in the industrial chain, maintain its steadfast approach in leading industry development with new development concepts, focus on scientific and technological innovation, technological upgrade and clean energy development. The Group will also strive to enhance its innovation and leadership and expand its assets scale to consolidate its leading position in the industry and achieve outstanding results for the sustainable development of the Company.

(a) Prospects of the Heat Supply Business

In recent years, the PRC government has been proactively carrying out reform of the heat supply system. Large local enterprises are encouraged to facilitate the consolidation of the heat supply industry. As the largest heat supply company in Jilin Province, the Group will make full use of the service coverage in its heat supply business, facilitate industrial consolidation and expand the scale of its core businesses, improve the quality of heating and service in order to further secure its leading position in the industry.

The Group will continue to actively promote the use of clean energy for heating in order to achieve higher quality in business development. Meanwhile, the Group will continue to explore new heat supply systems, with a view to establish a new heating supply system with co-generation as the main heating source and other clean energy as complementary sources. On the basis of the current intelligent regulation and control at the primary network level, the Group will gradually realize joint control of the network and source, and gradually move towards pinpoint control and precise heat supply. The application and promotion of new energy heating technology will enable the Group to develop the most cost-competitive new energy heating model tailored to local conditions through an in-depth analysis of the cost curve of new energy heating technology, thus creating new drivers for profit growth while defending the blue sky for future generations.

The Group will increase its efforts and investment in heating-related scientific and technological innovation as well as technology research and development, encourage in-house research and development projects and apply such results into its business operation. With the use of technologies such as intelligent integrated network, 5G transmission and big data analysis, the Group will further expand the functions of its smart heating network system to be efficiently applied to each sector of operations including heat production and operation adjustment. The Group will also strive to lower its production and operation costs and increase heat utilization efficiency, thereby boosting its business performance.

Upon completion of the Acquisition, since the Enlarged Group's heat service area will be enlarged, this not only will enhance the revenue of the Enlarged Group but will also solidify the Enlarged Group's leading position in the heat supply industry in Jilin Province.

(b) Prospects of the Construction, Maintenance and Design Business

In the face of the opportunities and challenges arising from the country's ''New Infrastructure'', the Group will further enhance its independent research and development capabilities on the basis of improving the smart heating network platform and heating network interconnection and intercommunication, increase and extend the channels for promoting the construction, maintenance and design business segment, and expand the revenue-generating capability of this segment in a multi-dimensional manner. Going forward, the Group will further enhance the technology and service level of its construction, maintenance and design business. On the basis of the Group's existing businesses, the Group will enhance and increase its professional qualifications, establish a sound and comprehensive mechanism for the commercialization of its scientific and technological achievements, and promote its industrial upgrading with its existing intellectual property rights and patented technologies, so as to achieve the economic development of the Group and safeguard people's livelihood with heat supply. Meanwhile, the Group will also focus on the advancement and completion of existing projects, optimize business processes, improve service quality and build its brand reputation, laying a solid foundation for the successful completion of various tasks throughout the year and promote quality development.

The Group will also extend its market influence, broaden its customer base and raise risk prevention awareness. The Group will also capture every business development opportunity and endeavor to raise its core competitiveness so as to reward its Shareholders with excellent results.

MOORE

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大華馬施雲
會計師事務所有限公司

The Board of Directors

Jilin Province Chuncheng Heating Company Limited

Dear Sirs,

We report on the historical financial information of Changchun Yatai Heating Company Limited (the "**Target Company**") set out on pages II-4 to II-50, which comprises the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Target Company for each of the years ended 31 December 2017, 2018 and 2019 and the five months ended 31 May 2020 (the "**Relevant Periods**"), and the statements of financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 31 May 2020 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-50 forms an integral part of this report, which has been prepared for inclusion in the circular of Jilin Province Chuncheng Heating Company Limited (the "**Company**") dated 25 November 2020 (the "**Circular**") in connection with the proposed acquisition of 100% equity interest of the Target Company (the "**Proposed Acquisition**") by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target 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.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information of the Target Company is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountant's 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 accountant's 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 accountant considers internal control relevant to the Target Company's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 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 Target Company's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, 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 purposes of the accountant's report, a true and fair view of the financial position of the Target Company as at 31 December 2017, 2018 and 2019 and 31 May 2020 and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Target Company which comprises the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the five months ended 31 May 2019 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) *Engagements to Review Historical Financial Information* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

No dividends have been paid by the Target Company in respect of the Relevant Periods.

Moore Stephens CPA Limited
Certified Public Accountants

Chu Mei Yue, Michelle
Practising Certificate Number: P05826
Hong Kong

25 November 2020

I. HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

For the purpose of this report, the directors of the Target Company have prepared the financial statements of the Target Company (the "**Underlying Financial Statements**") for the Relevant Periods in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). Moore Stephens CPA Limited was engaged to audit the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Statements of comprehensive income

		Year ended 31 December			Five months ended 31 May	
		2017	**2018**	**2019**	**2019**	**2020**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue	*7*	395,962	418,908	411,562	243,527	240,588
Cost of sales	*9*	(353,586)	(382,905)	(391,515)	(192,086)	(169,368)
Gross profit		42,376	36,003	20,047	51,441	71,220
Other income and gains	*7*	13,943	15,129	11,681	1,329	8,206
Administrative expenses		(25,611)	(16,166)	(14,102)	(4,043)	(3,740)
Provision for expected credit losses		(2,960)	(2,904)	(4,207)	–	(2,171)
Research and development expenses		(14,395)	(13,576)	(13,297)	(5,540)	–
Other expenses		(4,855)	(4,984)	(3,895)	(2,777)	(861)
Finance costs	*8*	(75,585)	(51,163)	(66,925)	(19,772)	(5,724)
(LOSS)/PROFIT BEFORE TAX	*9*	(67,087)	(37,661)	(70,698)	20,638	66,930
Income tax (expense)/credit	*10*	(2,147)	282	917	(4,988)	(9,278)
(LOSS)/PROFIT FOR THE YEAR/ PERIOD		(69,234)	(37,379)	(69,781)	15,650	57,652
OTHER COMPREHENSIVE INCOME/(LOSS)						
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:						
Remeasurement of supplement benefit obligations	*23*	1,030	(1,030)	–	360	(360)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR/ PERIOD		(68,204)	(38,409)	(69,781)	16,010	57,292

Statements of financial position

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2019 RMB'000	As at 31 May 2020 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	11	170,783	153,197	140,348	130,153
Investment properties	12	–	–	8,186	8,038
Right-of-use assets	13	62,586	57,985	52,197	50,311
Deferred tax assets	14	1,773	2,055	2,972	3,392
Financial asset at fair value through profit or loss	15	50,909	51,536	52,665	–
TOTAL NON-CURRENT ASSETS		286,051	264,773	256,368	191,894
CURRENT ASSETS					
Inventories	16	48,416	3,268	18,822	761
Trade receivables	17	2,275	2,239	2,330	–
Prepayments and other receivables	18	1,258,574	1,210,505	795,281	89,403
Other current assets	19	1,967	1,221	133	12,228
Pledged bank deposits	20	110,000	–	1,000	–
Cash and cash equivalents	20	204,532	5,462	877	13,210
TOTAL CURRENT ASSETS		1,625,764	1,222,695	818,443	115,602
CURRENT LIABILITIES					
Trade payables	21	53,105	58,397	80,336	71,998
Bill payables	22	220,000	–	–	–
Other payables and accruals		9,090	10,387	6,715	7,579
Interest-bearing bank and other borrowings	22	355,444	362,001	170,499	–
Tax payable		–	–	–	9,699
Early retirement and supplemental benefit obligations	23	520	660	590	980
Deferred income	24	2,438	2,608	3,622	3,622
Contract liabilities	7	255,404	242,483	245,147	10,396
TOTAL CURRENT LIABILITIES		896,001	676,536	506,909	104,274
NET CURRENT ASSETS		729,763	546,159	311,534	11,328
TOTAL ASSETS LESS CURRENT LIABILITIES		1,015,814	810,932	567,902	203,222
NON-CURRENT LIABILITIES					
Payables for acquisition of equipment		4,521	8,166	5,372	5,372
Interest-bearing bank and other borrowings	22	748,737	586,735	416,237	–
Early retirement and supplemental benefit obligations	23	11,090	12,150	12,140	11,880
Deferred income	24	14,388	13,310	18,774	17,265
Contract liabilities	7	65,944	57,846	52,435	48,469
TOTAL NON-CURRENT LIABILITIES		844,680	678,207	504,958	82,986
NET ASSETS		171,134	132,725	62,944	120,236

		As at 31 December			As at 31 May
		2017	2018	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Equity attributable to owner of the Target Company					
Share capital	*26*	239,000	239,000	239,000	239,000
Deficits in reserves	*26*	(67,866)	(106,275)	(176,056)	(118,764)
TOTAL EQUITY		171,134	132,725	62,944	120,236

Statements of changes in equity

	Attributable to the owner of the Target Company					
	Share capital	**Capital reserve***	**Statutory reserve***	**Supplemental benefit obligations reserve***	**Accumulated loss***	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 26		*Note 26*	*Note 23*		
As at 1 January 2017	239,000	115	16,070	–	(15,847)	239,338
Loss for the year	–	–	–	–	(69,234)	(69,234)
Other comprehensive income						
Remeasurement of employee benefit obligations	–	–	–	1,030	–	1,030
Total comprehensive loss	–	–	–	1,030	(69,234)	(68,204)
As at 31 December 2017	239,000	115	16,070	1,030	(85,081)	171,134
Loss for the year	–	–	–	–	(37,379)	(37,379)
Other comprehensive loss						
Remeasurement of employee benefit obligations	–	–	–	(1,030)	–	(1,030)
Total comprehensive loss	–	–	–	(1,030)	(37,379)	(38,409)
As at 31 December 2018	239,000	115	16,070	–	(122,460)	132,725
Loss for the year	–	–	–	–	(69,781)	(69,781)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive loss	–	–	–	–	(69,781)	(69,781)
As at 31 December 2019	239,000	115	16,070	–	(192,241)	62,944
Profit for the period	–	–	–	–	57,652	57,652
Other comprehensive loss						
Remeasurement of employee benefit obligations	–	–	–	(360)	–	(360)
Total comprehensive income	–	–	–	(360)	57,652	57,292
As at 31 May 2020	239,000	115	16,070	(360)	(134,589)	120,236

	Attributable to the owner of the Target Company					
	Share capital *RMB'000* *Note 26*	**Capital reserve** *RMB'000*	**Statutory reserve** *RMB'000* *Note 26*	**Supplemental benefit obligations reserve** *RMB'000* *Note 23*	**Accumulated loss** *RMB'000*	**Total equity** *RMB'000*
(Unaudited)						
As at 1 January 2019	239,000	115	16,070	–	(122,460)	132,725
Profit for the period	–	–	–	–	15,650	15,650
Other comprehensive income	–	–	–	360	–	360
Total comprehensive income	–	–	–	360	15,650	16,010
As at 31 May 2019	239,000	115	16,070	360	(106,810)	148,735

* These reserve accounts comprise the deficits in reserves of RMB67,866,000, RMB106,275,000, RMB176,056,000 and 118,764,000 in the statements of financial position as at 31 December 2017, 2018, 2019 and 31 May 2020, respectively.

Statements of cash flows

	Notes	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Five months ended 31 May 2019 RMB'000 (Unaudited)	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
(Loss)/profit before tax		(67,087)	(37,661)	(70,698)	20,638	66,930
Adjustments for:						
Depreciation of property, plant and equipment and investment properties	*11,12*	29,857	28,162	28,237	15,949	10,343
Amortisation of right-of-use assets	*13*	4,642	4,601	4,745	2,061	1,886
Interest income	*7*	(4,537)	(5,840)	(2,516)	(708)	(5)
Finance costs	*8*	75,585	51,163	66,925	19,772	5,724
Fair value (gain)/loss on financial assets	*7*	(36)	(627)	(1,129)	425	2,665
Investment income	*7*	(1,253)	(1,002)	–	–	(3,192)
(Gain)/loss on disposal of property, plant and equipment	*9*	(540)	(1)	74	(9)	–
Loss on disposal of right-of-use assets	*9*	1,227	–	598	–	–
Write-off of property, plant and equipment	*9*	–	1,506	–	–	–
Provision for expected credit losses		2,960	2,904	4,207	–	2,171
(Increase)/decrease in inventories		(14,745)	45,148	(15,554)	3,290	18,061
(Increase)/decrease in trade receivables		(3,087)	(2,860)	(4,325)	2,129	163
(Increase)/decrease in other current assets		(773)	746	1,088	(12,359)	(12,095)
Decrease/(increase) in prepayments and other receivables		20,724	(46,836)	21,422	(56,638)	82,444
Increase/(decrease) in trade and bills payables		213,924	(214,708)	21,939	(12,431)	(8,338)
(Decrease)/increase in other payables and accruals		(12,641)	1,297	(3,672)	2,023	865
Increase/(decrease) in contract liabilities		83,290	(21,019)	(2,747)	(300,162)	(238,717)
(Decrease)/increase deferred income		(70,370)	(908)	6,478	42,294	(1,509)
(Decrease)/increase in payables for acquisition of equipment		(1,693)	3,645	(2,794)	(155)	–
(Decrease)/increase in early retirement and supplemental benefit obligations		162	170	(80)	(9,194)	(230)
Cash generated from/(used in) operations		255,609	(192,120)	52,198	(283,075)	(72,834)
Interest received		4,537	5,840	2,516	708	5
Net cash flows generated from/(used in) operating activities		260,146	(186,280)	54,714	(282,367)	(72,829)

	Notes	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Five months ended 31 May 2019 RMB'000 (Unaudited)	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(15,720)	(12,179)	(25,058)	–	–
Proceeds from disposal of items of property, plant and equipment		685	98	1,410	78	–
Proceeds from disposal of right-of-use assets		–	–	445	–	–
Proceeds from settlement of financial assets at fair value through profit or loss		–	–	–	–	53,192
(Increase)/decrease in pledged deposit		(110,000)	110,000	(1,000)	–	1,000
Decrease in amounts due from related parties		11,460	94,897	393,829	97,752	623,430
Net cash flows (used in)/generated from investing activities		(113,575)	192,816	369,626	97,830	677,622
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bank and other borrowings		1,311,386	200,000	642,400	600,000	–
Repayment of bank and other borrowings		(1,190,000)	(358,337)	(1,006,783)	(409,906)	(592,460)
Interest paid		(69,480)	(47,269)	(64,542)	(8,900)	–
Net cash flows generated from/(used in) financing activities		51,906	(205,606)	(428,925)	181,194	(592,460)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		198,477	(199,070)	(4,585)	(3,343)	12,333
Cash and cash equivalents at beginning of year/period		6,055	204,532	5,462	5,462	877
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	*20*	204,532	5,462	877	2,119	13,210

II. NOTES TO THE HISTORICAL FINANCIAL STATEMENTS OF THE TARGET COMPANY

1. CORPORATE INFORMATION

Changchun Yatai Heating Company Limited (the "**Target Company**") is a company with limited liability established in the People's Republic of China (the "**PRC**"). The registered office of the Target Company is located at Room 407, 28/F (Hong Cheng Xiyu), 998 Nanhu Avenue, Nanguan District Sub-district B, Changchun, Jilin Province, the PRC.

During the Relevant Periods, the Target Company principally engaged in heat supply, including the provision and distribution of heat and pipeline connection.

In the opinion of the directors of the Target Company, as of 31 December 2019 and 31 May 2020, the sole owner of the Target Company is 長春市熱力(集團)有限責任公司, a company established and domiciled in the PRC and wholly owned by the State-owned Assets Supervision and Administration Commission of ("**SASAC Changchun**") (長春市人民政府國有資產監督管理委員會). As of 31 December 2017, 31 December 2018 and 31 May 2019, the sole owner of the Target Company was 吉林亞泰房地產開發有限公司, a company established and domiciled in the PRC and controlled by SASAC Changchun.

2. BASIS OF PREPARATION

The Historical Financial Information have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"), which comprise all standards and interpretations approved by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rule**").

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value and presented in RMB which is the Target Company's functional currency.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Historical Financial Information, the Target Company adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 May 2020.

3. NEW AND AMENDMENTS TO IFRSS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Target Company has not adopted the following new and amendments to IFRSs and interpretations, that have been issued but not yet effective, in the Historical Financial Information:

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2021

The directors of the Target Company anticipate that the application of all other new and amendments to IFRSs and interpretations will have no material impact on the Target Company's financial statements in the foreseeable future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Target Company;

  (ii) has significant influence over the Target Company; or

  (iii) is a member of the key management personnel of the Target Company or of a shareholder of the Target Company;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Target Company are members of the same group;

  (ii) one entity is a joint venture of the other entity (or of a shareholder, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Target Company 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 Company or an entity related to the Target Company;

  (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 shareholder of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the shareholder of the Target Company.

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 and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance (including overhauling expenses), is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.3% to 7.7%
Pipeline	6%
Machinery and equipment	9.6%
Office equipment and others	19.2%
Motor vehicle	16%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each of the Relevant Periods.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties, including buildings that are held for the purpose of leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Target Company and their costs can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Target Company adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of buildings and land use rights are as follows:

	Estimated useful lives	**Estimated net residual values**	**Annual depreciation rates**
Residential units	30 years	4%	3.2%

When an investment property is transferred to owner-occupied properties, it is reclassified as a fixed asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset is reclassified as an investment property at its carrying amount at the date of the transfer. Upon the transfer, the carrying amount before transfer shall be recorded as cost after transfer.

The investment property's estimated useful life, net residual value and depreciation method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

The carrying amount of an investment property is reduced to the recoverable amount if the recoverable amount is below the carrying amount.

Leases

As Lessee

Right-of-use assets

The Target Company recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Target Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

As Lessor

When the Target Company acts as a lessor, it classifies at lease inception each of its leases as either an operating lease or a finance lease.

Leases in which the Target Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Target Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to of ownership of an underlying asset to the lessee, are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue" below.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, the contractual cash flows of the financial assets are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Target Company's business model for managing financial assets refer to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortized cost (debt instruments)

The Target Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation through arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognize the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company recognizes an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Target Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Target Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Company may also consider a financial asset to be in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Target Company chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Company's financial liabilities include trade and other payables and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortisation process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

The Target Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Company and the customer at contract inception. When the contract contains a financing component which provides the Target Company a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

1) Provision and distribution of heat

Revenue from the provision and distribution of heat is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Target Company. The revenue is measured mainly by reference to the proportion of days of provision of heat to total days of the heating period as regulated by the government.

2) Pipeline connection fee

The Target Company receives a pipeline connection fee from customers for the connection of the Target Company's main heat pipeline with residential and non-residential buildings. The pipeline connection fee is non-refundable. Revenue from the pipeline connection fee is recognised over the expected customer beneficial period for the pipeline connection.

3) Engineering construction services

Revenue from the provision of construction services is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because the Target Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognizes revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

4) Sale of goods

Revenue from the sale of industrial goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms.

Other income

Interest income is recognized using the effective interest method by applying the effective interest rate to the gross carrying amount of the financial asset.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Target Company has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Target Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Target Company performs under the contract.

Employee benefits

Employee benefits mainly include salaries, bonuses, allowances and subsidies, pension insurance, social insurance and housing funds, labor union fees, employees' education fees and other expenses related to the employees for their services. The Target Company recognizes employee benefits as liabilities during the Relevant Periods when employees render the services and allocates to the related cost of assets and expenses based on different beneficiaries.

Social pension plans

The Target Company has social pension plans for its employees arranged by local government labor and security authorities. The Target Company makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Target Company has no further obligations beyond the contributions made.

Termination and early retirement benefits

Termination and early retirement benefits are payable when employment is terminated by the Target Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Target Company recognises termination and early retirement benefits when it is demonstrably committed to termination when it has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

The termination benefits expected to be paid within one year since the end of the reporting period are classified as current liabilities.

Defined benefit plan

According to relevant local regulation, the Target Company has a defined benefit plan (i.e. supplemental heating supply allowance) to pay for heat supply and other subsidies for retired employees. The payment for heat supply will be paid monthly after the employees retired until they die.

The Target Company provides eligible employees with supplemental heating supply subsidies and other welfares, as applicable. The defined benefits are unfunded. The cost of providing benefits under the benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the defined benefit plan, comprising actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Target Company recognises the following changes in the net defined benefit obligation under ''cost of sales'' and ''administrative expenses'' in the statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

Housing fund and other social insurances

The Target Company has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Target Company makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis.

Apart from those described above, the Target Company does not have legal or constructive obligations over employee benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Target Company's Historical Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each of the Relevant Periods. Uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting periods, are described below.

Useful lives and residual value of property, plant and equipment

The Target Company determines the estimated residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, competitor actions in response to severe industry cycles, or legal or similar limits on the usage of the assets. Management will increase the depreciation charge where useful lives and residual value are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Details of property, plant and equipment are set out in Note 11 to the Historical Financial Information, respectively.

Provision for ECL on trade receivables

The Target Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Target Company's historical observed default rates. The Target Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Target Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Target Company's trade receivables is disclosed in Note 17 to the Historical Financial Information.

Impairment of non-financial assets

The Target Company assesses whether there are any indicators of impairment for non-financial assets at the end of each of the Relevant Periods. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

6. OPERATING SEGMENT INFORMATION

For management purposes, the Target Company considers over 95% of the business is primarily derived from heat supply, including the provision and distribution of heat and pipeline connection, and subject to common risk and return. Therefore, the directors of the Target Company consider that the Target Company only has one operating segment.

Management monitors the overall results and financial position of the Target Company as a whole prepared based on same accounting policies set out in Note 4 under Section II for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

The Target Company's revenues from customers are all attributed to the PRC, and the Target Company's non-current assets are all located in the PRC.

Information of major customers

In 2017, 2018 and 2019, and the five months ended 31 May 2019 and 2020, the Target Company did not have any revenue from sales to a single customer which accounted for 10% or more of the Target Company's total revenue.

7. REVENUE, OTHER INCOME AND GAINS

An analysis of the Target Company's revenue, other income and gains is as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue from contracts with customers					
Provision and distribution of heat	384,450	408,150	398,073	239,415	235,094
Pipeline connection fee	9,001	9,368	9,566	3,933	3,966
Engineering construction services	1,484	64	1,516	27	–
Sale of goods	790	1,000	1,423	–	1,410
	395,725	418,582	410,578	243,375	240,470
Revenue from other sources					
Rental income	234	326	984	152	–
Income of sales of scrap	3	–	–	–	118
Total	395,962	418,908	411,562	243,527	240,588
Other income and gains					
Bank interest income	4,537	5,840	2,516	708	5
Gains/(loss) from financial assets at fair value through profit or loss	36	627	1,129	425	(2,665)
Investment income	1,253	1,002	–	–	3,192
Government grant*	7,650	7,314	5,816	–	7,658
Others	467	346	2,220	196	16
	13,943	15,129	11,681	1,329	8,206

* RMB6,112,000, RMB4,706,000, RMB2,171,000, RMBNil and RMB6,149,000 are received and recognised during the year/period ended 31 December 2017, 2018, 2019 and 31 May 2019 and 2020, respectively. There are no unfulfilled conditions and other contingencies relating to these grants.

Revenue from contracts with customers

(i) Disaggregated revenue information

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Type of goods or services					
Heat supply segment:					
– Provision and distribution of heat	384,450	408,150	398,073	239,415	235,094
– Pipeline connection fee	9,001	9,368	9,566	3,933	3,966
	393,451	417,518	407,639	243,348	239,060
Construction, maintenance and design services segment:					
– Engineering construction	1,484	64	1,516	27	–
– Sale of goods	790	1,000	1,423	–	1,410
	2,274	1,064	2,939	27	1,410
Total	395,725	418,582	410,578	243,375	240,470
Timing of revenue recognition for contracts within the scope of IFRS 15					
Service provision delivered over time	394,935	417,582	409,155	243,375	239,060
Goods transferred at a point in time	790	1,000	1,423	–	1,410
Total	395,725	418,582	410,578	243,375	240,470

(a) Contract liabilities

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current:				
Heat supply	255,314	242,133	244,269	9,518
Rental income	90	350	878	878
	255,404	242,483	245,147	10,396
Non-current:				
Heat supply	65,944	57,846	52,435	48,469

Contract liabilities mainly include advances received for the provision and distribution of heat and pipeline connection service.

(b) *Revenue recognized in relation to contract liabilities*

The following table shows the amounts of revenue recognized in each of the Relevant Periods that were included in the contract liabilities at the beginning of the period.

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Provision and distribution of heat	237,878	245,960	232,695	232,695	234,751
Pipeline connection service	8,931	9,354	9,438	3,933	3,966
Rental income	90	90	350	146	–
	246,899	255,404	242,483	236,774	238,717

(ii) Performance obligations

The Target Company has elected the practical expedient of not disclosing the remaining performance obligation for the provision and distribution of heat because the performance obligation is part of a contract that has an original expected duration of one year or less.

8. FINANCE COSTS

An analysis of the Target Company's finance costs is as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Finance costs:					
Bond interest and charges	51,768	43,011	33,849	10,872	5,444
Interest on early retirement and supplemental benefit obligations	310	550	400	170	280
Interest on short-term bank and other borrowings	23,507	7,602	32,676	8,730	–
	75,585	51,163	66,925	19,772	5,724

9. (LOSS)/PROFIT BEFORE TAX

In addition to the charges and credits disclosed elsewhere in the notes to the Historical Financial Information, the following items have been included in arriving at (loss)/profit before tax:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Cost of heating operations	353,009	382,905	390,692	192,086	169,368
Others	577	–	823	–	–
	353,586	382,905	391,515	192,086	169,368
Employee benefit expense					
Wages, salaries and allowances	40,291	43,437	39,947	18,525	15,567
Contributions to pension plans	8,343	9,355	7,708	2,269	635
Housing funds	4,699	5,505	5,195	546	1,738
Welfare and other expenses	8,456	8,926	7,663	2,011	1,907
Service cost *(Note 23)*	160	140	180	80	80
Employee benefit expenses	61,949	67,363	60,693	23,431	19,927

Employee benefit expenses are included in "Cost of sales", "Administrative expenses" and "Research and development expenses" in the statements of comprehensive income.

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Auditor's remuneration*	–	–	90	–	–
Depreciation of property, plant and equipment and investment properties**	29,857	28,162	28,237	15,949	10,343
Amortisation of right-of-use assets *(Note 13)*	4,642	4,601	4,745	2,061	1,886
Loss/(gain) on disposal of property, plant and equipment	(540)	(1)	74	(9)	–
Loss on disposal of right-of-use assets	1,227	–	598	–	–
Write-off of property, plant and equipment	–	1,506	–	–	–

* Auditor's remuneration for the year/period ended 31 December 2017 and 2018 was borne by the former ultimate controlling party.

** The depreciation except for depreciation of right-of-use assets are included in "Cost of sales", "Administrative expenses" and "Research and development expenses" in the statements of comprehensive income.

10. INCOME TAX EXPENSE

The Target Company is subject to Enterprise Income Tax at the tax rate of 25% in 2017 and 2018.

The Target Company qualified as a high-tech enterprise starting from 2019 and enjoys a preferential tax rate of 15% for 3 years.

The Target Company's major components of income tax expense/(credit) are as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(Unaudited)**	*RMB'000*
Current income tax	–	–	–	3,124	9,698
Deferred tax charge/(credit) *(Note 14)*	2,147	(282)	(917)	1,864	(420)
Total tax charge/(credit) for the year/period	2,147	(282)	(917)	4,988	9,278

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rate for the jurisdiction in which the Target Company is domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(Unaudited)**	*RMB'000*
(Loss)/profit before tax	(67,087)	(37,661)	(70,698)	20,638	66,930
Tax at the statutory tax rate of 25%	(16,772)	(9,415)	(17,675)	5,160	16,733
Non-deductible expenses	2,281	631	1,164	1,864	–
Utilisation of tax losses not previously recognized	–	–	–	–	(762)
Tax reduction	–	–	7,070	(2,036)	(6,693)
Tax losses not recognized	16,638	8,502	8,524	–	–
	2,147	(282)	(917)	4,988	9,278

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Pipelines RMB'000	Machinery and equipment RMB'000	Office and electronic equipment RMB'000	Motor vehicles RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost:							
At 1 January 2017	31,254	239,679	261,296	1,778	5,935	694	540,636
Additions	–	1,000	3,555	93	410	10,662	15,720
Transfers	–	–	10,662	–	–	(10,662)	–
Disposals	–	–	(8,615)	–	(1,017)	(12)	(9,644)
At 31 December 2017	31,254	240,679	266,898	1,871	5,328	682	546,712
Additions	–	–	1,342	–	–	10,837	12,179
Transfers	–	1,614	9,223	–	–	(10,837)	–
Disposals	–	–	(12,281)	–	(270)	–	(12,551)
At 31 December 2018	31,254	242,293	265,182	1,871	5,058	682	546,340
Additions	–	–	2,247	64	–	22,747	25,058
Transfers	(10,946)	125	22,622	–	–	(22,747)	(10,946)
Disposals	–	–	(11,976)	–	(3,001)	(149)	(15,126)
At 31 December 2019 and 31 May 2020	20,308	242,418	278,075	1,935	2,057	533	545,326
Accumulated depreciation:							
At 1 January 2017	(11,343)	(184,705)	(149,934)	(1,139)	(5,013)	–	(352,134)
Provision	(1,006)	(8,302)	(20,182)	(162)	(205)	–	(29,857)
Disposals	–	–	6,201	–	976	–	7,177
At 31 December 2017	(12,349)	(193,007)	(163,915)	(1,301)	(4,242)	–	(374,814)
Provision	(1,004)	(7,408)	(19,387)	(156)	(207)	–	(28,162)
Disposals	–	–	9,574	–	259	–	9,833
At 31 December 2018	(13,353)	(200,415)	(173,728)	(1,457)	(4,190)	–	(393,143)
Provision	(2,150)	(7,371)	(18,388)	(132)	(196)	–	(28,237)
Transfers	2,760	–	–	–	–	–	2,760
Disposals	–	–	10,825	–	2,817	–	13,642
At 31 December 2019	(12,743)	(207,786)	(181,291)	(1,589)	(1,569)	–	(404,978)
Provision	(185)	(3,077)	(6,841)	(28)	(64)	–	(10,195)
At 31 May 2020	(12,928)	(210,863)	(188,132)	(1,617)	(1,633)	–	(415,173)
Impairment:							
At 1 January 2017	–	–	(3,437)	–	–	–	(3,437)
Disposals	–	–	2,322	–	–	–	2,322
At 31 December 2017	–	–	(1,115)	–	–	–	(1,115)
Disposals	–	–	1,115	–	–	–	1,115
At 31 December 2018 and 2019 and 31 May 2020	–	–	–	–	–	–	–
Net carrying amount:							
At 31 December 2017	18,905	47,672	101,868	570	1,086	682	170,783
At 31 December 2018	17,901	41,878	91,454	414	868	682	153,197
At 31 December 2019	7,565	34,632	96,784	346	488	533	140,348
At 31 May 2020	7,380	31,555	89,943	318	424	533	130,153

None of the Target Company's property, plant and equipment was pledged to secure the Target Company's interest-bearing bank and other borrowings as of 31 December 2017, 2018 and 2019 and 31 May 2020. As of 31 December 2017, 2018 and 2019 and 31 May 2020, all buildings had ownership certificates.

In July 2020, the Target Company signed an asset transfer agreement with its owner, 長春市熱力(集團)有限責任公司, to dispose of certain property, plant and machinery with a carrying amount of RMB59,894,000 as at 31 May 2020 to its owner by reduction in owner's capital contribution (See Note 32).

12. INVESTMENT PROPERTIES

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At the beginning of the year/period	–	–	–	10,946
Transfer	–	–	10,946	–
At the end of the year/period	–	–	10,946	10,946
Accumulated depreciation:				
At the beginning of the year/period	–	–	–	2,760
Charge for the year/period	–	–	–	148
Transfer	–	–	2,760	–
At the end of the year/period	–	–	2,760	2,908
Net book value	–	–	8,186	8,038

In the opinion of the directors of the Target Company, the fair value of the investment properties as at 31 December 2019 and 31 May 2020 amounted to RMB14,614,000 and RMB14,511,000, respectively.

13. RIGHT-OF-USE ASSETS

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At the beginning of the year/period	123,139	121,444	121,444	119,380
Disposal	(1,695)	–	(2,064)	–
At the end of the year/period	121,444	121,444	119,380	119,380
Accumulated depreciation:				
At the beginning of the year/period	54,684	58,858	63,459	67,183
Charge for the year/period	4,642	4,601	4,745	1,886
Disposal	(468)	–	(1,021)	–
At the end of the year/period	58,858	63,459	67,183	69,069
Net book value	62,586	57,985	52,197	50,311

The Target Company leased land and buildings for its operations. The lease contracts are entered into for fixed terms of 8 years to 30 years.

In July 2020, the Target Company signed an asset transfer agreement with its owner, 長春市熱力(集團)有限責任公司, to dispose of all right-of-use assets with a carrying amount of RMB50,311,000 as at 31 May 2020 to its owner by reduction in owner's capital contribution (See Note 32).

14. DEFERRED TAX ASSETS/(LIABILITIES)

	(Deferred tax liabilities) Fair value change	Deferred tax assets Provision for impairment	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2017	(218)	4,138	3,920
Deferred tax credited/(debited) to profit or loss during the year *(Note 10)*	(9)	(2,138)	(2,147)
At 31 December 2017	(227)	2,000	1,773
Deferred tax credited/(debited) to profit or loss during the year *(Note 10)*	(157)	439	282
At 31 December 2018	(384)	2,439	2,055
Deferred tax credited/(debited) to profit or loss during the year *(Note 10)*	(282)	1,199	917
At 31 December 2019	(666)	3,638	2,972
Deferred tax credited/(debited) to profit or loss during the period *(Note 10)*	666	(246)	420
At 31 May 2020	–	3,392	3,392

15. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss – Financial institution's wealth management product	50,909	51,536	52,665	–

Financial asset at fair value through profit or loss represented an investment of RMB50,000,000 in an investment product issued by a related party financial institution which has no guaranteed returns and will mature in January 2022. It was pledged for the RMB1,000,000,000 bonds (See Note 22) and was disposed of after the bonds have been early repaid in 2020. The Target Company will have returns only when the investment portfolio managed by the financial institution yields a return. If the investment portfolio suffers a loss, the Target Company will need to compensate the loss of other investors using the investment of RMB50,000,000.

16. INVENTORIES

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Coal	48,416	3,268	18,822	761

There were no pledged inventories as at 31 December 2017, 2018, 2019 and 31 May 2020.

In July 2020, the Target Company signed an asset transfer agreement with its owner, 長春市熱力(集團)有限責任公司, to dispose of all inventories with a carrying amount of RMB761,000 as at 31 May 2020 to its owner by reduction in owner's capital contribution (See Note 32).

17. TRADE RECEIVABLES

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	14,386	17,246	21,571	21,408
Less: Provision for impairment	(12,111)	(15,007)	(19,241)	(21,408)
	2,275	2,239	2,330	–

Trade receivables were unsecured and non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	2,275	2,239	2,330	–
	2,275	2,239	2,330	–

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	9,170	12,111	15,007	19,241
Impairment loss recognized	4,119	4,092	5,087	2,265
Impairment loss reversed	(1,178)	(1,196)	(853)	(98)
At the end of the year/period	12,111	15,007	19,241	21,408

Impairment under IFRS 9

The Target Company applies the simplified approach to the provision for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses on trade receivables have been grouped based on shared credit risk characteristics and the ageing.

Set out below is the information about the credit risk exposure on the Target Company's trade receivables using a provision matrix:

As at 31 December 2017	**Less than 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
Heat supply							
Expected credit loss rate	56.14%	100.00%	100.00%	100.00%	100.00%	100.00%	
Gross carrying amount *(RMB'000)*	5,187	2,753	1,686	1,044	927	2,789	14,386
Expected credit losses *(RMB'000)*	2,912	2,753	1,686	1,044	927	2,789	12,111

As at 31 December 2018	**Less than 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
Heat supply							
Expected credit loss rate	55.13%	100.00%	100.00%	100.00%	100.00%	100.00%	
Gross carrying amount *(RMB'000)*	4,990	3,057	2,753	1,686	1,044	3,716	17,246
Expected credit losses *(RMB'000)*	2,751	3,057	2,753	1,686	1,044	3,716	15,007

As at 31 December 2019	**Less than 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
Heat supply							
Expected credit loss rate	60.32%	100.00%	100.00%	100.00%	100.00%	100.00%	
Gross carrying amount *(RMB'000)*	5,872	3,443	3,057	2,753	1,686	4,760	21,571
Expected credit losses *(RMB'000)*	3,542	3,443	3,057	2,753	1,686	4,760	19,241

As at 31 May 2020	**Less than 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total**
Heat supply							
Expected credit loss rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
Gross carrying amount *(RMB'000)*	–	5,709	3,443	3,057	2,753	6,446	21,408
Expected credit losses *(RMB'000)*	–	5,709	3,443	3,057	2,753	6,446	21,408

18. PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments*	1,719	60,266	10,417	8,838
Deposits	344	343	–	–
Other receivables	1,244	1,205	1,205	1,285
Due from related parties *(Note 28(c))*	1,256,491	1,149,923	784,864	80,489
	1,259,798	1,211,737	796,486	90,612
Less: Provision for impairment	(1,224)	(1,232)	(1,205)	(1,209)
	1,258,574	1,210,505	795,281	89,403

* Prepayments mainly include the prepayment of the heat procurement.

The movements in loss allowance for impairment of prepayments and other receivables are as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	1,205	1,224	1,232	1,205
Impairment loss recognized	19	8	–	4
Impairment loss reversed	–	–	(27)	–
	1,224	1,232	1,205	1,209

Impairment under IFRS 9

Where applicable upon financial assets above, an impairment analysis is performed at the end of each of the Relevant Periods by considering the probability of default by applying a loss rate approach with reference to the historical record of the Target Company. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No significant impairment was provided during the Relevant Periods.

19. OTHER CURRENT ASSETS

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deductible value-added tax	774	2	–	12,130
Prepaid value-added tax	–	868	–	–
Prepaid land tax and property tax	1,126	351	133	78
Others	67	–	–	20
	1,967	1,221	133	12,228

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pledged bank deposits*	110,000	–	1,000	–
Cash and cash equivalents	204,532	5,462	877	13,210
	314,532	5,462	1,877	13,210
Cash and bank balances denominated in:				
– RMB	314,532	5,462	1,877	13,210

* Pledged bank deposits of approximately RMB110,000,000 was pledged as the security of the Target Company's bills payables as at 31 December 2017 and approximately RMB1,000,000 was pledged as the security of the Target Company's interest-bearing bank borrowings which has been early repaid as at 31 December 2019.

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Target Company is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An aging analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice dates, is as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	20,165	38,814	67,692	17,510
More than one year	32,940	19,583	12,644	54,488
	53,105	58,397	80,336	71,998

Trade payables are non-interest-bearing with a credit period of 90 days.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2017			As at 31 December 2018			As at 31 December 2019			As at 31 May 2020		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Current												
Bank borrowings–unsecured	4.916%	2018	200,000	4.785%	2019	200,000	–	–	–	–	–	–
Bonds–secured	5.99%	2018	155,444	5.99%	2019	162,001	5.99%	2020	170,499	–	–	–
			355,444			362,001			170,499			–
Non-current												
Bonds–secured	5.99%	2019-2022	748,737	5.99%	2020-2022	586,735	5.99%	2021-2022	416,237	–	–	–
			748,737			586,735			416,237			–
			1,104,181			948,736			586,736			–

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analyzed into:				
Within one year	355,444	362,001	170,499	–
In the second year	162,001	170,499	179,318	–
In the third to fifth years, inclusive	586,736	416,236	236,919	–
	1,104,181	948,736	586,736	–

The Target Company's interest-bearing bank and other borrowings are all with fixed interest rates.

The short-term bank loan of RMB200,000,000 was guaranteed by 吉林亞泰房地產開發有限公司, the former ultimate controlling party.

In September 2016, the Target Company issued secured bonds of RMB1,000,000,000 to a related party financial institution, with interest of 5.99% per annum and maturity dates starting from 2017 to 2022. The Target Company early repaid the bonds in 2020. The bonds were secured by future receipts of provision and distribution of heat fees from 2016 to 2023 and all of the financial assets at fair value through profit or loss (See Note 15).

The bills payable of RMB220,000,000 as at 31 December 2017 had a term of 1 year and was repaid in 2018.

23. EARLY RETIREMENT AND SUPPLEMENTAL BENEFIT OBLIGATIONS

According to relevant local regulation, as of 31 December 2017, 2018 , 2019 and 31 May 2020, the Target Company has an obligation to pay for supplemental heating supply allowance for around 680 of its employees after they retire. In addition, the Target Company was obligated to pay early retirement benefits to 13 employees.

The amounts of early retirement and supplemental benefit obligations recognized in the statements of financial position are determined as follows:

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Statement of financial position:				
Early retirement *(Note a)*				
Present value of early retirement obligations	2,810	2,820	2,580	2,490
Less: current portion	(170)	(300)	(220)	(610)
Non-current portion	2,640	2,520	2,360	1,880
Supplemental benefit obligations *(Note b)*				
Present value of supplemental benefit obligations	8,800	9,990	10,150	10,370
Less: current portion	(350)	(360)	(370)	(370)
Non-current portion	8,450	9,630	9,780	10,000
Total current portion	520	660	590	980
Total non-current portion	11,090	12,150	12,140	11,880

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Statement of other comprehensive income:					
Remeasurement of supplemental benefit obligations					
– (Gains)/losses from change in actuarial assumptions	(1,030)	1,030	–	(360)	360

The movements of early retirement and supplemental benefit obligations over the Relevant Periods are as follows:

(a) Early retirement

	31 December			31 May	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
At 1 January	2,870	2,810	2,820	2,820	2,580
Amount recognized in profit or loss for the current year/period					
– Net interest expense	(20)	180	60	30	130
Payment of benefits	(40)	(170)	(300)	(60)	(220)
At 31 December/31 May	2,810	2,820	2,580	2,790	2,490

(b) Supplemental benefit obligations

	31 December			31 May	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
At 1 January	9,610	8,800	9,990	9,990	10,150
Amount recognized in profit or loss for the current year/period					
– Service cost	160	140	180	80	80
– Net interest expense	330	370	340	140	150
Re-measurement amount recognized in other comprehensive income – actuarial (gains)/losses	(1,030)	1,030	–	(360)	360
Payment of benefits	(270)	(350)	(360)	–	(370)
At 31 December/31 May	8,800	9,990	10,150	9,850	10,370

The principal actuarial assumptions used were as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
				(Unaudited)	
Discount rate – early retirement	3.75%	3%	2.75%	3%	2%
Annual increase rate of enterprise contributions for social insurance and housing fund	8%	8%	8%	8%	8%
Discount rate – supplemental benefit obligations	4.25%	3.5%	3.5%	3.75%	3.25%
Turnover rate	1%	1%	1%	1%	1%

A sensitivity analysis has not been presented as the changes in the above assumptions will not have a significant impact on the Target Company's financial performance or financial position.

24. DEFERRED INCOME

The Target Company's deferred income represents government grants, which are related to certain property, plant and equipment.

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	9,659	16,826	15,918	22,396
Additions	8,705	1,700	10,123	–
Amortized during the year/period	(1,538)	(2,608)	(3,645)	(1,509)
At the end of year/period	16,826	15,918	22,396	20,887
Less: Portion classified as current liabilities	(2,438)	(2,608)	(3,622)	(3,622)
Non-current portion	14,388	13,310	18,774	17,265

25. NOTES TO THE STATEMENTS OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings *RMB'000*
As at 1 January 2017	977,943
Proceeds from bank and other borrowings	1,311,386
Repayment of bank and other borrowings	(1,190,000)
Interest paid	(69,480)
Changes from financing cash flows	51,906
Investment income	(1,253)
Interest expense	75,585
As at 31 December 2017	1,104,181
Proceeds from bank and other borrowings	200,000
Repayment of bank and other borrowings	(358,337)
Interest paid	(47,269)
Changes from financing cash flows	(205,605)
Investment income	(1,002)
Interest expense	51,163
As at 31 December 2018	948,736
Proceeds from bank and other borrowings	642,400
Repayment of bank and other borrowings	(1,006,783)
Interest paid	(64,542)
Changes from financing cash flows	(428,925)
Interest expense	66,925
As at 31 December 2019	586,736
Repayment of bank and other borrowings	(592,460)
Changes from financing cash flows	(592,460)
Interest expense	5,724
As at 31 May 2020	–
As at 1 January 2019	948,736
Proceeds from bank and other borrowings	600,000
Repayment of bank and other borrowings	(409,906)
Interest paid	(8,900)
Changes from financing cash flows	181,194
Interest expenses	19,772
As at 31 May 2019 (unaudited)	1,149,702

26. EQUITY ATTRIBUTABLE TO OWNERS OF THE TARGET COMPANY

(a) Share capital and capital reserve

(i) Registered and paid-in capital

The registered and paid-up capital of the Target Company is RMB239,000,000.

(b) Reserves

(i) Statutory reserve fund

In accordance with the PRC Company Law and the Target Company's articles of association, the Target Company is required to appropriate 10% of its profit after tax as determined in accordance with PRC GAAP and regulations applicable to the Target Company to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Target Company. The appropriation to the reserve must be made before any distribution of dividends to equity holders. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalized as the Target Company's share capital, provided that the remaining amount of such reserve after the capitalization shall not be less than 25% of the share capital of the Target Company.

27. COMMITMENTS AND LEASE ARRANGEMENTS

(a) Operating lease arrangements – As lessor

The Target Company leased out its investment properties under operating lease arrangements, with negotiation for a term of 5 years. As at the end of each of the Relevant Periods, the Target Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	30	30
After one year and within five years	–	–	115	103
	–	–	145	133

28. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in the Historical Financial Information, the Target Company had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Expenses paid to					
Fellow subsidiaries:					
北京亞泰飯店有限公司*	–	10	–	–	–
吉林大藥房藥業股份有限公司*	21	23	11	–	–
長春龍達賓館有限公司*	3	2	1	–	–
長春奇朔紅酒坊有限公司*	–	18	–	–	–
吉林亞泰飯店有限公司*	–	2	32	–	–
吉林亞泰國際旅行社有限公司*	38	32	–	–	–
吉林亞泰物業有限責任公司*	316	333	306	13	–
吉林亞泰建築工程有限公司*	2,270	–	1,518	–	–
吉林亞泰智能科技有限公司*	–	–	42	–	–
吉林亞泰超市有限公司*	748	484	413	255	–
亞泰電子商務有限公司*	175	166	72	–	–
Former ultimate controlling party:					
吉林亞泰(集團)股份有限公司*	5,011	–	–	–	–
	8,582	1,070	2,395	268	–
Cost of sales paid to					
Fellow subsidiaries:					
亞泰集團長春建材有限公司	16	5	74	–	–
吉林亞泰集團物資貿易有限公司	–	10	634	3	–
吉林亞泰(集團)股份有限公司 物資經銷分公司	12,562	8,435	10,516	26	–
吉林省春城熱力股份有限公司	–	44,642	134,520	76,435	66,287
吉林省長熱管網輸送有限公司	12,007	82,882	–	–	–
Owner:					
長春市熱力(集團)有限責任公司	98,891	–	–	–	–
	123,476	135,974	145,744	76,464	66,287
Rental expenses paid to					
Fellow subsidiaries:					
吉林亞泰建築工程有限公司*	571	571	571	–	–
吉林亞泰物業有限責任公司*	216	216	–	–	–
	787	787	571	–	–

During the five months ended 31 May 2020, the sole owner, 長春市熱力(集團)有限責任公司 rented office premises to the Target Company for free.

* related to former owner

(b) Other transactions with related parties:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
(i) Acquisition of construction in progress from					
Fellow subsidiaries:					
吉林亞泰集團水泥銷售有限公司*	760	–	–	–	–
吉林省熱力工程設計研究有限責任公司*	54	54	564	–	–
	814	54	564	–	–

(ii) The Target Company acquired financial assets at fair value through profit and loss of RMB50,000,000 in 2016 from a related party and it was disposed of in 2020 (See Note 15).

(iii) In September 2016, the Target Company issued secured bonds of RMB1,000,000,000 to a related party with interest of 5.99% per annum and maturity dates starting from 2017 to 2022. The Target Company early repaid the bonds in 2020 (See Note 22).

The directors of the Target Company are of the opinion that the above transactions with related parties disclosed in (a) and (b) were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions.

(c) Outstanding balances with related parties:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments and other receivables due from				
Fellow Subsidiaries:				
吉林亞泰集團物資貿易有限公司*	–	50	–	–
吉林亞泰集團水泥銷售有限公司*	760	–	–	–
吉林省長熱管網輸送有限公司	63,646	–	–	–
吉林省春城熱力股份有限公司	–	52,175	80,945	–
Former ultimate controlling party:				
吉林亞泰(集團)股份有限公司*	940,946	858,386	–	–
Owner:				
長春市熱力(集團)有限責任公司 *(Note (i))*	–	–	163,890	80,489
A related company:				
東證融匯證券資產管理有限公司	250,939	239,312	540,029	–
	1,256,291	1,149,923	784,864	80,489
Trade payables due to				
Owner:				
長春市熱力(集團)有限責任公司	23,366	5,438	–	–
Fellow Subsidiaries:				
吉林亞泰建築工程有限公司*	2,528	847	1,553	1,553
吉林亞泰(集團)股份有限公司物資經銷分公司*	–	6,908	–	–
吉林亞泰集團物資貿易有限公司*	–	10	–	–
吉林亞泰物業有限責任公司*	168	13	–	–
吉林省長熱管網輸送有限公司	–	8,517	–	–
吉林省春城熱力股份有限公司	–	13,365	–	6,896
	26,062	35,098	1,553	8,449

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables due to				
Fellow subsidiary:				
吉林省春城熱力股份有限公司	–	2,832	–	–
Owner:				
長春市熱力(集團)有限責任公司	–	–	651	651
	–	2,832	651	651

Note (i): The other receivables from 長春市熱力(集團)有限責任公司 arose from the capital management policy of the owner to manage all funds from subsidiaries centrally. The owner intends to fully settle the balance in cash prior to completion of the Proposed Acquisition.

Related party balances are unsecured, interest-free and repayable on demand, except for trade payables which are repayable within 90 days.

(d) Compensation of key management personnel of the Target Company:

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Short-term employee benefits	1,310	1,567	520	314	–

(e) Transactions with other government-related entities in the PRC

The Target Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "government-related entities"). 長春市熱力(集團)有限責任公司, the owner of the Target Company, and 吉林亞泰房地產開發有限公司, former ultimate controlling party, are owned/controlled by PRC state-owned enterprises and these government-related entities are also considered as related parties of the Target Company in this respect.

Apart from the transactions with 長春市熱力(集團)有限責任公司 and 吉林亞泰房地產開發有限公司 mentioned above, the Target Company also conducts some business activities with government-related entities in the ordinary course of business. These transactions are carried out on terms similar to those that would be entered into with non-government-related entities. Transactions with other government-related entities include but are not limited to purchase of heating resource.

The tariff of heat supply is regulated by the relevant government authorities. The Target Company prices its other services and products based on commercial negotiations. The Target Company has also established its approval processes for the provision and distribution of heat, purchase of products and services and its financing policy for borrowings. Such approval processes and financing policy do not depend on whether the counterparties are government-related entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Target Company's approval processes and financing policy, and what information would be necessary for an understanding of the potential effect of the relationships on the Historical Financial Information, the directors of the Target Company are of the opinion that further information about the following transactions that are collectively significant is required for disclosure:

(i) The Target Company deposits most of its cash in government-related financial institutions in the ordinary course of business. The interest rates of the bank deposits are regulated by the People's Bank of China.

(ii) Significant transactions with government-related entities also included a large portion of heat procurement amounting to RMB118,805,000, RMB127,295,000, RMB142,648,000, RMB81,585,000 and RMB68,732,000 in 2017, 2018 and 2019, and the five months ended 31 May 2019 and 2020, respectively.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

As at 31 December 2017

Financial assets	**Financial assets at fair value through profit or loss**	**Financial assets at amortized cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss	50,909	–	50,909
Trade receivables	–	2,275	2,275
Other receivables	–	1,193,009	1,193,009
Pledged bank deposits	–	110,000	110,000
Cash and cash equivalents	–	204,532	204,532
	50,909	1,509,816	1,560,725

Financial liabilities	**Financial liabilities at amortized cost**	**Total**
	RMB'000	*RMB'000*
Trade payables	53,105	53,105
Bill payables	220,000	220,000
Other payables	13,611	13,611
Interest-bearing bank and other borrowings	1,104,181	1,104,181
	1,390,897	1,390,897

As at 31 December 2018

Financial assets	**Financial assets at fair value through profit or loss**	**Financial assets at amortized cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss	51,536	–	51,536
Trade receivables	–	2,239	2,239
Other receivables	–	1,098,064	1,098,064
Cash and cash equivalents	–	5,462	5,462
	51,536	1,105,765	1,157,301

Financial liabilities	**Financial liabilities at amortized cost**	**Total**
	RMB'000	*RMB'000*
Trade payables	58,397	58,397
Other payables	18,553	18,553
Interest-bearing bank and other borrowings	948,736	948,736
	1,025,686	1,025,686

As at 31 December 2019

Financial assets	**Financial assets at fair value through profit or loss**	**Financial assets at amortized cost**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss	52,665	–	52,665
Trade receivables	–	2,330	2,330
Other receivables	–	703,919	703,919
Pledged bank deposits	–	1,000	1,000
Cash and cash equivalents	–	877	877
	52,665	708,126	760,791

Financial liabilities	**Financial liabilities at amortized cost**	**Total**
	RMB'000	*RMB'000*
Trade payables	80,336	80,336
Other payables	12,087	12,087
Interest-bearing bank and other borrowings	586,736	586,736
	679,159	679,159

As at 31 May 2020

Financial assets	**Financial assets at amortized cost**	**Total**
	RMB'000	*RMB'000*
Other receivables	80,565	80,565
Cash and cash equivalents	13,210	13,210
	93,775	93,775

Financial liabilities	**Financial liabilities at amortized cost**	**Total**
	RMB'000	*RMB'000*
Trade payables	71,998	71,998
Other payables	12,951	12,951
	84,949	84,949

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments and other receivables, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

At the end of each of the Relevant Periods, the finance department analyzes the movements in the values of financial instruments.

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Target Company's own non-performance risk for interest-bearing bank borrowings and other borrowings as at the end of each of the Relevant Periods was assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017				
Financial assets at fair value through profit or loss	–	–	50,909	50,909
As at 31 December 2018				
Financial assets at fair value through profit or loss	–	–	51,536	51,536
As at 31 December 2019				
Financial assets at fair value through profit or loss	–	–	52,665	52,665

The Target Company did not have any assets measured at fair value as at 31 May 2020.

The fair values of wealth management products have been estimated by the financial institution based on the net asset value of investments in the portfolio at each reporting date.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis:

	Significant unobservable input	**Range**
Wealth management product	Net asset value of underlying investments	N/A

As the changes in the unobservable input will not have a significant impact on the fair values, no sensitivity analysis has been performed.

During the years ended 31 December 2017, 2018 and 2019 and the period ended 31 May 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 for both financial assets and financial liabilities. The Target Company's policy is to recognize transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments comprise interest-bearing loans and bank borrowings and cash. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Target Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below.

(a) Interest rate risk

The Target Company's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans and bank borrowings which bear interest at fixed rates. There is no significant impact on interest rate risk.

(b) Credit risk

The Target Company is subject to minimal credit risk as customers pay heat fees in advance.

The directors of the Target Company considered that the credit risk arising from the other receivables from related parties to be low as these related parties were in strong financial position and the Target Company did not experience any default by them.

The Target Company's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit ratings.

(c) Liquidity risk

The Target Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Target Company's objective is to maintain a balance between continuity of funding and flexibility through the use of loans and bank borrowings.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

As at 31 December 2017

	On demand	Within 1 year	2 to 5 years	Total	Carrying value
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	–	273,105	–	273,105	273,105
Other payables and accruals	9,090	–	4,521	13,611	13,611
Interest-bearing bank and other borrowings	–	396,876	818,859	1,215,735	1,104,181
	9,090	669,981	823,380	1,502,451	1,390,897

As at 31 December 2018

	On demand	Within 1 year	2 to 5 years	Total	Carrying value
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	58,397	–	58,397	58,397
Other payables and accruals	10,387	–	8,166	18,553	18,553
Interest-bearing bank and other borrowings	–	394,824	624,087	1,018,911	948,736
	10,387	453,221	632,253	1,095,861	1,025,686

As at 31 December 2019

	On demand	Within 1 year	2 to 5 years	Total	Carrying value
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	80,336	–	80,336	80,336
Other payables and accruals	6,715	–	5,372	12,087	12,087
Interest-bearing bank and other borrowings	–	193,867	430,220	624,087	586,736
	6,715	274,203	435,592	716,510	679,159

As at 31 May 2020

	On demand	Within 1 year	2 to 5 years	Total	Carrying value
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	71,998	–	71,998	71,998
Other payables and accruals	7,579	–	5,372	12,951	12,951
	7,579	71,998	5,372	84,949	84,949

(d) Capital management

The primary objective of the Target Company's capital management is to ensure that it maintains strong credit rating and healthy capital ratios in order to support its business and maximize shareholders' value.

The Target Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Company may adjust the dividend payment to shareholders, or return capital to shareholders. No changes were made in the objectives, policies and processes during the years ended 31 December 2017, 2018 and 2019, and the five months ended 31 May 2020.

During the Relevant Periods, the Target Company's strategy was to maintain the net debt to total equity and net debt ratio at a healthy capital level in order to support its business. The principal strategies adopted by the Target Company include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Target Company has a reasonable level of capital to support its business.

The net debt to total equity and net debt ratios at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank and other borrowings	1,104,181	948,736	586,736	NA
Less: Cash and cash equivalents	(204,532)	(5,462)	(877)	NA
Net debt	899,649	943,274	585,859	NA
Total equity	171,134	132,725	62,944	NA
Net debt to equity ratio	5.26	7.11	9.31	NA

The Target Company did not breach any financial covenants during the financial years ended 31 December 2017, 2018 and 2019, and the five months ended 31 May 2020.

32. EVENTS AFTER THE REPORTING PERIOD

In July 2020, the Target Company signed an asset transfer agreement with its owner, 長春市熱力(集團)有限責任公司, to dispose of certain property, plant and machinery with a carrying amount of RMB59,894,000 as at 31 May 2020, right-of-use assets with a carrying amount of RMB50,311,000 as at 31 May 2020, inventories with a carrying amount of RMB761,000 as at 31 May 2020, other receivables with a carrying amount of RMB17,000 as at 31 May 2020 and other payables with a carrying amount of RMB604,000 and transfer 9 staff to its owner by reduction in owner's capital contribution of RMB110,300,000 and capital reserve of RMB79,000.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company now comprising the Target Company in respect of any period subsequent to 31 May 2020.

The information set out in this appendix does not form part of the accountant's report in respect of the historical financial information of Changchun Yatai Heating Company Limited prepared by Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, set out in Appendix II to this Circular and is included herein for the sole purpose of inclusion in this circular.

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

(1) Introduction

The unaudited pro forma statement of assets and liabilities of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") set out in section (2) below has been prepared by the Directors in accordance with paragraph 29(7) of Chapter 4 of the Listing Rules, for illustrative purpose only, to provide information about how the proposed Acquisition might have affected the financial position of the Group as if the Acquisition had been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 extracted from the Group's interim report for the six months ended 30 June 2020 dated 21 August 2020 and the financial information of the Target Company as at 31 May 2020 as set out in the accountant's report of the Target Company included in Appendix II to this circular, after making certain pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable, as further discussed in the section (2) below.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 June 2020. Furthermore, the Unaudited Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position. The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group, as extracted from the interim report of the Group for the six months ended 30 June 2020, the financial information of the Target Company, as set out in Appendix II to this circular, and other financial information included elsewhere in this circular.

(2) Unaudited pro forma statement of assets and liabilities of the enlarged group

	The Group as at 30 June 2020	The Target as at 31 May 2020	Pro forma adjustments			Enlarged Group as at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 1)*	*(Note 2a)*	*(Note 2b)*	*(Note 2c)*	*(unaudited)*
Non-Current Assets						
Property, plant and equipment	868,147	130,153	(59,894)			938,406
Investment properties	41	8,038				8,079
Intangible assets	3,620	–				3,620
Deferred tax assets	23,353	3,392				26,745
Right-of-use assets	4,520	50,311	(50,311)			4,520
Other non-current assets	1,511	–				1,511
	901,192	191,894				982,881
Current Assets						
Inventories	13,733	761	(761)			13,733
Trade and bills receivables	294,426	–				294,426
Contract assets	143,941	–				143,941
Prepayments and other receivables	12,297	89,403	(17)			101,683
Financial assets at fair value through profit or loss	50,763	–				50,763
Other current assets	13,485	12,228				25,713
Restricted deposits	2,000	–				2,000
Cash and cash equivalents	441,480	13,210		(318,376)	(3,500)	132,814
	972,125	115,602				765,073

	The Group as at 30 June 2020	The Target as at 31 May 2020	Pro forma adjustments			Enlarged Group as at 30 June 2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 1)*	*(Note 2a)*	*(Note 2b)*	*(Note 2c)*	*(unaudited)*
Current Liabilities						
Trade payables	186,712	71,998	(604)			258,106
Other payables and accruals	133,424	7,579				141,003
Interest-bearing bank and other borrowings	80,763	–				80,763
Lease liabilities	716	–				716
Tax payable	28,520	9,699				38,219
Supplemental benefit obligations	417	980				1,397
Contract liabilities	96,923	10,396				107,319
Deferred income	2,931	3,622				6,553
	530,406	104,274				634,076
Net Current Assets	441,719	11,328				130,997
Total Assets Less Current Liabilities	1,342,911	203,222				1,113,878
Non-Current Liabilities						
Payables for acquisition of equipment	–	5,372				5,372
Lease liabilities	1,057	–				1,057
Supplemental benefit obligations	9,591	11,880				21,471
Contract liabilities	441,917	48,469				490,386
Deferred income	30,525	17,265				47,790
Deferred tax liabilities	9,135	–				9,135
	492,225	82,986				575,211
Net Assets	850,686	120,236				538,667

Notes:

1. Basis of preparation

This Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 29(7) of Chapter 4 of the Listing Rules and based upon: (i) the unaudited condensed consolidated statement of financial position of the Group as of 30 June 2020, which has been extracted from the interim report of the Company for the six months ended 30 June 2020 dated 21 August 2020; and (ii) the statement of financial position of the Target Company as of 31 May 2020, which has been extracted from the accountant's report on the Target Company included in Appendix II to this circular; and adjusted in accordance with the pro forma adjustments described in Note 2 below, as if the Acquisition had been completed on 30 June 2020. This Unaudited Pro Forma Financial Information has been prepared in a manner consistent with both the format and accounting policies adopted by the Company in its unaudited interim financial statements for the six months ended 30 June 2020.

2. Notes to the pro forma adjustments

(a) In July 2020, the Target Company signed an asset transfer agreement with its owner to dispose of certain property, plant and machinery with a carrying amount of RMB59,894,000 as at 31 May 2020, right-of-use assets with a carrying amount of RMB50,311,000 as at 31 May 2020, inventories with a carrying amount of RMB761,000 as at 31 May 2020, other receivables with a carrying amount of RMB17,000 as at 31 May 2020 and accounts payable with a carrying amount of RMB604,000 and transferred 9 staff to its owner by reduction in owner's capital contribution of RMB110,300,000 and capital reserve of RMB79,000 (the "Reorganisation").

(b) Since the Company and Target Company are controlled by 長春市熱力(集團)有限責任公司, the Acquisition is considered by the Directors as a combination of entities under common control, therefore, the Pro Forma Financial Information has been prepared using principles of merger accounting..

Pursuant to the Acquisition Agreement, the Group has conditionally agreed to acquire the entire share capital of the Target Company after the Reorganisation for an aggregate consideration amounting to RMB318,376,000, all of which will be settled by cash.

Upon the completion of the Acquisition, the Target Company would become a wholly-owned subsidiary of the Company.

(c) The amount represents the estimated amounts for legal and professional fees and other expenses payable by the Group related to the Acquisition. For the purpose of the Unaudited Pro Forma Financial Information, the transaction cost is assumed to be settled by cash as at 30 June 2020.

(d) No other adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transaction of the Group entered into subsequent to 30 June 2020 and of the Target Company entered into subsequent to 31 May 2020. Unless otherwise stated, the adjustments above do not have a recurring effect.

(B) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from the reporting accountant, Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, on the unaudited pro forma financial information of the Enlarged Group as set out in this appendix and prepared, for inclusion in this circular.

MOORE

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大華馬施雲
會計師事務所有限公司

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF JILIN PROVINCE CHUNCHENG HEATING COMPANY LIMITED AND ITS SUBSIDIARIES AND CHANGCHUN YATAI HEATING COMPANY LIMITED (COLLECTIVELY REFERRED TO AS THE "ENLARGED GROUP")

The Directors

Jilin Province Chuncheng Heating Company Limited

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of Jilin Province Chuncheng Heating Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2020 (the "**Unaudited Pro Forma Financial Information**") as set out on pages III-1 to III-4 of the circular issued by the Company dated 25 November 2020 (the "**Circular**") in connection with the proposed acquisition of the entire issued share capital of Changchun Yatai Heating Company Limited (the "**Target Company**") (the "**Acquisition**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-4.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed Acquisition on the Group's financial position as at 30 June 2020 as if the Acquisition had taken place at 30 June 2020. As part of this process, information about the Group's financial position as at 30 June 2020 has been extracted by the Directors from the Company's unaudited interim financial statements included in the interim report for the six months ended 30 June 2020 extracted from the interim report of the Group which was published on 21 August 2020.

Information about the Target Company's financial position has been extracted by the Directors from the financial information of the Target Company as at 31 May 2020, on which an accountant's report has been published in Appendix II to the Circular.

DIRECTORS' RESPONSIBILITIES FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 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 (the "**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 behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Finance 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 ACCOUNTANT'S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited 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 Unaudited 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 accountant plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the proposed Acquisition on unadjusted financial information of the Group as if the proposed Acquisition 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 the proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited 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 Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the proposed Acquisition, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Enlarged Group, the proposed Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion:

(a) the Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Moore Stephens CPA Limited
Certified Public Accountants

Chu Mei Yue, Michelle
Practising Certificate Number: P05826

Hong Kong

25 November 2020

This asset appraisal report has been prepared in accordance with the asset appraisal standards in the PRC

ASSET APPRAISAL REPORT

THE VALUE OF THE ENTIRE SHAREHOLDER'S EQUITY OF CHANGCHUN YATAI HEATING COMPANY LIMITED AND THE SHAREHOLDING OF WHICH IS PROPOSED TO BE ACQUIRED BY JILIN PROVINCE CHUNCHENG HEATING COMPANY LIMITED FROM CHANGCHUN HEATING POWER (GROUP) COMPANY LIMITED

Huaya Zhengxin Ping Bao Zi [2020] No. A02-0012

Beijing Huaya Zhengxin Assets Appraisal Co., Ltd.

25 November 2020

ASSET APPRAISAL REPORT STATEMENT

I. This asset appraisal report is prepared in accordance with the Basic Guidelines on Asset Appraisal issued by the Ministry of Finance and the Code of Practice and Code of Ethics on Asset Appraisal issued by the China Appraisal Society.

II. The client or other users of the asset appraisal report shall use the asset appraisal report in accordance with the provisions of laws, administrative regulations and the scope of use set out in this asset appraisal report; the asset appraisal organization and the appraisers shall not be held responsible for the failure to use the asset appraisal report in accordance with the foregoing provisions by the client or other users of the asset appraisal report.

This asset appraisal report is intended to be used solely by the client, other users of the asset appraisal report as agreed in the asset appraisal engagement contract, and users of the asset appraisal report as stipulated by laws and administrative regulations; other than this, no other institution or individual can become the user of the asset appraisal report.

The asset appraisal organization and the asset appraisers hereby remind the users of the asset appraisal report that it is the responsibility of the users of the asset appraisal report to properly understand the appraisal conclusions, the appraisal conclusions do not represent the price that could be realized for the appraised subject and should not be considered as a guarantee of the price that could be realized for the appraised subject.

III. The asset appraisal organization and asset appraisers shall abide by laws, administrative regulations and asset appraisal standards, adhere to the principles of independence, objectivity and impartiality, and shall be responsible for the asset appraisal reports issued in accordance with law.

IV. The list of assets and liabilities involved in the appraised subject shall be declared by the client, the appraised unit and confirmed by its signature, seal or other means permitted by law; the client and other relevant parties shall be responsible for the authenticity, completeness and legality of the information provided by them according to law.

V. The asset appraisal organization and the asset appraisers have no existing or prospective interest in the appraised subject of the asset appraisal report; they have no existing or prospective interest in the relevant parties and are not biased against the relevant parties.

VI. The asset appraisers have conducted on-site investigation of the appraised subject of the asset appraisal report and the assets involved; have paid necessary attention to the legal ownership status of the appraised subject and the assets involved; has checked the legal ownership information of the appraised subject and the assets involved; have made truthful disclosure of the issues identified; and have brought them to the attention of the client and other relevant parties for perfecting the property rights to satisfy the requirement to issue an asset appraisal report.

VII. The analysis, judgment and results in the asset appraisal report issued by the asset appraisal organization are subject to the assumptions and limitations in the asset appraisal report, and the users of the asset appraisal report should pay attention to and give full consideration to the assumptions, limitations, special matter statements and their impact on the appraisal conclusions contained in the asset appraisal report.

SUMMARY OF THE ASSET APPRAISAL REPORT THE VALUE OF THE ENTIRE SHAREHOLDER'S EQUITY OF CHANGCHUN YATAI HEATING COMPANY LIMITED AND THE SHAREHOLDING OF WHICH IS PROPOSED TO BE ACQUIRED BY JILIN PROVINCE CHUNCHENG HEATING COMPANY LIMITED FROM CHANGCHUN HEATING POWER (GROUP) COMPANY LIMITED

Huaya Zhengxin Ping Bao Zi [2020] No. A02-0012

Jilin Province Chuncheng Heating Company Limited:

Beijing Huaya Zhengxin Assets Appraisal Co., Ltd. was engaged by Jilin Province Chuncheng Heating Company Limited to carry out an appraisal of the market value of the entire shareholder's equity of Changchun Yatai Heating Company Limited, the shareholding of which is proposed to be acquired by the Company from Changchun Heating Power (Group) Company Limited, as at the appraisal benchmark date under the asset-based approach and the income approach. The appraisal shall be conducted in accordance with the relevant laws, administrative regulations and asset appraisal standards with the performance of necessary appraisal procedures and on the premise of the continuing operation of the company and on the open market basis.

The appraised subject is the value of the entire shareholder's equity of Changchun Yatai Heating Company Limited as at the appraisal benchmark date.

The scope of the appraisal is all the audited assets and related liabilities upon completion of asset divestiture, including current assets, non-current assets, current liabilities and non-current liabilities, as at the appraisal benchmark date as declared by Changchun Yatai Heating Company Limited.

The appraisal benchmark date is 31 May 2020 and the value type is market value.

This appraisal adopts the appraisal results under the income approach as the final conclusion of the market value of the entire shareholder's equity of Changchun Yatai Heating Company Limited as at the appraisal benchmark date with specific appraisal conclusion are as follows:

As at the appraisal benchmark date, the book value of the total assets of the appraised unit, Changchun Yatai Heating Company Limited, was RMB196.5115 million, the book value of the total liabilities was RMB186.6552 million, the book value of net assets was RMB9.8563 million, and the appraised value of the entire shareholder's equity under the income approach was RMB318.3763 million, with an appreciation in value of RMB308.5200 million and an appreciation rate of 3,130.18%.

This appraisal report only provides value reference for the economic activities described in the appraisal report, and the validity period of the appraisal conclusions is one year from the appraisal benchmark date. If within the validity period, there is a significant change in the conditions of the assets and market conditions compared with the relevant conditions as at the appraisal benchmark date, the client shall engage the appraisal organization to perform a renewed asset appraisal engagement or re-appraisal.

Users of appraisal reports should give due consideration to the assumptions, qualifications, statements of special matters and their impact on the conclusions contained in the appraisal report.

The above information is extracted from the text of the asset appraisal report, which should be read for details of this appraisal engagement and a proper understanding of the appraisal conclusions.

TEXT OF THE ASSET APPRAISAL REPORT
THE VALUE OF THE ENTIRE SHAREHOLDER'S EQUITY OF
CHANGCHUN YATAI HEATING COMPANY LIMITED AND
THE SHAREHOLDING OF WHICH IS PROPOSED TO BE ACQUIRED BY
JILIN PROVINCE CHUNCHENG HEATING COMPANY LIMITED FROM
CHANGCHUN HEATING POWER (GROUP) COMPANY LIMITED
Huaya Zhengxin Ping Bao Zi [2020] No. A02–0012

Jilin Province Chuncheng Heating Company Limited:

Beijing Huaya Zhengxin Assets Appraisal Co., Ltd. was engaged by the Company to carry out an appraisal of the market value of the entire shareholder's equity of Changchun Yatai Heating Company Limited, the shareholding of which is proposed to be acquired by the Company from Changchun Heating Power (Group) Company Limited, as at the appraisal benchmark date under the asset-based approach and the income approach. The appraisal shall be conducted in accordance with the relevant laws, administrative regulations and asset appraisal standards with the performance of necessary appraisal procedures and on the premise of the continuing operation of the company and on the open market basis.

The status of the asset appraisal is reported as follows:

I. OVERVIEW OF THE CLIENT, THE APPRAISED UNIT AND OTHER USERS OF THE ASSET APPRAISAL REPORT AS STIPULATED IN THE ASSET APPRAISAL ENGAGEMENT CONTRACT

The client of this asset appraisal engagement is Jilin Province Chuncheng Heating Company Limited while the appraised company is Changchun Yatai Heating Company Limited.

(i) Overview of the client

Company name:	Jilin Province Chuncheng Heating Company Limited
Registered address:	No. 28, Block B Nanhu Road Community (Hongcheng Xiyu), No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province
Legal representative:	Liu Changchun
Registered capital:	466,700,000 (RMB)
Paid-in capital:	466,700,000 (RMB)
Unified social credit code:	91220101MA14W03575
Nature of enterprise:	Other limited company by shares (Listed in Hong Kong)

New energy technology development: heating production and supply; heating engineering design and installation services; contractual energy management; sales of cables, electrical equipment, household appliances, flooring, floor tiles, thermostats and heating ancillary products (projects prohibited by laws, regulations and decisions of the State Council shall not be operated, but projects not prohibited shall be approved by the relevant departments before commencement of relevant business activities).

(ii) Overview of the appraised unit

1. Basic information about the company

Company name:	Changchun Yatai Heating Company Limited (hereafter referred to as "Yatai Heating")
Registered address:	1079 Lingdong Road, Erdao District, Changchun City, Jilin Province
Legal representative:	Liu Changchun
Registered capital:	RMB239,000,000
Paid-in capital:	RMB239,000,000
Unified social credit code:	912201017024277629
Nature of enterprise:	limited liability company (natural person investment or sole proprietorship by legal person which has controlling shareholding)
Date of establishment:	30 October 1998
Operation period:	28 April 2010 to 24 October 2028
Main scope of operation:	wholesale and retail of construction materials, hardware, steel, electrical machinery and equipment; heating; mechanical and electrical installation projects, municipal public works, pipeline installation projects (projects prohibited by laws, regulations and the State Council shall not be operated).

2. Company history and development and shareholding status

Changchun Yatai Heating Company Limited was incorporated in October 1998 in Changchun City, which is a limited liability company funded by Changchun Heating Power (Group) Company Limited. The company has obtained the business license issued by Changchun Municipal Market Supervision Administration with the unified social credit code of 912201017024277629 and its registered capital is RMB239,000,000. The legal representative of the company is Liu Changchun and his address is Room 407, Block No. 28, Hongcheng Xiyu, No. 998 Nanhu Road, Nanguan District, Changchun City.

On 17 September 2008, a change in the shareholdings of Changchun Yatai Heating Company Limited took place and the shareholder was changed from Changchun Heating Power (Group) Company Limited to Jilin Yatai Real Estate Development Company Limited.

On 31 December 2019, a change in the shareholdings of Changchun Yatai Heating Company Limited took place and the shareholder was changed from Jilin Yatai Real Estate Development Company Limited to Changchun Heating Power (Group) Company Limited. Yatai Heating became a wholly-owned subsidiary of Changchun Heating Power (Group) Company Limited, the nature of the Yatai Heating changed to a wholly state-owned limited company.

As at the appraisal benchmark date, the paid-in capital of Changchun Yatai Heating Company Limited was RMB239,000,000 and the name of the shareholder, the amount and the proportion of capital contribution were as follows:

Name of shareholder, amount and proportion of capital contribution

Unit: RMB'0,000

Number	Name of shareholder	Contribution amount	Proportion of capital contribution (%)	Actual contribution	Proportion of paid-in contributions (%)
1	Changchun Heating Power (Group) Company Limited	23,900.00	100.00	23,900.00	100.00
Total		23,900.00	100.00	23,900.00	100.00

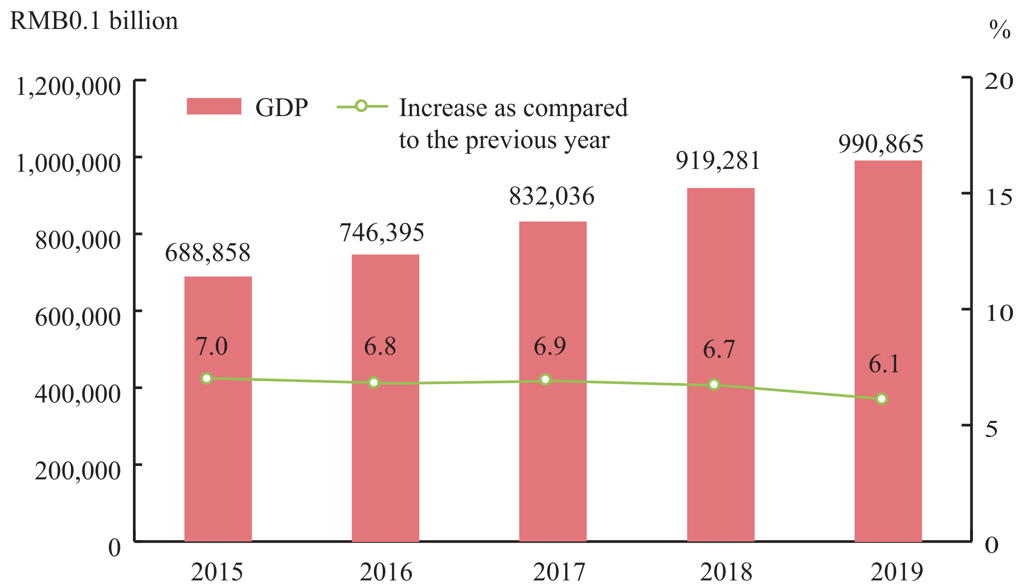
3. *The operation and management structure of the company*

As at the appraisal benchmark date, Changchun Yatai Heating Company Limited has a board of directors and a supervisory committee, under which are production department, business department, finance department, technology research and development department, Nanhu Branch, Fuan Branch, Fuhao Branch, Luyuan Branch, Nanguan Branch, and Pipeline Network Branch.

4. *Analysis of macro and regional economic factors*

According to the Statistical Bulletin on National Economic and Social Development in 2019, the annual gross domestic product in 2019 was RMB99,086.500 billion, increased by 6.1% as compared to the previous year. Of which, the value-added of the primary sector was RMB7,046.700 billion, increased by 3.1%; the value-added of the secondary sector was RMB38,616.500 billion, increased by 5.7%; and the value-added of the tertiary sector was RMB53,423.300 billion, increased by 6.9%. The proportion of value-added of primary, secondary and tertiary sectors to GDP was 7.1%, 39.0% and 53.9% respectively. The contribution of final consumption expenditure to the growth of GDP for the year was 57.8%, the contribution of gross capital formation was 31.2%, and the contribution of net exports of goods and services was 11.0%. GDP per capita was RMB70,892.00, increased by 5.7% as compared to the previous year. Gross national income was RMB98,845.800 billion, increased by 6.2% as compared to the previous year. The national energy consumption per RMB10,000 of GDP decreased by 2.6% as compared to the previous year. Total labor productivity per capita was RMB115,009.00, increased by 6.2% as compared to the previous year.

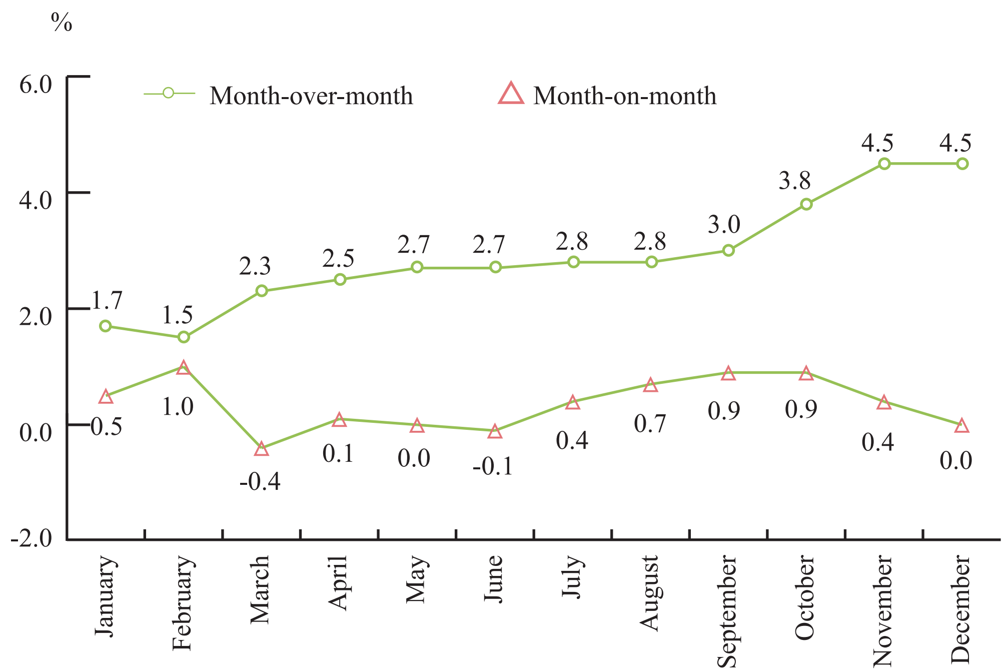
GDP and its growth rate, 2015-2019



Source of data: National Bureau of Statistics

The annual consumer price rose by 2.9% as compared to the previous year. Output prices of industrial producers fell by 0.3%. Input prices of industrial producers fell by 0.7%. The price of investment in fixed assets rose by 2.6%.

Movement of monthly consumer price in 2019



Source of data: National Bureau of Statistics

Consumer price in 2019 as compared to the previous year

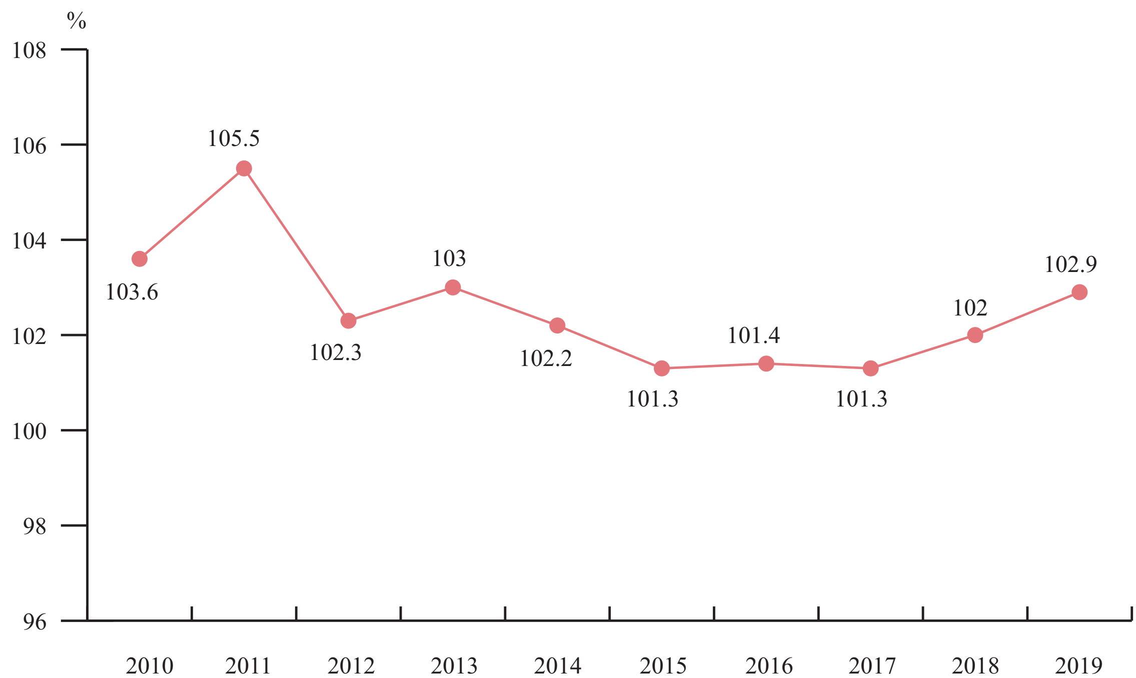
Indicators[1]	**Nationwide** (%)	*Urban* (%)	*Rural* (%)
Consumer price	2.9	2.8	3.2
Of which: Food, tobacco and alcohol	7.0	6.7	7.9
Clothing	1.6	1.7	1.2
Residence	1.4	1.3	1.5
Household goods and services	0.9	0.9	0.8
Transportation and communications	-1.7	-1.8	-1.4
Education, culture and entertainment	2.2	2.3	1.9
Healthcare	2.4	2.5	2.1
Other supplies and services	3.4	3.5	3.1

Source of data: National Bureau of Statistics

According to the Statistical Bulletin on National Economic and Social Development of Changchun City in 2019, Changchun City achieved a gross regional product of RMB590.410 billion in 2019, increased by 3.0% as compared to the previous year at comparable prices. Of which, the value-added of primary sector was RMB34.810 billion, increased by 2.1% as compared to the previous year; the value-added of secondary sector was RMB249.540 billion, increased by 5.3%; and the value-added of tertiary sector was RMB306.060 billion, increased by 1.0%. The thrice industrial structure were 5.9:42.3:51.8, with contribution rates to the economic growth of 4.1%, 79.8% and 16.1% respectively. The gross regional product per capita reached RMB78,456.00 (calculated on the basis of the average annual household size), representing an increase of 2.6% as compared to the previous year, equivalent to US$11,246.00.

The consumer price index of the city rose by 2.9% year-on-year, the increase was enlarged by 0.9 percentage point as compared to the previous year. In respect of the price movements of all kinds of goods and services, food, tobacco and alcohol prices rose by 7.4%, clothing prices rose by 2.2%, residence prices rose by 2.8%, household goods and services prices rose by 1.5%, transportation and communication prices fell by 4.4%, education, culture and entertainment prices rose by 2.1%, healthcare prices rose by 1.2%, other supplies and services prices rose by 4.2%.

Total consumer price index



Source of data: Changchun Bureau of Statistics

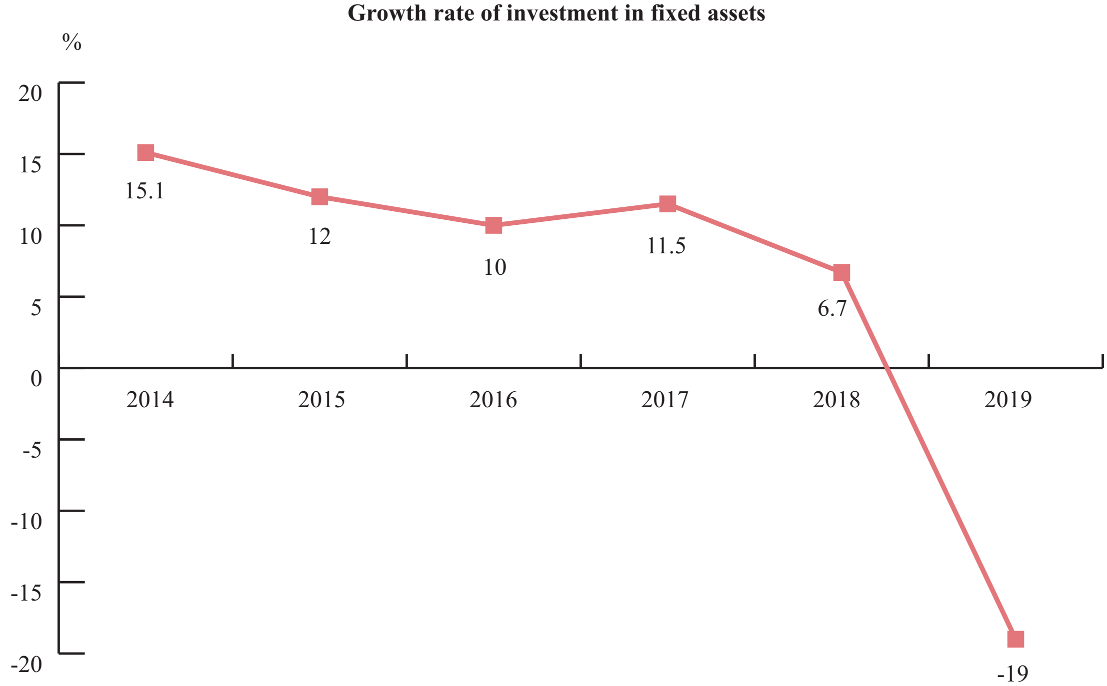
Output prices of industrial producers fell by 0.5% year-on-year, the decrease was enlarged by 1.99 percentage points over the previous year. Of which, prices of production information fell by 1.1%, while prices of information of lifestyle fell by 0.1%; prices of light industrial products rose by 4.9%, while prices of heavy industrial products fell by 1.5%.

Changchun city's value-added of industries above designated size increased by 6.2% year-on-year. The gross output value of industries above designated size increased by 1.5% year-on-year. By light and heavy industries, the total output value of light industries decreased by 11.5% while the total output value of heavy industries increased by 2.9%. By economic type, the total output value of state-owned enterprises increased by 1.7%; the total output value of collective enterprises decreased by 23.7%; the total output value of joint-stock cooperative enterprises decreased by 27.6%; the total output value of joint-stock enterprises increased by 2.3%; the total output value of foreign investors, Hong Kong, Macao and Taiwan-invested enterprises remained unchanged from last year; the total output value of enterprises of other economic types decreased by 65.9%.

Among the seven key industries, the total output value of the automobile manufacturing industry increased by 3.9%; the total output value of the agricultural and food processing industry decreased by 14.4%; the total output value of the biological and pharmaceutical industry increased by 4.7%; the total output value of the optical and electronic information industry decreased by 15.3%; the total output value of the building materials industry decreased by 6.2%; the total output value of the energy industry increased by 3.4%; and the total output value of the equipment manufacturing industry decreased by 1.2%. The top 30 key industrial enterprises in terms of output value accounted for 79.4% of industries above designated size.

Changchun city's investment in fixed assets fell by 19%. Of which, investment in real estate development increased by 12.6%. The utilization rate of fixed assets delivered was 32.1%, decreased by 6.20 percentage points over the previous year. The housing area completion rate was 12.4%, decreased by 2.70 percentage points over the previous year.

Growth rate of investment in fixed assets



Source of data: Changchun Bureau of Statistics

In terms of completed investment in various industries, primary sector investment fell by 66.3%, secondary sector investment fell by 36.7%, and tertiary sector investment fell by 12.3%. In terms of the economic structure of the investors, investment by the state-owned economy fell by 9%; investment by the non-state economy fell by 25.3%, accounting for 56.7% of investment in fixed assets. Private investment decreased by 28.7%. The city's industrial investment fell by 36.6%.

Changchun city's commercial housing construction area was 75,518,000 square meters, increased by 4.6% over the previous year. The completed area of commercial housing was 9,244,000 square meters, decreased by 15%. The area of commercial housing sold was 13,424,000 square meters, increased by 4.2%. The sales of commercial housing was RMB117.83 billion, increased by 10.9%.

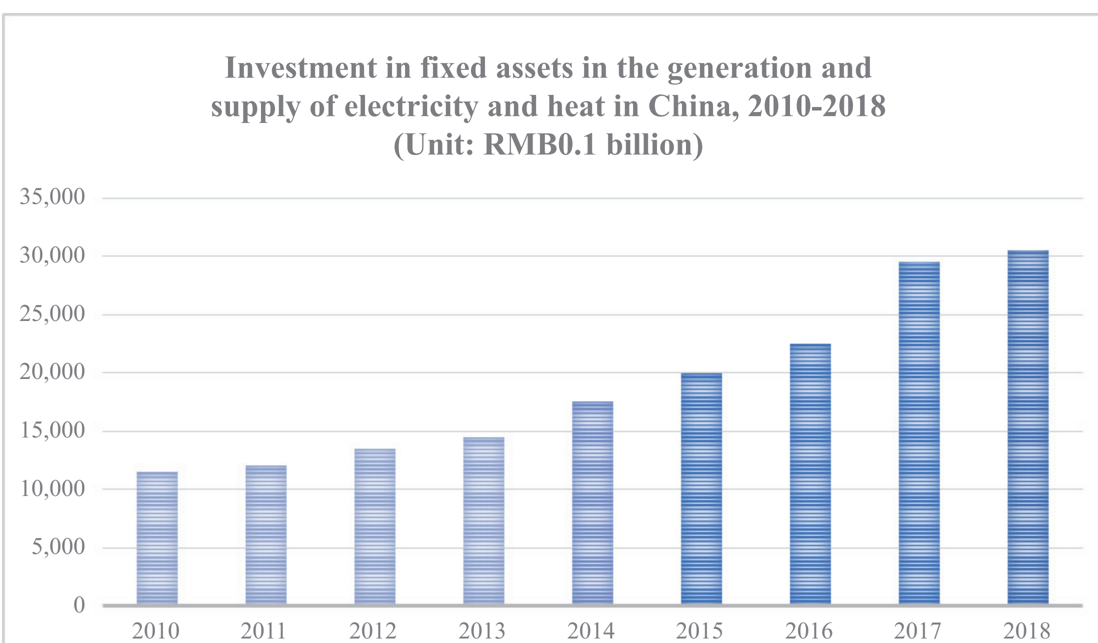
Changchun city's second-hand housing transactions covered 90,000 units, with a transaction area of 7,765,000 square meters, decreased by 7.6% over the previous year. Of which: 86,000 residential units transacted with a transaction area of 7,083,000 square meters, decreased by 10% over the previous year.

The city has completed 72.50 kilometers of new and expanded roads, with the city's total road area reached 84,671,000 square meters and road length reached 4,243.70 kilometers.

The daily comprehensive production capacity of Changchun city's public water plants was 1,394,000 cubic meters per day and the population using the public water reached 4,815,000. The city's total natural gas supply reached 977,529,000 cubic meters; the total liquefied petroleum gas supply reached 48,000 tons; the number of natural gas and liquefied petroleum gas households reached 2,344,000. The city's centralized heat supply area reached 288,190,000 square meters. The green area of the city's parks reached 3,965.00 hectares (urban areas and development zones), and the greening coverage of built-up areas reached 21,534.40 hectares, with the greening coverage of built-up areas reaching 41%.

5. Analysis of the current development of the industry and prospects for development

Residents with more urgent winter heating demand in China are mainly concentrated in the northern region, the centralized heating method of constructing centralized heating sources in industrial production areas and urban residential areas is widely adopted. The following is an analysis of the current development of the heating industry.



Source of data: National Bureau of Statistics

In recent years, with the promotion of energy conservation and emission reduction policies to eliminate outdated production capacity in the country, local governments at all levels sped up the pace of removal of boilers which are characterized by high energy consumption, high pollution and low thermal efficiency. According to the Energy Conservation and Environmental Protection Comprehensive Upgrade Project Implementation Plan for Coal-fired Boilers jointly issued by seven ministries and commissions including the National Development and Reform Commission, it is instrumental to accelerate the elimination of small scattered coal-fired boilers and the implementation of urban centralized heating.

The upstream sector of the heating industry is the energy sector, i.e., the energy required for heat production. At present, coal and natural gas are the main energy used for heat production, and downstream sector of urban heating are residential, industrial, commercial and other end-users of heating.

At present, most of the application terminals of the centralized heating system in China's civil heating are not set up with metering devices, or the metering mechanism is unsound, which restricts the improvement of heating efficiency and causes energy waste. With technological progress and business model innovation, it is expected that the heat consumption of residential heating in the future will be developed in the direction of intensification and intellectualization, and at the same time it will maintain a relatively rapid growth, and the proportion of the total heat consumption in the country will increase.

China has a huge potential demand for centralized heat supply, and the centralized heat supply industry has broad prospects for development. Currently, the heating industry is in the stage of institutional reform, equipment updates, technological progress, the process of market-oriented development accelerated in the municipal public sector with foreign capital, private and other economic components have entered the heating market, competition in the heating market is increasingly fierce.

Commercialization, socialization and marketization are the main trends of urban heating in the future. Scattered heat supply will be replaced by centralized heat supply, and unit self-heat supply will be replaced by socialized heat supply. As an important force in the heating industry, the number of private and foreign-funded heating enterprises will increase, and they will also bear the important responsibility of stabilizing the society and people's livelihood while pursuing economic benefits.

Cogeneration units with high thermal efficiency, energy saving and environmental protection features represent the major development direction of urban heating technology, large regional heating boilers will become an important supplement to centralized heating, and decentralized heating boilers will be eliminated. In the future, urban heating will utilise natural gas as the main energy source, with other clean energy sources as supplemental energy source, and the use of coal will be gradually withdrawn from urban heating.

6. Situation of Changchun city's heating industry

The heating industry in Changchun city has been developed over the years on the basis of decentralized, self-built and self-managed heating, and has developed a heating pattern based on cogeneration and large centralized regional boiler rooms, supplemented by other clean energy sources. By the 2019–2020 heating period, the city's total on-grid heating areas reached 279,200,000 square meters (excluding Shuangyang and Jiutai), with actual bolt-on areas of 234,430,000 square meters. Of the total on-grid areas, cogeneration heating areas amounted to 149,490,000 square meters, accounting for 53.6%; regional boiler rooms heating areas amounted to 117,120,000 square meters, accounting for

41.9%; other biomass, natural gas, electricity, sewage sources and other clean energy heating areas amounted to 12,590,000 square meters, accounting for 4.5%. There are 8 power plants of various types and 84 large regional boilers rooms. The city's heating pipeline network was branched and distributed with the heat source as the center, and the total length of the existing pipeline network is 11,178.00 km, of which 2,993.00 km is primary network and 8,185 km is secondary network. At present, there are 73 heating enterprises in the city, including 51 coal-fired heating enterprises and 22 clean heating enterprises. There are 18 state-owned (including controlling and non-controlling shareholding) enterprises and 55 private enterprises. The heating area in Changchun city is growing at a rate of 17,000,000 square meters per annum, and the growth of heating areas is mainly concentrated in the new urban area outside the city ring roads, with the central urban areas accounting for only 4.1% of the total growth, and the overall on-grid areas of the top six of these 73 heating enterprises are of 165,250,000 square meters, accounting for 78.6% of the entire Changchun city heating market. Yatai Heating's existing heating areas are of 16,200,000 square meters, ranking fifth in the industry, with a market share of 7.7%.

A variety of ownership of heating enterprises co-exist in Changchun city, including 1 state-owned enterprise, 3 municipal state-owned enterprises, 1 private enterprise and 1 mixed-ownership enterprise, i.e. 6 enterprises in total. The details are shown in the following table:

Name of heating companies	**Ranking in heating industry**	**Area of heat supply on the grid**	**Share in Changchun heating market**
Changchun Heating Power (Group) Company Limited ("Changre Group")	1	51.00 million square meters	24.20%
Datang Changchun Heating Company Limited ("Datang Heating")	2	32.00 million square meters	15.20%
Jilin Tongxin Heating Group Company Limited ("Tongxin Heating")	3	27.05 million square meters	12.90%
Changchun Heating Company Limited ("Heating Company")	4	25.00 million square meters	11.90%
Changchun Yatai Heating Company Limited ("Yatai Heating")	5	16.20 million square meters	7.70%
Changchun Jingkai (Group) Company Limited ("Jingkai Heating")	6	14.00 million square meters	6.60%

In 2019, there were 279 million square meters of on-grid heating area in Changchun city (based on the notice of the Changchun Urban and Rural Construction Committee on the issuance of the Winter Utility Service Guarantee Work Plan for Urban Areas) and the heating area in Changchun city will grow at an annual rate of 9.3%.

Changchun city now has a population of 7,650,000, the total area of the heating market is 279,000,000 square meters, with 73 heating enterprises, including 6 enterprises with the heating area of over 14,000,000 square meters. In the current heating area, the following heating enterprises coexist with Yatai Heating are: Changre Group, Datang Heating, Tongxin Heating, Heating Company and Jingkai

Heating. The heating networks of various heating enterprises are crisscrossed in the heat supply area, with each heating spot located close to each other and market competition is becoming increasingly fierce.

7. Description of the appraised unit

Changchun Yatai Heating Company Limited is the vice chairman unit of Jilin Province City Heating Association. It was established in 1998 with a registered capital of RMB239 million, and is a wholly-owned subsidiary of Changchun Heating Power (Group) Company Limited. The principal business of the company is urban heating. It is a specialized heat supply company in Changchun and has obtained the urban heating business license. The company has five heat supply branches, with a total heat supply area of 16,200,000 square meters in Chaoyang District, Nanguan District, Erdao District, Luyuan District and Automobile Industry Development Zone of Changchun city, and is responsible for the winter heat supply for nearly 152,000 residents in Changchun city's institutions (groups), schools, enterprises and institutions, ranking fifth in the comprehensive strength of the heat supply industry in Changchun city.

Changchun Yatai Heating Company Limited has certain technological advantages in urban heating, more than 80% of the company's heating area has been connected to the cogeneration heat supply pipeline network, and the remaining area will be served by the procurement of coal-fired boiler heat sources. According to its plan, the company's heating areas in 2024 will be fully connected to the network. All the heat transfer stations in the primary and secondary networks of the company's heat supply have been fully automated and controlled, and intelligent heating has also been successfully adopted in some communities and all the peak heat sources invested in the renovation and construction in 2019 have adopted the national ultra-low emission standards, allowing the company to become the first enterprise to achieve ultra-low emission in the heating industry in Changchun. The enterprise has a professional management team and technical team and the company was awarded the qualification of national high-tech enterprise in 2019.

8. Favorable and unfavorable factors for corporate development

A. Analysis of strengths

Yatai Heating has a professional team with technology expertise which can provide technical support for the subsequent development of the company.

Yatai Heating has developed stable customer resources over the years.

The parent company of the company is Changchun Heating Power (Group) Company Limited, which is a state-owned enterprise wholly owned by the Changchun municipal government. The parent company can provide strong regional, market operation, policy support, personnel and capital support.

B. Analysis of weakness

Yatai Heating has a relatively straightforward business model. Its development is mainly focused on the central area of Changchun city and subject to the government's control over heat supply area, with limited space for future growth of heating areas.

The development in the region is constrained by upstream enterprises, that is mainly reflected in the fact that the heating branches, which made use of cogeneration as a heat source, are subject to the flow control by Changre Group and Datang Heating.

Due to the saturation of the central city construction by real estate developers, the annual increase of new heating users showed a trend of deviating from the existing area and expanding to the city peripheral area, where the company is facing the issue of lack of long-term layout of heat sources.

9. Business risks and countermeasures

A. Risk exposure of the company:

a. The company's development is largely subject to the upstream enterprises (Changre, Datang).

b. The construction of peak-shaving boiler rooms has not been implemented which restrained the development of the company.

c. Limited supply of heat sources in the region and intense competition in the market.

B. Company's strategies to mitigate risks:

a. To strengthen management, establish brand awareness, improve the quality of heat supply and enhance the service standard. Specific measures include focusing on equipment maintenance to ensure the quality and safety of heat supply; strengthening pipeline network regulation to ensure the balance and standard of heat supply.

b. To protect the heat source, increase the heating area and coordinate with the government to gradually integrate the boiler heating areas such as Fuhao Garden into the cogeneration heat supply networks according to the plan.

c. Strengthen communication and coordination to gain government support.

10. Financial positions and operating performance

The appraisal benchmark date of the engagement is 31 May 2020 and the balance sheet of the appraised unit as at the year-ends of the previous three years and the appraisal benchmark date is as follows:

Balance sheet status for the previous three years and the latest financial period

Unit: RMB

Number	Items	2017.12.31	2018.12.31	2019.12.31	2020.5.31
1	Current assets	1,625,763,779.75	1,222,694,105.93	818,443,113.96	114,822,222.39
2	Non-current assets	286,050,765.96	264,773,073.16	256,366,548.77	81,689,332.95
3	Long term receivables	50,908,610.88	51,536,085.10	52,665,407.00	–
4	Investment properties	–	–	8,185,302.86	8,037,537.51
5	Fixed assets	170,100,453.80	152,513,963.25	139,815,081.98	69,726,357.62
6	Construction in progress	682,489.78	682,489.78	532,988.53	532,988.53
7	Deferred income tax assets	1,773,032.00	2,055,324.37	2,971,916.12	3,392,449.29
8	Other non-current assets	62,586,179.50	57,985,210.66	52,195,852.28	–
9	**Total assets**	1,911,814,545.71	1,487,467,179.09	1,074,809,662.73	196,511,555.34
10	Current liabilities	991,496,387.51	753,847,247.92	876,436,262.35	103,666,797.60
11	Non-current liabilities	749,184,130.10	600,894,955.07	135,429,511.73	82,988,374.05
12	**Total liabilities**	1,740,680,517.61	1,354,742,202.99	1,011,865,774.08	186,655,171.65
13	**Owner's equity**	171,134,028.10	132,724,976.10	62,943,888.65	9,856,383.69

The appraised unit's statement of operation for the previous three years

Unit: RMB

Items	2017	2018	2019	January-May 2020
Operating revenue	395,962,490.33	418,908,323.13	411,562,045.95	240,587,883.60
Operating costs	353,586,341.56	382,905,077.35	391,515,355.15	169,368,331.69
Gross profit	42,376,148.77	36,003,245.78	20,046,690.80	71,219,551.91
Total profit	-73,329,512.80	-40,967,667.31	-74,701,366.58	66,815,407.97
Income tax expense	2,147,189.85	-282,292.37	-916,591.75	9,278,734.58
Net profit	-69,233,870.83	-37,379,052.00	-69,781,087.45	57,651,679.99

The accounting statements of the appraised enterprise for the years 2017, 2018, 2019 and the appraisal benchmark date were audited by Dahua Certified Public Accountants (Special General Partnership) and an unqualified opinion has been issued with the number of the auditors' report is Da Hua Shen Zi [2020] No. 130317.

11. *Significant accounting policies adopted*

(1) *Property, plant and equipment*

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance (including overhauling expenses), is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, Yatai Heating recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.3% to 7.7%
Pipeline	6%
Machinery and equipment	9.6%
Office equipment and others	19.2%
Motor vehicle	16%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(2) Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which Yatai Heating expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which Yatai Heating will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between Yatai Heating and the customer at contract inception. When the contract contains a financing component which provides Yatai Heating a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Provision and distribution of heat

Revenue from the provision and distribution of heat is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by Yatai Heating. The revenue is measured mainly by reference to the proportion of days of provision of heat to total days of the heating period as regulated by the government.

Pipeline connection fee

Yatai Heating receives a pipeline connection fee from customers for the connection of Yatai Heating's main heat pipeline with customers' residential households. The pipeline connection fee is non-refundable and represents an advance payment for future service of the provision of heat. Revenue from the pipeline connection fee is recognized over the expected customer beneficial period for the pipeline connection.

Engineering construction and maintenance services

Revenue from the provision of construction services is recognized over time, using an input method to measure progress towards complete satisfaction of the service, because Yatai Heating's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognizes revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Sale of goods

Revenue from the sale of industrial goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(3) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which Yatai Heating operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

The carrying amount of deferred tax assets is reviewed the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Yatai Heating offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(4) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

(iii) Relationship between the client and the appraised unit

Both the client, i.e. Jilin Province Chuncheng Heating Company Limited, and the appraised unit, i.e. Changchun Yatai Heating Company Limited, are majority owned subsidiaries of Changchun Heating Power (Group) Company Limited.

(iv) Profile of other users of the asset appraisal report as agreed in the appraisal engagement contract

Other users of the asset appraisal report agreed in the asset appraisal engagement contract are the regulatory authorities and administrative departments in charge of changes in industrial and commercial particulars which would receive relevant filings in accordance with the relevant provisions on the administration of state-owned assets.

This asset appraisal report is intended to be used solely by the client, i.e. Jilin Province Chuncheng Heating Company Limited, other users of the asset appraisal report as agreed in the asset appraisal engagement contract, and other users of the asset appraisal report as stipulated by laws and administrative regulations, apart from the abovementioned, other institutions and individuals cannot become the users of the asset appraisal report.

II. PURPOSE OF THE APPRAISAL

Jilin Province Chuncheng Heating Company Limited intends to acquire the equity interests of Changchun Yatai Heating Company Limited held by Changchun Heating Power (Group) Company Limited. To this end, the market value of the entire shareholder's equity of Changchun Yatai Heating Company Limited as at the appraisal benchmark date is required to be appraised so as to provide a value reference for the above economic activities.

III. SUBJECT AND SCOPE OF THE APPRAISAL

(i) Subject of the appraisal

According to the purpose of this appraisal, the appraised subject is the value of the entire shareholder's equity of Changchun Yatai Heating Company Limited as at the appraisal benchmark date.

(ii) Scope of the appraisal

The scope of the appraisal is all the audited assets and related liabilities upon asset divestiture of Changchun Yatai Heating Company Limited as at the appraisal benchmark date, specifically including: current assets, non-current assets, current liabilities and non-current liabilities. The carrying value of total assets is RMB196,511,555.34, the carrying value of total liabilities is RMB186,655,171.65 and the carrying value of net assets is RMB9,856,383.69. The carrying amounts of various types of assets and liabilities are as follows:

Unit: RMB

Number	Items	2020.5.31
1	Current assets	114,822,222.39
2	Non-current assets	81,689,332.95
3	Long term receivables	–
4	Investment properties	8,037,537.51
5	Fixed assets	69,726,357.62
6	Construction in progress	532,988.53
7	Deferred income tax assets	3,392,449.29
8	Other non-current assets	–
9	**Total assets**	196,511,555.34
10	Current liabilities	103,666,797.60
11	Non-current liabilities	82,988,374.05
12	**Total liabilities**	186,655,171.65
13	**Owner's equity**	9,856,383.69

The book value of assets and liabilities as at the appraisal benchmark date of the above-mentioned appraised unit has been audited by Da Hua Certified Public Accountants (Special General Partnership) and an unqualified opinion has been issued with the number of the auditors' report is Da Hua Shen Zi [2020] No. 130317.

The subject and scope of the appraisal commissioned is consistent with the subject and scope of the appraisal involved in this economic activity.

According to the Agreement for the Transfer of Certain Assets of Changchun Yatai Heating Company Limited to Changchun Heating Power (Group) Company Limited for Nil Consideration dated 30 July 2020, certain assets of Changchun Yatai Heating Company Limited would be transferred to Changchun Heating Power (Group) Company Limited. The assets to be transferred include coal-fired boiler facilities, certain housing and buildings, land use rights, coal raw materials, etc. and the remaining assets upon the transfer are mainly heating networks and related assets.

The physical assets included in the scope of this asset appraisal are mainly the remaining investment properties and fixed assets and project materials upon the transfer.

1. *Investment properties*

The investment properties mainly consisted of three commercial properties with Changchun Yatai Heating Company Limited being the owner as stated in the respective ownership certificate and were mainly used for leasing with a book value of RMB8,037,537.51, details of which are as follows:

Number	Number of ownership certificate	Name of the building	Structure	Year of completion	Gross floor area m^2	Book value
1	Changfang Quan Zi No. 5120003344	Unit 101, 7#1, Oriental Garden (東方嘉園7#1單元101)	Framing	2006-10-31	630.38	1,416,292.22
2	Changfang Quan Zi No. 4120002701	Room 103, Block 7, Sakura Garden (櫻花苑7棟103房)	Framing	2012	300.27	3,779,558.86
3	Changfang Quan Zi No. 4120002702	Room 104, Block 7, Sakura Garden (櫻花苑7棟104房)	Framing	2012	225.76	2,841,686.43

2. *Fixed assets*

Fixed assets are mainly structures, heating pipelines network, machinery and equipment, vehicles, electronic equipment. The original book value of fixed assets totaled RMB365,740,426.85, and the net book value totaled RMB69,726,357.62.

(1) A total of 11 structures, with an original book value of RMB1,442,782.06 and a net book value of RMB575,604.12, mainly roads, fences, street lights, etc. built by the branch companies.

(2) There are 210 heating pipelines with an original book value of RMB242,418,193.64 and a net book value of RMB31,554,885.41, mainly distributed in Chaoyang District, Nanguan District, Erdao District, Luyuan District and Automobile Industrial Development Zone of Changchun City, with a total heating area of approximately 16.20 million square meters.

(3) 4,428 items of machinery and equipment in total, with an original book value of RMB118,633,463.46 and a net book value of RMB36,938,433.45, mainly including circulating pumps, flow meters, heat exchangers, inverter cabinets and other equipment supporting the heat supply pipeline network.

(4) There were 16 vehicles with an original book value of RMB2,057,311.63 and a net book value of RMB424,460.44, mainly dump trucks, light trucks, sedans and excavators.

(5) 254 items of electronic equipment in total, with an original book value of RMB1,188,676.06 and a net book value of RMB232,974.20, mainly office equipment such as air conditioners, printers, copiers and computers.

According to the site survey, the above equipment is in normal maintenance condition and can be used normally.

3. Project materials

Project materials are mainly spare parts for the company's daily pipeline network maintenance inventory, mainly steel, valves, pipe fittings and other spare parts, with a book value of RMB532,988.53.

(iii) Types and quantities of off-balance sheet assets declared by the company

Assets included in the scope of the appraisal as reported by the company are on-balance sheet assets.

(iv) Reference to the type, quantity, and carrying amount of assets involved in the conclusion of the report issued by other institutions

The book values of the assets and liabilities as at the benchmark date in this appraisal report are the results of the audit report of Da Hua Certified Public Accountants (Special General Partnership). Other than this, there is no reference to the contents of the reports issued by other institutions.

IV. TYPES OF VALUES

Based on the purpose of this appraisal, the type of value of the appraised subject is determined to be market value.

Market value is the estimated amount by which a willing buyer and a willing seller, each acting rationally and without any compulsion, would have appraised the appraised subject in an arm's length transaction as at the date of the appraisal.

V. APPRAISAL BENCHMARK DATE

The benchmark date for the appraisal is 31 May 2020.

The appraisal benchmark date is determined by the client. The following factors are taken into account in determining the benchmark date for the appraisal:

1. The appraisal benchmark date selected for the appraisal should be as close as possible to the date of achievement of the purpose of the appraisal, so that the findings are more reasonably suited to the purpose of the appraisal;

2. The end of the accounting period is selected to coincide with the audit cut-off date to provide a more comprehensive picture of the appraised assets and liabilities and to facilitate, among other things, the verification of the assets.

VI. BASIS OF THE APPRAISAL

The specific basis of activities, legal basis, standard basis, ownership basis and valuation basis followed in this appraisal are:

(i) Basis for economic activity

Minutes of the Enlarged Meeting of the Party Committee of the Group Company (Issue No. 13, 1 August 2020).

(ii) Legal and regulatory basis

1. Company Law of the People's Republic of China (Amended for the Fourth Time as adopted at the Sixth Session of the Standing Committee of the Thirteenth National People's Congress on 26 October 2018);

2. Asset Appraisal Law of the People's Republic of China (adopted at the Twenty First Session of the Standing Committee of the Twelfth National People's Congress on 2 July 2016);

3. Law of the People's Republic of China on the State-Owned Assets of Enterprises (adopted at the Fifth Session of the Standing Committee of the Eleventh National People's Congress on 28 October 2008);

4. Securities Law of the People's Republic of China (Amended for the Second Time as adopted at the Fifteenth Session of the Standing Committee of the Thirteenth National People's Congress on 28 December 2019);

5. Measures on Financial Supervision and Management of the Asset Appraisal Industry (Order No. 86 of the Ministry of Finance of the People's Republic of China);

6. Law of the People's Republic of China on Urban Real Estate Management (adopted by vote at the Twelfth Session of the Standing Committee of the Thirteenth National People's Congress on 26 August 2019);

7. Land Administration Law of the People's Republic of China (adopted by vote at the Twelfth Session of the Standing Committee of the Thirteenth National People's Congress on 26 August 2019);

8. Law of the People's Republic of China on Vehicle Acquisition Tax (adopted at the Seventh Session of the Standing Committee of the Thirteenth National People's Congress on 29 December 2018);

9. Enterprise Income Tax Law of the People's Republic of China (adopted at the Seventh Session of the Standing Committee of the Thirteenth National People's Congress and amended by the decision of the Seventh Session of the Standing Committee of the Thirteenth National People's Congress on 29 December 2018);

10. Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (Order No. 714 of the State Council of the People's Republic of China, 23 April 2019);

11. Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises (Order No. 378 of the State Council of the People's Republic of China, 13 May 2003);

12. Measures for the Administration of State-owned Asset Appraisal (Order No. 91 of the State Council, 1991);

13. Provisions on Certain Issues Concerning the Management of the Appraisal of State-owned Assets (Order No. 14 of the Ministry of Finance, 2001);

14. Interim Measures for the Administration of the Appraisal of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council, 25 August 2005);

15. Notice on Issues Relating to Strengthening the Management of the Appraisal of State-owned Assets of Enterprises (SASAC Property Rights [2006] No. 274);

16. Guidelines for the Filing of State-Owned Asset Appraisal Projects of Enterprises (SASAC Property Rights [2013] No. 64);

17. Ministry of Finance and State Administration of Taxation, Circular on Comprehensively Launching a Pilot Project for the Levy of Value-added Tax in Place of Business Tax (Cai Shui [2016] No. 36);

18. Circular of the General Administration of Taxation of the Ministry of Finance on the Adjustment of Value-added Tax Rates (Cai Shui [2018] No. 32);

19. Changchun City Regulations on the Management of Urban Heat Supply;

20. Other relevant laws, regulations, notification documents, etc.

(iii) Basis for appraisal criteria

1. Basic Standards on Asset Appraisal (Caizi [2017] No. 43);

2. Code of Professional Ethics for Asset Appraisal (CAS [2017] No. 30);

3. Code of Practice on Asset Appraisal – Appraisal Procedures (CAS [2018] No. 36);

4. Code of Practice on Asset Appraisal – Appraisal Reports (CAS [2018] No. 35);

5. Code of Practice on Asset Appraisal – Asset Appraisal Entrustment Contracts (CAS [2017] No. 33);

6. Code of Practice on Asset Appraisal – Asset Appraisal Files (CAS [2018] No. 37);

7. Code of Practice on Asset Appraisal – Use of Expert Work and Related Reports (CAS [2017] No. 35);

8. Code of Practice on Asset Appraisal – Enterprise Value (CAS [2018] No. 38);

9. Code of Practice on Asset Appraisal – Real Property (CAS [2017] No. 38);

10. Code of Practice on Asset Appraisal – Machinery and Equipment (CAS [2017] No. 39);

11. Guide to the Appraisal Report on State-owned Assets of Enterprises (CAS [2017] No. 42);

12. Guide to Quality Control of Asset Appraisal Agency Operations (CAS [2017] No. 46);

13. Guidance on Types of Asset Appraisal Values (CAS [2017] No. 47);

14. Guidance on the Legal Ownership of Asset Appraisal Subjects (CAS [2017] No. 48);

15. Code of Practice on Asset Appraisal – Asset Appraisal Methods (CAS [2019] No. 35).

(iv) Basis of ownership

1. Property ownership certificates;

2. Franchise licenses;

3. Motor vehicle permits;

4. Contracts for the purchase of equipment and proof of payment;

5. Other relevant documents of title.

(v) Basis for pricing

1. Standard for Changchun Heating Tariff;

2. Industry and local engineering cost information;

3. Relevant project budget information provided by the company;

4. Provisions on Compulsory Scrapping Standards for Motor Vehicles (Ministry of Commerce, Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection Order [2012] No. 12);

5. Vehicle Acquisition Tax Law of the People's Republic of China (adopted at the Seventh Session of the Standing Committee of the Thirteenth National People's Congress on 29 December 2018 and effective from 1 July 2019);

6. Notice on the Renewal of Preferential Policies on Value-Added Tax, Property Tax and Urban Land-Use Tax for Heating Enterprises (Ministry of Finance, State Administration of Taxation);

7. Handbook on Common Data and Parameters for Asset Appraisal (Second Edition) (Beijing Science and Technology Press);

8. Financial statements and audit reports for previous years (3–5 years) provided by the company;

9. Future annual business development plans, measures, etc. provided by the company;

10. Information on current and future annual market forecasts for key products provided by the company;

11. Information collected and recorded in the course of the assessor's due diligence and site survey;

12. Relevant valuation information collected by the assessors from various government departments, professional websites, books and journals;

13. Other information relevant to this asset appraisal.

(vi) Other bases of reference

1. Asset appraisal engagement contracts;

2. A schedule of asset appraisal declarations provided by the company;

3. A breakdown of the appraisal projections under income approach as provided by the company;

4. Agreement for the Transfer of Certain Assets of Changchun Yatai Heating Company Limited to Changchun Heating Power (Group) Company Limited for Nil Consideration;

5. A Statement of Matters Relating to the Conduct of Asset Appraisal provided by the company;

6. The audit report dated as the benchmark date and issued by Da Hua Certified Public Accountants (Special General Partnership);

7. Information base of Beijing Huaya Zhengxin Assets Appraisal Co., Ltd..

VII. APPRAISAL METHODS

(i) Selection of appraisal methods

The major approaches in enterprise value appraisal are the asset-based approach, income approach and market approach.

The asset-based approach in enterprise value appraisal refers to the appraisal method to reasonably assess the value of the enterprise's on- and off-balance sheet assets and liabilities on the basis of the balance sheet of the enterprise being assessed as at the appraisal benchmark date so as to determine the value of the appraised subject.

The income approach in enterprise value appraisal refers to the appraisal method that determines the value of an appraised unit by capitalizing or discounting the expected earnings of the appraised unit. Specific methods commonly used in the income approach include the discounted dividend method and the discounted cash flow method.

The market approach in enterprise value appraisal refers to the appraisal method that compares the appraised subject with comparable listed companies or comparable transaction cases to determine the value of the appraised subject. Two specific methods commonly used in the market approach are the listed company comparison method and the transaction case comparison method.

In accordance with the Code of Practice for Asset Appraisal – Enterprise Value, it is stipulated that when performing enterprise value appraisal, the valuation method shall be selected based on an analysis of the applicability of the three basic methods, namely, the income approach, the market approach and the asset-based approach, in accordance with the purpose of valuation, the appraised subject, the type of value and the collection of data.

Based on the purpose of the appraisal, the appraised subject, the type of value, data collection, and other circumstances, as well as the conditions for the application of the three basic appraisal methods, the asset-based approach and the income approach were selected for this appraisal. Reasons for selecting the appraisal method are as follows:

The prerequisites for the application of the income approach are: A. the expected future earnings of the subject is predictable and can be measured in monetary terms; B. the risk assumed by the owner of the asset in obtaining the expected earnings is also predictable and can be measured in monetary terms; and C. the expected number of years of profitability of the subject is predictable.

The appraised unit is an urban heating enterprise, and the company's revenue mainly generated from the heating fees received from its customers, the pricing of which are implemented in accordance with the relevant government documents, and the historical operating costs of the company are mainly the heat source purchased from thermal power plants and the heating costs of the company's own coal-fired boilers. The operating results of the appraised unit for the years 2017, 2018 and 2019 recorded significant losses, mainly due to the higher finance costs borne by Yatai Heating as the financing platform of its parent company, and in addition, the operating costs and various expenses of the company may be considered unreasonable in certain circumstances. In December 2019, upon Yatai Heating as a whole was acquired by Changchun Heating Power (Group) Company Limited, the assets of the company were reorganized and the assets related to coal-fired boilers were divested, and the company will no longer operate coal-fired boilers heating business in the future, while optimizing the staff structure of various departments, and after the professional reorganization, the cost and expenses of the appraised unit was reduced to varying degrees, and from January to May 2020, the operating results of the company improved significantly year-on-year. On the basis of comprehensive analysis, the future revenue of the appraised unit is stable and sustainable, and the risk can be predicted and measured in monetary terms, the income approach is suitable for this appraisal according to the applicable conditions of the income approach and the specific conditions of the appraised unit.

The prerequisites for the application of the market approach are: A. a sufficiently active and efficient open market in which the transaction prices essentially reflect the market conditions of both buyers and sellers, so that the fortuity of individual transactions can be excluded; B. the existence of a sufficient number of cases of identical or similar comparable transactions in the open market; C. the existence of a clear and quantifiable set of factors influencing the value of the comparable cases and the appraised subject, and the ability to collect information about the value of the comparable cases that is representative, reasonable and valid in relation to the appraisal.

The appraised unit is an urban heating enterprise, which operates a single business, with strong regional characteristics, there are only a few transactions in the market of similar enterprises, and it is difficult to obtain operation and financial data of comparable enterprise. The market approach is not selected for this appraisal according to the applicable conditions of the market approach and the analysis of the specific circumstances of the appraised unit.

The prerequisites for the application of the asset-based approach are: A. the appraised subject is in continuing use or is assumed to be in continuing use; B. there is historical information available; and C. there are no assets and liabilities that materially affect the value of the appraised subject and that are difficult to identify and assess.

The appraised enterprise is an urban heating enterprise with stable operation, and the historical data of assets and liabilities in the audited balance sheet are complete and identifiable. The asset-based approach is suitable for this appraisal according to the applicable conditions of the asset-based approach and the analysis of the specific circumstances of the appraised unit.

(ii) Asset-based approach

The asset-based approach refers to the appraisal method to reasonably assess the value of the enterprise's on- and off-balance sheet assets and liabilities on the basis of the balance sheet of the enterprise being assessed as at the benchmark date so as to determine the value of the appraised subject.

The method of valuation of the various types of assets and liabilities is as follows:

1. Current assets

Current assets within the scope of the appraisal include monetary funds, prepayments, other receivables, and other current assets, etc..

(1) Monetary funds

Monetary funds include cash and bank deposits.

The appraised value of monetary funds is determined by verifying the value through cash counts, verified bank statements, bank correspondence, etc.

(2) Receivables

Receivables are mainly trade receivables and other receivables.

For all types of receivables, methods such as reconciliation of accounts, correspondence and random checking of documents are used to identify the time of occurrence of each item, the economic events and reasons for its occurrence, the basic circumstances of the debtor, etc., and, on the basis of accurate verification. For the receivables believed to be fully recoverable on adequate grounds, the appraised value is calculated according to the full amount receivable; For the partial amount which is probably irrecoverable, in the event that it is difficult to determine the amount of irrecoverable receivables, historical information and on-site investigation are used to familiarize the situation, specifically analyze the time and reasons of loans, recovery of the amounts, as well as the capital, credit and current situation of operating management to estimate the partial amount which is probably irrecoverable in accordance with the aging analysis method and the partial amount would be determined as credit loss. The verified book value less the credit loss will be determined as the appraised value; for those which have conclusive evidences proving that the receivable cannot be recovered, the appraised value will be nil. The "bad debt provision" on the accounts shall be accounted for as zero.

(3) Prepayments

The appraised value of prepayments is determined based on the value of assets or entitlements arising from the recoverable goods. The appraised values for the relevant goods or entitlements which are recoverable are determined based on the verified book value.

(4) Other current assets

Other current assets as at the appraisal benchmark date are mainly input value-added tax and other tax deductibles, and the appraisers verified the consistency between the subledger, general ledger, and balance in the statements, and carried out a random inspection on relevant information such as some of the original vouchers and contracts to verify the authenticity, details of transactions and amounts of the transactions. The appraised value was determined on the basis of the verified book value.

2. Non-current assets

(1) Investment properties

Based on the specific circumstances of the investment properties, through on-site verification and market research and with reference to the relevant provisions of the accounting standards on the appraised subject and measurement methods, the market approach was adopted for this appraisal.

The market approach is an appraisal method to arrive at a price of the real estate to be appraised that compares the real estate to be appraised to similar real estate that have already been transacted in the period close to the appraisal benchmark date, and to arrive at a price of the real estate to be appraised based on the prices of the real estate that have already been transacted, as modified by a number of factors such as the transaction, date, region and individual factors.

The basic formula for the market approach is:

Appraised value of real estate to be appraised = transaction price in real estate transaction case x modifying factors of transaction circumstances x modifying factors of transaction dates x modifying factors of location x modifying factors of individual factors

(2) Buildings (structures) of real estate

The buildings (structures) of real estate assets under this appraisal include structures and other auxiliary facilities, pipelines and trenches. Based on the characteristics, use, data collection and market trading activities in the location of each asset, the structures and pipelines of the appraised unit are appraised using the replacement cost method.

The replacement cost method calculates the full replacement value of the building based on the construction and completion data, the current fixed amount standard, construction fees, and loan interest rates, and then calculates the appraised value of the building based on the asset's useful life and the site survey to determine the newness rate. The basic formula is as follows:

Appraised value = replacement cost x comprehensive replacement rate

Determination of replacement costs:

Replacement cost = cost of construction and installation + upfront and other costs + capital costs – value-added tax deductibles

1 Determination of the cost of construction and installation:

A. For the major pipeline network assets, the comprehensive cost of construction and installation is determined by the budget adjustment approach, i.e. the cost of construction and installation is obtained by calculating the civil engineering cost and installation engineering cost respectively based on the completion drawings of the assets to be appraised and the relevant information and the audited and settled engineering works, and according to the local fixed amount standard and the relevant fees charging documents.

B. For general structure which are small in value and simple in structure, it will first determine the cost per square meter according to the type of structure. The cost per square meter would be adjusted on the basis of on-site investigation, so as to determine the cost of cost of construction and installation.

2 Determination of upfront and other costs

According to the characteristics of the pipeline network to be appraised, the upfront and other costs are only: construction unit management fees, road maintenance fees, and based on the information on construction of the pipeline network provided by the appraised unit, the above costs have been included in the cost of construction and installation and are thus excluded to avoid double counting.

3 Determination of capital costs

According to the relevant information provided by the appraised unit and the person in charge, the structures and pipelines within the scope of this appraisal have a short construction cycle, so the capital cost is not considered.

4 Deductible value-added tax

According to the Circular on Comprehensively Launching a Pilot Project for the Levy of Value-added Tax in Place of Business Tax (Cai Shui [2016] No. 36) issued by the Ministry of Finance and the State Administration of Taxation and its four annexes, including the Provisions on Relevant Matters of a Pilot Project for the Levy of Value-added Tax in Place of Business Tax, if the qualification conditions for value-added tax credits are met, the relevant value-added tax shall be deducted from the replacement cost. In addition, according to the Announcement on the Relevant Policies for Deepening Value-added Tax Reform (Announcement No. 39 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of 2019), the tax rate is adjusted to 13% and 9% respectively for the original 16% and 10% tax rates applied.

Value-added tax deductible on comprehensive cost of construction and installation = Comprehensive tax-inclusive cost of construction and installation/1.09 x 9%

Value-added tax deductible on upfront and other costs = Comprehensive tax-inclusive cost of construction and installation x upfront and other costs rate (excluding construction unit management fee)/1.06 x 6%.

5 Determination of integrated newness rate

Determination of the newness rate of structures, pipelines and trenches:

Newness rate = (useful life – used life)/useful life x 100%, or

Newness rate = remaining useful life/(used life + remaining useful life) x 100%

Of which: The remaining useful life is reasonably estimated according to the type of structure or main construction materials, the useful life under the operating environment, the used life of the item and the soundness of the item according to the on-site investigation by professional assessors.

6 Determination of appraised value

Appraised value = replacement cost x integrated newness rate

(3) Machinery and equipment

According to the purpose of the appraisal, the type of appraisal value, in accordance with the principle of continuous use and based on the market price, taking into account the characteristics of the equipment to be appraised and the information collected, the appraisal is mainly based on the replacement cost method.

The replacement cost method is an asset appraisal method that takes the full cost of reacquiring or constructing the appraised asset in its new condition, less the physical, functional, and economic obsolescence that has occurred on the appraised asset, and uses the difference as the appraised value of the appraised asset.

The appraised value can also be determined using the replacement cost method by first estimating the newness of the asset being appraised as compared to its new condition, i.e. by identifying the newness rate, and then the product of multiplying the full cost and the newness rate would be regarded as the appraised value.

Formula: Appraised value = replacement cost x newness rate

1) Determination of replacement cost

Replacement cost = purchase price of equipment + transportation and miscellaneous costs + installation works (including basic costs) + upfront and other costs + capital costs – value-added tax deductibles

1 Determination of replacement cost of machinery and equipment

A. Purchase price of equipment

For large and key equipment, the purchase price is determined primarily by consulting with the manufacturer to assess the market price as at the appraisal benchmark date, or by reference to recent contract prices for similar equipment as at the appraisal benchmark date.

For small equipment, the purchase price is determined primarily by consulting information on market quotations as at the appraisal benchmark date.

For equipment for which no market pricing information is available, the purchase price is determined primarily by reference to the purchase price of similar equipment.

B. Transportation and miscellaneous costs

Equipment transportation and miscellaneous costs refer to the transportation costs to transfer the equipment from its manufacturing location to the equipment installation site. The rate of transportation and miscellaneous costs is based on the purchase price of the equipment and determined comprehensively with reference to the distance, weight, volume and mode of transportation of the equipment.

The formula for transportation and miscellaneous costs is as follows:

Transportation and miscellaneous costs = purchase price of equipment x rate of transportation and miscellaneous costs

C. Installation costs

The installation costs are based on the tax-inclusive purchase price of the equipment.

Installation costs are not considered for equipment that are small and no installation is required.

D. Deductible value-added tax on the purchase price of equipment

According to the Interim Regulations of the People's Republic of China on Value-Added Tax (Order No. 538) issued by the State Council, the Notice on Certain Issues Concerning the National Implementation of Value-Added Tax Transformation Reform (Cai Shui [2008] No. 170), and the Notice on Input Tax Deduction for Fixed Assets (Cai Shui [2009] No. 113), if the qualification conditions for value-added tax credits are met, the relevant value-added tax shall be deducted from the full replacement cost. In addition, according to the Announcement on the Relevant Policies for Deepening Value-added Tax Reform (Announcement No. 39 of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of 2019), the tax rate is adjusted to 13% and 9% respectively for the original 16% and 10% tax rates applied.

Deductible value-added tax = equipment purchase price/1.13 × 13% + transportation and miscellaneous charges/1.09 × 9% + installation costs/1.09 × 9% + upfront and other costs (excluding construction unit management fee)/1.06 × 6%

2 Determination of replacement cost of transportation equipment

According to the local vehicle market sales information and other recent vehicle market price data, the current tax-inclusive purchase price of the transport vehicle is determined, on the basis of which the vehicle purchase tax and the new car registration license fee are included in accordance with the Notice on Certain Issues Concerning the National Implementation of Value-added Tax Transformation and Reform (Cai Shui [2008] No. 170), the Notice on Input Tax Deduction of Fixed Assets (Cai Shui [2009] No. 113) and other documents, it is stipulated that value-added tax on the purchase of vehicles can be deducted to determine their replacement cost, the formula is as follows:

Replacement cost = tax-exclusive purchase price + vehicle purchase tax + license fee

Of which:

A. The current purchase price is determined based on the local automobile market sales information or local market prices of similar models in the recent transactions for May 2020;

B. The vehicle acquisition tax is calculated in accordance with the Vehicle Acquisition Tax Law of the People's Republic of China;

Vehicle purchase tax = tax-exclusive purchase price of the vehicle x 10%

C. License fee is calculated according to the fee charged by local traffic management department.

D. For the transport equipment purchased at an earlier date for which no market price information is available through quotation, its appraised value is determined by adjusting the second-hand market price of similar transport equipment.

3 Determination of the replacement cost of electronic equipment

The replacement cost is determined based on the local electronic equipment market price information for the same model of equipment as at the appraisal benchmark date and recent online transactions, less the value-added tax deductible amount.

i.e.: replacement cost = tax-exclusive purchase price

For electronic equipment that was purchased earlier and the model is no longer available on the market but is functional, the replacement cost of which is determined by reference to the tax-exclusive market price of used equipment.

2) Determination of the integrated newness rate

1 Determination of newness rate for machinery and equipment

For special-purpose equipment and general-purpose equipment, the newness rate of the equipment is determined based on the economic life of the equipment, the used life of the equipment, and the remaining useful life of the equipment through on-site investigation and understanding of the equipment use conditions, technical conditions, and maintenance conditions, and then the integrated newness rate is determined according to the following formula.

Integrated newness rate = remaining useful life/(remaining useful life + useful life) x 100%

2 Determination newness rate for vehicles

According to the compulsory scrapping standard promulgated by the State, the theoretical newness rate is determined on the basis of the lower of the results arrived by the principle of vehicle mileage and useful life, and then adjusted in conjunction with the site inspection, with the formula as follows:

Newness rate determined by useful life = (Specified useful life – used life)/Specified useful life) x 100%

Newness rate determined by mileage = (Specified mileage – mileage travelled)/Specified mileage x 100%

Integrated newness rate = theoretical newness rate x adjustment factor(s)

For older vehicles with similar models no longer available, the appraised value is determined by reference to recent market prices in used car market.

3 Determination of newness rate for electronic equipment

For small equipment, such as electronic equipment and air conditioning equipment, the integrated newness rate is determined primarily based on the economic life of the equipment. The formula is as follows:

Newness rate determined by useful life approach = (economic life – used life)/economic life x 100%

For large electronic equipment, the integrated newness rate will be determined in conjunction with site investigation and with reference to the working environment and operating conditions of the equipment.

Newness rate will not be considered for electronic equipment that is appraised directly according to its used market value.

3) Determination of appraised value

Appraised value of equipment = replacement cost of equipment x integrated newness rate

(4) Project materials

As at the appraisal benchmark date, the project materials within the scope of the appraisal are mainly spare parts required for routine maintenance of the heat supply pipeline network, which are appraised using the cost method. For project materials with a purchase date of less than six months and no significant change in market prices, the verified book value would be taken as the appraised value.

(5) Deferred income tax assets

Deferred income tax assets as at the appraisal benchmark date are income tax assets arising from the provisions for bad debts by the appraised unit, the verified book value would be taken as the appraised value.

3. Liabilities

For the appraisal of liabilities, the appraisers checked and verified the actual debtors and amount of each liability after the purpose of the appraisal has been achieved, based on each schedule provided by the company, and determined the appraised value by the items and amounts of liabilities actually to be borne by the property owner after the purpose of the appraisal has been achieved, and for items of liabilities that are not actually to be borne by the property owner after the purpose of the appraisal has been achieved in the future, the value of which would be calculated as zero.

4. Results of the asset-based approach

As at the appraisal benchmark date, the book value of the net assets of the appraised unit, Changchun Yatai Heating Company Limited, was RMB9.8563 million, and the appraised value of the entire shareholder's equity under the asset-based approach was RMB246.3219 million.

(iii) Income approach

1. Overview

The discounted cash flow (DCF) method of the income approach was adopted to estimate the value of the appraised subject.

The discounted cash flow method (DCF) is a method of assessing the enterprise value by discounting the expected future cash flows of the enterprise to a present value, i.e. by estimating the expected future cash flows of the enterprise and using an appropriate discount rate, the expected cash flows are discounted to their present value to arrive at the enterprise value.

The basic conditions for its application are: the enterprise has the basis and conditions for continuous operation, there is a more stable correspondence between asset operation and earnings, and future earnings and risks can be predicted and quantified.

2. Basic considerations for the appraisal

The value of the entire shareholder's equity is estimated on the basis of the audited annual accounting statements of the enterprise, combined with the enterprise's future development strategies and plans, and taking into account the human resources, technology level, capital structure, operating conditions, strengths and weaknesses, sustainable operation and profitability of the enterprise, as well as the current status and development prospects of the industry.

That is, according to the income streams using the discounted cash flow method (DCF), using the weighted cost of capital (WACC) as the discount rate, discounting the estimated free cash flow of the enterprise in future years to obtain the value of operating assets, plus surplus assets, the value of non-operating assets and the value of external long-term equity investments by the enterprise, so as to obtain the overall asset value of the enterprise, then minus the value of interest-bearing obligations to arrive at the value of total shareholder's equity.

3. Appraisal models

(1) Basic model

This appraisal adopted the corporate free cash flow model in the discounted cash flow (DCF) method.

The formula is as follows:

Value of total shareholder's equity = overall enterprise value – value of interest-bearing obligations

Overall enterprise value = value of operating assets + value of non-operating assets + value of surplus assets – value of non-operating liabilities

An interest-bearing obligation is an obligation on the books of the appraised unit as at the appraisal benchmark date that requires payment of interest.

Of which: corporate free cash flow = net profit after tax + depreciation and amortisation + interest on interest-bearing obligation after tax – capital expenditures – change in net working capital

① Value of operating assets

Operating assets are the assets and liabilities related to the production and operation of the appraised unit and involved in the free cash flow projections of the enterprise after the appraisal benchmark date.

The formula for calculating the value of operating assets is:

$$P = \sum_{i=1}^{n} \frac{F_i}{(1+r)^i} + \frac{F_n \times (1+g)}{(r-g) \times (1+r)^n}$$

P: Value of the enterprise's operating assets as at the appraisal benchmark date;

Fi: Appraisal of the expected corporate free cash flow in year i after the appraisal benchmark date;

Fn: Expected corporate free cash flows for the last year in the detailed forecast period;

r: Discount rate (in this case WACC, weighted average cost of capital);

n: Detailed forecast period;

i: Year i of the detailed forecast period;

g: Perpetual growth rate.

A. Projection of major operating income

Yatai Heating's existing heating area covers 16.20 million square meters of building area, ranking fifth in the industry, with a market share of 7.7%, Yatai Heating's heating facilities, pipeline network and its own heat source layout are within the city's second ring, the specific coverage is as follows: from the East Ring Road in the east to Chuncheng Street in the west, and from Fanrong Road in the south to Xinfa Road in the north. 82% of the heating load is provided by the heat source of No. 2 Cogeneration Plant and No. 4 Huaneng Plant. The heating branch companies involved are Chaoyang Branch, Nanguan Branch, Tiexi Branch and Erdao Branch, with an actual heating area of approximately 11.53 million square meters (13.18 million square meters in the network).

According to the future economic development trend of Changchun and in line with the strategic philosophy of ''urban development driven by ancillary facilities'', Yatai Heating will consider future merger, cooperation, escrow management and other ways to expand the scale of heat supply development. Based on Changchun and leveraging its fine and detailed management, continuous innovation and proactive development, it is expected that the company's heat supply area will increase in the future.

Urban heating is closely related to people's daily life. According to the Regulations on Changchun Municipal Heat Supply Management and Changchun Heating Charging Standard, charging standard for Yatai Heating's heat supply to its customers is set by the government. According to the Notice on the Extension of Preferential Policies on Value Added Tax, Property Tax and Urban Land Use Tax for Heat Supply Enterprises issued by the Ministry of Finance and the State Administration of Taxation, the heating fee income received by heat supply enterprises from individual residents (residents) is exempted from value-added tax. In this appraisal, the unit price of the heating charges is implemented in accordance with the relevant provisions of the above documents, and the heating charges for residential heating are RMB27 per square meter of gross floor area and RMB31 per square meter of gross floor area for non-residential heating. Through communication with the company's operation department, planning department, finance department and other relevant departments, the company is currently in a stable operation period. Taking into account the company's history, the overall economic environment of the current period and the development of real estate in Changchun City, and considering both favorable and unfavorable factors of the company's future operation, the annual growth rate of the company's heating area is expected to be 1.5% for the next 5 years.

B. Projection of operating cost.

The historical operating costs of Yatai Heating are primarily heat source fees, coal, utilities, labor, input value-added tax (transfers out) and manufacturing costs.

The major business of Yatai Heating is urban heating, the operating area is mainly within the second ring area Changchun, the specific coverage is as follows: from the East Ring Road in the east to Chuncheng Street in the west, and from Fanrong Road in the south to Xinfa Road in the north. The company's heat source is mainly provided by the No. 2 Cogeneration Plant and No. 4 Huaneng Plant. The purchase price of heat from cogeneration is mainly based on the government guided-price, the tax-inclusive unit price is RMB34/GJ, price changes in recent years were not significant and were mainly due to the impact of value-added tax rate adjustment factors in recent years. The coal cost in the historical operating costs was mainly the cost of burning coal for the heating of Fuhao Garden (富豪花園) by the company's own boilers. In accordance with the restructuring plan of the company, the boiler assets of the company were divested as a whole and the company would no longer operate the boiler heating business in the future and would supply heat to the properties where the original boilers heating business operated through the purchase of heat source from the Changre Group, with the heat source purchase price determined at the market price of RMB56/GJ approved by both parties. Electricity and water charges are determined with reference to historical conditions, labor costs are calculated and determined according to the number of personnel approved by the company and the annual wage expense standards, and input value-added tax (transfers out) is mainly based on the national tax policy, residential heating is exempted from value-added tax, and input value-added tax on residential heating costs is not deductible from the cost. Manufacturing costs mainly comprised depreciation of fixed assets such as heat supply equipment and heat pipeline networks, maintenance and repair costs of heat pipeline networks and are determined with reference to historical data and forecasts based on the future maintenance plans of the Company; depreciation of fixed assets was calculated using the straight-line method in accordance with the company's financial accounting policy. Heat source, electricity and water charges, and overhaul expenses in the major operating costs were increased in proportion to the additional area of heat supply in future forecast periods.

C. Projection of other operating income and other operating costs

Yatai Heating's other business income is mainly from the construction fees for the heat supply pipeline networks and entrance fees for heat supply and heated air curtain income. The construction fees for the heat supply pipeline networks in Changchun are no longer priced by the government, and according to current understanding, the current market fees charging standard is RMB50 (tax inclusive) per square meter of heating area, which is calculated and determined based on the annual forecast of new heating area; the entrance fees for heat supply and heated air curtain income are measured based on the historical annual revenue. Based on the company's historical operations, the company's other business incomes are mainly additional charges that accompany the company's principal business and no separate costs are incurred; therefore, no other business cost projections are made.

D. Projection of taxes and surcharge

Taxes and surcharges of Yatai Heating include urban maintenance and construction tax, education surcharge, and local education development fee. Urban maintenance and construction tax is payable at 7% of the turnover tax amount payable, education surcharge is payable at 3% of the turnover tax amount payable, local education development fee is payable at 2% of the turnover tax amount payable, and value-added tax is calculated and determined according to the company's future income and cost forecasts. Other taxes, including property taxes and water affairs fund contributions, are calculated and determined based on historical payments.

E. Projection of selling expenses

Yatai Heating has no selling expenses due to the nature of its business.

F. Projection of management expenses

Yatai Heating's management expenses mainly include employee remuneration, office expenses, travel expenses, business entertainment expenses, depreciation charges, insurance expenses, environmental protection expenses, etc.. Employee remuneration is based on the number of employees and wage level, taking into account future employment demand and wage growth forecast, while other expenses are mainly forecasted with reference to the company's future business growth.

G. Projection of research and development costs

Yatai Heating was recognized as a high-tech enterprise in 2019, according to the company's historical financial data and communication with the company's technology department, the company's future direction is mainly to carry out technology research and development in heating intelligence, environmental protection and energy conservation, research and development costs are mainly the expenditure on labor costs of research and development personnel, and the annual expenditure amount accounts for approximately 3% of the company's revenue from principal activities.

H. Projection of finance costs

According to the company's business model and communication with the management of the company, the company adopts the practice of pre-sale of heating fees, and the major heating equipment assets are one-time investment, therefore, the company is not required to obtain continuous external financing for its daily operations. The amount of interest on deposits and bank charges is not significant after offsetting, and is not considered in this appraisal.

I. Projection of non-operating income and expenditure balances

According to the historical operation data of the company and based on the communication and understanding of the company, the non-operating income and expenditure of the company are late payment, income and expenditure arising from disposal of assets, the amount is not significant and is incidental in nature, and is not considered in this appraisal.

J. Projection of income tax

Changchun Yatai Heating Company Limited possesses the qualification of a high-tech enterprise as at the appraisal benchmark date, which is valid for 3 years from September 2019, and is entitled to an income tax rate of 15%. This appraisal assumes that Changchun Yatai Heating Company Limited will still be able to meet all the criteria for being a high-tech enterprise and entitle to a preferential income tax rate of 15% in the future.

K. Projection of depreciation and amortization

Depreciation prediction is divided into two parts: depreciation of existing assets and depreciation of future capital expenditure. The depreciation forecast for existing assets is based on the original value, the accounting depreciation life and the residual value rate of each asset; the depreciation forecast for assets formed by future capital expenditure is based on the depreciation rate of each type of asset determined by the enterprise's accounting depreciation policy; the long-term amortization charge is mainly for the renovation project of the boiler building, the boiler-related assets have all been divested, and the long-term amortization charge on the company's books as at the appraisal benchmark date has been fully amortized.

L. Projection of capital expenditures

Capital expenditures are certain expenditures that can be capitalized annually to ensure the continuous normal production and operation of the company. The capital expenditure of the appraised unit includes the normal renewal expenditure of the stock assets and the capital expenditure of the incremental assets, i.e., the renewal and expansion expenditure of the long-term assets, including fixed assets. The value of shareholder's equity is appraised by adopting income approach in this appraisal. The capital expenditure on stock assets includes normal renewal investment in equipment and vehicles and routine maintenance expenditure on buildings, of which the equipment assets are determined by the annual amount of the future renewal plan estimated by the company's planning department according to the specific asset conditions, and the routine maintenance expenditure on buildings is equal to the original value of the assets multiplied by a certain percentage of the maintenance fee rate in the forecast. All the maintenance and renovation of the company's stock pipeline network assets have been directly accounted for in the current overhaul and pipeline maintenance costs, and the capital expenditure on incremental assets is forecasted in accordance with the projected investment amount of the company.

M. Projection of increase in working capital

The increase in working capital refers to the new working capital required to maintain the company's continuous operation without any changes to its current principal business conditions.

Yatai Heating is mainly engaged in the urban heating business, and the company's working capital forecast is mainly calculated based on the analysis of historical financial data. Due to the divestiture, staff redeployment and business restructuring in 2020, there are certain changes in the future operation of the company and historical circumstances, therefore, the turnover of current assets and current liabilities are mainly determined by the analysis of January-May 2020 and with reference to historical circumstances.

② Value of non-operating assets and liabilities

Non-operating assets and liabilities refer to assets and liabilities that are not directly related to the production and operation of the appraised unit and are not covered in the free cash flow forecast for the period beyond the appraisal benchmark date of the company. Non-operating assets and liabilities are analyzed and assessed separately using a method appropriate to the non-operating assets and liabilities.

③ Value of surplus assets

Surplus assets are assets that are surplus in nature in view of the production and operation requirements of the company as at the appraisal benchmark date and are not covered in the free cash flow forecast for the period beyond the appraisal benchmark date of the company. Surplus assets are mainly analyzed and appraised separately using the cost method in this appraisal.

④ Appraisal conclusions under income approach

The value of the entire shareholder's equity as appraised under income approach is RMB318.3763 million.

(2) Determination of key parameters

1) Determination of the income period and the forecast period

After analysis and investigation by the appraisers, it is noted that the industry to which the company under appraisal belongs is supported by national policies, and the approved operation period as stated in the business license of the company is from 28 April 2010 to 24 October 2028, and the operation period of the company as stipulated in its articles of association could be extended for its continuance upon the expiration of the original operation period by way of amending its articles. According to the development plan of the company and the characteristics of the industry, the type of business and operation model of the company are relatively stable. Through the analysis of the operation of the company and communication with the management of the company, there is no limit on the useful life of the core assets that affect the continuous operation of the company and limit the period of production and operation of the company, and can be used for indefinite period through extensions. Therefore, the income period is determined on a perpetual basis.

Based on the company's current operating conditions, business characteristics, and market supply and demand, it is expected to enter a stabilization period in 2025, thus the forecast period is determined to be a total of 5.58 years from June 2020 to December 2025, and perpetual after 2026.

2) Determination of the discount rate

In accordance with the principle of consistency between the amount of income and the discount rate, the amount of income of this appraisal is the free cash flow of the company, then the discount rate r is determined by selecting the weighted average cost of capital valuation model (WACC).

Model formula of WACC:

$r=ke \times [E/(D+E)]+kd \times [D/(D+E)] \times (1-T)$

Of which:

ke: cost of equity capital

E/(D+E): the target equity capital ratio of the appraised enterprise, estimated on the basis of market value

kd: cost of debt capital

D/(D+E): the target debt capital ratio of the appraised enterprise, estimated on the basis of market value

T: Income tax rate of the appraised enterprise

In calculating the cost of equity capital, we adopted the Capital Asset Pricing Model (CAPM).

Model formula of CAPM:

$ke=rf+\beta e \times RPm+rc$

Of which:

rf: risk-free rate of return

RPm: market risk premium

rc: Enterprise-specific risk adjustment factor

βe: Expected market risk factor of the equity capital of the appraised subject

$\beta e = \beta u \times [1+(1-t) \times (D/E)]$

βu: Expected un-leveraged market risk factor of comparable companies

$\beta u = \beta t/[1+(1-t) \times (Di/Ei)]$

βt: Expected average market risk factor of comparable companies

Di, Ei: interest-bearing obligations and equity capital of comparable companies respectively

1 Determination of the cost of equity capital ke

A. Determination of the risk-free rate of return rf:

The yield on government bonds is usually considered risk-free. The 30-year corresponding government bonds yield of 3.92% was selected as the risk-free rate of return based on the China Government Bonds – Yields Curve published by the China Appraisal Society and provided by the China Central Depository & Clearing Company Limited (CCDC).

B. Determination of the market risk factor βe of equity:

The market risk factor βe of equity is determined by calculating the value of βe through enquiries regarding comparable listed companies with financial leverage as at 31 December 2019.

The selection criteria for comparable listed companies in the same industry are: (1) comparable companies are companies listed on the securities market; (2) listed for more than one year; (3) not ST, excluding New Third Board companies; (4) heating revenue accounts for more than 50% of the company's revenue; (5) the average daily turnover rate in open market securities trading for the past six months is greater than 1%; (6) recorded profit in the latest financial year.

The following three comparable companies were selected through enquiries based on the above criteria:

a. Huatong Thermal (002893.SZ)

The principal business of Beijing Huayuan Yitong Thermal Technology Company Limited is heat supply and energy-saving technology services. The company has mastered a number of advanced energy-saving technologies, such as "intelligent heating energy-saving control system", "time-division and zoning control system", "heating pipeline network control optimization system", "flue gas and waste heat recovery" and "feed-forward boiler group control technology based on regional climate change", and its technologies have been widely adopted in urban district boiler heating systems, making positive contributions to national energy conservation and emission reduction and air control.

b. Luenmei Holdings (600167.SH)

The current principal businesses of Luenmei Quantum Company Limited are heating, water supply, housing rental, municipal construction, engineering construction, property management, energy saving and environmental protection heating. On 6 June 2016, the company completed its backdoor listing with the addition of energy saving and environmental protection heating as one of its principal businesses.

c. Dalian Thermal Power (600719.SH)

The principal business of Dalian Thermal Power Company Limited is cogeneration and centralized heating. The major products are electric power and heat, with four varieties: electric power, industrial steam, high-temperature water and residential heating. In addition to power generation and grid connection, Beihai Thermal Power Plant and Donghai Thermal Power Plant are also responsible for district heating, steam and high-temperature water sales businesses in the main urban area, while Huanhai Thermal Power Plant, a subsidiary, is responsible for district heating business in Zhuanghe City.

According to the business characteristics of the appraised unit, the appraisers used the βe value with financial leverage for the most recent financial period to the appraisal benchmark date of three comparable listed companies enquired through trading system, and then converted it into the βu value without financial leverage according to the income tax rate and capital structure of the comparable listed companies, and took the average value of 0.7875 as the βu value of the appraised unit. The characteristics of the appraised unit are used as the target capital structure according to the capital structure of the appraised unit. The income tax rate implemented for the forecast period of the appraised unit is 15%. The parameters are substituted into the equity system risk factor formula to calculate the equity system risk factor of the appraised unit. The calculation formula is as follows:

$$\beta e = \beta u \times [1+(1-t) \times (D/E)] = 0.9567$$

C. Determination of the market risk premium RPm:

The market risk premium is the return that investors require over and above the risk-free rate for an adequately risk-diversified market portfolio. Internationally, risk premiums in emerging markets are typically determined by adjusting the risk premiums in mature markets, which is the risk premium adjustment method commonly used in the industry. Therefore, the risk premium of a recognized mature market (the United States market) was used for the adjustment in this appraisal.

According to the data published by Damodaran in January 2020, the values of the parameters are described below:

a. Mature market base compensation

Compensation for equity risk over time in the United States is shown in the following table:

Compensation for equity risk over a certain period of time in the United States stock market

Period	**Based on the compensation for equity risk of the short-term treasury bonds**	**Based on the compensation for equity risk of the long-term treasury bonds**
1928-2019	8.18%	6.43%
1970-2019	7.26%	4.50%
2010-2019	13.51%	9.67%

Note: The data in the above table are calculated using the arithmetic average method, which is mostly used in practice.

b. Country default compensation

The Moody's rating of the government bonds of the PRC is A1, which corresponds to a default spread of 58.8 basis points, or 0.588%.

c. σ equity/σ government bonds

σ equity/σ government bonds is the volatility of equity markets relative to bond markets, and Damodaran adopted a ratio of 1.18 times to represent the volatility of emerging markets in this calculation.

d. Market risk premium

The equity risk compensation of 6.43% from 1928 to 2019 based on the long-term government bonds is usually selected as the mature market risk premium.

Market risk premium = mature market risk premium + country default risk spread x (σ equity/σ government bonds)

China market risk premium = 6.43% + 0.588% x 1.18 = 7.12%.

D. Determination of rc (enterprise-specific risk adjustment factor)

The enterprise-specific risk adjustment factor (rc) is determined to be 2.932% based on the above analysis of the size of the company, market share, the financial risk of the company, the internal management and the control mechanism of the company, the experience and qualifications of the managers, the reliance on key customers and suppliers, the parent company's position in the industry, and the level of support provided by the parent company.

E. Determination of the cost of equity capital

Substituting the above parameters into the formula to calculate:

$ke = rf + \beta e \times RPm + rc = 13.66\%$

2 Determination of the cost of debt capital (kd)

The comparable companies' target capital structure and the historical rates for debt of the appraised company are used for the calculation and determination according to the analysis of the business characteristics of the company.

3 Determination of the weighted average cost of capital

$r = ke \times [E/(D+E)]+kd \times (1-t) \times [D/(D+E)] = 12.25\%$

Calculated discount rate is 12.25%

The calculation process is as follows:

Number	Stock code	Stock name	β-Equity (βL)	Capital structure for the most recent period to the benchmark date: D/E	Target capital structure: D/E	Income tax rate as at the benchmark date	β asset (unleveraged) formula calculation (βu)
1	002893.SZ	Huatong Thermal	0.8917	0.3186		15.00%	0.7866
2	600167.SH	Luenmei Holdings	0.7182	0.0110	0.2527	15.00%	0.8100
3	600719.SH	Dalian Thermal Power	1.0391	0.4284		25.00%	0.7659
	Average			0.2527			0.7875

Number	Forecast period		Forecast Year: Year 0
1	Target capital structure	D/E	0.2527
2	β assets of the appraised subject	Calculated value or query value (β u= β L/(1+(1-T)*(D/E))	0.7875
3	Income tax rate for post-benchmark date period (for the company itself)	Setpoint (T)	15%
4	β equity of the appraised subject	Calculated value (β e)	0.9567
5	Risk-free rate of return	Setpoint (Rf)	3.92%
6	Market premium	Setpoint (RPm)	7.12%
7	Individual risks	Judgment value (Rc)	2.932%
8	Cost of debt	D/(D+E) × (1-T)*Rd	1.35%
9	Cost of equity	E/(D+E) × Discount rate RCAPM	10.90%
10	Discount rate RWACC	cost of debt + cost of equity	12.25%

(3) Calculation of terminal value (perpetuity)

Terminal value is calculated as a multiple of cash flows of terminal value. This multiple is based on the cost of equity minus the inverse of the terminal growth rate, which is equal to the capitalization rate of Yatai Heating. Based on the existing asset scale of Yatai Heating, and taking into account the company's heat supply area and saturation in the market, this appraisal adopts an operating growth rate of 0 for Yatai Heating in perpetuity.

(4) Effect of premiums due to control and discounts due to lack of control

The subject of this appraisal is the value of the entire shareholder's equity of Changchun Yatai Heating Company Limited as at the appraisal benchmark date, Changchun Heating Power (Group) Company Limited holds 100% of its equity interest, all financial information have been projected from a control perspective in this appraisal and the results of this appraisal have reflected the control factor and no separate adjustment is required.

(5) Effect of equity liquidity

In conducting this appraisal under the income approach, the effect of equity liquidity of the selected comparable listed companies is considered in the individual risks associated with the calculation of the discount rate and no separate adjustment is required.

(iv) Methodology for determining appraisal conclusions

The appraisal results under the income approach were determined as the final appraisal conclusions of the appraisal report based on a comprehensive consideration of the reasonableness of the different appraisal methods and preliminary findings and the quality and quantity of the data employed.

As at the appraisal benchmark date, the book value of the net assets of the appraised unit, Changchun Yatai Heating Company Limited, was RMB9.8563 million and the appraised value of the entire shareholder's equity under the income approach was RMB318.3763 million.

VIII. PROCESS AND IMPLEMENTATION OF THE APPRAISAL PROCEDURES

The appraisers of Beijing Huaya Zhengxin Assets Appraisal Co., Ltd. carried out the appraisal of the assets and liabilities involved in the appraised subject from 5 July 2020 to 25 November 2020. The process and status of the implementation of the major appraisal procedures are as follows:

(i) Acceptance of engagement with the entering into a business engagement contract

Negotiating with the client, clarifying the basic matters of the appraisal engagement, conducting a comprehensive analysis and appraisal of one's own professional competence, independence and business risks, accepting the engagement and entering into the asset appraisal engagement contract.

(ii) Preliminary preparation

1. Formation of the appraisal engagement team, identification of the project leader and project team personnel, and formulation of the asset appraisal work plan (program) in accordance with the characteristics of the assets under the appraisal engagement and the overall requirements of the time.

2. According to the characteristics of the assets under the appraisal engagement, the asset appraisal declaration breakdowns and the relevant asset questionnaire are arranged in a targeted manner to determine the required information list; the appraised unit is guided to complete the asset appraisal declaration forms and provide appraisal information to ensure the quality of the appraisal declaration information.

3. In order to ensure the quality and improve the efficiency of the appraisal engagement, the members of the project team will receive training to understand the specific arrangement of the appraisal work plan, explanation of the background of the economic behavior of the transaction, the characteristics of the assets involved in the appraised subject, the general technical considerations of the appraisal and the specific operational requirements.

(iii) On-site investigations

The appraisers conducted the necessary examination and verification of the assets and liabilities involved in the appraised subject from 5 July 2020 to 25 July 2020, and conducted the necessary investigation into the operation and management conditions of the appraised unit.

1. Asset verification

(1) Instruct the relevant personnel of the appraised unit to fill in the information of the assets included in the scope of appraisal in a detailed and accurate manner on the basis of their own asset inventory and in accordance with the "asset appraisal declaration forms" and the information list provided by the appraisal organization, and at the same time, collect and prepare the property right documents and relevant operating and financial information of the assets.

(2) Preliminary review and improve the asset appraisal declaration forms filled out by the appraised unit, check with the relevant financial records of the enterprise data, check for any incomplete, wrong or unclear entries, understand the issues identified, and timely feedback to the appraised unit to improve the "asset appraisal declaration forms".

(3) On-site inspection. According to the type, quantity and distribution of the assets included in the scope of appraisal, the appraisers, with the cooperation of the relevant personnel of the appraised unit and in accordance with the relevant provisions of the asset appraisal standards, conducted an inventory and on-site survey of the quantity, quality and use as at the benchmark date of each asset, and adopted various methods, such as interviews, verification, correspondence, monitoring and surveys, to assess the nature and characteristics of the appraised subject and the assets in question in accordance with the nature and characteristics of different assets. The assets and liabilities involved were fully understood and verified.

(4) To supplement, revise and improve the asset appraisal declaration forms, the appraisers shall further improve the "asset appraisal declaration forms" according to the results of on-site inspections and comprehensive communication with the relevant personnel of the appraised unit, so as to make the accounts, forms and facts consistent.

(5) Asset appraisal professionals paid attention to the legal ownership of the appraised subject, verified and examined the originals of important legal documents related to the rights and interests of the appraised subject, such as agreements, contracts, articles of association, share certificates and other relevant important legal documents, collected relevant ownership information and checked whether the assets included in the scope of appraisal involved mortgages, guarantees and litigation matters. In cases where the ownership information was incomplete or unclear, the company was required to verify or issue relevant documents explaining its ownership.

2. Due diligence

In order to comprehensively and adequately understand the current status of the appraised subject, the appraisers conducted the necessary due diligence through interviews, reviews, and enquiries. The main contents of the due diligence were as follows:

(1) The history and development, controlling shareholders and shareholding ratios, business and management structure and ownership structure of the appraised unit;

(2) The asset, finance, production and operation management conditions and profitability model of the appraised unit;

(3) The business structure, asset allocation and utilization of the appraised unit;

(4) The non-operating assets, liabilities and surplus assets of the appraised unit;

(5) The core assets and technology research and development of the appraised unit;

(6) The information on the business plan, future development plans and revenue projections of the appraised unit;

(7) The appraised unit's own strengths, weaknesses, competitiveness and risk exposure;

(8) The historical appraisals and transactions of the appraised unit;

(9) Macro and regional economic factors affecting the production and operation of the appraised unit;

(10) The state of development and prospects of the industry in which appraised unit operates;

(11) The tax benefits enjoyed by the appraised unit;

(12) Other relevant matters to be investigated.

(iv) Data collection

1. Asset appraisal professionals collect the information required for asset appraisal according to the specific conditions of the appraisal engagement, including the information provided by the client and the appraised unit concerning the subject and scope of appraisal, as well as the relevant information obtained from various channels, such as government departments, various professional institutions and market. The information collected was analyzed, summarized and organized as they were necessary for forming the basis for the appraisal estimation and the preparation of the asset appraisal report.

2. The asset appraisal professionals signed and confirmed the appraisal declaration schedules and relevant important information provided by the client and the appraised unit, and verified and validated the important information used in the appraisal through observation, questioning, written review, field investigation, enquiry, correspondence, review and other methods. This is to ensure that the information used is reasonable and credible.

(v) Evaluation estimates

Based on the specific conditions of each type of assets, the appraisers select the appropriate formulae and parameters for analysis, calculation and judgement in accordance with the appraisal methods used, and form the results of the calculations. After a comprehensive analysis of the results, they form a preliminary appraisal conclusion and prepare a preliminary asset appraisal report.

(vi) Internal audit and report issuance

In accordance with the provisions of the Asset Appraisal Guidelines and our internal quality control system, the project leader submits the first draft of the appraisal report to our quality control department for review after completing the first level of review. Before issuing the asset appraisal report after our internal review is completed, without prejudice to the independent judgment on the appraisal conclusions, the project manager will communicate with the client on the relevant content of the asset appraisal report, conduct an independent analysis of the communication and make appropriate adjustments based on the reasonable opinions communicated, and after completing the above asset appraisal procedures, the formal asset appraisal report will be issued and submitted to the client.

IX. APPRAISAL ASSUMPTIONS

(i) General assumptions

1. Transactional assumptions: mean that all assets to be appraised are already in the course of transaction and that the appraiser is valuing the assets to be appraised based on a simulated market, such as the transaction conditions of the assets to be appraised.

2. Open market assumption: means that assets can be bought and sold freely in a sufficiently competitive market and that their prices depend on the value of the assets as judged by independent buyers and sellers in a given market under supply and demand conditions. An open market is a fully competitive market with a large number of buyers and sellers. In such a market, buyers and sellers are on an equal footing, each has access to adequate market information and time, and buyers and sellers conduct their transactions voluntarily and rationally, without coercion or restriction.

3. Assuming that there are no significant changes in the relevant existing national laws, regulations and policies, the national macroeconomical situation and the political, economic and social environment of the regions in which the parties to this transaction are located.

4. Assuming the continuous operation of the company in the future.

5. Assuming that there are no material changes in the tax base and rates and policy levies related to the appraised unit after the appraisal benchmark date.

6. Assuming that the management of the appraised unit after the appraisal benchmark date is accountable, stable and capable of performing its functions.

7. Assuming that the appraised unit is in full compliance with all relevant laws and regulations.

8. Assuming that there are no force majeure and unforeseeable factors after the appraisal benchmark date that would have a material adverse effect on the appraised unit.

(ii) Special assumptions

1. Assuming that the accounting policies adopted by the appraised unit after the appraisal benchmark date are materially consistent with those adopted at the time of the preparation of this appraisal.

2. Assuming that the scope and manner of operation of the appraised unit after the appraisal benchmark date will be consistent with the current management approach and level of management.

3. Assuming that cash inflows and outflows to and from the appraised unit after the appraisal benchmark date occur within the year and do not differ materially from projected data.

4. Assuming that all the information provided by the client and the appraised unit are true, complete, legal and valid in relation to this appraisal.

5. Assuming no significant changes in the company's heating tariff or business model.

6. Assuming that Changchun Yatai Heating Company Limited survives the expiration of its operating period on 24 October 2028 by amending its articles of association.

7. Assuming that Changchun Yatai Heating Company Limited can continue to use the relevant buildings, heat supply equipment and other assets in accordance with the terms of the Lease Agreement in the future.

8. Assuming that the divestiture of relevant assets by Changchun Yatai Heating Company Limited was completed on 31 May 2020 and Changchun Yatai Heating Company Limited's purchase of heat source from Changchun Heating Power (Group) Company Limited upon the divestiture would continue to be conducted at the agreed price.

9. Assuming that the Fuhao Garden to which Changchun Yatai Heating Company Limited is supplying heat (currently by boilers), will be connected to the heating grid in the 2024–2025 heat supply period according to the cogeneration planning provided by the company.

10. Assuming that the prices at which the various transactions entered into between Changchun Yatai Heating Company Limited and related parties in their respective course of business are fair and will not change materially in the future.

11. Assuming that the urban heat supply permits owned by Changchun Yatai Heating Company Limited will be renewed upon expiration.

12. Changchun Yatai Heating Company Limited possesses the qualification of a high-tech enterprise, which is valid for 3 years from September 2019, and is entitled to an income tax rate of 15%. It is assumed that Changchun Yatai Heating Company Limited will still be able to meet all the criteria to qualify as a high-tech enterprise and enjoy a preferential income tax rate of 15% in the future.

13. The appraisal does not include a special technical inspection of the state of use, physical structure and other quality of the assets, including concealed pipeline networks, facilities, equipment, assuming that such assets can be used normally before the end of their economic life.

14. Assuming that there would be no other force majeure and unforeseeable factors that would have a material adverse impact on Changchun Yatai Heating Company Limited and its operation during its operation period.

The appraisal conclusions of this appraisal report are established at the appraisal benchmark date under the above-mentioned assumptions, and the asset appraisers who signed off this report and this appraisal organization will not be held responsible for deriving different appraisal conclusions due to significant changes in the above-mentioned assumptions.

X. APPRAISAL CONCLUSIONS

(i) Appraisal conclusions under the asset-based approach

On the premise of continuing operation, as at the appraisal benchmark date, the book value of the total assets of the appraised unit, Changchun Yatai Heating Company Limited, was RMB196.5115 million, with an appraisal value of RMB364.6468 million, an appreciation in value of RMB168.1353 million and an appreciation rate of 85.56%; the book value of the total liabilities was RMB186.6552 million, with an appraisal value of RMB118.3249 million, an depreciation in value of RMB68.3303 million and an depreciation rate of 36.61%; the book value of net assets was RMB9.8563 million, and the appraised value of the entire shareholder's equity was RMB246.3219 million, with an appreciation in value of RMB236.4656 million an appreciation rate of 2,399.13%.

The results of the appraisal are detailed in the following table of summary:

Summary of asset appraisal results

Appraisal benchmark date: 31 May 2020

Unit: RMB'0,000

Items		Book value	Appraised value	Appreciation or depreciation in value	Appreciation rate %
		A	B	C=B-A	D=C/A × 100
Current assets	1	11,482.22	11,482.22	–	–
Non-current assets	2	8,168.93	24,982.46	16,813.53	205.82
Of which: Long-term equity investments	3				
Investment properties	4	803.75	1,451.07	647.32	80.54
Fixed assets	5	6,972.64	23,138.85	16,166.21	231.85
Project materials	6	53.30	53.30	–	
Intangible assets	7				
Deferred income tax assets	8	339.24	339.24	–	
Total assets	9	19,651.15	36,464.68	16,813.53	85.56
Current liabilities	10	10,366.68	9,906.60	-460.08	-4.44
Non-current liabilities	11	8,298.84	1,925.89	-6,372.95	-76.79
Total liabilities	12	18,665.52	11,832.49	-6,833.03	-36.61
Owner's equity	13	985.63	24,632.19	23,646.56	2,399.13

Details of the appraisal results under the asset-based approach are provided in the appraisal schedules.

(ii) Appraisal results under the income approach

As at the appraisal benchmark date, the book value of the total assets of the appraised unit, Changchun Yatai Heating Company Limited, was RMB196.5115 million, the book value of the total liabilities was RMB186.5552 million, the book value of net assets was RMB9.8563 million, and the appraised value of the entire shareholder's equity under the income approach was RMB318.3763 million, with an appreciation in value of RMB308.5200 million and an appreciation rate of 3,130.18%.

(iii) Analysis of differences between the appraisal results under the two approaches and selection of the final results

1. Analysis of differences

The value of the entire shareholder's equity arrived at by adopting the income approach in the appraisal was RMB318.3763 million and value of the entire shareholder's equity arrived at by adopting the asset-based approach in the appraisal was RMB246.3219 million, there is a difference of RMB72.0544 million, a difference of 29.25%. The main reasons for the difference between the two appraisal approaches are:

2. Selection of appraisal results

There are certain differences between the results under the income approach and the asset-based approach, which are mainly due to the different perspectives of the two approaches.

The asset-based approach only reflects the reconstructed value of the company; while the income approach is based on the expected returns of the company, reflecting the size of the future operating income of the company, this profitability is usually affected by macroeconomic, government control and the effective use of assets and other conditions. Changchun Yatai Heating Company Limited is a specialized urban heating company, with significant investments in fixed assets such as one-time investment in the heat pipeline network. The company operates in a industry which is heavy assets in nature and is closely related to people's livelihood and is entitled to preferential policies of the state, while the company's heating charges and the unit price of heat source are mainly set by the government. Yatai Heating is located in Changchun, Jilin Province, and is a major heat supply company in Changchun. The company has relatively stable customer resources in Changchun, with a total heating area of approximately 16,200,000 square meters in Chaoyang District, Nanguan District, Erdao District, Luyuan District and Automobile Industrial Development Zone of Changchun, and has heat supply licenses covering many enterprises and institutions and nearly 152,000 residential users.

Based on the above, the appraisers consider that the revenue and cost of the appraised enterprise are relatively stable and less influenced by market factors, and after the acquisition by Changchun Heating Power (Group) Company Limited in 2020, a large professional reform has been carried out in terms of operation and management, staff redeployment, asset allocation, etc., in the company and its management personnel and office expenses have been reduced significantly, and the net profit of the company from January to May 2020 has reached RMB57,651,680.00, which was the best level of operating income achieved for the same period in recent history, the main reasons for the profit in January to May 2020 are there are basically no major changes in operating income while operating costs, management costs, finance costs have decreased significantly, and upon the company's professional reform, the company is expected to be able to achieve sustainable and stable operating income in the future.

Based on the fact that Changchun Yatai Heating Company Limited has sustainable and stable income in the future after the professional reform, the risk can be reasonably predicted, therefore, the results of the income approach of appraisal can more objectively and reasonably reflect the value of the shareholder's equity of the appraised unit, so the results under the income approach is selected as the final conclusion of this appraisal.

XI. STATEMENT OF SPECIAL MATTERS

The following particular issues exist for this appraisal engagement:

(1) According to the Guidance Note for Asset Appraisers Concerning the Legal Ownership of the Appraised Subject, the appraised unit and relevant parties should provide information on the legal ownership of the appraised subject in accordance with the law, and ensure its authenticity, completeness and legality. It is the responsibility of the asset appraiser to make the necessary inspection and disclosure of such information and its source, and does not represent any guarantee of the ownership of the appraised subject, and it is beyond the scope of practice of the asset appraiser to confirm or express an opinion on the legal ownership of the appraised subject.

(2) According to the company's cogeneration planning and explanation for the Fuhao area which is currently served by boilers heating, the Fuhao area, which is currently served by Changchun Yatai Heating Company Limited through boilers heating, will be partially connected to the pipeline network of the No. 2 Cogeneration Plant in 2021, and fully connected to the cogeneration heating pipeline network during the 2024–2025 heating season.

(3) According to the articles of association and business registration information of Changchun Yatai Heating Company Limited, the registered capital and paid-in capital of Changchun Yatai Heating Company Limited were both RMB239,000,000 as at the appraisal benchmark date. According to the Agreement for the Transfer of Certain Assets of Changchun Yatai Heating Company Limited to Changchun Heating Power (Group) Company Limited for Nil Consideration, the benchmark date for the transfer is 31 May 2020, after which the paid-in capital of the company would become RMB128,700,000.00. The procedures for changes in industrial and commercial particulars of Changchun Yatai Heating Company Limited are still being processed as at the date of appraisal report.

(4) References to the conclusions of reports issued by other institutions

The book values of the assets and liabilities as at the benchmark date in this appraisal report are the results of the audit report of Dahua Certified Public Accountants (Special General Partnership). Other than this, there is no reference to the contents of the reports issued by other institutions.

(5) Divestiture and transfer of assets

According to the Agreement for the Transfer of Certain Assets of Changchun Yatai Heating Company Limited to Changchun Heating Power (Group) Company Limited for Nil Consideration dated 30 July 2020, the benchmark date of the transfer is 31 May 2020 and the assets to be transferred include coal-fired boiler facilities, housing and buildings, land use rights, coal raw materials, etc. This appraisal is performed on the basis that the divestiture of boiler-related assets by Changchun Yatai Heating Company Limited was completed as at 31 May 2020.

Changchun Yatai Heating Company Limited would purchase heat source from Changchun Heating Power (Group) Company Limited upon the transfer of its boiler assets and the purchase price of which would be based on the contract price agreed by both parties.

(6) Change of shareholdings in the company

A change of shareholdings in Yatai Heating took place 31 December 2019, and its shareholder was changed from Jilin Yatai Real Estate Development Company Limited to Changchun Heating Power (Group) Company Limited and Changchun Heating Power (Group) Company Limited acquired control over Yatai Heating accordingly.

(7) This appraisal did not carry out any special technical inspection of the state of use and physical structure of the assets such as underground concealed engineering pipeline network and facilities. The appraiser confirmed the on-site inventory of certain assets is conducted mainly by checking the drawings, the company's pipeline network ledger, pipeline network maintenance records, checking the pipeline network inspection wells and interviewing the company's pipeline network managers.

(8) This appraisal does not take into account the impact of taxes due on the assets of the appraised unit and the transaction taxes that may become payable at the time of the transaction on the appraised value of the assets of the appraised unit.

The attention of users of the report is drawn to the impact of the above-mentioned particular issues on the appraisal conclusions.

XII. NOTE ON LIMITATIONS ON THE USE OF THE APPRAISAL REPORT

(i) Scope of use

1. The users of this asset appraisal report are the client with other users are those stipulated by laws and regulations and the regulatory authorities and administrative departments in charge of changes in industrial and commercial particulars which would receive relevant filings in accordance with the relevant provisions on the administration of state-owned assets.

2. This asset appraisal report may only be used for the purposes and intended usage expressively indicated in the appraisal report.

3. This appraisal report may only be used by the users of the appraisal report as expressively indicated in the appraisal report.

4. The validity period of the appraisal conclusion is one year from the appraisal benchmark date. If within the validity period there are significant changes in the condition of the assets and market conditions compared with the relevant condition of the assets as at the appraisal benchmark date, the client shall engage the appraisal organization to carry out a renewed appraisal engagement or reappraisal.

5. Without the written permission of the client, the appraisal organization and asset appraisal professionals shall not provide or disclose the contents of the asset appraisal report to any third party, except as otherwise provided by laws and administrative regulations.

6. The contents of the asset appraisal report shall not be extracted, quoted or disclosed to the public media without the consent of the appraisal organization, except as otherwise provided by laws and administrative regulations and unless otherwise agreed upon by the relevant parties.

(ii) The asset appraisal organization and its asset appraisal professionals shall not be held liable in the event that the client or other users of the asset appraisal report fail to use the asset appraisal report in accordance with the provisions of laws, administrative regulations and the scope of use set out in the asset appraisal report.

(iii) Except for the client, other users of the asset appraisal report as agreed in the asset appraisal engagement contract, and users of the asset appraisal report as stipulated by laws and administrative regulations, no other institutions or individuals can become users of the asset appraisal report.

(iv) It is the responsibility of the users of the asset appraisal report to properly understand the appraisal conclusions. The appraisal conclusions do not represent the price that could be realized for the appraised subject and should not be considered as a guarantee of the price that could be realized for the appraised subject.

(v) The appraisal report may only be used upon it has been signed off by an asset appraiser (asset appraisal professional) and stamped by the appraisal organization.

(vi) This appraisal report shall be submitted to the state-owned assets supervision and administration department for review and filing before its official use.

XIII. DATE OF THE ASSET APPRAISAL REPORT

The asset appraisal report is dated 25 November 2020.

Asset Appraiser: Qiu Xudong

Asset Appraiser: Zhang Ye

Asset Appraisal Organization: Beijing Huaya Zhengxin Assets Appraisal Co., Ltd.

25 November 2020

The following is the text of a letter from Moore Stephens CPA Limited, Certified Public Accountants, which has been prepared for the purpose of inclusion in this circular.

MOORE

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大華馬施雲
會計師事務所有限公司

25 November 2020

The Board of Directors
Jilin Province Chuncheng Heating Company Limited
No. 28, Block B Nanhu Road Community
No. 998 Nanhu Road
Nanguan District
Changchun City
Jilin Province
People's Republic of China

Dear Sirs,

REPORT ON DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE EQUITY INTEREST IN CHANGCHUN YATAI HEATING COMPANY LIMITED

To the Board of Directors of Jilin Province Chuncheng Heating Company Limited

We have been engaged to review the accounting policies used and to report on the arithmetical accuracy of the calculations of the discounted future estimated cash flows (the "**Underlying Discounted Cash Flows**") on which the valuation dated 25 November 2020 prepared by Beijing Huaya Zhengxin Assets Appraisal Co., Ltd. in respect of the entire equity interest of Changchun Yatai Heating Company Limited (the "**Target Company**") as at 31 May 2020 is based. The Valuation, prepared in connection with the proposed acquisition of the Target Company is set out in Appendix IV to the Circular. The Valuation which is based on the Underlying Discounted Cash Flows is regarded as profit forecasts under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of the Target Company (the "**Directors**") are solely responsible for the preparation of the Underlying Discounted Cash Flows using accounting policies adopted in the preparation of the Accountant's Report set out in Appendix II to the Circular. The Underlying Discounted Cash Flows have been prepared using a set of bases and assumptions (the "**Assumptions**") determined by the Directors, the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in Section VII(iii) in Appendix IV to the Circular. The accounting policies are set out in Section I(ii)11 in Appendix IV to the Circular.

Reporting Accountant's 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 Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 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 Accountant's Responsibilities

Our responsibility is to express an opinion on the accounting policies set out in Section I(ii)11 in Appendix IV to the Circular and the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows based on our work. The Underlying Discounted Cash Flows does not involve the adoption of accounting policies.

We conducted our engagement in accordance with the terms of our engagement letter dated 14 October 2020 and Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies set out in Section I(ii)11 in Appendix IV to the Circular and the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Underlying Discounted Cash Flows in accordance with the Assumptions adopted by the Directors and as to whether the accounting policies set out in Section I(ii)11 in Appendix IV to the Circular are consistent with the accounting policies adopted in preparation of the Accountant's Report. Our work consisted primarily of reviewing the accounting policies set out in Section I(ii)11 in Appendix IV to the Circular and checking the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Underlying Discounted Cash Flows are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target Company. The Assumptions used in the preparation of the Underlying Discounted Cash Flows include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Discounted Cash Flows and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of, or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the accounting policies set out in Section I(ii)11 in Appendix IV to the Circular and the arithmetical accuracy of the calculations of the Underlying Discounted Cash Flows are concerned, the accounting policies set out in Section I(ii)11 in Appendix IV to the Circular are in all material respects consistent with the accounting policies adopted in preparation of the Accountant's Report set out in Appendix II to the Circular and the Underlying Discounted Cash Flows have been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,

Moore Stephens CPA Limited
Certified Public Accountants
Hong Kong

The following is the text of a letter from BOCI Asia Limited, which has been prepared for the purpose of inclusion in this circular.

The Board of Directors
Jilin Province Chuncheng Heating Company Limited
No. 28, Block B Nanhu Road Community,
No. 998 Nanhu Road,
Nanguan District,
Changchun City,
Jilin Province,
People's Republic of China

Dear Sirs,

We refer to the valuation prepared by Beijing Huaya Zhengxin Assets Appraisal Co., Ltd. (the "**Valuer**") in relation to 100% equity interest in Changchun Yatai Heating Company Limited (the "**Valuation**"), which is set out in the valuation report, dated 25 November 2020, referred to in the circular of Jilin Province Chuncheng Heating Company Limited (the "**Company**") dated 25 November 2020 relating to the Acquisition (the "**Circular**").

The Valuation has been arrived at using the discounted cash flow method and is regarded as a profit forecast (the "**Forecast**") under Rule 14.61 of the Listing Rules. We, as the Financial Adviser to the Company in relation to the Acquisition, have reviewed the Forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, and have discussed with the management of the Company and the Valuer the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter from Moore Stephens CPA Limited dated 25 November 2020 addressed to yourselves as set out in Appendix IV to the Circular regarding the discounted future estimated cash flows. On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by the Valuer and the Company for which the Valuer and the Company are solely responsible, we are of the opinion that the Forecast, for which you as the Directors are solely responsible, have been made by you after due and careful enquiry.

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose.

We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
For and on behalf of
BOCI Asia Limited

Sunny Yip
Executive Director

Michael Sit
Associate Director

25 November 2020

The financial statements of Yatai Heating for the three years ended 31 December 2019 and the five months ended 31 May 2020 which are set out in Appendix II to this circular and being reported on by Moore Stephens CPA Limited reflected the financial position of Yatai Heating prior to the Reorganisation.

Pursuant to an agreement (無償劃轉協議) dated 30 July 2020 and entered into between Yatai Heating as transferor and Changchun Heating Group as transferee, as part of the Reorganisation, Yatai Heating agreed to transfer certain assets comprising land use rights, buildings, coal-fired boilers and ancillary equipment (together with related rights and liabilities and personnel) (the "**Excluded Assets**") to Changchun Heating Group at nil consideration using 31 May 2020 as the reference date (the "**Reference Date**"). The parties thereto further agreed that with effect from the Reference Date, Yatai Heating shall no longer be entitled to any rights or assumed any obligations in relation to the Excluded Assets and all such rights and obligations shall be transferred to Changchun Heating Group. Please refer to Note 32 "Events after the Reporting Period" to the accountant's report of Yatai Heating in Appendix II and Note 2(a) "Notes to the pro forma adjustments" to the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular for further details.

The following management discussion and analysis of Yatai Heating (prior to the Reorganisation) for the three years ended 31 December 2019 and the five months ended 31 May 2020 should be read in conjunction with the financial statements of Yatai Heating (prior to the Reorganisation) as at and for each of the financial years ended 31 December 2017, 2018 and 2019 and as at and for the five months ended 31 May 2020 and the accompanying notes which are set out in Appendix II to this circular. You should read the entire accountant's report of Yatai Heating and not rely merely on the information contained in this appendix.

1. BUSINESS OVERVIEW

During the three years ended 31 December 2019 and the five months ended 31 May 2020, Yatai Heating principally engaged in heat supply, including the provision and distribution of heat and pipeline connection.

Heat supply is subject to seasonality due to its business nature. The heat supply period usually runs from October to April of the following year and the exact dates for heat supply are subject to the applicable rules and regulations. Heat service providers are required to supply heat during the prescribed heat supply period and are prohibited to postpone or early terminate the heat supply.

The following table sets forth the heat service area of Yatai Heating during the respective heat supply period:

	October 2016 to April 2017	October 2017 to April 2018	October 2018 to April 2019	October 2019 to April 2020
Heat service area (thousand sq.m.)	16,055	16,217	16,197	16,228
Actual heat service area (thousand sq.m.)	14,075	14,212	14,084	14,081

2. FINANCIAL OVERVIEW

(a) Revenue

During the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, Yatai Heating generated revenue in the amount of approximately RMB395,962,000, RMB418,908,000, RMB411,562,000, RMB243,527,000 and RMB240,588,000, respectively. Yatai Heating generated revenue mainly from the provision and distribution of heat, pipeline connection, engineering construction and sale of goods.

The following table sets out a breakdown of Yatai Heating's revenue during the periods indicated:

	For the year ended 31 December			For the five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue from contracts with customers					
Provision and distribution of heat	384,450	408,150	398,073	239,415	235,094
Pipeline connection fee	9,001	9,368	9,566	3,933	3,966
Engineering construction	1,484	64	1,516	27	–
Sale of goods	790	1,000	1,423	–	1,410
	395,725	418,582	410,578	243,375	240,470
Revenue from other sources					
Rental services	234	326	984	152	–
Income of sales of scrap	3	–	–	–	118
Total	**395,962**	**418,908**	**411,562**	**243,527**	**240,588**

Revenue generated from the provision and distribution of heat was approximately RMB384,450,000, RMB408,150,000, RMB398,073,000, RMB239,415,000 and RMB235,094,000 for the year ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively.

The increase in revenue generated from the provision and distribution of heat from approximately RMB384,450,000 for the year ended 31 December 2017 to approximately RMB408,150,000 for the year ended 31 December 2018 was primarily due to (a) an increase in the number of statutory days for heat supply by 5 days in 2018; (b) an increase in the actual heat service area in 2018; and (c) a reduction in VAT rate for the heat supply industry from 11% for the period before 1 May 2018 to 10% for the period after 1 May 2018.

The decrease in revenue generated from the provision and distribution of heat from approximately RMB408,150,000 for the year ended 31 December 2018 to approximately RMB398,073,000 for the year ended 31 December 2019 was primarily due to (a) a decrease in the number of statutory days for heat supply by 4 days in 2019; and (b) a reduction in the actual heat service area in 2019.

The decrease in revenue generated from the provision and distribution of heat from approximately RMB239,415,000 for the five months ended 31 May 2019 to approximately RMB235,094,000 for the five months ended 31 May 2020 was primarily due to a reduction in the actual heat service area during the period.

(b) Cost of sales

During the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, Yatai Heating's cost of sales amounted to approximately RMB353,586,000, RMB382,905,000, RMB391,515,000, RMB192,086,000 and RMB169,368,000, respectively. Heat procurement cost forms a substantial portion of Yatai Heating's cost of sales. Yatai Heating's average heat procurement cost was approximately RMB26.30/GJ, RMB29.36/GJ, RMB31.37/GJ, RMB31.89/GJ and RMB30.95/GJ for the three years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively.

The increase in cost of sales for the three years ended 31 December 2019 was primarily due to an increase in Yatai Heating's per unit heat procurement cost during the period.

The decrease in cost of sales from approximately RMB192,086,000 for the five months ended 31 May 2019 to approximately RMB169,368,000 for the five months ended 31 May 2020 was primarily due to the decrease in heat procurement cost and coal procurement cost during the period.

(c) Gross profit and gross profit margin

Yatai Heating's gross profit amounted to approximately RMB42,376,000, RMB36,003,000, RMB20,047,000, RMB51,441,000 and RMB71,220,000 for the year ended 31 December 2017, 2018 and 2019 and the five months ended 31 May 2019 and 2020, respectively while the gross profit margin was approximately 10.7%, 8.6%, 4.9%, 21.1% and 29.6%, respectively, for the corresponding periods. Due to seasonality and the heat supply period, the gross profit margin for January to May is generally higher than that annually. Hence, the gross profit margin for the five months ended 31 May 2019 and 2020 are higher than that for the year ended 31 December 2017, 2018 and 2019.

The decrease in gross profit margin for the three years ended 31 December 2019 was primarily due to an increase in Yatai Heating's per unit heat procurement cost during the period.

The increase in gross profit margin from approximately 21.1% for the five months ended 31 May 2019 to approximately 29.6% for the five months ended 31 May 2020 was primarily due to due to a decrease in coal procurement cost as a result of (a) three of Yatai Heating's boilers have completed their maintenance and upgrade in the second half of 2019 whereby their efficiency was much enhanced leading to a reduction in Yatai Heating's consumption of coal; and (b) a decrease in coal price during the period.

(d) Other income and gains

For the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, Yatai Heating's other income and gains were approximately RMB13,943,000, RMB15,129,000, RMB11,681,000, RMB1,329,000 and RMB8,206,000, respectively.

Set out below is a breakdown of Yatai Heating's other income and gains for the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020:

	For the year ended 31 December			For the five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Bank interest income	4,537	5,840	2,516	708	5
Gains/(loss) from financial assets at fair value through profit or loss	36	627	1,129	471	(2,665)
Dividend income	1,253	1,002	–	–	3,192
Government grant	7,650	7,314	5,816	–	7,658
Others	467	346	2,220	150	16
Total	**13,943**	**15,129**	**11,681**	**1,329**	**8,206**

The increase in other income and gains from approximately RMB13,943,000 for the year ended 31 December 2017 to approximately RMB15,129,000 for the year ended 31 December 2018 was mainly due to an increase in bank interest income and gains from financial assets at fair value through profit or loss during the period.

The decrease in other income and gains from approximately RMB15,129,000 for the year ended 31 December 2018 to approximately RMB11,681,000 for the year ended 31 December 2019 was mainly due to a decrease in bank interest income, government grant and dividend income during the period.

The increase in other income and gains from approximately RMB1,329,000 for the five months ended 31 May 2019 to approximately RMB8,206,000 for the five months ended 31 May 2020 was mainly because Yatai Heating recorded dividend income and government grant during the five months ended 31 May 2020 but nil during the five months ended 31 May 2019 which was partially offset by a loss from financial assets at fair value through profit or loss during the five months ended 31 May 2020.

(e) Administrative expenses

For the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, Yatai Heating's administrative expenses were approximately RMB25,611,000, RMB16,166,000, RMB14,102,000, RMB4,043,000 and RMB3,740,000, respectively.

Set out below is a breakdown of Yatai Heating's administrative expenses for the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020:

	For the year ended 31 December			For the five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Staff costs	13,372	10,879	8,690	2,919	2,796
Depreciation and amortisation	1,084	854	982	450	236
Office expenses	3,089	2,641	2,989	149	187
Professional fee	5,092	132	367	–	162
Bank charges	2,214	196	340	77	15
Others	760	1,464	734	448	344
Total	**25,611**	**16,166**	**14,102**	**4,043**	**3,740**

The decrease in administrative expenses from approximately RMB25,611,000 for the year ended 31 December 2017 to approximately RMB16,166,000 for the year ended 31 December 2018 was mainly due to a decrease in staff costs, professional fee, bank charges, office expenses and depreciation and amortisation in 2018. In particular, the substantial reduction in professional fee in 2018 was mainly because Jilin Yatai Real Estate Development Co., Ltd.* (吉林亞泰房地產開發有限公司), Yatai Heating's former ultimate controlling party, ceased to charge Yatai Heating for any service fees in 2018.

The decrease in administrative expenses from approximately RMB16,166,000 for the year ended 31 December 2018 to approximately RMB14,102,000 for the year ended 31 December 2019 was mainly due to a decrease in staff costs in 2019 as a result of the decrease in the number of senior management personnel during the year.

The decrease in administrative expenses from approximately RMB4,043,000 for the five months ended 31 May 2019 to approximately RMB3,740,000 for the five months ended 31 May 2020 was mainly due to a decrease in staff costs and depreciation and amortisation during the five months ended 31 May 2020.

(f) Provision for expected credit losses

Yatai Heating recorded provision for expected credit losses of approximately RMB2,960,000, RMB2,904,000, RMB4,207,000, nil and RMB2,171,000 for the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, respectively.

(g) Research and development expenses

Yatai Heating's research and development expenses amounted to approximately RMB14,395,000, RMB13,576,000, RMB13,297,000, RMB5,540,000 and nil for the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, respectively. The research and development expenses incurred were mainly in relation to research and development activities on smart heating network system, apparatus for boiler drill inspections and other electricity and water circuit systems in connection with coal-fired boilers.

(h) Other expenses

For the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, Yatai Heating's other expenses were approximately RMB4,855,000, RMB4,984,000, RMB3,895,000, RMB2,777,000 and RMB861,000, respectively.

Set out below is a breakdown of Yatai Heating's other expenses for the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020:

	For the year ended 31 December			For the five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Taxes and surcharges	5,386	3,479	3,060	2,643	861
Loss/(Gain) on disposal of fixed assets	(540)	(1)	672	(9)	–
Non-operating expenses	9	1,506	163	143	–
Total	**4,855**	**4,984**	**3,895**	**2,777**	**861**

The increase in other expenses from approximately RMB4,855,000 for the year ended 31 December 2017 to approximately RMB4,984,000 for the year ended 31 December 2018 was due to an increase in non-operating expenses and a decrease in the gain on disposal of fixed assets as offset by a decrease in taxes and surcharges in 2018.

The decrease in other expenses from approximately RMB4,984,000 for the year ended 31 December 2018 to approximately RMB3,895,000 for the year ended 31 December 2019 was due to a decrease in taxes and surcharges and non-operating expenses as offset by the recognition of loss on disposal of fixed assets in 2019.

The decrease in administrative expenses from approximately RMB2,777,000 for the five months ended 31 May 2019 to approximately RMB861,000 for the five months ended 31 May 2020 was due to a decrease in taxes and surcharges and no non-operating expenses was incurred during the five months ended 31 May 2020.

(i) Finance costs

Yatai Heating's finance costs amounted to approximately RMB75,585,000, RMB51,163,000, RMB66,925,000, RMB19,772,000 and RMB5,724,000 for the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, respectively. The fluctuations in Yatai Heating's finance costs were mainly as a result of the changes in bond interest and charges and interest on short-term bank and other borrowings over the relevant periods.

(j) Income tax expense/credit

Yatai Heating's income tax expense amounted to approximately RMB2,147,000, RMB4,988,000 and RMB9,278,000 for the year ended 31 December 2017 and the five months ended 31 May 2019 and 2020, respectively. Yatai Heating recorded income tax credit of approximately RMB282,000 and RMB917,000 for the year ended 31 December 2018 and 2019, respectively.

(k) Loss/profit for the year/period

As a result of the foregoing, Yatai Heating recorded (i) loss of approximately RMB69,234,000, RMB37,379,000 and RMB69,781,000 for the three years ended 31 December 2019, respectively; and (ii) a profit of approximately RMB15,650,000 and RMB57,652,000 for the five months ended 31 May 2019 and 2020, respectively.

3. LIQUIDITY AND FINANCIAL RESOURCES

Yatai Heating finances its working capital requirements and capital expenditures primarily by cash generated from operating activities and investing activities.

The following table sets forth Yatai Heating's cash flows for the periods indicated:

	For the year ended 31 December			For the five months ended 31 May
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash flows generated from/(used in) operating activities	260,146	(186,280)	54,714	(72,829)
Net cash flows (used in)/generated from investing activities	(113,575)	192,816	369,626	677,622
Net cash flows generated from/(used in) financing activities	51,906	(205,606)	(428,925)	(592,460)
Net increase/(decrease) in cash and cash equivalents	198,477	(199,070)	(4,585)	12,333
Cash and cash equivalents at the beginning of the period	6,055	204,532	5,462	877
Cash and cash equivalents at the end of the period	204,532	5,462	877	13,210

The decrease in cash and cash equivalents from approximately RMB204,532,000 as at 31 December 2017 to approximately RMB5,462,000 as at 31 December 2018 was primarily due to (i) the repayment of bank and other borrowings of approximately RMB358,337,000; and (ii) net cash used in operating activities of approximately RMB186,280,000 as partially offset by (a) proceeds from bank and other borrowings of approximately RMB200,000,000; and (b) decrease in pledged deposit of approximately RMB110,000,000 in 2018.

The decrease in cash and cash equivalents from approximately RMB5,462,000 as at 31 December 2018 to approximately RMB877,000 as at 31 December 2019 was primarily due to the repayment of bank and other borrowings of approximately RMB1,006,783,000 as partially offset by (i) proceeds from bank and other borrowings of approximately RMB642,400,000; and (ii) decrease in amounts due from related parties of approximately RMB393,829,000.

The increase in cash and cash equivalents from approximately RMB877,000 as at 31 December 2019 to approximately RMB13,210,000 as at 31 May 2020 was primarily due to (i) decrease in amounts due from related parties of approximately RMB623,430,000; and (ii) the proceeds received from settlement of financial assets at fair value through profit or loss of approximately RMB53,192,000 as partially offset by the repayment of bank and other borrowings of approximately RMB592,460,000 during the five months ended 31 May 2020.

As at 31 December 2017, 2018, 2019 and 31 May 2020, Yatai Heating recorded net current assets of approximately RMB729,763,000, RMB546,159,000, RMB311,534,000 and RMB11,328,000, respectively.

The decrease in net current assets from approximately RMB729,763,000 as at 31 December 2017 to approximately RMB546,159,000 as at 31 December 2018 was mainly due to (i) a decrease in cash and cash equivalents from approximately RMB204,532,000 as at 31 December 2017 to approximately RMB5,462,000 as at 31 December 2018; and (ii) a decrease in pledged bank deposits from approximately RMB110,000,000 as at 31 December 2017 to nil as at 31 December 2018.

The decrease in net current assets from approximately RMB546,159,000 as at 31 December 2018 to approximately RMB311,534,000 as at 31 December 2019 was mainly due to a decrease in prepayments and other receivables from approximately RMB1,210,505,000 as at 31 December 2018 to approximately RMB795,281,000 as at 31 December 2019.

The decrease in net current assets from approximately RMB311,534,000 as at 31 December 2019 to approximately RMB11,328,000 as at 31 May 2020 was mainly due to a decrease in prepayments and other receivables from approximately RMB795,281,000 as at 31 December 2019 to approximately RMB89,403,000 as at 31 May 2020.

As at 31 December 2017, 2018, 2019 and 31 May 2020, Yatai Heating had unsecured bank borrowings of RMB200,000,000, RMB200,000,000, nil and nil, respectively. Such bank borrowings were guaranteed by Jilin Yatai Real Estate Development Co., Ltd.*（吉林亞泰房地產開發有限公司）the former ultimate controlling party of Yatai Heating.

In September 2016, Yatai Heating issued secured bonds of RMB1,000,000,000 to a related party financial institution, carrying an interest of 5.99% per annum and maturity dates starting from 2017 to 2022. Such bonds were secured by Yatai Heating's future receipts of provision and distribution of heat fees from 2016 to 2023 and all of the financial assets at fair value through profit or loss. Yatai Heating early repaid the bonds during the five months ended 31 May 2020. As such, as at 31 December 2017, 2018, 2019 and 31 May 2020, Yatai Heating recorded bonds of approximately RMB904,181,000, RMB748,736,000, RMB586,736,000 and nil, respectively.

4. CAPITAL STRUCTURE

As at 31 December 2017, 2018, 2019 and 31 May 2020, equity attributable to the owner of Yatai Heating amounted to approximately RMB171,134,000, RMB132,725,000, RMB62,944,000 and RMB120,236,000, respectively.

The decrease in equity attributable to the owner of Yatai Heating from approximately RMB171,134,000 as at 31 December 2017 to approximately RMB132,725,000 as at 31 December 2018 and further to approximately RMB62,944,000 was primarily due to the loss of approximately RMB37,379,000 and RMB69,781,000 recorded during the year ended 31 December 2018 and 2019, respectively.

The increase in equity attributable to the owner of Yatai Heating increased from approximately RMB62,944,000 as at 31 December 2019 to approximately RMB120,236,000 as at 31 May 2020 was primarily due to the profit of approximately RMB57,652,000 recorded during the five months ended 31 May 2020.

5. GEARING RATIO

As at 31 December 2017, 2018, 2019 and 31 May 2020, the gearing ratio of Yatai Heating, which is calculated by dividing total liabilities by total equity as at the end of the year/period, was approximately 10.2, 10.2, 16.1 and 1.6, respectively. The increase in gearing ratio from approximately 10.2 as at 31 December 2018 to approximately 16.1 as at 31 December 2019 was primarily due to a decrease in total equity from approximately RMB132,725,000 as at 31 December 2018 to approximately RMB62,944,000 as at 31 December 2019. The decrease in gearing ratio from approximately 16.1 as at 31 December 2019 to approximately 1.6 as at 31 May 2020 was primarily due to (i) a decrease in interest-bearing bank and other borrowings from approximately RMB586,736,000 as at 31 December 2019 to nil as at 31 May 2020; (ii) a decrease in total contract liabilities from approximately RMB297,582,000 as at 31 December 2019 to approximately RMB58,865,000 as at 31 May 2020; and (iii) an increase in total equity from approximately RMB62,944,000 as at 31 December 2019 to approximately RMB120,236,000 as at 31 May 2020.

6. SIGNIFICANT INVESTMENTS

Yatai Heating did not have any subsidiaries as at 31 December 2017, 2018, 2019 and 31 May 2020.

As at 31 December 2017, 2018, 2019 and 31 May 2020, Yatai Heating had financial assets at fair value through profit or loss of approximately RMB50,909,000, RMB51,536,000, RMB52,665,000 and nil, respectively. Please refer to Note 15 to the accountant's report of Yatai Heating in Appendix II to this circular for further details.

7. MATERIAL ACQUISITIONS AND DISPOSALS

For the three years ended 31 December 2019 and the five months ended 31 May 2020 and up to the Latest Practicable Date, save and except for the transfer of certain assets by Yatai Heating to Changchun Heating Group as part of the Reorganisation, Yatai Heating did not have any material acquisition or disposal.

8. CAPITAL EXPENDITURE, CAPITAL COMMITMENT, CONTRACT LIABILITIES AND CONTINGENT LIABILITIES

(a) Capital expenditure

Yatai Heating incurred approximately RMB15,720,000, RMB12,179,000, RMB25,058,000 and nil cash for acquisition of property, plant and equipment for the three years ended 31 December 2019 and the five months ended 31 May 2020, respectively.

(b) Capital commitments

As at 31 December 2017, 2018, 2019 and 31 May 2020, Yatai Heating did not have any material capital commitments.

(c) Contract liabilities

Yatai Heating's contract liabilities mainly include advances received for the provision and distribution of heat and pipeline connection service. Yatai Heating's total contract liabilities amounted to approximately RMB321,348,000, RMB300,329,000, RMB297,582,000 and RMB58,865,000 as at 31 December 2017, 2018, 2019 and 31 May 2020, respectively. The substantial decrease in Yatai Heating's contract liabilities from approximately RMB297,582,000 as at 31 December 2019 to approximately RMB58,865,000 as at 31 May 2020 was primarily due to realisation of Yatai Heating's performance obligation in the contract liabilities of provision and distribution of heat during the five months ended 31 May 2020.

(d) Contingent liabilities

As at 31 December 2017, 2018, 2019 and 31 May 2020, Yatai Heating did not have any material contingent liabilities.

9. CHARGES ON ASSETS

As at 31 December 2017, 2018, 2019 and 31 May 2020, save and except for (i) the pledged bank deposits of approximately RMB110,000,000 which was pledged as the security of Yatai Heating's bills payables as at 31 December 2017 and approximately RMB1,000,000 was pledged as the security of the Yatai Heating's interest-bearing bank borrowings which has been early repaid as at 31 December 2019; and (ii) the bonds of RMB1,000,000,000 which were secured by Yatai Heating's future receipts of provision and distribution of heat fees and all of the financial assets at fair value through profit or loss, none of Yatai Heating's assets have been charged.

10. FOREIGN CURRENCY RISK

Since the transactions, assets and liabilities of Yatai Heating are denominated in RMB, the foreign exchange risk exposed to Yatai Heating was minimal for the three years ended 31 December 2019 and the five months ended 31 May 2020. Currently, Yatai Heating has not entered into any foreign currency hedging policy in respect of foreign currency.

11. EMPLOYEES AND REMUNERATION POLICIES

Yatai Heating's monthly average number of employees for the three years ended 31 December 2019 and the five months ended 31 May 2020 was approximately 566, 634, 404 and 430 employees, respectively. Yatai Heating provides induction trainings for all of its new employees as well as specific trainings which are relevant to its employees' job nature.

Yatai Heating adopts a remuneration package which comprises basic salary, subsidies and statutory contributions. Yatai Heating determines its employees' remuneration based on the relevant employee's responsibilities, seniority, performance appraisals and market rate. For the three years ended 31 December 2019 and the five months ended 31 May 2019 and 2020, Yatai Heating's total staff costs amounted to approximately RMB40,481,000, RMB43,861,000, RMB40,235,000, RMB14,059,000 and RMB16,076,000, respectively. The fluctuations in staff costs were primarily due to the changes in the number of employees employed by Yatai Heating during the relevant periods.

Yatai Heating has not adopted any share option scheme.

1. RESPONSIBILITY STATEMENT

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 Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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.

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors, Supervisors and chief executive

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had any interest and 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 the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

(ii) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than the Directors, Supervisors or chief executives of the Company, had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of shareholder	Class of Shares	Nature of interest	Number of Shares/ underlying Shares held (share) *(Note 5)*	Percentage of relevant class of shares capital (%)	Percentage of total share capital (%)
Changchun Heating Group	Domestic Shares	Beneficial owner	325,500,000(L)	93.00	69.75
Changchun State-owned Capital Investment Operation (Group) Co., Ltd.	Domestic Shares	Beneficial owner	24,500,000(L)	7.00	5.25
China Foreign Economic and Trade Trust Co., Ltd. *(Note 1)*	H Shares	Trustee	17,520,000(L)	15.01	3.75

Name of shareholder	Class of Shares	Nature of interest	Number of Shares/ underlying Shares held (share) (Note 5)	Percentage of relevant class of shares capital (%)	Percentage of total share capital (%)
SDIC Taikang Trust Co., Ltd. (Note 2)	H Shares	Trustee	17,510,000(L)	15.00	3.75
Cititrust Private Trust (Cayman) Limited (Note 3)	H Shares	Interest of a controlled corporation	35,700,000(L)	30.59	7.65
Fantasy Races Limited (Note 3)	H Shares	Interest of a controlled corporation	35,700,000(L)	30.59	7.65
Harvest Well Holdings Limited (Note 3	H Shares	Interest of a controlled corporation	35,700,000(L)	30.59	7.65
Joywise Holdings Limited (Note 3)	H Shares	Interest of a controlled corporation	35,700,000(L)	30.59	7.65
Ming Fai International Limited (Note 3)	H Shares	Interest of a controlled corporation	35,700,000(L)	30.59	7.65
Sunshine 100 China Holdings Ltd. (Note 3)	H Shares	Interest of a controlled corporation	35,700,000(L)	30.59	7.65
He Libo (Note 4)	H Shares	Beneficial owner	6,000,000(L)	5.14	1.29
Wang Fujiang (Note 4)	H Shares	Beneficial owner	6,000,000(L)	5.14	1.29

Notes:

1. China Foreign Economic and Trade Trust Co., Ltd. is the trustee of SCBCN-Foreign Economy and Trade Trust Co., Ltd-Fotic Wuxingbaichuan No. 37 Unitrust.

2. SDIC Taikang Trust Co., Ltd. is the trustee of SDIC Taikang Trust – Ruijin No. 8 QDII Single Fund Trust.

3. Sunshine 100 China Holdings Ltd. is interested in 35,700,000 H Shares. Sunshine 100 China Holdings Ltd. is owned as to 66.34% by Joywise Holdings Limited; Joywise Holdings Limited is owned as to 60% and 40% by Harvest Well Holdings Limited and Ming Fai International Limited, respectively; each of Harvest Well Holdings Limited and Ming Fai International Limited is owned as to 72.4% by Fantasy Races Limited; and Fantasy Races Limited is owned as to 100% by Cititrust Private Trust (Cayman) Limited. As such, by virtue of the SFO, Joywise Holdings Limited, Harvest Well Holdings Limited, Ming Fai International Limited, Fantasy Races Limited and Cititrust Private Trust (Cayman) Limited are deemed to be interested in the H Shares held by Sunshine 100 China Holdings Ltd.

4. He Libo and Wang Fujiang are spouses, each of whom holds 3,000,000 shares as beneficial owners. Therefore, according to the SFO, He Libo is considered to be interested in the H Shares held by Wang Fujiang, that is, a total of 6,000,000 shares, and vice versa.

5. The letter "L" denotes the relevant person's long position in such Shares.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, there was no other person who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the members of the Enlarged Group within two years preceding the date of this circular and are, or may be, material:

(a) the undertaking relating to certain matters of the land and buildings of pump stations dated 3 January 2019 provided by Changchun Heating Group in favour of the Company in respect of any losses or expenses which may be incurred by the Group as a result of users' title defects of the heat exchange stations;

(b) the Non-competition Agreement;

(c) the underwriting agreement dated 26 September 2019 relating to the offer of 11,670,000 H Shares (subject to adjustment) to the public in Hong Kong and entered into by BOCI Asia Limited, I Win Securities Limited, Sinomax Securities Limited and the Company;

(d) the underwriting agreement dated 18 October 2019 relating to the offer of 105,030,000 H Shares (subject to adjustment and the over-allotment option), outside the United States in offshore transactions in accordance with Regulation S, including to professional investors in Hong Kong and entered into by BOCI Asia Limited, the international underwriters and the Company;

(e) the price determination agreement dated 18 October 2019 entered into between the Company and BOCI Asia Limited in relation to the determination of the offer price for the offering of H Shares of the Company;

(f) the equity interest transfer agreement dated 8 June 2020 entered into between the Company and Changchun FAWSN Group Co., Ltd* (長春一汽富晟集團有限公司) in relation to the acquisition of 50% equity interest in Changchun FAW Sihuan Kinetic Company Limited* (長春一汽四環動能有限公司) by the Company for a consideration of RMB52 million, further particulars of which are set out in the announcement of the Company dated 8 June 2020;

(g) the agreement (無償劃轉協議) dated 30 July 2020 entered into between Yatai Heating as transferor and Changchun Heating Group as transferee in relation to the transfer of certain assets comprising land use rights, buildings, coal-fired boilers and ancillary equipment (together with related rights and liabilities and personnel) from Yatai Heating to Changchun Heating Group at nil consideration;

(h) the Acquisition Agreement; and

(i) the Heat Procurement Framework Agreement.

* *For identification purpose only*

4. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the Latest Practicable Date, none of the Directors or the Supervisors had entered into a service contract with any member of the Enlarged Group which is not determinable by the relevant member of the Enlarged Group within one year without payment of compensation, other than statutory compensation.

5. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualifications
Moore Stephens CPA Limited	Certified Public Accountants
Beijing Huaya Zhengxin Assets Appraisal Co., Ltd.	Qualified Independent Valuer in the PRC
BOCI Asia Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Giraffe Capital Limited	A licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with inclusion herein of its letter or report and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts did not have any interest in the share capital of any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which have 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 or leased to any member of the Enlarged Group.

6. LITIGATION

So far as is known to the Directors, no litigation or claims of material importance was pending or threatened against any member of the Enlarged Group as at the Latest Practicable Date.

7. COMPETING INTERESTS

As at the Latest Practicable Date, the following Director was considered to have interests in a business which competed or was likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group:

Name of Director	Entity whose business is considered to compete or likely to compete with the businesses of the Group	Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Mr. Liu Changchun	Changchun Heating Group	Heat supply	Director and chairman of the board
	Yatai Heating	Heat supply	Chairman of the board
Mr. Yang Zhongshi	Yatai Heating	Heat supply	Director
Mr. Shi Mingjun	Datang Changre Jilin Heating Company Limited* (大唐長熱吉林熱力有限公司)	Heat supply, construction, maintenance and distribution service	Non-executive director
	Yatai Heating	Heat supply	Director

* *For identification purpose only*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive nor their respective close associates had any interests in a business, which competed or was likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

8. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

So far as is known to the Directors, as at the Latest Practicable Date, none of the Directors, Supervisors or chief executive had any interest, direct or indirect, in any assets which have 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 or leased to any member of the Enlarged Group.

None of the Directors, Supervisors or chief executive was materially interested in any contract or arrangement subsisting as at the date of this circular which was significant in relation to the business of the Enlarged Group.

9. GENERAL

(a) The registered office of the Company is at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, PRC.

(b) The principal place of business of the Company in Hong Kong is at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17^{th} Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The joint company secretaries of the Company are Mr. Wan Tao and Mr. Lee Chung Shing. Mr. Lee Chung Shing is an associate of Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the offices of Lau, Horton & Wise LLP at 8th Floor, Nexxus Building, 41 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

(a) the articles of association of the Company;

(b) the prospectus of the Company dated 27 September 2019;

(c) the annual report of the Company for the year ended 31 December 2019;

(d) the interim report of the Company for the six months ended 30 June 2020;

(e) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this circular;

(f) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 21 to 46 of this circular;

(g) the accountant's report on Yatai Heating issued by Moore Stephens CPA Limited as set out in Appendix II to this circular;

(h) the report on the unaudited pro forma financial information of the Enlarged Group issued by Moore Stephens CPA Limited as set out in Appendix III to this circular;

(i) the valuation report on the Equity Interests issued by Beijing Huaya Zhengxin Assets Appraisal Co., Ltd. as set out in Appendix IV to this circular;

(j) the letter from Moore Stephens CPA Limited in relation to the valuation of Yatai Heating, the text of which is set out in Appendix IV to this circular;

(k) the letter from BOCI Asia Limited in relation to the valuation of Yatai Heating, the text of which is set out in Appendix IV to this circular;

(l) the written consents referred to in the section headed "5. Qualifications and Consents of Experts" in this appendix;

(m) the material contracts referred to in the section headed "3. Material Contracts" in this appendix; and

(n) this circular.

Jilin Province Chuncheng Heating Company Limited*
吉林省春城熱力股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

(Stock code: 1853)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Jilin Province Chuncheng Heating Company Limited* (the "**Company**") will be held on Wednesday, 30 December 2020 at 9:00 a.m. at the Conference Room, 907, Chuncheng Heating, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC, for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. To consider and approve the acquisition of 100% equity interest in Yatai Heating held by the Changchun Heating Group for cash by the Company, and to agree to authorize the Board of the Company and further authorize Yang Zhongshi and/or Xu Chungang, Directors of the Company, to handle matters in connection with the Acquisition within the scope of relevant laws and regulations and regulatory document.

2. To consider and approve the Heat Procurement Framework Agreement entered into between Yatai Heating and Changchun Heating Group, the continuing connected transactions contemplated thereunder and the amount of annual caps.

3. To consider and approve the change in use of proceeds from the Global Offering by the Company and a total RMB100,000,000 in the proceeds from the Global Offering would be re-allocated to the purpose of acquisition from its originally planned use of upgrading the smart heating network and replacing pipelines and facilities of the Company accordingly.

4. To consider and approve the appointment of Ms. Zhang Wei as a Supervisor (not being an employee representative Supervisor) of the Company.

Note: *Unless otherwise defined in this notice, capitalised terms defined in the circular of the Company dated 25 November 2020 have the same meaning when used in this notice.*

By order of the board of directors
Jilin Province Chuncheng Heating Company Limited*
Liu Changchun
Chairman

Jilin, the PRC, 25 November 2020

Notes:

1. The register of members of the Company will be closed from Monday, 30 November 2020 to Wednesday, 30 December 2020 (both days inclusive), during which period no transfer of shares of the Company can be registered. Shareholders who wish to attend and vote at the EGM must lodge all transfer documents accompanied by the relevant share certificates to (in case of H Shareholders) the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (in case of Domestic Shareholders) the head office of the Company in the PRC at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC no later than 4:30 p.m. on Friday, 27 November 2020.

2. Shareholders who are entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on their behalves. A proxy needs not to be a Shareholder.

3. In order to be valid, the proxy form of Shareholders for the EGM must be deposited by hand or by post to (in case of H Shareholders) the H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or (in case of Domestic Shareholders) the offices of the board of directors of the Company at the head office of the Company in the PRC at No. 28, Block B Nanhu Road Community, No. 998 Nanhu Road, Nanguan District, Changchun City, Jilin Province, the PRC not less than 24 hours before the time for holding the EGM or any adjournment thereof for taking the poll. If the proxy form is signed by a person under a power of attorney or other authority, a notarial copy of that power of attorney or authority shall be deposited at the same time as mentioned in the proxy form. Completion and return of the proxy form will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meetings thereof should they so wish.

**For identification purpose only*